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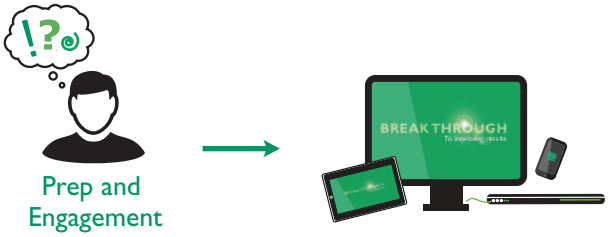
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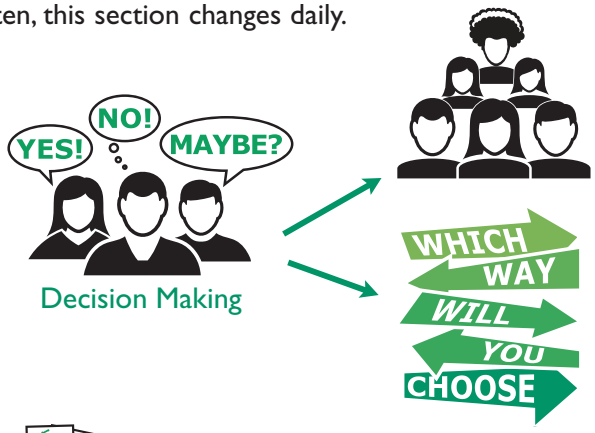
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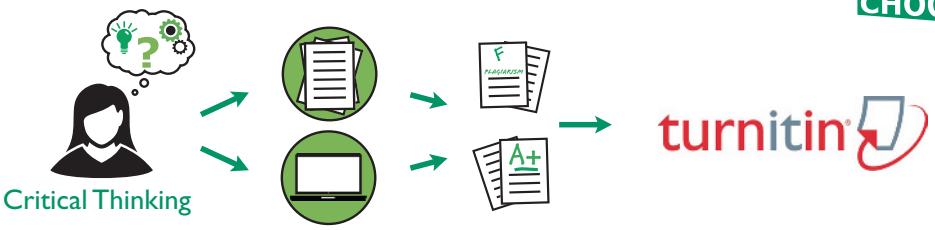
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Human Resource Management

R. Wayne Mondy

Joseph J. Martocchio

Fourteenth Edition

Global Edition

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To Judy Bandy Mondy, my love, my inspiration, and my travel partner.

—R. Wayne Mondy

To my parents, for their sacrifices, which have provided me with great opportunities.

—Joe Martocchio

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Preface

Approach to Writing *Human Resource Management*

We approach the study of human resource management (HRM) in a realistic, practical, interesting, and stimulating manner. We focus on showing how HRM is practiced in the real world. Throughout the book, you will see examples of how organizations practice HRM. In explaining a concept, we often quote human resources (HR) professionals, yet all HR discussion is based on sound theoretical concepts and practice. Throughout this book, the strategic role of HR is apparent in the discussion of each major HRM function. In addition, we show how HR topics are related to other HR topics. For instance, a firm that emphasizes recruiting top-quality candidates but neglects to provide satisfactory compensation is wasting time, effort, and money. A firm's compensation system will be inadequate unless employees are provided a safe and healthy work environment. If a firm's compensation system pays below-market wages, the firm will always be hiring and training new employees only to see the best leave for a competitor's higher wages. This interrelationship will become more obvious as these topics are addressed throughout the book. These interrelationships are also shown to be important as organizations work within the global environment.

Course Prerequisite

This book is designed primarily for the first undergraduate course in HRM. It is intended primarily for students who are being exposed to HRM for the first time. It is designed to put them in touch with the field through the use of numerous examples and company material and will reinforce the notion that, by definition, all managers are necessarily involved with HR. The book provides helpful insights for those students who aspire to management positions.

Overview of the 14th Edition of *Human Resource Management*

HRM is arguably the most exciting area in business. Much has changed in the world since the writing of the 13th edition. The continuing uncertainty of the economy affected many aspects of HRM. Debates about whether to raise the minimum wage pay rate rage on at the national and local levels. Provisions of health-care reform have been implemented with many more to come online. Major technological changes appear to be increasing with no end in sight. These changes have dramatically affected how the work of the HR professional is performed such as with mobile recruiting and learning. Social media tools such as wikis, blogs, LinkedIn, Facebook, and Twitter have become an integral part of the world of the HR professional. Each edition seems to provide new examples to be discussed. The need for companies to operate in the global environment continues to expand. The interrelationship of the HRM functions and the increasing use of technology and the importance of global influences is reflected throughout this book.

The 14th edition of *Human Resource Management* reveals HR as strategically important to management in a practical, realistic manner yet maintains a balance of pragmatism and theoretical concepts. As will be noted throughout this edition, much continues to be done regarding who performs the HR tasks. HR outsourcing, HR shared service centers, professional employer organizations, and line managers now assist in the accomplishment of HR activities. As a shift is made in the allocation of those who perform the HR function, many HR departments continue to get smaller. This shift should permit HR to shed its administrative image and focus on mission-oriented activities.

Dr. Joseph J. Martocchio, a professor of HR at the University of Illinois, Urbana–Champaign for 25 years, has joined Dr. R. Wayne Mondy as a co-author. Their efforts have built on the excellence of previous editions of this textbook.

What's New to This Edition

- A new section on competencies and competency modeling has been added to Chapter 4.
- Selection test reliability has been expanded; drug testing has been added to Chapter 6.

- HR Bloopers, a scenario-based exercise, has been added to every chapter.
- The ordering of Chapters 7 and 8 has been reversed. Chapter 7 addresses performance management and appraisal, whereas Chapter 8 focuses on HR development and training.
- A new section on team training and the types and applications of team training has been added to Chapter 8.
- Chapters 11 through 13 have been reordered to emphasize the role of labor unions.
- A new section on Global HR has been added to Chapter 14.

Features of the Book

- **HR Bloopers** present scenarios that describe potential mistakes that may occur in HR practice. Questions that follow in **MyManagement Lab®** provide students with the opportunity to test their understanding and recall of the chapter material based on the information contained in the scenario.
- **Ethical Dilemma** offers challenging ethical considerations in HR practice when HR professionals must make choices between what is right and wrong as well as appropriate versus inappropriate application of HR practices. Questions that follow provide students with the opportunity to express what they would do and to consider the factors in the ethical dilemma that might influence a person to make an unethical choice.
- **Social media** topics are examined throughout the text. Many HR professionals use social media for recruitment. Employees and HR professionals use social media to share knowledge. Increasingly, HR professionals understand social media as a communication tool that distinguishes between generations in the workplace, which is an element of diversity management. Understanding applications of social media is essential to effective HR activities.
- **End-of-chapter exercises** provide in-depth, thought-provoking questions to the material covered in the text.
- **Dodd–Frank Wall Street Reform and Consumer Protection Act** addresses a variety of executive compensation issues with which HR professionals should be familiar. Executive compensation is determined quite differently than compensation for other employee groups. We highlight these differences in the relevant chapters.
- **Patient Protection and Affordable Care Act** has created requirements that employers provide health insurance to their employees or pay substantial penalties. This law has influenced the minimum benefits that must be included in health insurance. Prior to the passage of this law, health insurance was offered as a discretionary benefit.
- **New tables and figures** are included throughout the text to enhance student learning by providing visual examples of HR practices or analytical tools (for example, the series of "what-if" questions that help companies to determine whether individuals are contingent workers or full-fledged employees).
- **Small business and HR** provides students with an appreciation of how HR practices in small businesses are often different than in larger companies because not all students will choose to work for large corporations. Topics relevant to small businesses are brought up throughout the text where relevant differences are evident. For example, some employment laws do not apply to small businesses.

MyManagementLab Suggested Activities

For the 14th edition we the authors are excited that Pearson's My Management Lab has been integrated fully into the text. These new features are outlined below. Making assessment activities available online for students to complete before coming to class will allow you the professor more discussion time during the class to review areas that students are having difficulty in comprehending.

Learn it

Students can be assigned the Chapter Warm-Up before coming to class. Assigning these questions ahead of time will ensure that students are coming to class prepared.

Watch It

Recommends a video clip that can be assigned to students for outside classroom viewing or that can be watched in the classroom. The video corresponds to the chapter material and is accompanied by multiple choice questions that re-enforce student's comprehension of the chapter content.

Try It

Recommends a mini simulation that can be assigned to students as an outside classroom activity or it can be done in the classroom.. As the students watch the simulation they will be asked to make choices based on the scenario presented in the simulation. At the end of the simulation the student will receive immediate feedback based on the answers they gave. These simulations re-enforces the concepts of the chapter and the students comprehension of those concepts.

Talk About It

These are discussion type questions which can be assigned as an activity within the classroom.

Assisted Graded Writing Questions

These are short essay questions which the students can complete as an assignment and submit to you the professor for grading.

New or Substantially Updated Topics by Chapter

We especially appreciate the efforts of the professionals who reviewed and provided valuable suggestions for this edition. Many of the changes listed are based on their suggestions.

Chapter 1

Expanded discussions of the HR profession and HR as a strategic business partner are included. A competency model for the work HR professionals perform has been added as well as a brief introduction to the idea that employees are assets (human capital) and necessary to business success like other forms of business capital such as manufacturing equipment and monetary resources. HR Bloopers: Staffing Stone Consulting.

Chapter 2

Several new examples are added throughout the chapter to put corporate social responsibility and corporate sustainability practices in context. HR Bloopers: Sales Incentives at Pinser Pharmaceutical.

Chapter 3

The introduction compares and contrasts equal employment opportunity (EEO) and workforce diversity. The order of presentation of the two main topics has been changed. EEO precedes diversity management to better correspond with the unfolding of societal changes. A discussion of the Genetic Information Nondiscrimination Act (GINA) of 2008 has been added. The discussion of the role of the Office of Federal Contract Compliance Programs (OFCCP) has been expanded. HR Bloopers: Affirmative Action and Workforce Diversity.

Chapter 4

The discussion of strategic planning takes place at the beginning of the chapter and the logic for how HR planning and job analysis are informed by the strategic planning process is presented. The material on strategic planning has been enhanced with additional concepts (for example, different types of strategies) and business examples. A new section on competencies and competency modeling has been added given the increased use along with or instead of traditional job analysis. HR Bloopers: Workforce Planning at Master Cleaner.

Chapter 5

The discussion of contingent workers has been expanded. Explicit criteria for distinguishing between contingent workers and employees are now included. HR Bloopers: Recruiting Skilled Machinists.

Chapter 6

The discussions of selection norms and selection test reliability have been expanded. Drug testing has been added as a possible component of the selection process. The discussion of legal considerations has been expanded and points to specific legal concerns and particular selection tests. HR Bloopers: The First Interview.

Chapter 7

The ordering of Chapters 7 and 8 in the 13th edition have been reversed in the 14th edition. Chapter 7 addresses performance management and appraisal, whereas Chapter 8 focuses on HR development and training. This change was made because performance management and appraisal often inform the need for training. The discussion of performance appraisal methods has been expanded greatly and organized into four categories: trait, comparison systems, behavioral systems, and results-based systems. In addition, samples of many of the methods have been added to this chapter. HR Bloopers: Appraising Performance at Global Insurance.

Chapter 8

The presentation of training needs assessment was expanded. A brief discussion of massive open online courses has been added to the e-learning section. A new section on team training and the types and applications of team training has been included. HR Bloopers: Management Development at Trends Apparel.

Chapter 9

The focus on components of compensation system design has been enhanced. The discussions on seniority pay, merit pay, incentive pay, and person-focused pay (skill-based and competency-based) have been expanded. The discussion of pay policy incorporates the role of pay mix as an important element. Interindustry wage differentials are introduced as an explanation to further help understand why pay differs from company to company. HR Bloopers: Motivating Software Development Teams.

Chapter 10

A brief historical explanation has been added to help students understand the existence of some employee benefit offerings as well as why some are required by law and others are not. The discussion of health-care plans has been expanded to include fee-for-service plans. Additional information has been added to the section on consumer-driven health care. The life insurance section has been expanded by including specific kinds of life insurance options. HR Bloopers: The Job-Sharing Problem at SunTrust Bank.

Chapter 11

Chapters 11 through 13 have been reordered to emphasize the role of labor unions (Chapter 11), internal employee relations (Chapter 12), and employee safety, health, and wellness (Chapter 13). A brief historical perspective on the economy and nature of the workplace is presented to help set the context for unionization. An expanded discussion to help explain the rise of unionization is included. An expanded discussion of the challenges to the status of unions today is added. Additional reasons for union decertification are discussed. HR Bloopers: Stopping Unionization at Packer Industries.

Chapter 12

The discussion of employment at will has been expanded to more fully explain the three exceptions. The just cause standard for terminations is introduced. Along with this discussion, the seven tests to determine whether a planned termination decision meets the just cause standard are included. HR Bloopers: Effective Discipline at Berries Groceries.

Chapter 13

Several new examples are added throughout the chapter to enhance the context of safety, health, and wellness in companies. HR Bloopers: Health and Safety Problems at XIF Chemicals.

Chapter 14

A new section that more effectively sets the context for global HR has been added. It is organized into four areas—country politics and economic structure, national cultural norms, legal system, and labor force characteristics and dynamics. HR Bloopers: United Architect's Expatriate Problems

Instructor Resources

At the Instructor Resource Center, www.pearsonglobaleditions.com/Mondy, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit http://247.pearsoned.com for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- Instructor's Resource Manual
- Test Bank
- TestGen® Computerized Test Bank
- PowerPoint Presentation

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2015 Qualitative BusinessVideo Library

Additional videos illustrating the most important subject topics are available in MyManagementLab, under Instructor Resources: Business Today.

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About R. Wayne Mondy

I have always had a strong interest in business practices as evidenced by my many years of academic and professional experience. I believe that managing people is the crucial side of business because a firm's human resources are the foundation on which everything is accomplished. Prior to entering academics, I had business experience with such companies as Peat, Marwick, Mitchell, and Co. (now KPMG), General Electric Corporation, Gulf South Research Institute, and Houston Data Center. In addition, I served in the U.S. Air Force as a management analysis officer. Several examples in your text relate to my business experience.

I received my DBA from Louisiana Tech University and have enjoyed many years of teaching and administration, having served as professor, department head of the Department of Management & Marketing, and Dean of the College of Business. I have authored or co-authored seven college textbooks in a total of thirty-one editions, fifty-four articles, and twenty papers. The textbooks are *Management: Concepts, Practices, and Skills* (8th edition); *Human Resource Management* (14th edition); *Personal Selling: Function, Theory and Practice*

* This product may not be available in all markets. For more details, please visit www.coursesmart.co.uk or contact your local representative.

(4th edition); *Supervision* (3rd edition); *Management Concepts and Canadian Practices* (2nd edition); *Staffing the Contemporary Organization*; and *Management and Organizational Behavior*. In addition to the 14th edition of *Human Resource Management*, the book has been translated into Spanish (*Administracin de Recursos Humanos*, Prentice Hall, 1997, 2001, and 2005), and Chinese (Prentice Hall, 1998, 2002, 2005, and 2011). A special 2008 two-part international edition of the 10th edition was prepared for India, Bangladesh, Bhutan, Pakistan, Nepal, Sri Lanka, and the Maldives. In addition, a Pearson International Edition was prepared for the 10th edition. A 2010 international edition was prepared for the 11th edition. Articles have been published in such journals as *Business Journal*, *Journal of Education for Business*, *HR Magazine*, and *The Journal of Business Ethics*.

I am also Life Certified as a Senior Professional in Human Resources (SPHR) by the Human Resource Certification Institute. During my career at various universities, I have had the opportunity to charter three student chapters of the Society for Human Resource Management. In one instance, about 20 students wanted to take the certification examination. I was excited about their enthusiasm until they informed me, "Dr. Mondy, you have to take it, too." I have never studied so hard but we all were successful in achieving our objectives. That is how I received my SPHR designation—I earned it.

R. Wayne Mondy, SPHR

About Joseph J. Martocchio

My interest in the human resource management field began while I was a junior at Babson College. I found myself wanting to practice in the field as well as to become a university professor and researcher. I pursued both professional desires by working at Cameron and Colby (a reinsurance company) in Boston and for General Electric's Aerospace business group in Valley Forge, Pennsylvania.

I advanced my education in the HR field by earning a master's degree and Ph.D. degree at Michigan State University. My master's degree enabled me to build an even stronger foundation in practice and my doctoral degree provided me with the skills to conduct scholarly research and teach college-level courses. Since earning my graduate degrees, I have been a professor in the School of Labor and Employment Relations at the University of Illinois, Urbana–Champaign and assumed administrative roles as a Provost Fellow, Associate Dean for Academic Affairs, and Interim Dean. All the while, I have taught a variety of courses in the HR field. These include compensation systems, employee benefits, employment systems (HR and labor relations), HR planning and staffing, and statistics. For many years, I served as the faculty advisor to the student chapter of the Society for Human Resource Management at the University of Illinois during which time students earned Merit Awards and Superior Merit awards on multiple occasions.

As a researcher, I have studied a variety of topics that include employee absenteeism, employee training and development, compensation systems, employee benefits, and generational diversity. My work appears in leading scholarly journals such as *Academy of Management Journal*, *Academy of Management Review*, *Journal of Applied Psychology*, *Journal of Management*, and *Personnel Psychology*. I received the Ernest J. McCormick Award for Distinguished Early Career Contributions from the Society for Industrial and Organizational Psychology (SIOP), and I was subsequently elected as a Fellow in both the American Psychological Association and SIOP. Following the attainment of this recognition, I served as the Chair of the HR Division of the Academy of Management as well as in various other leadership roles within that organization.

Besides writing scholarly articles, I have two sole-authored textbooks: *Strategic Compensation: A Human Resource Management Approach* (Pearson Higher Education), which is in its 8th edition, and *Employee Benefits: A Primer for Human Resource Professionals* (McGraw-Hill), which is in its 5th edition. The compensation textbook was translated for use in China and India. Joining as a co-author on the 14th edition of *Human Resource Management* has been an exciting opportunity.

Joe Martocchio

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Part One
Setting the Stage

Chapter 1
Human Resource Management: An Overview

Chapter 2
Business Ethics and Corporate Social Responsibility

Chapter 3
Equal Employment Opportunity, Affirmative Action, and Workforce Diversity



1 Human Resource Management: An Overview

CHAPTER OBJECTIVES

After completing this chapter, students should be able to:

1. Define human resource management.
2. Identify the human resource management functions.
3. Describe who performs human resource management activities.
4. Explain how HR serves as a strategic business partner.
5. Identify the elements of the dynamic HRM environment.
6. Explain the importance of corporate culture and human resource management.
7. Describe the importance of employer branding.
8. Discuss human resource management issues for small businesses.
9. Identify ways that country culture influences global business.
10. Describe the human resource management profession.

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If your professor has chosen to assign this, go to **mymanagementlab.com** to see what you should particularly focus on and to take the Chapter 1 Warm-Up.



OBJECTIVE 1.1

Define *human resource management*.

Defining Human Resource Management

human resource management (HRM)
Utilization of individuals to achieve organizational objectives.

Human resource management (HRM) is the use of individuals to achieve organizational objectives. Basically, all managers get things done through the efforts of others. Consequently, managers at every level must concern themselves with HRM. Individuals dealing with human resource matters face a multitude of challenges, ranging from a constantly changing workforce to ever-present government regulations, a technological revolution, and the economy of the United States and the world. Furthermore, global competition has forced both large and small organizations to be more conscious of costs and productivity. Because of the critical nature of human resource issues, these matters must receive major attention from upper management.

The remainder of this chapter will enable you to gain an appreciation of HRM as a critical business function. In the next sections, we will introduce you to the functions that make up HRM and identify who is responsible for managing human resources (HR). Then, we will discuss HR as a strategic business partner and the dynamic role of the environment that influences HRM practice. Finally, we turn our attention to the importance of corporate and national culture and discuss the HRM profession.

OBJECTIVE 1.2

Identify the human resource management functions.

Human Resource Management Functions

staffing
Process through which an organization ensures that it always has the proper number of employees with the appropriate skills in the right jobs, at the right time, to achieve organizational objectives.

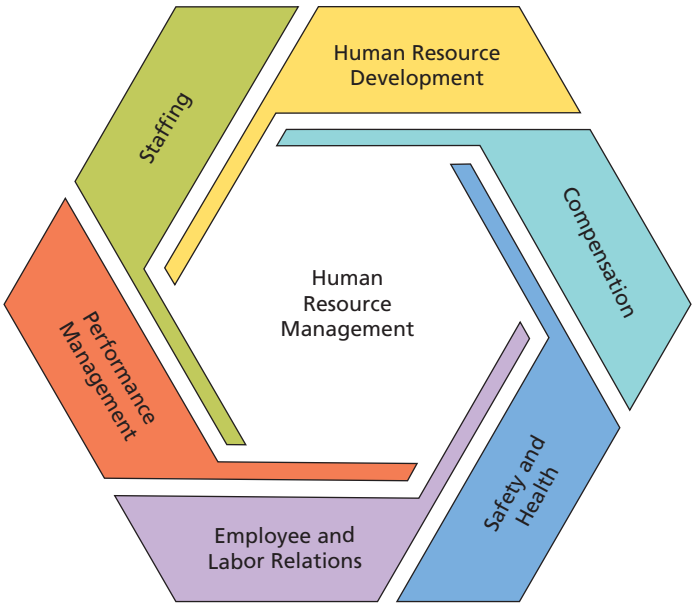
People who are engaged in managing HR develop and work through an integrated HRM system. As Figure 1-1 shows, six functional areas are associated with effective HRM: staffing, human resource development, performance management, compensation, safety and health, and employee and labor relations. These functions are discussed next.

Staffing

Staffing is the process through which an organization ensures that it always has the proper number of employees with the appropriate skills in the right jobs, at the right time, to achieve organizational objectives. Staffing involves job analysis, human resource planning, recruitment, and selection, all of which are discussed in this text.[1]



FIGURE 1-1
Human Resource Management Functions





HR Web Wisdom

Pearson Web site for 14th Edition of Human Resource Management

www.pearsonhighered.com/mondy

Students can visit this Web site to get additional HR Web Wisdoms, in-the-news articles, cases, and chapter quizzes.

performance management (PM)
Goal-oriented process directed toward ensuring that organizational processes are in place to maximize the productivity of employees, teams, and ultimately, the organization.

human resource development (HRD)
Major HRM functions consisting not only of training and development but also of individual career planning and development activities, organization development, and performance management and appraisal.

Job analysis is the systematic process of determining the skills, duties, and knowledge required for performing jobs in an organization. It impacts virtually every aspect of HRM, including planning, recruitment, and selection. *Human resource planning* is the systematic process of matching the internal and external supply of people with job openings anticipated in the organization over a specified period. The data provided set the stage for recruitment or other HR actions. *Recruitment* is the process of attracting individuals on a timely basis, in sufficient numbers, and with appropriate qualifications to apply for jobs with an organization. *Selection* is the process of choosing the individual best suited for a particular position and the organization from a group of applicants. Successful accomplishment of the staffing function is vital if the organization is to effectively accomplish its mission. These topics are collectively often referred to as staffing.

Performance Management

Performance management is a goal-oriented process that is directed toward ensuring that organizational processes are in place to maximize the productivity of employees, teams, and ultimately, the organization. *Performance appraisal* is a formal system of review and evaluation of individual or team task performance. It affords employees the opportunity to capitalize on their strengths and overcome identified deficiencies, thereby helping them to become more satisfied and productive employees.

Human Resource Development

Human resource development is a major HRM function consisting not only of training and development but also of career planning and development activities, organization development, and performance management and appraisal. *Training* is designed to provide learners with the knowledge and skills needed for their present jobs. *Development* involves learning that goes beyond today's job and has a more long-term focus.

Organization development (OD) is planned and systematic attempts to change the organization (corporate culture), typically to a more behavioral environment. OD applies to an entire system, such as a company or a plant. A number of OD methods are discussed that serve to improve a firm's performance.

Career planning is an ongoing process whereby an individual sets career goals and identifies the means to achieve them. According to the U.S. Bureau of Labor Statistics, today's employees will work for approximately 9 to 11 companies during their careers based on the assumption that

most people will work 30 to 40 years.[2] A survey conducted by NYU's School of Continuing and Professional Studies showed that on average, individuals will change careers (not merely "jobs") three times in their life.[3] Employee loyalty loses its meaning in this environment.

Career development is a formal approach used by the organization to ensure that people with the proper qualifications and experiences are available when needed. Individual careers and organizational needs are not separate and distinct. Organizations should assist employees in career planning so the needs of both can be satisfied.

Compensation

The question of what constitutes a fair day's pay has plagued management, unions, and workers for a long time. A well-thought-out compensation system provides employees with adequate and equitable rewards for their contributions to meeting organizational goals. As used in this book, the term *compensation* includes the total of all rewards provided to employees in return for their services. The rewards may be one or a combination of the following:

direct financial compensation (core compensation)
Pay that a person receives in the form of wages, salary, commissions, and bonuses.

indirect financial compensation (employee benefits)
All financial rewards that are not included in direct financial compensation.

nonfinancial compensation
Satisfaction that a person receives from the job itself or from the psychological and/or physical environment in which the person works.

- **Direct Financial Compensation (Core Compensation)**: Pay that a person receives in the form of wages, salaries, commissions, and bonuses.
- **Indirect Financial Compensation (Employee Benefits)**: All financial rewards that are not included in direct compensation, such as paid vacations, sick leave, holidays, and medical insurance.
- **Nonfinancial Compensation**: Satisfaction that a person receives from the job itself or from the psychological or physical environment in which the person works.

Employee and Labor Relations

Businesses are required by law to recognize a union and bargain with it in good faith if the firm's employees want the union to represent them. In the past, this relationship was an accepted way of life for many employers, but most firms today would rather have a union-free environment. When a labor union represents a firm's employees, the human resource activity is often referred to as labor relations, which handles the job of collective bargaining. Internal employee relations comprise the HRM activities associated with the movement of employees within the organization such as promotions, demotion, termination, and resignation.

Safety and Health

safety
Protection of employees from injuries caused by work-related accidents.

health
Employees' freedom from physical or emotional illness.

Safety involves protecting employees from injuries caused by work-related accidents. **Health** refers to the employees' freedom from physical or emotional illness. These aspects of the job are important because employees who work in a safe environment and enjoy good health are more likely to be productive and yield long-term benefits to the organization. Today, because of federal and state legislation that reflect societal concerns, most organizations have become attentive to their employees' safety and health needs.

Human Resource Research

Although human resource research is not a distinct HRM function, it pervades all functional areas, and the researcher's laboratory is the entire work environment. For instance, a study related to recruitment may suggest the type of worker most likely to succeed in the culture of a particular firm. Research on job safety may identify the causes of certain work-related accidents. The reasons for problems such as excessive absenteeism or excessive grievances may not be readily apparent. However, when such problems occur, human resource research can often find the causes and offer possible solutions. Human resource research is clearly an important key to developing the most productive and satisfied workforce possible.

Interrelationships of Human Resource Management Functions

All HRM functional areas are highly interrelated. Management must recognize that decisions in one area will affect other areas. For instance, a firm that emphasizes recruiting top-quality candidates but neglects to provide satisfactory compensation is wasting time, effort, and money.

In addition, a firm's compensation system will be inadequate unless employees are provided a safe and healthy work environment. If a firm's compensation system pays below-market wages, the firm will always be hiring and training new employees only to see the best leave for a competitor's higher wages. The interrelationships among the HRM functional areas will become more obvious as these topics are addressed throughout the book.

OBJECTIVE 1.3
Describe who performs human resource management activities.

Who Performs Human Resource Management Activities?

The person or units who perform the HRM tasks have changed dramatically in recent years, and today there is no typical HR department. Many of these changes are being made so that HR professionals can accomplish a more strategic role. Also, the recent recession forced some HR departments to accomplish more with less, and some companies have downsized the HR department to keep production-oriented people. This restructuring often resulted in a shift in who carries out each function, not the elimination of the previously identified HR functions. Some organizations continue to perform the majority of HR functions within the firm. However, as internal operations are reexamined, questions are raised, such as: Can some HR tasks be performed more efficiently by line managers or outside vendors? Can some HR tasks be centralized or eliminated altogether? Can technology improve the productivity of HR professionals? One apparent fact is that all functions within today's organizations are being scrutinized for cost cutting, including HR. All units must operate under a lean budget in this competitive global environment, and HR is no exception.

Evidence provided by The Hackett Group shows that the HR functions have been impacted more than other support functions with regard to reductions in staff and operating budgets.[4] In fact, the most efficient companies typically spend nearly 30 percent less per employee on HR and operate with 25 percent fewer HR employees.[5] Mobile HR has been a major factor in this trend as we discuss later in the chapter. Many HR departments continue to get smaller because others outside the HR department now perform certain functions. HR outsourcing, shared service centers, professional employer organizations, and line managers now assist in the accomplishment of many traditional HR activities. Let us first look at the role of the traditional HR professional.

Human Resource Management Professional

human resource professional
Individual who normally acts in an advisory or staff capacity, working with other professionals to help them deal with human resource matters.

Historically, the HR manager was responsible for each of the six HR functions. A **human resource management professional** is an individual who normally acts in an advisory or staff capacity, working with other managers to help them address human resource matters. Often, HR departments are created, with the central figure being the HR manager or executive. The HRM professional is primarily responsible for coordinating the management of HR to help the organization achieve its goals. Figure 1-2 displays a summary of a typical human resource professional's job along with the typical tasks performed by these professionals.

Line Managers

line managers
Individuals directly involved in accomplishing the primary purpose of the organization.

All managers get things done through the efforts of others. Consequently, managers at every level naturally concern themselves with HRM, for example, making decisions about which job candidates are likely to meet the needs of company, conducting employee performance evaluations, and determining pay raise amounts. Individuals directly involved in accomplishing the primary purpose of the organization are **line managers**. As the traditional work of HR managers evolves, line managers have assumed some tasks typically done by HR professionals.[6] Automation has assisted greatly in this process. Managers are being assisted by manager self-service, the use of software, and the corporate network to automate paper-based human resource processes that require a manager's approval, recordkeeping or input, and processes that support the manager's job. Everything from recruitment, selection, and performance appraisal to employee development has been automated to assist line managers in performing traditional HR tasks.

There is a shared responsibility between line managers and HR professionals. Frequently, the line manager looks to HR for guidance in topics such as selection, training, promotion, and

FIGURE 1-2

Human Resource Professional Job Description

Source: National Center for O*NET Development. 11-3121.00. *O*NET OnLine*. Retrieved January 14, 2014, from http://www.onetonline.org/link/summary/11-3121.00

Plan, direct, or coordinate HR activities and staff of an organization.
Sample of reported job titles: Human Resources Manager (HR Manager), Director of Human Resources, Human Resources Director (HR Director), Employee Benefits Manager, Human Resources Vice President, Employee Relations Manager

Tasks

- Serve as a link between management and employees by handling questions, interpreting and administering contracts and helping resolve work-related problems.
- Analyze and modify compensation and benefits policies to establish competitive programs and ensure compliance with legal requirements.
- Advise managers on organizational policy matters such as equal employment opportunity and sexual harassment, and recommend needed changes.
- Perform difficult staffing duties, including dealing with understaffing, refereeing disputes, firing employees, and administering disciplinary procedures.
- Plan and conduct new employee orientation to foster positive attitude toward organizational objectives.
- Identify staff vacancies and recruit, interview, and select applicants.
- Plan, direct, supervise, and coordinate work activities of subordinates and staff relating to employment, compensation, labor relations, and employee relations.
- Plan, organize, direct, control, or coordinate the personnel, training, or labor relations activities of an organization.
- Represent organization at personnel-related hearings and investigations.
- Administer compensation, benefits and performance management systems, and safety and recreation programs.

taking disciplinary action. The relationship between HR professionals and line managers is illustrated by the following account:

> *Bill Brown, the production supervisor for Ajax Manufacturing, has just learned that one of his machine operators has resigned. He immediately calls Sandra Williams, the HR manager, and says, "Sandra, I just had a Class A machine operator quit down here. Can you find some qualified people for me to interview?" "Sure Bill," Sandra replies. "I'll send two or three down to you within the week, and you can select the one that best fits your needs."*

In this instance, both Bill and Sandra are concerned with accomplishing organizational goals, but from different perspectives. As an HR manager, Sandra identifies applicants who meet the criteria specified by Bill. Yet, Bill will make the final decision about hiring because he is responsible for the machine operators' performance. His primary responsibility is production; hers is human resources. As an HR manager, Sandra must constantly deal with the many problems related to HR that Bill and the other managers face. Her job is to help them meet the human HR needs of the entire organization.

Human Resources Outsourcing

HR outsourcing (HRO)
Process of hiring external HR professionals to do the HR work that was previously done internally.

HR outsourcing (HRO) is the process of hiring external HR professionals to do the HR work that was previously done internally. It is estimated that HRO is a $42 billion industry with expected future annual growth to be approximately 5 percent.[7] In the early days of HRO, cost savings was the primary driver in determining which activities to outsource. Today, outsourcing agreements are focusing more on quality of service and saving time, which is often more important than saving money.[8] Ron Gier, vice president of human capital planning and employee relations for Sprint, said, "Outsourcing is about concentrating where you are going to put your energy, where you are going to build competency as a company and where you can use a partner to perform activities that are not core to your business."[9] This permits HR to focus on strategic organizational issues.[10] As will be stressed throughout the text, strategic HR has become a major driver for HR professionals.[11]

Discrete services outsourcing involves one element of a business process or a single set of high-volume repetitive functions to be outsourced.[12] Benefits have often been the HR task

most likely to be outsourced. Dan Thomas, president of Trivalent Benefits Consulting Inc., said, "Benefits administration has become so complex that it really takes someone who works with it every single day to keep track of all of the different laws and changes that are going on."[13] For example, a survey conducted by the ADP Institute revealed that more than half of employers (52 percent of midsized and 54 percent of large) believe that benefits administration will be more complex as a result of the Affordable Care Act. An even higher percentage of employers (57 percent of midsized and 64 percent of large) believe that health care reform will cause the time spent on benefits administration to increase.[14]

Business process outsourcing (BPO) is the transfer of the majority of HR services to a third party. Typically larger companies are involved with BPO, both as a provider and a user. A major HR outsourcer is IBM that has more than $100 billion in revenue.[15] Kraft Foods Inc. and IBM signed a multiyear BPO agreement in which IBM took over workforce administration, compensation, and performance reporting for all of Kraft's 98,000 employees spread across 72 countries.[16] Florida created a Web-based HR information system and outsourced administration of most HR functions for approximately 240,000 state employees and retirees. Outsourced services included recruiting, payroll, and HR administration services and benefits administration.[17]

Human Resources Shared Service Centers

shared service center (SSC)
A center that takes routine, transaction-based activities dispersed throughout the organization and consolidates them in one place.

A **shared service center (SSC)**, also known as a center of expertise, takes routine, transaction-based activities dispersed throughout the organization and consolidates them in one place. For example, a company with 20 strategic business units might consolidate routine HR tasks and perform them in one location. Shared service centers provide an alternative to HRO and can often provide the same cost savings and customer service. Fewer HR professionals are needed when shared service centers are used, resulting in significant cost savings. The most common HR functions that use SSCs are benefits and pension administration, payroll, relocation assistance and recruitment support, global training and development, succession planning, and talent retention.

Professional Employer Organizations

professional employer organization (PEO)
A company that leases employees to other businesses.

A **professional employer organization (PEO)** is a company that leases employees to other businesses. When a decision is made to use a PEO, the company releases its employees, who are then hired by the PEO. The PEO then manages the administrative needs associated with employees. It is the PEO that pays the employees' salaries; it also pays workers' compensation premiums, payroll-related taxes, and employee benefits. The PEO is responsible to the IRS if, for example, the payroll taxes go unpaid. The company reimburses the PEO, which typically charges a fee



HR BLOOPERS

Staffing Stone Consulting

Business at Stone Consulting is growing faster than Shelly Stone expected. She just signed a contract on another big project that she believes secures her future in the consulting business.

However, she has been so busy selling the firm's services that she has put little thought into how she is going to staff the projects she has recently sold. She opened the firm more than a year ago and quickly hired five consultants and an office manager to help her get the business off the ground.

Unfortunately, one of the consultants has already left the firm after making a huge mistake that caused Shelly to lose a client. Some of the other consultants have raised some concerns with Shelly as well. They've asked about pay increases and also her promise to eventually provide them with health insurance. However, she hasn't had time to even think about these issues because she has focused her attention on finding new clients. As she looks over her project list she realizes she needs to start thinking about staffing fast. Her current team is already committed to other projects and the new projects she has secured need to get started right away. The office manager interrupts her thoughts to tell her a potential client is on the line. Excited about yet another opportunity, Shelly jumps on the call, quickly forgetting her staffing concerns.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

of from 2 to 7 percent of the customer's gross wages, with percentages based on the number of leased employees. Because the PEO is the employees' legal employer it has the right to hire, fire, discipline, and reassign an employee. However, the client company maintains enough control so it can run the day-to-day operations of its business. Although PEOs have been available since the early 1980s, they have recently become a multibillion dollar industry. In fact, there is an estimated two to three million U.S. workers employed under a PEO-type arrangement and that number is certain to grow.[18] PEOs permit business owners to focus on their core business, whereas the PEO handles HR activities.[19] Companies using a PEO typically have a high level of benefits and greater HR expertise than they could possibly have had on their own.

OBJECTIVE 1.4

Explain how HR serves as a strategic business partner.

Human Resources as a Strategic Business Partner

In the environment presently confronting HR, many HR professions are increasingly taking on the role of being a strategic partner with upper management.[20] In this role, HR professionals are able to focus on matters that are truly important to the company as a whole.[21] For example, increasing sales and building customer loyalty to the brand are important goals of soft drink companies such as Coca Cola and PepsiCo. Increasing sales require hiring highly dedicated and motivated sales and distribution employees. As a strategic business partner, HR helps to identify and develop the employees necessary for excellent performance, builds recruitment systems, training programs for product distribution and interactions with customers, constructs performance management, and structures compensation programs that will greatly incentivize these employees to excel. The rapidly evolving world of HR will increasingly require HR professionals to thoroughly understand all aspects of what the companies they work for do. Essentially, they must know more than just HR work.[22] In moving from a transactional to a strategic model, HR professionals work toward solving strategic problems in the organization. No longer is an administrative and compliance role appropriate as their primary jobs. For instance, preparing the company's affirmative action plan or administering the payroll system are compliance and administrative tasks. HR executives today need to think like the CEO to become a strategic partner in achieving organizational plans and results.[23] In doing so, they understand the production side of the business and help to determine the strategic capabilities of the company's workforce, both today and in the future. HR professionals need to be agile in their thinking as they adapt to the ebbs and flows of business. Therefore, HR executives are ensuring that human resources support the firm's mission.

HR professionals have changed the way they work. Working as a strategic business partner requires a much deeper and broader understanding of business issues.[24] What strategically should HR be doing exactly? Possible strategic tasks for HR include making workforce strategies fundamental to company strategies and goals; increasing HR's role in strategic planning, mergers, and acquisitions; developing awareness or an understanding of the business; and helping line managers achieve their goals as in the previous example of soft drink companies.

HR professionals can give the CEO and CFO a powerful understanding of the role that employees play in the organization and the way it combines with business processes to expand or shrink shareholder value. HR professionals are integrating the goals of HR with the goals of the organization and focusing on expanding its strategic and high-level corporate participation with an emphasis on adding value. In doing so, HR is demonstrating that it can produce a return on investment for its programs. It analyzes HR activities to determine whether they are maintaining acceptable profit margins. For example, HR professionals strive to develop cost-effective training strategies that boost sales revenue that far exceeds the cost of training. The CEO needs help in matters that HR professionals are qualified to handle. HR professionals are the enablers; they are the ones who should know about change and develop strategies to make it work.

A useful way to better understand *how* HR serves as a strategic business partner is to think about the use of capital for value creation. **Capital** refers to the factors that enable companies to generate income, higher company stock prices, economic value, strong positive brand identity, and reputation. There is a variety of capital that companies use to create value, including financial capital (cash) and capital equipment (state-of-the-art robotics used in manufacturing).

human capital

As defined by economists, refers to sets of collective skills, knowledge, and ability that employees can apply to create economic value for their employers.

Employees represent a specific type of capital called human capital. **Human capital**, as defined by economists, refers to sets of collective skills, knowledge, and ability that employees can apply to create value for their employers. Companies purchase the use of human capital by

paying employees an hourly wage, salary, or bonuses and providing benefits such as paid vacation and health insurance. Also, companies help develop human capital to their advantage by offering training programs aimed at further boosting employee productivity.

The meaning of value creation differs according to a company's mission. It is useful to think about the differences between for-profit and not-for-profit organizations. For example, Microsoft and Frito Lay are for-profit companies that strive to generate annual profits for company shareholders. These companies promote profit generation by selling quality software and quality snack products, respectively. The American Red Cross is an illustration of a not-for-profit organization that relies on charitable monetary contributions and grant money to create societal value. The people who contribute money and other resources do not seek monetary gain. Instead, they value supporting humanitarian causes such as disaster relief. The American Red Cross provides disaster relief after the occurrence of devastating events, including the typhoon in the Philippines that destroyed cities and villages in 2013.

Every organization relies on capital to create value, but the combination of capital used to create value differs from company to company. For example, Frito Lay uses state-of-the-art manufacturing equipment, and the American Red Cross does not. However, every organization shares in common the employment of individuals and the necessity of managing employees to successfully create value. Indeed, HRM is the business function of managing employees to facilitate an organization's efforts to create value.

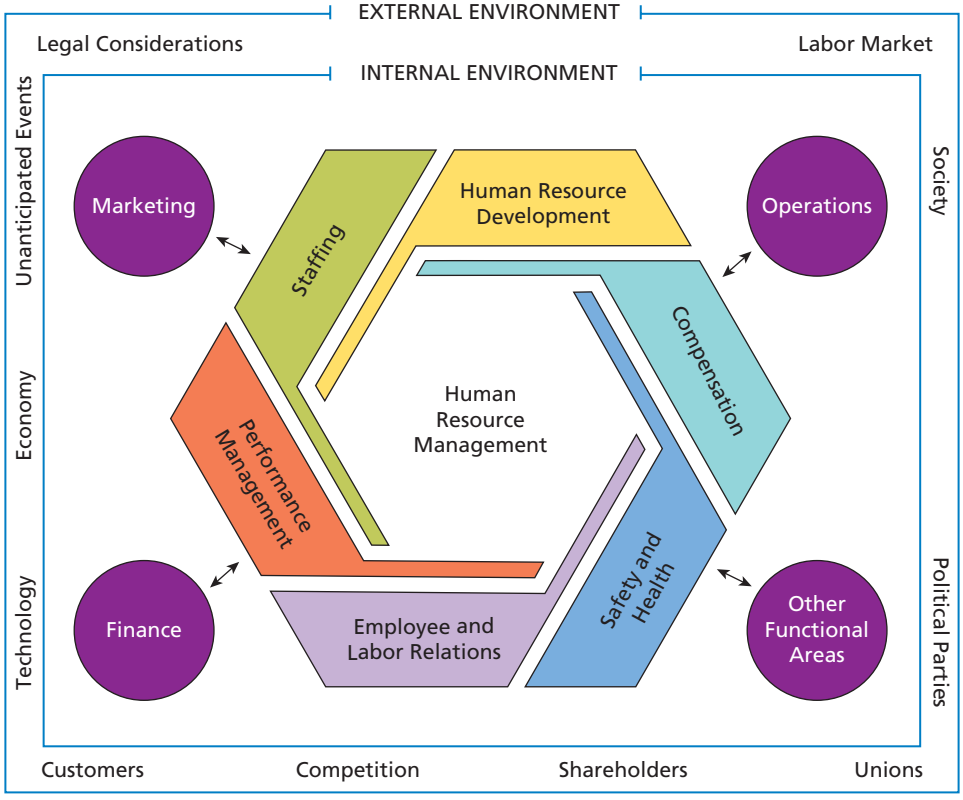
OBJECTIVE 1.5

Identify the elements of the dynamic HRM environment.

Dynamic Human Resource Management Environment

Many interrelated factors affect HRM practice within and outside the organization. As illustrated in Figure 1-3, environmental factors include legal considerations, labor market, society, political parties, unions, shareholders, competition, customers, technology, the economy, and unanticipated events. Each factor, either separately or in combination with others, can create constraints or opportunities for HRM.

FIGURE 1-3
Environment of Human Resource Management



Legal Considerations

A significant external force affecting HRM relates to federal, state, and local legislation and the many court decisions interpreting this legislation. For example, the Age Discrimination in Employment Act is an example of a federal law that protects older workers from illegal discrimination. In addition, presidential executive orders have had a major impact on HRM. These legal considerations affect virtually the entire spectrum of human resource policies. Laws, court decisions, and executive orders affecting other HRM activities will be described in the appropriate chapters.

Labor Market

Potential employees located within the geographic area from which employees are normally recruited comprise the *labor market*. The capabilities of a firm's employees determine, to a large extent, how well the organization can perform its mission. Because new employees are hired from outside the firm, the labor market is considered an important environmental factor. The labor market is always changing, and these shifts inevitably cause changes in the workforce of an organization. For example, members of the aging baby boom cohort, the largest current generation of employees, are retiring in large numbers; however, younger generations are smaller and less well-prepared to assume leadership roles because they have had much less time in the workforce to develop them.

Society

Society may also exert pressure on HRM. The public is no longer content to accept, without question, the actions of business. To remain acceptable to the general public, a firm must accomplish its purpose while complying with societal norms.

Ethics is the discipline dealing with what is good and bad, or right and wrong, or with moral duty and obligation. *Corporate social responsibility (CSR)* is closely related to ethics. CSR is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves.[25] We take up these subjects in Chapter 2.

Political Parties

Closely related to society, but not the same, are political parties. The Democratic and Republican parties are the two major political parties in the United States. These parties often have differing opinions on how HRM should be accomplished. For example, Democrats tend to favor government regulation that protects the rights of virtually all employees to receive at least a minimum wage (the Fair Labor Standards Act) and health insurance (Patient Protection Affordability and Accountability Act). Republicans, on the other hand, tend not to favor government regulation, believing that businesses should have as much flexibility as possible to operate successfully.

Unions

union
Consists of employees who have joined together for the purpose of negotiating terms of employment such as wages and work hours.

Wage levels, benefits, and working conditions for millions of employees reflect decisions made jointly by unions and management. A **union** consists of employees who have joined together for the purpose of negotiating terms of employment such as wages and work hours. The United Auto Workers is an example of a large labor union. Unions are treated as an environmental factor because, essentially, they become a third party when dealing with the company.

Shareholders

shareholders
Owners of a corporation.

The owners of a corporation are called **shareholders**. Because shareholders, or stockholders, have invested money in the firm, they may at times challenge programs considered by management to be beneficial to the organization. Stockholders are wielding increasing influence, and management may be forced to justify the merits of a particular program in terms of how it will affect future projects, costs, revenues, profits, and even benefits to society as a whole.[26] Considerable pressure has recently been exerted by shareholders and lawmakers to control the salaries of corporate executives as we shall see in the discussion of the Dodd-Frank Act in Chapters 2 and 9.[27]

Competition

Firms may face intense global competition for both their product or service and labor markets. Unless an organization is in the unusual position of monopolizing the market it serves, other firms will be producing similar products or services. A firm must also maintain a supply of competent employees if it is to succeed, grow, and prosper. But other organizations are also striving for that same objective. A firm's major task is to ensure that it obtains and retains a sufficient number of employees in various career fields to allow it to compete effectively. A bidding war often results when competitors attempt to fill certain critical positions in their firms. Even in a depressed economy, firms find creative ways to recruit and retain such employees. For example, a company may offer a signing bonus (that is, a one-time monetary payment) to offset lower pay.

Customers

The people who actually use a firm's goods and services also are part of its external environment. Because sales are crucial to the firm's survival, management has the task of ensuring that its employment practices provide excellent customer support service. Customers constantly demand high-quality products and after-purchase service. Therefore, a firm's workforce should be capable of providing top-quality goods and after-sale customer support. These conditions relate directly to the skills, qualifications, and motivations of the organization's employees.

HR Technology

The rate of technological change is staggering. The development of technology has created new roles for HR professionals but also places additional pressures on them to keep abreast of the technology. We will briefly review three applications: human resource information systems, cloud computing, and social media.

human resource information system (HRIS)
Any organized approach for obtaining relevant and timely information on which to base HR decisions.

With the increased technology sophistication has come the ability to design a more useful **human resource information system (HRIS)**, which is any organized approach for obtaining relevant and timely information on which to base HR decisions. The HRIS brings under one encompassing technology system many human resource activities. Think of an HRIS as an umbrella for merging the various subsystems discussed throughout this text. Today, mainstay HR responsibilities such as planning, recruitment, selection, oversight of legal and regulatory compliance, benefits administration, and the safeguarding of confidential employee information cannot be carried out effectively without an HRIS. Throughout the text, topics will be highlighted that are part of an HRIS. In addition, all of the HRIS applications may be accessed through cloud computing.

A rapidly developing trend is the increased mobility of tasks performed by HR professionals.[28] A major factor contributing to HR mobility is *cloud computing*, a means of providing software and data via the Internet. Cloud computing and the use of mobile devices are changing the way HR work is performed, and the change is moving at an amazing pace.[29] With the cloud there is no more expensive, capital-intensive hardware and infrastructure and no more expensive, time-consuming, staff-intensive upgrades.[30] Cloud computing permits businesses to buy and use what they need, when they need it. It allows large organizations to move away from managing their own computer centers and focus on the core competencies of the firm. Cloud users have the ability to access the application securely from anywhere in the world.[31] HR professionals can be virtually anywhere and access the cloud, all through any standard Web. HR departments are leveraging the increasing popularity of social media, including LinkedIn, Facebook, YouTube, and Twitter. In the 2011 Achievers Social HR survey, respondents expressed the belief that social networking is an important tool for recruiting, retaining, and managing employees. The majority of respondents, 81.9 percent, believe that social networks will be used as an HR tool in their organizations within the next 12 months, and the low cost associated with using social media is a positive contributing factor.[32] There are three main applications of social media. First, companies may engage in targeted recruiting and sourcing passive and active applicants. Second, companies may use social media to promote knowledge sharing, training and development, and reinforcing identification with the organization and promoting the brand.

Economy

The economy of the nation and world is a major environmental factor affecting HRM. As a generalization, when the economy is booming, it is more difficult to recruit qualified workers. On the other hand, when a downturn is experienced, more applicants are typically available. To complicate this situation even further, one segment of the country may be experiencing an economic downturn, another a slow recovery, and another a boom. A major challenge facing HR is working within this dynamic, ever-changing economic environment because it impacts every aspect of HRM.[33]

Unanticipated Events

Unanticipated events are occurrences in the environment that cannot be foreseen. The *Deepwater Horizon* oil spill off the Gulf Coast in 2010 caused major modifications in the performance of many HR functions. Every disaster—whether human-made or natural—likely requires a tremendous amount of adjustment with regard to HRM. For example, after Hurricane Katrina, Tulane University reduced the number of employees. On a global perspective, think of the many different ways HR was affected by the tsunami in Japan. Japanese automobile plants in the United States were forced to temporarily shut down because of a lack of parts produced in Japan. Other recent disasters, such as heat waves, earthquakes, tornadoes, floods, and fires, have created their own type of difficulty.

OBJECTIVE 1.6

Explain the importance of corporate culture and human resource management.

Corporate Culture and Human Resource Management

corporate culture
System of shared values, beliefs, and habits within an organization that interacts with the formal structure to produce behavioral norms.

As an internal environment factor affecting HRM, corporate culture refers to the firm's social and psychological climate. **Corporate culture** is defined as the system of shared values, beliefs, and habits within an organization that interacts with the formal structure to produce behavioral norms.

Culture gives people a sense of how to behave and what they ought to be doing. Each individual gradually forms such perceptions over a period of time as the person performs assigned activities under the general guidance of a superior and a set of organizational policies. The culture existing within a firm influences the employees' degree of satisfaction with the job as well as the level and quality of their performance. The assessment of how desirable the organization's culture is may differ for each employee. One person may perceive the environment as bad, and another may see the same environment as positive. An employee may actually leave an organization in the hope of finding a more compatible culture. Max Caldwell, a managing director at Towers Watson, said, "Maybe the best definition of company culture is what everyone does when no one is looking."[34] Topics related to corporate culture are presented throughout this text. Some corporate culture topics include the following:

- *Employer branding* is the firm's corporate image or culture created to attract and retain the type of employees the firm is seeking. It is what the company stands for in the public eye.
- *Corporate culture* is a driving force when discussing business ethics and corporate social responsibility.
- *Diversity management* is about pursuing an inclusive corporate culture in which newcomers feel welcome and everyone sees the value of his or her job.
- *Organizational fit* refers to management's perception of the degree to which the prospective employee will fit in with the firm's culture or value system. A good Web site should provide a feeling of the kind of corporate culture that exists within the company.
- *New hire orientation* reflects the firm's corporate culture by showing in effect, "How we do things around here."
- *Talent management* is a strategic endeavor to optimize the use of employees and enables an organization to drive short- and long-term results by building culture, engagement, capability, and capacity through integrated talent acquisition, development, and deployment processes that are aligned to business goals.

- *Organization development* is a major means of achieving change in the corporate culture.
- Anything that the company provides an employee is included in compensation, from pay and benefits to the organization's culture and environment.
- A corporate culture that does not consider the needs of employees as individuals makes the firm ripe for unionization.
- Retaining the best employees often rests with the corporate culture that exists within the organization.
- Accident rates decline when the corporate culture encourages workers consciously or subconsciously to think about safety.

country's culture
Set of values, symbols, beliefs, language, and norms that guide human resource behavior within the country.

- A **country's culture** is the set of values, symbols, beliefs, languages, and norms that guide human behavior within the country. Cultural differences are often the biggest barrier to doing business in the world market. Many of the global topics discussed throughout your text are influenced by the issue of corporate culture or country culture.

OBJECTIVE **1.7**
Describe the importance of employer branding.

Employer Branding

Wayne Mondy shares a memory about his mother, which bears directly on this subject. His mother would always buy a certain brand of canned fruit even though it was more expensive. The brand name itself caused her to buy a product that although higher priced was probably the same or similar quality as less expensive brands. The company had created a positive image that made her want to use the product. As with the canned fruit, companies want a brand that will entice individuals to join and remain with the firm. Employer branding is an extension of product or business branding. **Employer branding** is the firm's corporate image or culture created to attract and retain the type of employees the firm is seeking. It is what the company stands for in the public eye.[35] As such, the focus on employer branding has become increasingly important for organizations.[36]

employer branding
Firm's corporate image or culture created to attract and retain the type of employees the firm is seeking.

Jeffrey St. Amour, national practice leader for PricewaterhouseCoopers' HR Services strategic communication group said, "They're both trying to create the same thing, which is product loyalty or a feeling that this is a high-quality company."[37] Employer branding has become a major recruitment and retention strategy and everyone in the company works to promote the image of the firm.[38]

Brands imply what employees will get from working there and why working for the company is a career and not just a job. Organizations such as Southwest Airlines believe that their employment brand is a key strategic advantage and sees it as a key contributor to its success.[39] As more Gen Yers enter the workforce, firms may need to alter their brand to attract and retain these young people who view having fun in an engaging work environment as important as a good salary. A well-paying job that is boring will not keep them for long. They want an organization that is "cool."[40] Gen Yers tend to be choosier and seek companies that match their personal standards as well as identity.[41]

An employer brand embodies the values and standards that guide people's behavior. Through employer branding, people get to know what the company stands for, the people it hires, the fit between jobs and people, and the results it recognizes and rewards. Every company has a brand, which could be the company of choice or one of last resort. A robust employment brand attracts people and makes them want to stay. In fact, most workers want to belong to an organization that embraces the ideas and principles they share.[42] Employer branding has become a driving force to engage and retain the firm's most valuable employees.[43] As the economy moves out of the recent recession and firms begin hiring again, employer branding is attracting more attention.

Achieving acknowledgment by an external source is a good way for a brand to be recognized. Being listed on *Fortune* magazine's 100 Best Companies to Work For is so desirable that some organizations try to change their culture and philosophies to get on the list. Think about how being on the following lists might assist in a company's recruitment and retention programs:

- *Working Mother* list of 100 best companies
- *Fortune magazine* list of 100 fastest-growing companies in the United States
- *Money magazine* list of 100 best places to live

- *Business Ethics* magazine list of 100 Best Corporate Citizens
- *Computerworld* list of Best Places to Work
- *Black Enterprise* list of Best Companies for Diversity

As the previous discussion indicates, many companies embrace creating and maintaining a positive work culture, and they recognize it is "good" business because they are better able to recruit and retain valued employees. A company named Patagonia also recognizes the benefits of a positive work culture from the perspective of employees. The following Watch It video describes Patagonia's efforts to maintain a positive work culture that emphasizes a culture of personal responsibility, flexibility, and development.

Watch It 1
If your instructor has assigned this, go to MyManagementLab to watch a video titled Patagonia: Human Resource Management and respond to questions.

OBJECTIVE 1.8
Discuss human resource management issues for small businesses.

Human Resource Management in Small Businesses

The Small Business Administration (SBA) defines a small business as one that is independently owned and operated, is organized for profit, and is not dominant in its field. More than 99 percent of the businesses in the United States are classified as small businesses and they are responsible for at least half of the private sector employees.[44]The discussion throughout this text has historically focused primarily on how HR is practiced with major corporations. However, today, many college graduates obtain jobs in small businesses. In fact, growth of small business is often a primary driver for the economy. Therefore, the practice of HR as it is conducted in small businesses is discussed at various times in your text.

Typically the same HR functions previously identified must be accomplished by small business, but the manner in which they are accomplished may be altered.[45] Small businesses often do not have a formal HR unit or an HRM specialist. Rather, line managers often handle the HR functions. The focus of their activities is generally on hiring and retaining capable employees. Some aspects of HR functions may actually be more significant in smaller firms than in larger ones. For example, a staffing mistake in hiring an incompetent employee who alienates customers may cause the business to fail. In a larger firm, such an error might be much less harmful. As the business grows, the need for a more sophisticated HR function usually is needed.[46] This move typically occurs at the 50-employee level when concerns about compliance with labor laws often begin.[47] Also, new small businesses are faced with a host of federal and state government regulatory requirements, tax laws, and compensation demands.



HR Web Wisdom

U.S. Small Business Administration
http://www.sba.gov/

Small business is the most powerful engine of opportunity and economic growth in the United States. SBA offers a variety of programs and support services to help owners navigate the issues they face with initial applications and resources to help after they open for business. Virtually all HR topics can be addressed from a small business standpoint.

Watch It 2
If your instructor has assigned this, go to MyManagementLab to watch a video titled Blackbird Guitars: Managing Human Resources in Entrepreneurial Firms and to respond to questions.

OBJECTIVE 1.9
Identify ways that country culture influences global business.

country's culture
Set of values, symbols, beliefs, language, and norms that guide human resource behavior within the country.

Country Culture and Global Business

A **country's culture** is the set of values, symbols, beliefs, languages, and norms that guide human behavior within the country. It is learned behavior that develops as individuals grow from childhood to adulthood. As one goes from one side of this country to the other, a wide range of cultural differences will be experienced. The same can be said in traveling from north to south. Then think about the cultural differences that exist in going from this country to another. Americans' use of colloquialisms often creates cultural barriers. For example the use of the illustration, 'Which comes first, the chicken or the egg" is a U.S. example that suggests that everyone understands its circular argument. However, residents of other countries may not understand the meaning, which creates a breakdown in communication.[48]

Even though the language may be the same, such as is the case with the United States and the United Kingdom, major cultural differences exist. Dean Foster, a New York–based consultant on intercultural business issues said, "The United Kingdom really is a foreign country—and HR departments that ignore that fact are at their peril. It's that expectation of similarity that throws everyone off."[49] A businessperson who travels from Switzerland to Italy goes from a country where meetings tend to be highly structured and expected to start on time to one where meetings can be more informal and punctuality is less important.[50] Many believe that China has the most different culture for Americans to deal with.[51]

Throughout this text, cultural differences between countries will be identified as a major factor influencing global business. This borderless world adds dramatically to the difficulty of managing employees. Cultural differences reveal themselves in everything from the workplace environments to differences in the concept of time, space, and social interaction.[52] Companies operating in the global environment recognize that national cultures differ and that such differences cannot be ignored.[53]

Chrysler Corporation employees have gone through major cultural changes in the last several years.[54] The misfortune cost Daimler nearly $36 billion over a decade, which amounted to a loss of almost $10 million per day for 10 years.[55] First, they were merged into a German firm, Daimler-Benz, then they were sold back to a U.S. company, and they are now merged into Fiat, an Italian firm. Each ownership change brought new cultural rules with which employees had to deal. Certainly the Germans and Italians have two distinct but different cultures.[56] InBev, based in Leuven, Belgium, purchased Anheuser-Busch several years ago, making it the leading global brewer and one of the world's top five consumer products companies. Merging two large corporate cultures after an acquisition is often not easy. In fact, InBev's purchase of Anheuser-Busch was particularly difficult, even two-and-a-half years after the $52 billion deal closed.[57]

The cultural norms of Japan promote loyalty and teamwork. The work culture there is one in which honesty and hard work are prized assets. In Japan, most managers tend to remain with the same company for life. In the United States, senior executives often change companies, but the Japanese believe strongly that leaving a job is to be avoided out of respect for the business team.[58] In Japan, if a boss gives detailed instructions to a subordinate, it is like saying the person is incompetent.[59]

Cultural misunderstandings are common, but they can be hazards to executives managing global workforces. Samuel Berner, head of HR of the private banking Asia Pacific division in Singapore for Credit Suisse AG said, "Things that are perfectly natural in one culture offend in another."[60] Eric Rozenberg, CMM, CMP, president, Ince&Tive, of Brussels, Belgium, stated, "Even though people are aware that there are cultural differences between various nationalities, they're still uncomfortable with it and are afraid of making mistakes."[61] Cultural barriers are not easily overcome.

executive
A top-level manager who reports directly to a corporation's chief executive officer or to the head of a major division.

generalist
A person who may be an executive and performs tasks in a variety of HR-related areas.

OBJECTIVE **1.10**

Describe the human resource management profession.

Human Resource Management Profession

Various designations are used within the HR profession; among these are HR executives, generalists, and specialists. An **executive** is a top-level manager who reports directly to the corporation's CEO or to the head of a major division. A **generalist**, who may be an executive, performs tasks in a variety of HR-related areas. The generalist is involved in several, or all, of the six HRM functions. A **specialist** may be an HR executive, manager, or nonmanager who is typically concerned with only one of the six functional areas of HRM. Figure 1-4 helps clarify these distinctions.

specialist
An individual who may be a human resource executive, a human resource manager, or a nonmanager, and who is typically concerned with only one of the six functional areas of human resource management.

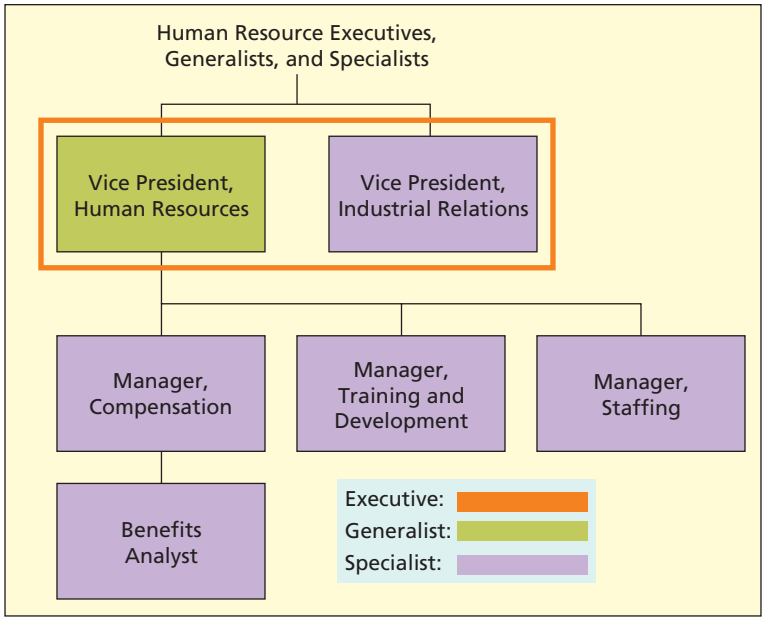
The vice president of industrial relations, shown in Figure 1-4, specializes primarily in union-related matters. This person is both an executive and a specialist. An HR vice president is both an executive and a generalist, having responsibility for a wide variety of functions. The compensation manager is a specialist, as is the benefits analyst. Whereas a position level in the organization identifies an executive, the breadth of such positions distinguishes generalists and specialists.

A **profession** is a vocation characterized by the existence of a common body of knowledge and a procedure for certifying members. Performance standards are established by members of the profession rather than by outsiders; that is, the profession is self-regulated. Most professions also have effective representative organizations that permit members to exchange ideas of mutual concern. These characteristics apply to the field of HR, and several well-known organizations serve

profession
Vocation characterized by the existence of a common body of knowledge and a procedure for certifying members.

FIGURE 1-4

Human Resource Executives, Generalists, and Specialists





HR Web Wisdom

Human Resource Certification Institute (HRCI)

http://www.hrci.org

The Professional Certification Program in HR Management is for individuals seeking to expand their formal HR training.

the profession. Among the more prominent is the Society for Human Resource Management, the Human Resource Certification Institute (http://www.hrci.org), the American Society for Training and Development (http://www.astd.org), and WorldatWork (http://www.worldatwork.org). The HR profession is based on a variety of competencies. Figure 1-5 lists five competencies and brief descriptions. We will see throughout this book that effective HR professionals demonstrate these competencies. For example, we will look at the advocate competency, particularly, in Chapter 2 as it applies to ethics, CSR, and sustainability. The HR Expert competency includes all of the knowledge we have already studied and to come in the remainder of this book, for example, staffing, training, and employee relations.

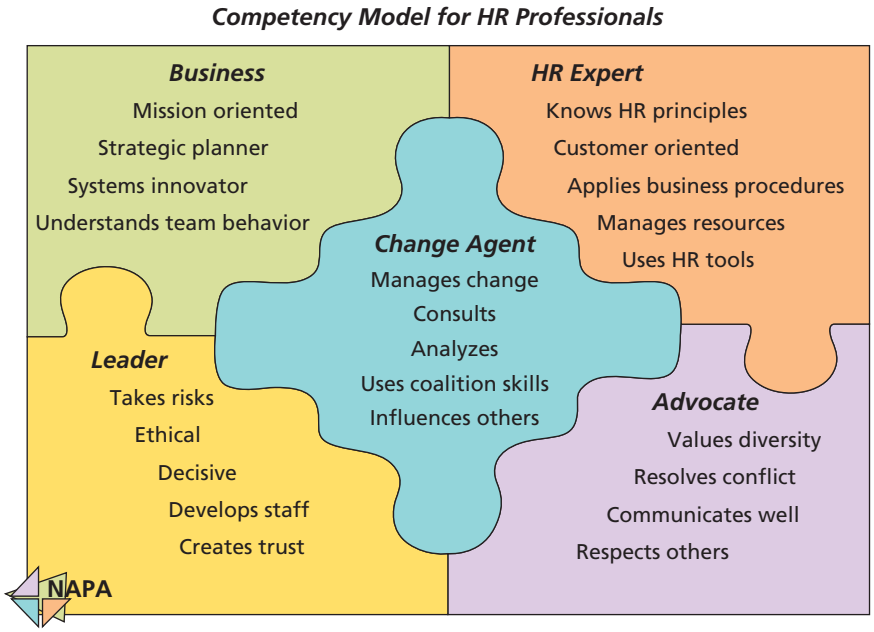
Opportunities for employment in the HRM profession are growing. According to the U.S. Bureau of Labor Statistics:

> *Employment of human resources managers is projected to grow 13 percent from 2012 to 2022, about as fast as the average for all occupations.*

FIGURE 1-5

Model of Human Resources Competencies

Source: U.S. Office of Personnel Management. Online: http://archive.opm.gov/studies/transapp.pdf. Accessed February 1, 2014.



Employment growth largely depends on the performance and growth of individual companies. However, as new companies form and organizations expand their operations, they will need more human resources managers to oversee and administer their programs.

Managers will also be needed to ensure that firms adhere to changing, complex employment laws regarding occupational safety and health, equal employment opportunity, healthcare, wages, and retirement plans. For example, adoption of the Affordable Care Act may spur the need to hire more managers to help implement this program.

Although job opportunities are expected to vary based on the staffing needs of individual companies, very strong competition can be expected for most positions.

Job opportunities should be best in the management of companies and enterprises industry as organizations continue to use outside firms to assist with some of their human resources functions.

Candidates with certification or a master's degree—particularly those with a concentration in human resources management—should have the best job prospects. Those with a solid background in human resources programs, policies, and employment law should also have better job opportunities.[62]

The median annual compensation for HR managers was $99,720, which is nearly three times the median annual earnings for all jobs. Executive and Human Resource Specialist median salaries ranged between $55,640 for HR Specialists and Labor Relations Specialists to $101,650 for top executive positions in the profession. Figure 1-6 lists the median annual salaries for various jobs in the HRM profession. The salary levels vary on a number factors, including relevant work

FIGURE 1-6

HR Professional Annual Salaries

Source: U.S. Bureau of Labor Statistics, "Human Resources Managers," *Occupational Outlook Handbook, 2014–15 Edition*," Online: http://www.bls.gov/ooh/management/human-resources-managers.htm. Accessed January 14, 2014.

Occupation	Job Duties	2012 Median Pay
Compensation and Benefits Managers	Compensation managers plan, direct, and coordinate how much an organization pays its employees and how employees are paid. Benefits managers plan, direct, and coordinate retirement plans, health insurance, and other benefits that an organization offers its employees.	$95,250
Compensation, Benefits, and Job Analysis Specialists	Compensation, benefits, and job analysis specialists help conduct an organization's compensation and benefits programs. They also evaluate job positions to determine details such as classification and salary.	$59,090
Human Resources Managers	Human resources managers plan, direct, and coordinate the administrative functions of an organization. They oversee the recruiting, interviewing, and hiring of new staff; consult with top executives on strategic planning; and serve as a link between an organization's management and its employees.	$99,720
Human Resources Specialists and Labor Relations Specialists	Human resources specialists recruit, screen, interview, and place workers. They often handle other human resources work, such as those related to employee relations, payroll and benefits, and training. Labor relations specialists interpret and administer labor contracts regarding issues such as wages and salaries, employee welfare, healthcare, pensions, and union and management practices.	$55,640

FIGURE 1-6
Continued

Occupation	Job Duties	2012 Median Pay
Instructional Coordinators	Instructional coordinators oversee school curriculums and teaching standards. They develop instructional material, coordinate its implementation with teachers and principals, and assess its effectiveness.	$60,050
Top Executives	Top executives devise strategies and policies to ensure that an organization meets its goals. They plan, direct, and coordinate operational activities of companies and organizations.	$101,650
Training and Development Specialists	Training and development specialists help plan, conduct, and administer programs that train employees and improve their skills and knowledge.	$55,930

Try It!
If your instructor has assigned this, go to MyManagementLab to complete the Human Resource Management simulation and test your application of these concepts when faced with real world decisions.

experience, educational credentials, and industry. For example, median annual salaries for HR managers were substantially higher in the management of companies and enterprises industry ($112,550) than in the health care and social assistance industry ($85,870).

Scope of This Book

Effective HRM is crucial to the success of every organization. To be effective, managers must understand and competently practice HRM. This book was designed to give you the following:

- An insight into the role of strategic HRM in today's organizations and the strategic role of HR functions
- An appreciation of the value of employees as human capital
- An awareness of the importance of business ethics and corporate social responsibility
- An understanding of job analysis, HR planning, recruitment, and selection
- An awareness of the importance of HR development, including training and developing, for employees at all levels
- An understanding of performance appraisal and its role in performance management
- An appreciation of how compensation and employee benefits programs are formulated and administered
- An opportunity to understand employee and labor relations
- An understanding of safety and health factors as they affect the firm's profitability
- An appreciation of the global impact on HRM

This book is organized in six parts, as shown in Figure 1-7; combined, they provide a comprehensive view of HRM. As you read it, hopefully you will be stimulated to increase your knowledge in this rapidly changing and challenging field.

FIGURE 1-7
Organization of This Book

HUMAN RESOURCE MANAGEMENT, 14TH EDITION

PART ONE. SETTING THE STAGE
Chapter 1: Human Resource Management: An Overview
Chapter 2: Business Ethics and Corporate Social Responsibility
Chapter 3: Equal Employment Opportunity, Affirmative Action, and Workforce Diversity

PART TWO. STAFFING
Chapter 4: Strategic Planning, Human Resource Planning, and Job Analysis
Chapter 5: Recruitment
Chapter 6: Selection

PART THREE. PERFORMANCE MANAGEMENT AND TRAINING
Chapter 7: Performance Management and Appraisal
Chapter 8: Training and Development

PART FOUR. COMPENSATION
Chapter 9: Direct Financial Compensation (Core Compensation)
Chapter 10: Indirect Financial Compensation (Employee Benefits)

PART FIVE. LABOR RELATIONS, EMPLOYEE RELATIONS, SAFETY AND HEALTH
Chapter 11: Labor Unions and Collective Bargaining
Chapter 12: Internal Employee Relations
Chapter 13: Employee Safety, Health, and Wellness

PART SIX. OPERATING IN A GLOBAL ENVIRONMENT
Chapter 14: Global Human Resource Management

Summary

1. ***Define* human resource management.** *Human resource management (HRM)* is the utilization of employees to achieve organizational objectives. It is the business function of managing employees. HRM professionals embrace the idea that employees are essential to the success of organizations, and as such, they view employees as assets or human capital.
2. ***Identify the HRM functions.*** There are six functional areas associated with effective HRM: staffing, HR development, performance management, compensation, safety and health, and employee and labor relations.
3. ***Explain who performs HRM activities.*** *Human resource managers* are individuals who normally act in an advisory or staff capacity, working with other managers to help them deal with human resource matters.

   HR outsourcing is the process of hiring an external provider to do the work that was previously done internally.

   HR shared service centers take routine, transaction-based activities that are dispersed throughout the organization and consolidate them in one place.

   A *professional employer organization* is a company that leases employees to other businesses.

   Line managers in certain firms are being used more frequently than before to deliver HR services.
4. **Explain how human resources (HR) serves as a strategic business partner.** Working as a strategic business partner requires a much deeper and broader understanding of business issues. Possible strategic tasks for HR include making workforce strategies fundamental to company strategies and goals; increasing HR's role in strategic planning, mergers, and acquisitions; developing awareness or an understanding of the business; and helping line managers achieve their goals. Also, as a strategic business partner, HR helps to identify and develop the human capital necessary for excellent performance, builds recruitment systems, training programs for product distribution and interactions with customers, constructs performance management, and structures compensation programs that will greatly incentivize these employees to excel. In the end, if HR is to be a strategic partner, HR executives must

work with top management in achieving concrete plans and results.

5. ***Identify the elements of the dynamic HRM environment.*** Factors include legal considerations, the labor market, society, political parties, unions, shareholders, competition, customers, technology, economy, and unanticipated events.
6. ***Explain the importance of corporate culture and HRM.*** *Corporate culture* is the system of shared values, beliefs, and habits within an organization that interacts with the formal structure to produce behavioral norms. Culture gives people a sense of how to behave and what they ought to be doing. It often affects job performance throughout the organization and consequently affects profitability.
7. ***Describe the importance of employer branding.*** *Employer branding* is the firm's corporate image or culture created to attract and retain the type of employees the firm is seeking. It is what the company stands for in the public eye.
8. ***Discuss HRM issues for small businesses.*** Often the same HR functions previously identified must be accomplished by small business, but the manner in which they are accomplished may be altered. Small businesses often do not have a formal HR unit or HRM specialists. Rather, other line managers in the company handle HR functions.
9. ***Identify ways that country culture influences global business.*** Cultural differences reveal themselves in everything from the workplace environments to differences in the concepts of time, space, and social interaction. Cultural differences are often the biggest barrier to doing business in the world market.
10. ***Describe the HRM profession.*** A *profession* is a vocation characterized by the existence of a common body of knowledge and a procedure for certifying members.

    Executives are top-level managers who report directly to the corporation's CEO or the head of a major division.

    Generalists (who are often executives) are persons who perform tasks in a wide variety of HR-related areas.

    A *specialist* may be an HR executive, manager, or nonmanager who typically is concerned with only one of the functional areas of HRM.

    Several well-known organizations serve the profession. Among the more prominent are the Society for Human Resource Management (SHRM), the Human Resource Certification Institute (HRCI), the American Society for Training and Development (ASTD), and WorldatWork.

Key Terms

human resource management (HRM) 25
staffing 25
performance management 26
human resource development (HRD) 26
direct financial compensation 27
indirect financial compensation (benefits) 27
nonfinancial compensation 27
safety 27
health 27
human resource management professional 28
line managers 28
HR outsourcing (HRO) 29
shared service center (SSC) 30
professional employer organization (PEO) 30
capital 31
human capital 31
union 33
shareholders 33
human resource information system (HRIS) 34
corporate culture 35
country's culture 36
employer branding 36
executive 38
generalist 38
specialist 38
profession 38

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Go to **mymanagementlab.com** to complete the problems marked with this icon.

Exercises

1-1. Employer branding was discussed in this chapter. On a scale 1 (Poor) to 5 (Excellent), how valuable are the following brands? Why do you rate them low or high?
   a. Lego
   b. Ericsson
   c. IKEA
   d. Toyota

1-2. How might being on the following lists assist in a company's recruitment and retention programs?
   a. *Fortune* magazine's 100 Best Companies
   b. *Working Mother* list of 100 best companies

c. *Fortune* magazine list of 100 fastest-growing companies in the United States
d. *Money* magazine list of 100 best places to live
e. *Business Ethics* magazine list of 100 Best Corporate Citizens
f. *Computerworld* list of Best Places to Work
g. *Black Enterprise* list of Best Companies for Diversity.

✪**1-3.** Review the employment classified ads in the *Wall Street Journal*, *HR Magazine*, and a Sunday edition of a large city newspaper. Make a list of the types of HRM jobs, the companies offering employment, and the qualifications needed to obtain the positions. What is your basic conclusion after this review in terms of the availability of HRM positions and the necessary qualifications for obtaining a position?

1-4. The HR functions are highly interrelated. How would a change in one of the following affect the other HR functions?
a. Paying the lowest wages in the industry
b. Being recognized as an industry leader in providing continuous training and development
c. Having a reputation for providing a work environment that is unhealthy

1-5. Which of the following is part of corporate culture, and why?
a. Organizational fit
b. Competition
c. Unions

Questions for Review

✪**1-6.** Define *human resource management*. What HRM functions must be performed regardless of the organization's size?

✪**1-7.** What are the environmental factors that affect HRM? Describe each.

✪**1-8.** How might mobile HR affect the various HR functions?

1-9. Define *corporate culture*. Explain why corporate culture is a major internal environment factor.

1-10. This chapter describes HR's changing role in business. Describe each component that is involved in HRM.

1-11. What are the issues in human resource management that are faced by small businesses?

✪**1-12.** What are the various designations associated with HRM?

1-13. What has been the evolution of HRM?

1-14. Explain the differences between *capital* and *human capital*.

1-15. What is the difference between a generalist and a specialist within the HR profession?

INCIDENT 1 HR after a Disaster

After Hurricane Rita struck Lake Charles in southwest Louisiana, many businesses wondered if they would ever return to their former selves. Massive destruction was everywhere. Lake Charles, known for its large and beautiful oak and pine trees, now had the job of removing those downed trees from homes, businesses, and lots. You could see for miles through what used to be thick forests. Huge trucks designed for removing massive tree trunks were everywhere. While driving down a street, downed trees could be seen stacked two stories high, waiting to be picked up. The town grew rapidly in size because of the increased number of repair crews working on recovery operations. The noise created by their chain saws could be heard from daylight until dark. The sounds of hammers were everywhere as homeowners scrambled to get their roofs repaired. Often repair crews would just find an empty lot and set up tents for the night because all motels were full. Traffic was unbelievably slow, and it appeared as if everyone was attempting to get on the road at the same time. Just driving from Point A to Point B could often be quite an adventure. As might be expected in conditions such as these, accidents were numerous. Often police did not have the resources to ticket every fender bender, so unless there were injuries, insurance cards were exchanged and the police went on to the next accident.

Months after Hurricane Rita struck, large and small businesses were still frantically trying to find workers so they could start up again. It appeared that every business in the town had a "Help Wanted" sign out front. Individuals who wanted a job could get one and could command a premium salary. Walmart, known for remaining open 24 hours a day, could only stay open on an abbreviated schedule. Employers often had to bus employees from locations not affected by the hurricane each morning and returned them at night because there were not enough workers available in the local area. Restaurants that normally remained open late into the evening closed at 6:00 p.m., if they opened at all. Compensation scales that were in use before the hurricane had to be thrown out and new plans implemented. Minimum-wage jobs were nonexistent. Employees who earned minimum wage before the storm could now command $10 per hour just for being a flagger (a person who directs traffic). Fast-food restaurants that normally paid minimum wage now paid $10 or $11. Burger King was even offering a $1,500 bonus for entry-level workers. Upscale restaurants that normally paid minimum wage plus tips now paid premium rate plus tips. Restaurants that remained open often had a much younger staff, and it was evident that the managers and assistant managers were working overtime to train these new workers. Restaurant patrons had to learn patience because there would be mistakes by these eager, but largely untrained workers.

Questions

1-16. Which environment factor(s) did Hurricane Rita affect? Discuss.
1-17. How were the HR functions affected by Hurricane Rita?
1-18. Do you believe the HR situations described regarding Hurricane Rita would be typical in a disaster? Explain.

INCIDENT 2

Downsizing

As the largest employer in Ouachita County, Arkansas, International Forest Products (IFP) Company is an important part of the local economy. Ouachita County is a mostly rural area in south central Arkansas. It employs almost 10 percent of the local workforce, and few alternative job opportunities are available in the area.

Scott Wheeler, the HR director at IFP, tells of a difficult decision he once had to make. According to Scott, everything was going along pretty well despite the economic recession, but he knew that sooner or later the company would be affected. "I got the word at a private meeting with the president, Janet Deason, that we would have to cut the workforce by 30 percent on a crash basis. I was to get back to her within a week with a suggested plan. I knew that my plan would not be the final one because the move was so major, but I knew that Ms. Deason was depending on me to provide at least a workable approach.

"First, I thought about how the union would react. Certainly, workers would have to be let go in order of seniority. The union would try to protect as many jobs as possible. I also knew that all of management's actions during this period would be intensely scrutinized. We had to make sure that we had our act together.

"Then there was the impact on the surrounding community to consider. The economy of Ouachita County had not been in good shape recently. Aside from the influence on the individual workers who were laid off, I knew that our cutbacks would further depress the area's economy. I knew that there would be a number of government officials and civic leaders who would want to know how we were trying to minimize the harm done to the public in the area.

"We really had no choice but to make the cuts, I believed. First of all, I had no choice because Ms. Deason said we were going to do it. Also, I had recently read a news account that one of our competitors, Johns Manville Corporation in West Monroe, Louisiana, had laid off several hundred workers in a cost-cutting move. To keep our sales from being further depressed, we had to ensure that our costs were just as low as those of our competitors. The wood products market is very competitive and a cost advantage of even 2 or 3 percent would allow competitors to take many of our customers.

"Finally, a major reason for the cutbacks was to protect the interests of our shareholders. A few years ago a shareholder group disrupted our annual meeting to insist that IFP make certain antipollution changes. In general, though, the shareholders seem to be more concerned with the return on their investments than with social responsibility. At our meeting, the president reminded me that, just like every other manager in the company, I should place the shareholders' interests above all else. I really was quite overwhelmed as I began to work up a human resource plan that would balance all of these conflicting interests."

Questions

1-19. How might each HR function be affected by the reduction in force? Remember that all employees at IFP are not members of the union.

1-20. List the elements in the company's environment that will affect Scott's suggested plan. How legitimate is the interest of each of these?

1-21. Is it true that Scott should be concerned first and foremost with protecting the interests of shareholders? Discuss.

1-22. Corporate culture is discussed in this chapter as a major internal environmental factor affecting an organization. How might the downsizing of IFP affect the corporate culture of the company?

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Go to **mymanagementlab.com** for the following Assisted-graded writing questions:

1-23. What is employer branding? How might employer branding affect a company's ability to recruit?

1-24. How might a country's culture be a barrier to global business?

Endnotes

Scan for Endnotes or go to www.pearsonglobaleditions.com/Mondy

2 Business Ethics and Corporate Social Responsibility

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Define ethics, corporate social responsibility, and corporate sustainability.
2. Explore the concept of business ethics.
3. Describe sources of ethical guidance.
4. Discuss attempts at legislating ethics.
5. Explain the importance of creating an ethical culture and code of ethics.
6. Define human resource ethics.
7. Discuss the importance of linking pay to ethical behavior.
8. Describe ethics training.
9. Describe the concept of corporate social responsibility.
10. Explain corporate sustainability.
11. Describe a social audit.
12. Explain whether corporate social responsibility can succeed in the global environment.

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OBJECTIVE 2.1

Define ethics, corporate social responsibility, and corporate sustainability.

Defining Ethics, Corporate Social Responsibility, and Corporate Sustainability

ethics
Discipline dealing with what is good and bad, or right and wrong, or with moral duty and obligation.

corporate social responsibility (CSR)
Implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves.

corporate sustainability
Concerns with possible future impact of an organization on society, including social welfare, the economy, and the environment.

Ethics is the discipline dealing with what is good and bad, right and wrong, or with moral duty and obligation. Ethics at times may appear to be complicated because businesses are created to produce a short-term profit, which could potentially conflict with ethical behavior.[1] Today most executives have a different view in that integrity and ethical values have an important place in business and should form the foundation of a company's culture.[2] Unfortunately, some companies and individuals still behave unethically, perhaps, because ethics moves to the back burner while executives focus on what they believe to be more important concerns.

Related to ethics are the concepts of corporate social responsibility and corporate sustainability. **Corporate social responsibility (CSR)** is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves, and **corporate sustainability** focuses on the possible future impact of an organization on society, including social welfare, the economy, and the environment. CSR and corporate sustainability differ from ethics in an important way. Ethics focus on individual decision making and behavior and the impact of ethical choices on employee welfare. As noted, CSR and corporate sustainability consider the broader impact of corporate activities on society.

Ethics, CSR, and corporate sustainability are everyone's business. Human resource (HR) professionals particularly concern themselves with establishing policies to promote ethical behavior and unethical behavior. In addition, the human resource management (HRM) function's leadership works with other executive leadership to identify training opportunities for educating employees about how they may make positive contributions to these objectives and developing performance-based pay programs that align employee performance with CSR and social responsibility goals. In this chapter, we will explore these three important topics.

OBJECTIVE 2.2

Explore the concept of business ethics.

Business Ethics

The past corrupt conduct of corporations such as WorldCom and Enron and the senior managers who led them provides deplorable examples of just how unethical company leadership can be. We also forgot to guard against the type of ethical abuses that ultimately bankrupted companies such as Bear Stearns and Lehman Brothers. Unfortunately, unethical behavior manifests in other ways. For example, the U.S. Justice Department expects that Credit Suisse Group AG is likely to plead guilty to a crime in which they assisted wealthy Americans evade taxes.[3]





HR Web Wisdom

International Business Ethics Institute

http://www.business-ethics.org

The Institute was founded in 1994 in response to the growing need for transnational organizations in the field of business ethics.

CEOs have to be clear that unethical behavior is not acceptable. In one survey, 67 percent of investors said they would move their account if they discovered the company was involved in unethical behavior.[4] Jeff Immelt, General Electric's (GE) CEO, begins and ends each annual meeting of 220 officers and 600 senior managers by restating the company's fundamental integrity principles: "GE's business success is built on our reputation with all stakeholders for lawful and ethical behavior."[5] At GE, when it comes to integrity violations, it is one strike and you are out. There are no second chances.[6] The focus should be on just doing the right thing. The image of the business world would be in much better shape if this simple advice were followed. Hopefully, ethical standards are improving.

Most of the 500 largest corporations in the United States now have a code of ethics, which encompasses written conduct standards, internal education, and formal agreements on industry standards, ethics offices, social accounting, and social projects. Even so, business ethics scandals continue to be headline news. Lying on résumés, obstruction of justice, destruction of records, stock price manipulation, cutting corners to meet Wall Street's expectations, fraud, waste, and abuse are unfortunately occurring all too often when those in business decide to make poor ethical choices. Then, there are the corporate executives that took home millions even though their company failed and employees were laid off. They evidently realized that they could make a quick profit through their unethical behavior.[7]

However, business is not alone. There is virtually no occupation that has not had its own painful ethical crises in recent years. There were the teachers who provided answers on standardized tests to improve their schools' performance scores. Doctors who make money by falsely billing Medicare do not even make the headlines anymore. But certainly a devastating blow to society has been dealt by business, and ethical breaches in business continue today.

Compliance with the law sets the minimum standard for ethical behavior; ethics, however, is much more. There must be leaders who are able and willing to instill ethics throughout the culture of the organization. Ethics is about deciding whether an action is good or bad and what to do about it if it is bad. Ethics is a philosophical discipline that describes and directs moral conduct. Those in management make ethical (or unethical) decisions every day. Do you hire the best-qualified person, who is a minority? Do you forget to tell a candidate about the dangerous aspect of a certain job? Some ethical decisions are major and some are minor. But decisions in small matters often set a pattern for the more important decisions a manager makes. Attitudes such as "It's standard practice," "It's not a big deal," "It's not my responsibility," and "I want to be loyal" are simply not acceptable.[8] The Roman philosopher Cicero echoed this when he said, "It is a true saying that one falsehood leads easily to another."[9] In the sixteenth century, Sir Thomas More said, "If virtue were profitable, common sense would make us good and greed would make us saintly."[10] More knew that virtue is not profitable, so people must make hard choices from time to time.

OBJECTIVE **2.3**

Describe sources of ethical guidance.

Sources of Ethical Guidance

The sources of ethical guidance should lead to our beliefs or a conviction about what is right or wrong. Most would agree that people have a responsibility to avail themselves to these sources of ethical guidance. In short, individuals should care about what is right and wrong and not just be concerned with what is expedient. One might use a number of sources to determine what is right or wrong, good or bad, and moral or immoral. These sources include the Bible and other holy books. They also include the small voice that many refer to as conscience. Many believe that conscience is a gift of God or the voice of God. Others see it as a developed response based on the internalization of societal mores. Another source of ethical guidance is the behavior and advice of the people psychologists call "significant others"—our parents, friends, and role models and members of our churches, clubs, and associations.

Laws also offer guidance to ethical behavior, prohibiting acts that can be especially harmful to others. They codify what society has deemed to be unacceptable.[11] If a certain behavior is illegal, most would consider it to be unethical as well. There are exceptions, of course. For example, through the 1950s, laws in most southern states relegated blacks to the backs of buses and otherwise assigned them inferior status. Martin Luther King Jr. resisted such laws and, in fact, engaged in civil disobedience and other nonviolent forms of resistance to their enforcement. King won the Nobel Peace Prize for his efforts.



ETHICAL DILEMMA

A Selection Quandary

You are being promoted to a new assignment within your company, and your boss has asked you to nominate one of your subordinates as your replacement. The possible candidates are Randy Carlton, who is obviously more qualified, and James Mitchell, who, though not as experienced, is much better liked by the workers. If Randy is given the promotion, you are not certain the workers will accept him as their leader. James, on the other hand, is a hard worker and is well liked and respected by the others, including Randy. As you labor over the decision, you think about how unfair it would be to Randy if the feelings of the other workers kept him from getting a deserved promotion. At the same time, you feel that your primary responsibility should be to maintain the productivity of the work unit. If your former division fell apart after your departure, it would hurt your reputation, not to mention the company.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

This is the only place in this text where we will recommend the ethical choice and also identify other factors that might make a person take a less-than-ethical stand. What would you have done if placed in a situation such as this?

Ethical Choice: Recommend Randy, who is the best-qualified employee.

Factors Influencing Another Decision: The department might fall apart if Randy is given the promotion. Other workers might not work for Randy and the workers would more readily accept James. Your reputation may be hurt if the department productivity declines. Besides, Randy can work with James.

The sources of ethical guidance should lead to our beliefs or a conviction about what is right or wrong. Most would agree that people have a responsibility to avail themselves of these sources of ethical guidance. In short, individuals should care about what is right and wrong and not just be concerned with what is expedient. Two conditions must exist if an individual or organization is to be considered ethical. First, ethics consists of the strength of the relationship between what an individual or an organization believes to be moral and correct and what available sources of guidance suggest is morally correct. For example, suppose a manager believes it is acceptable not to hire minorities, despite the fact that almost everyone condemns this practice. This person would not be considered ethical. Having strong beliefs about what is right and wrong and basing them on the proper sources may have little relationship to what one does.

Second, ethics consists of the strength of the relationship between what one believes and how one behaves. For example, if a manager knows that it is wrong to discriminate but does so anyway, the manager is also unethical. If a board of directors considers it wrong to pay excessively high salaries relative to the CEO's job performance, yet pays salaries that are excessive in this context, this behavior is also unethical. Generally, a person is not considered ethical unless the person satisfies both conditions.

For most professionals, there are codes of ethics that prescribe certain behavior. Without this conscience that has developed, it might be easy to say, "Everyone does it," "Just this once won't hurt," or "No one will ever know." Some still believe that greed is acceptable as long as the Equal Employment Opportunity Commission (EEOC) does not find out.[12] Fortunately, the HRM profession subscribes to a code of ethics, which we discuss later in this chapter.

OBJECTIVE **2.4**
Discuss attempts at legislating ethics.

Legislating Ethics

In 1907, Teddy Roosevelt said, "Men can never escape being governed. If from lawlessness or fickleness, from folly or self-indulgence, they refuse to govern themselves, then in the end they will be governed [by others]."[13] Many contend that ethics cannot be legislated. Although laws cannot mandate ethics, they may be able to identify the baseline separating what is good and what is bad. Much of the current legislation was passed because of business ethics breakdowns. There have been at least four attempts to legislate business ethics since the late 1980s.

Procurement Integrity Act

The Procurement Integrity Act of 1988 prohibits the release by government employees of source selection and contractor (for the purposes of this act, a business that enters into contracts with government to provide goods or services) bid or proposal information. Examples of information contained in bids include employee pay rates and proprietary information about the contractor's business processes. Further, this act applies this restriction to nongovernment employees who provided consulting services on procurement matters. Finally, a former government employee who served in certain positions on a procurement action or contract in excess of $10 million is barred from receiving compensation as an employee or consultant from that contractor for one year. The act was passed after there were reports of military contracts for $500 toilet seats. There was also a $5,000 hammer.

Federal Sentencing Guidelines for Organizations Act

The second attempt occurred with the passage of the 1992 Federal Sentencing Guidelines for Organizations (FSGO) Act, which outlined an effective ethics training program and explained the seven minimum requirements for an effective program to prevent and detect violations.[14] The FSGO promised softer punishments for wayward corporations that already had ethics programs in place. In the law were recommendations regarding standards, ethics training, and a system to anonymously report unacceptable conduct. Executives were supposed to be responsible for the misconduct of those lower in the organization. If executives were proactive in their efforts to prevent white-collar crime, it would lessen a judgment against them and reduce the liability. Organizations responded by creating ethics officer positions, installing ethics hotlines, and developing codes of ethics. But it is one thing to have a code of ethics and quite another to have this code instilled in all employees from top to bottom.

Corporate and Auditing Accountability, Responsibility and Transparency Act

The third attempt at legislating business ethics was the Corporate and Auditing Accountability, Responsibility and Transparency Act of 2002, which criminalized many corporate acts that were previously relegated to various regulatory structures. Known as the Sarbanes–Oxley Act, its primary focus is to redress accounting and financial reporting abuses in light of corporate scandals.[15] The Sarbanes–Oxley Act was intended to eliminate or at least reduce conflicts of interest by requiring audit-committee-level preapproval for nonaudit services auditors at companies they audit and enforcing a code of ethics on senior client financial management.[16] The act contains broad employee whistleblower protections that subject corporations and their managerial personnel to significant civil and criminal penalties for retaliating, harassing, or discriminating against employees who report suspected corporate wrongdoing. The whistleblower protections of the act apply to corporations listed on U.S. stock exchanges; companies otherwise obligated to file reports under the Securities and Exchange Act; and officers, employees, contractors, subcontractors, and agents of those companies.

The act states that management may not discharge, demote, suspend, threaten, harass, or in any other manner discriminate against an employee protected by the act. It protects any employee who lawfully provides information to governmental authorities concerning conduct he or she reasonably believes constitutes mail, wire, or securities fraud; violations of any rule or regulation issued by the Securities and Exchange Commission (SEC); or violations of any other federal law relating to fraud against shareholders. The act evidently has teeth because in the *Bechtel v. Competitive Technologies Inc.* (2003) Supreme Court case involving wrongful termination under Sarbanes–Oxley's whistleblower-protection rule, the Court ruled that the company violated the act by firing two employees and ordered them reinstated. They were fired because during a meeting they had raised concerns about the company's decision not to report, on its SEC filing, an act they thought should have been disclosed.[17]

The law prohibits loans to executives and directors. It requires publicly traded companies to disclose whether or not they have adopted a code of ethics for senior officers. The act does not require banks and bank-holding companies that report to the SEC to have a code of ethics, but if an SEC reporting company does not have one, it must explain why.[18] However, as former SEC

Chairman Arthur Levitt said, "While the Sarbanes–Oxley Act has brought about significant change, the greatest change is being brought about not by regulation or legislation, but by humiliation and embarrassment and private rights of action."[19]

Dodd–Frank Wall Street Reform and Consumer Protection Act

The fourth, the Dodd–Frank Wall Street Reform and Consumer Protection Act, was signed into law in 2010. The act was brought on by the worst financial crisis since the Great Depression, which resulted in the loss of 8 million jobs, failed businesses, a drop in housing prices, and wiped out personal savings of many workers. As the financial crisis advanced, it became clear that executive compensation played a major role in the financial services sector as well as in the capital markets following the collapse of investment services firms such as Lehman Brothers, Merrill Lynch, Bear Stearns, and AIG.[20]

Whistleblower Protection

In the legal use of the term, a whistleblower is someone who participates in an activity that is protected. Corporate whistleblowing involves ethics, a topic of this chapter. It requires an individual to choose between personal ethics and the status quo. Often whistleblowers view themselves as the company's conscience.[21] The use of whistleblowers has been around since 1863 when President Abraham Lincoln signed into law the Federal False Claims Act, which was designed to protect the United States from purchases of fake gunpowder during the Civil War.[22] The number of whistleblower suits has increased dramatically in recent years under federal and state laws aimed at uncovering fraud and protecting the public. In 2012, the Justice Department recovered $3.3 billion in taxpayer funds thanks to whistleblowers, who originated hundreds of lawsuits and shared $439 million of the proceeds.[23]

The Dodd–Frank Wall Street Reform and Consumer Protection Act contains a whistleblower protection provision, which is shaped after the successful IRS program. In passing the act, Congress believed that award programs were a good method to get people to provide fraud information to responsible law enforcement officials. The act requires the Securities SEC to give an award to qualified whistleblowers of between 10 and 30 percent of the total amount obtained if the information is voluntarily provided and leads to a successful enforcement or related action. The act also improves whistleblowers' retaliation protection from their employers through the expansion of the whistleblower protections of the Sarbanes–Oxley Act of 2002. Firms may not directly or indirectly discharge, demote, suspend, threaten, harass, or in any way discriminate against whistleblowers that provide information to the SEC as specified in the program.[24] This is important because in the past whistleblowers often were fired, demoted, blacklisted, or quit under duress. SEC Chair Mary L. Schapiro said, "While the SEC has a history of receiving a high volume of tips and complaints, the quality of the tips we have received has been better since Dodd–Frank became law, and we expect this trend to continue."[25] The Whistleblower Office received 3,001 whistleblower tips, complaints, and referrals during fiscal year 2012.[26] The most common complaint categories reported by whistleblowers were corporate disclosures and financials (18.2 percent), fraud offerings (15.5 percent), and manipulation (15.2 percent).[27]

Many believe that information provided by whistleblowers is much more effective in uncovering wrongdoings than are external auditors. In testimony to the Senate Banking Committee, Certified Fraud Examiner Harry Markopolos stated that "whistleblower tips detected 54.1 percent of uncovered fraud schemes in public companies. External auditors detected a mere 4.1 percent of fraud schemes."[28]

Companies have some uneasiness regarding the whistleblower provision of the Dodd–Frank Act.[29] A recent survey of senior legal, compliance, and HR executives at publicly traded or highly regulated companies found that 96 percent expressed either great concern or moderate concerns about potential whistleblower complaints.[30] The major concern is that the rules run counter to a firm's internal compliance efforts.[31] Companies are afraid that employees will not go through internal channels first and instead go directly to government authorities to collect the reward.[32] Another fear is that an employee might have another grievance with the company and use the whistleblower provision to get back at the company.

OBJECTIVE 2.5

Explain the importance of creating an ethical culture and code of ethics.

Creating an Ethical Culture and a Code of Ethics

Mark Twain once said, "Always do right. This will gratify some people and astonish the rest."[33] This is certainly good advice for both employees and employers if the firm wants to create an ethical culture. Saying that a company has an ethical culture and actually having one may be two different things. Culture is concerned with the way people think, which affects the way that they act. Changing an organization's culture thus requires modifying the common way of thinking of its members.[34] Organizations with strong ethical cultures take steps to ensure that their standards are widely accessible, promoted, and followed by their leaders and employees.[35] For example, the Enron debacle was not supposed to happen. The Enron Code of Ethics was 62 pages long and had a foreword by Kenneth L. Lay, who was then the company's chairman, saying "Enron's reputation finally depends on its people, on you and me. Let's keep that reputation high."[36] Even with the ethical code, it is apparent that Enron's top management pursued business as usual.

One way for a firm to create and sustain an ethical culture is to audit ethics, much like a company audits its finances each year.[37] An ethics audit is simply a systematic, independent, and documented process for obtaining evidence regarding the status of an organization's ethical culture. It takes a closer look at a firm's ethical culture instead of just allowing it to remain unexamined. An ethical culture is made up of factors such as ethical leadership, accountability, and values. The climate with top management is fundamental to a company's ethical culture.[38] Ethical leadership begins with the board of directors and CEO and continues to middle managers, supervisors, and employees. Building an ethical culture that lasts requires a foundation of practices that continue even when leaders change.[39] The following Watch It video illustrates how employees and members of management are brought together to enact a change within the company. Their goal is to limit the negative environmental impacts of their company as much as possible by applying the best practices concept to their everyday activities.

Watch It 1

If your instructor has assigned this, go to MyManagementLab to watch a video titled Patagonia: Ethics and Social Responsibility and to respond to questions.

According to the Corporate Executive Board in Arlington, Virginia, companies with weak ethical cultures experience 10 times more misconduct than companies with strong ethical cultures.[40] In strong ethical cultures, employees are at ease to speak up about their concerns without fear of retaliation. In workplaces with a strong ethical culture, only 4 percent of employees feel pressure to compromise standards and commit misconduct compared to 15 percent in a weaker culture.[41]

For organizations to grow and prosper, good people must be employed. Companies are also searching for new employees who have a sound ethical base because they have discovered that an ethical person tends to be more successful. Dov Seidman, a management guru who advocates corporate virtue to many companies, believes that companies that "outbehave" their competitors ethically will generally outperform them financially.[42] Further, according to the National Association of Colleges and Employers, the ethical—or unethical—behavior of an organization is a critical factor for new college graduates seeking jobs.[43]

By fostering a strong ethical culture, firms are better able to gain the confidence and loyalty of their employees and other stakeholders, which can result in reduced financial, legal, and reputation risks, as well as improvements in organizational performance. Organizations are redesigning their ethics programs to facilitate a broader and more consistent process that incorporates the analysis of outcomes and continual improvement. To build and sustain an ethical culture, organizations need a comprehensive framework that encompasses communication of behavior expectations, training on ethics and compliance issues, stakeholder input, resolution of reported matters, and analysis of the entire ethics program. To make it really work, involvement by top management is certainly necessary.

A distinction needs to be made between a code of conduct and a code of ethics; the former should tell employees what the rules of conduct are. The code of ethics helps employees know

what to do when there is not a rule for something.[44] Jim Ward, associate vice president of ethics and compliance at Georgetown University, summed it up by saying, "You can't draft enough rules to cover everything."[45] A broad-based participation of those subject to the code is important. For a company to behave ethically, it must live and breathe its code of ethics, train its personnel, and communicate its code through its vision statements. It cannot just print a manual that sits on a corporate shelf. The code is a statement of the values adopted by the company, its employees, and its directors and sets the official tone of top management regarding expected behavior. Many industry associations adopt such codes, which are then recommended to members. There are many kinds of ethical codes. An excellent example of a code of ethics was developed by the Society for Human Resource Management (SHRM). The six core provisions in the SHRM code of ethics are professional responsibility, professional development, ethical leadership, fairness and justice, conflicts of interest, and use of information.[46]

Just what should be included in a code of ethics? Topics typically covered might be business conduct, fair competition, and workplace and HR issues. For example, employees in purchasing would be shown what constitutes a conflict of interest. The same would occur for sales. At Walmart, it is considered unethical to accept gifts from suppliers. Gifts are either destroyed or given to charity. Fidelity International recently fired two Hong Kong–based fund managers over breaches of its internal code of ethics. Fidelity said, "Our routine checks discovered a pattern of behavior that breached our internal policies."[47]

To keep the code on the front burner for employees, larger firms appoint an ethics officer. The ethics officer is the point person in guiding everyone in the company toward ethical actions. This individual should be a person who understands the work environment. To obtain the involvement of others within the organization, an ethics committee is often established.

There are reasons to encourage industry associations to develop and promote codes of ethics. It is difficult for a single firm to pioneer ethical practices if its competitors take advantage of unethical shortcuts. For example, U.S. companies must comply with the Foreign Corrupt Practices Act, which prohibits bribes of foreign government officials or business executives. Obviously, the law does not prevent foreign competitors from bribing government or business officials to get business, and such practices are common in many countries. This sometimes puts U.S. companies at a disadvantage.

Even the criteria for winning the Malcolm Baldrige National Quality Award have changed, and an increased emphasis on ethics in leadership is now stressed. The criteria say senior leaders should serve as role models for the rest of their organizations. Baldrige applicants are asked questions about how senior leaders create an environment that fosters legal and ethical behavior. They need to show how the leaders address governance matters such as fiscal accountability and independence in audits.

OBJECTIVE 2.6

Define human resource ethics.

Human Resource Ethics

human resource ethics
Application of ethical principles to human resource relationships and activities.

Human resource ethics is the application of ethical principles to HR relationships and activities. It is vitally important that HR professionals know the practices that are acceptable and unacceptable and work to ensure that organizational members also have this awareness in dealing with others.

Some believe that those in HR have a great deal to do with establishing an organization's conscience. In fact, according to a SHRM report, integrity and ethical behavior rank in the top five competencies needed for senior HR leaders.[48] Certainly ethics is a quality the HR professionals should possess; it is the duty of HR professionals to help create an ethical climate in their organization.[49]

HR professionals can help foster an ethical culture, but that means more than just hanging the ethics codes posters on walls. Instead, because the HR professionals' primary job is dealing with people, they must help to instill ethical practices into the corporate culture. Those values must be clearly communicated to all employees, early and often, beginning with the interview process, reinforced during employee orientation, and regularly recognized during performance reviews, public ceremonies, celebrations, and awards. They need to help establish an environment in which employees throughout the organization work to reduce ethical lapses. The ethical bearing of those in HR goes a long way toward establishing the credibility of the entire organization.

There are many topics through which HR professionals can have a major impact on ethics, and therefore, on creating an ethical corporate culture. Some ethical questions that might be considered include:

- Do you strive to create a diverse workforce?
- Do you insist that job descriptions are developed to accurately depict jobs that are dangerous or hazardous?
- Do you strive to recruit and select the best-qualified applicant for the job?
- Are your training initiatives geared so that everyone will have an opportunity to receive the best training and development possible?
- Is your performance management and appraisal system able to identify those who are indeed the best producers and rewarded accordingly?
- Is your compensation and benefit system developed so that employees will view it as fair and impartial?
- Does your organization make a sincere attempt to provide a safe and healthy work environment?
- Does your organization attempt to develop a work environment in which employees will not feel compelled to join a union?
- Are you fair and impartial when dealing with disciplinary action, promotion, transfer, demotion, resignation, discharge, layoff, and retirement?
- Does your firm adhere to ethical norms when operating in the global environment?

HR should review, develop, and enforce organizational policies to ensure a high level of ethics throughout the organization. All employees should know what is ethical and unethical in their specific area of operations. It is insufficient to say that everyone should behave ethically.

OBJECTIVE 2.7

Discuss the importance of linking pay to ethical behavior.

Linking Pay to Ethical Behavior

The importance of linking pay to performance is an appropriate topic when discussing ethics. It is well known in the compensation world that "what you reward is what you get." If the statement is correct, then a problem exists because most companies do not link pay to ethical behavior but base pay on entitlement and custom.[50] A survey of 358 compliance and ethics professionals by the Society of Corporate Compliance and Ethics (SCCE) and Health Care Compliance Association found that only a few companies have made ethics and compliance a process for determining how employees are compensated, and only about one company in six ties employee bonuses and incentives to ethical performance.[51] In another survey, when asked how much impact the ethics and compliance function has on the compensation process for executives, just 34 percent of respondents said it had some or a great deal of impact. The majority indicated that compliance and ethics played very little (27 percent) or no role (29 percent), and the balance was unsure of the role of ethics and compliance.[52] CEO Roy Snell of SCCE said, "The net result is that there is more work to be done in aligning business practices with stated commitment to compliant, ethical behavior."[53] For example, ethical expectation could be made part of the performance review and the results tied to pay raises.[54] As one author recently stated, "When employees behave in undesirable ways, it's a good idea to look at what you're encouraging them to do."[55]

OBJECTIVE 2.8

Describe ethics training.

Ethics Training

The FSGO Act outlined an effective ethics training program and explained the seven minimum requirements for an effective program to prevent and detect violations. The fourth requirement stated, "Educate employees in the company's standards and procedures through publications and training." Companies train employees on many topics, but ethics training is often not considered, which is a major oversight. Because of its inclusion within the FSGO, a brief discussion of ethics training will be provided in this chapter.

Companies that consistently rank high on the lists of best corporate citizens tend to make ethics training part of a company-wide initiative to promote integrity.[56] Ethics training should be part of a proactive, not reactive, strategy. Regular training builds awareness of common ethical issues and provides tools for effective problem solving. Warren Buffett once said, "Pick out associates whose behavior is better than yours and you'll drift in that direction."[57] Ethics training should begin



HR BLOOPERS

Sales Incentives at Pinser Pharmaceuticals

Quarterly sales reports are in at Pinser Pharmaceuticals and Ben Ross looks forward to sharing the reports with the sales team. As a compensation analyst, Ben calculates sales commissions for the sales representatives, and high sales mean big paychecks for the team. The sales representatives receive incentive pay bonuses based on how many times doctors in their sales territory prescribe Pinser drugs. The number of prescriptions has increased with several of the popular drugs Pinser makes and the sales representatives that have the doctors writing the most prescriptions stand to benefit significantly. Ben knows that they have steep competition on some of their products, but he has also heard some rumors about how they stay ahead of competitors.

Apparently many of the sales representatives are using some of their own extra earnings to earn the favor of the doctors. Gifts, dinners, and other incentives are provided to the doctors to encourage them to write Pinser prescriptions. At first he thought there might be a problem with this practice, but Ben knows that Pinser has a Code of Ethics and provides ethics training to all employees, so the sales representatives must know that their practices are acceptable. Ben understands that this is just the way business is done, and Ben's job is just to make sure they get paid what they have earned.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

at the top and continue through all levels in the organization.[58] However, training should take into consideration the differences in these levels. Although top management sets the ethical tone, middle managers are the ones who will likely be the first to receive reports of unethical behavior.

KPMG believes that there are three fundamental factors in handing ethics issues: provide multiple channels for raising alarms, eliminate fear of retaliation for those who raise questions, and ensure consistent investigation and resolution of all matters reported. Individuals who report potential ethics violations could be subject to retaliation, so KPMG monitors performance reviews and other metrics to proactively identify retaliatory behavior. The credibility of the program requires all reports to be consistently investigated and resolved.[59]

Cisco created a unique ethics training program that showcased cartoon contestants singing about various ethical workplace situations found in Cisco's *Code of Business Conduct*. Jeremy Wilson, manager, ethics office for Cisco Systems, Inc., said, "We wanted what was right for our employees, based upon our own risk analysis." When Cisco created its program, it invited input from more than 120 people from departments across the organization, including legal, human resources, IT security, and records management.[60]

Ethics training for global organizations is more complicated than preparing the training for U.S. employees. One must also train for the country in which the global company operates. Since 1994, LRN has helped 15 million people at 700 companies across the world simultaneously navigate legal and regulatory environments and foster ethical cultures.[61] A few of their customers include CBS, Dow Chemical, eBay, 3M, and Siemens. Chris Campbell, creative director at LRN, says, "Localization is as important as the accuracy of the translation process. Learners need to be able to connect in a way that is believable to them."[62]

OBJECTIVE 2.9

Describe the concept of corporate social responsibility.

Corporate Social Responsibility

As stated in the introduction, CSR is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves. A recent survey revealed that 86 percent of consumers wanted companies to tell them more about the results of CSR efforts.[63] Also, according to Net Impact's *What Workers Want in 2012* talent report, 35 percent of graduating college students said they would be willing to take a 15 percent pay cut to work for a company committed to CSR and 65 percent expect to make a positive social or environmental difference in the world at some point through their work.[64] What do the following U.S. companies have in common: Biogen Idec Inc., Intel Corp., Cisco Systems Inc., Agilent Technologies Inc., The Clorox Company, GE, Motorola Solutions Inc.,

Prologis Inc., and the Campbell Soup Company? They have been identified as having a commitment to excellence in the area of CSR and are included in the 2014 Global 100 Most Sustainable Corporations in the World.[65] These companies have demonstrated the ability to manage the "triple bottom line" of social responsibility (society, environment, and economy).[66] They represent the top 5 percent of socially responsible companies.

CSR is the model in which economic, social, and environmental responsibilities are satisfied concurrently.[67] Figure 2-1 illustrates the layers of responsibility associated with CSR. When a corporation behaves as if it has a conscience, it is said to be socially responsible. CSR considers the overall influence of corporations on society at large and goes beyond the interests of shareholders. It is how a company as a whole behaves toward society. In many companies, social responsibility has moved from nice to do to must do.[68] More and more companies are issuing CSR reports that detail their environmental, labor, and corporate-giving practices. Some firms, such as Burger King, have created the position of director of CSR.



HR Web Wisdom

Business for Social Responsibility

http://www.bsr.org

This is a global organization that helps member companies achieve success in ways that respect ethical values, people, communities, and the environment.

Apparently, socially responsible behavior pays off on the bottom line. When GE CEO Jeffrey Immelt announced that the company would double its spending on green technology research, it was no grand attempt to save the planet; it was an example of astute business strategy. Immelt said, "We plan to make money doing it."[69] Social responsibility has also impacted the recruiting process. College graduates of today often seek out corporations that have a reputation for being socially responsible, which was not often the case in the past. In fact, job seekers tend to be more attracted to organizations known for CSR.[70]

Procter & Gamble has long believed it has a responsibility for the long-term benefit of society as well as the company. Over the years, P&G has pursued programs to strengthen U.S. education, to encourage employment opportunities for minorities and women, to develop and implement environment-protection technology, and to encourage employee involvement in civic activities and the political process.

Deborah Leipziger, an Ethical Corporation Institute researcher, said, "The more credible efforts tend to be led by key players within a company."[71] An organization's top executives usually determine a corporation's approach to social responsibility. For example, when McDonald's began, it was Ray Kroc's philosophy to be a community-based business. His philosophy from the beginning was to give back to the communities that McDonald's served.[72]

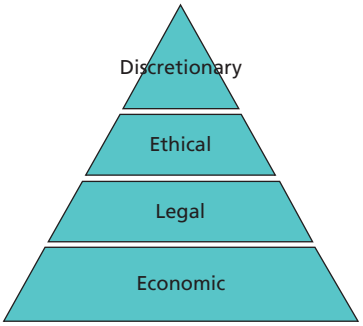
One of the best benchmarks for defining social responsibility in manufacturing is the one-page set of operating principles developed 60 years ago by Robert Wood Johnson, then Johnson & Johnson's chairman of the board. The document is still in use today and addresses supporting good works and charities.[73]

During the Vietnam War, Dow Chemical gained a bad reputation for not being socially responsible because it produced the deadly chemical agent napalm. As a result Dow had difficulty recruiting the best scientists and other professionals. To overcome this image, Dow built a campaign that highlighted how Dow has benefitted agricultural production. Once people saw the positive side of Dow, its ability to recruit and retain the best chemists improved.[74] However, the chemical industry continues to face widespread public mistrust despite being an enabler of advances that are vital to solving global challenges as well as efforts to improve product and process safety.[75]

FIGURE 2-1

Carroll's Pyramid of Corporate Social Responsibility

Source: SHRM Foundation, "*HRM's Role in Corporate Social Responsibility and Environmental Sustainability*," 2012, Alexandria, VA: SHRM Foundation, page 4. Accessed February 3, 2014, at www.shrmfoundation.org.



- **Discretionary responsibilities:** The fourth layer of responsibility is to proactively seek opportunities to make a positive contribution to society beyond profitability, compliance and business ethics. At the discretionary, or voluntary, level, organizations have a responsibility to understand broad stakeholder needs and to address societal concerns though their business practices.
- **Ethical responsibilities:** The third layer of the pyramid requires organizations to consider social and environmental impacts of their operations and, as far as possible, to do no harm while pursuing business interests.
- **Legal responsibilities:** The second aspect of responsibility requires that organizations operate within the law at all locations in which they do business.
- **Economic responsibilities:** The first responsibility of any organization is to deliver an acceptable return for shareholders (while contributing to local and global economies through their core business).

Thus far only the virtues of CSR have been provided. However, the question of whether businesses should promote CSR is at times hotly debated and not all companies have embraced the concept.[76] Some have challenged the concept that doing well is doing good (DWDG). They believe that although appealing to some, DWDG is also profoundly wrong.[77] Milton Friedman was a U.S. economist, statistician, academic, and author who taught at the University of Chicago for more than three decades and was a recipient of the Nobel Memorial Prize in Economic Sciences. In his book *Capitalism and Freedom*, he argued that the only social responsibility of business was to increase its profits. According to Friedman, as a firm creates wealth for its shareholders, society as a whole will also be benefited.[78] Friedman disciples continue to condemn CSR as a hotchpotch of "value-destroying nonsense."[79]

These days, more employers are publicly endorsing a culture of ethics and social responsibility. However, some believe that it is being done more as a public relations campaign. Long before the enormous oil spill in 2010, BP promoted itself as being eco-friendly. Its literature stated that BP stood for "Beyond Petroleum." BP marketed itself as a producer of alternative energies, an image that was seriously damaged by the devastating oil spill in the Gulf of Mexico in 2010.[80] Instead of spending billions on eco-friendly energy and building an employer brand campaign around it, many believe that BP would have been much better off if it had spent more time and effort in training its employees on its oil drilling platforms, establishing stronger safety protocols, and waiting until they were safe to operate. Even during this public relations campaign, BP had a history of safety violation. BP had been "fined more than $100 million for safety violations that led to deaths of workers, explosions of refineries, and leaking pipelines."[81]

Another example is about Duke Energy Corporation. One of its storm water pipes burst, jettisoning tons of coal ash into the Dan River north of Greensboro, North Carolina. This company's CEO agreed to face environmentalists who are up in arms about this environmental threat. She agreed to embark on a canoe trip with environmentalists to the spill site to show a willingness to face the problem.[82] But, some within the company have argued that members of its board of directors' environmental committee are inexperienced working with coal.

Brighter Planet, a sustainability technology company, discovered in a recent survey that although more firms are engaging in green activities, the effectiveness of these efforts has declined.[83] Some believe that the problem with CSR is that it consists of a universal set of guidelines such as the "triple bottom line" (society, environment, and economy) mentioned previously. To be "socially responsible," each firm has to follow the same guidelines instead of what would be the most appropriate strategy for each firm. Using this logic, it would be more logical for oil companies such as BP to focus on being profitable, yet be an environmentally conscious oil company. Fast-food restaurants such as McDonald's and retailers such as Walmart should each use a different set of rules to do the same thing in their own industries.

There are those who believe that all shareholders should not be required to be involved in CSR investments. They think that only investors who want to be involved should participate. These investors would do so with the understanding that the objective is not just to make money but also to do good. For example, an oil company such as Exxon could establish an alternative-energy subsidiary. Exxon would own a controlling stake, but funding would come from new investors who want to support alternative energy and thus be socially responsible. If the subsidiary was unsuccessful, the losses would be confined to the new investors. If it succeeded, the profits would be shared by all shareholders.[84]

OBJECTIVE **2.10**
Explain corporate sustainability.

Corporate Sustainability

Corporate sustainability has evolved from the more traditional view of CSR. According to the World Commission on Environment and Sustainability, the narrow definition of sustainability is "meeting the needs of the present without compromising the ability of future generations to meet their own needs."[85] The Dow Jones World sustainability Index (DJSI) provides a good working definition of this term. They define it as, "An approach to creating long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social trends and challenges."[86] In recent years, sustainability has been expanded to include the social, economic, environmental, and cultural systems needed to support an organization. This type of organization is capable of continuing both now and in the future. Evidently

FIGURE 2-2

How to Embed Sustainability Using HRM Tools

Source: SHRM Foundation, "*HRM's Role in Corporate Social Responsibility and Environmental Sustainability*," 2012, Alexandria, VA: SHRM Foundation, page 8. Accessed February 3, 2014, at www.shrmfoundation.org.

- Employee attraction: Using the organization's commitment to sustainability in recruitment helps attract more applicants and at the same time ensures the right "fit" with the company's sustainability goals.
- Employee attitudes: Although the research is unclear whether an organization's commitment to sustainability leads to higher employee retention, it does have positive effects on employee commitment and job satisfaction.
- Employee skills and knowledge: Many organizations provide initial and ongoing training and development on the knowledge and skills needed to achieve their sustainability goals, although the research on the impact of achieving sustainability goals is still limited.
- Employee sustainability goal attainment: Including sustainability targets in evaluation and compensation systems can lead to greater attention to and achievement of those goals.
- Sustainability organizational climate: Though the research is lacking in this area, a sustainability strategy will likely fail if the company's organizational climate does not appropriately support it.
- Employee sustainability behaviors: Supervisory and organizational support can lead to more sustainability behaviors in employees.

the importance of corporate sustainability is being taken seriously because every manufacturer on the S&P 500 reported some form of sustainability disclosure in 2012.[87]

Corporate sustainability may be thought of as being a business and investment approach that strives to use the best business practices to meet the needs of current and future shareholders. HR professionals play an important role in promoting corporate sustainability objectives. Figure 2-2 illustrates how HR professionals can use their expertise toward this end. Today it relates to how an organization's decisions could affect society and the environment as a whole. Essentially it is about how a firm handles its business while understanding how these decisions may affect others. One could think of corporate sustainability in a business sense as providing long-term profitability. Thus, sustainability should be a fundamental part of business strategy, product development, talent development, and capital investment. Some organizations have emphasized the importance of corporate sustainability by establishing the position of chief sustainability officer.[88]

Others such as Johnson & Johnson prefer to see it developed into the overall culture of the firm. Tish Lascelle, Johnson & Johnson's senior director environment, said, "Sustainability is embedded in our culture. It's been a part of who we are for more than 65 years, long before the notion of sustainability became trendy."[89] The following Watch It video illustrates how a company has taken to become, and remain, a "mission-driven business" with corporate social responsibility as one of its mission's core values.



HR Web Wisdom

Deloitte Sustainability Are You Overlooking Opportunities?

http://www.deloitte.com/us/sustainability

Many executives are turning to sustainability to help improve the bottom line.

Watch It 2

If your instructor has assigned this, go to MyManagementLab to watch a video titled Honest Tea: Corporate Social Responsibility and to respond to questions.

Numerous companies are working toward becoming eco-friendly. Unilever has placed sustainability at the core of its business. The company promised by 2020 to double its sales even as it cuts its environmental footprint in half and sources all its agricultural products in ways that don't degrade the Earth.[90] Target's waste-reduction efforts have cut waste by 70 percent. Home Depot attempts to make sure that wood and lumber sold in its stores come from sustainable forests. Corporate environmental responsibility for McDonald's focuses on energy efficiency, sustainable packing and waste management, and green restaurant design.[91] McDonald's has eliminated the use of containers made with ozone-depleting chlorofluorocarbons, cut down on the amount and type of packaging it uses, and implemented a program of purchasing goods made from recycled materials. Walmart is working on sustainable initiatives. Solar panels are being installed in all of the retailer's super centers with unused energy being sold back into the energy grid, a cost-saving move for the community.[92]

Increasingly, environmentally sound and cost-cutting operating procedures are being included in firms' business plans not only for their own employees, products, and facilities, but also for suppliers and trade partners. Walmart Stores Inc. has initiated and promoted sustainability not only in its own stores and production facilities, but also for its U.S. and global suppliers.[93] Frito-Lay, which operates the world's seventh-largest private delivery fleet, has put 176 all-electric box trucks on the road in places such as California, Texas, and the Pacific Northwest. The trucks are expected to cut diesel consumption by 500,000 gallons a year while limiting greenhouse emissions by 75 percent compared with combustion engines. The trucks will also cut annual maintenance costs by as much as $700,000.[94] Coca-Cola Enterprises Corporate Responsibility and Sustainability Report stated that they have taken steps to reduce the number of calories per liter by five percent by 2014. Also, Sprite was relaunched in 2013 leading to a 30 percent reduction in calories.[95]

Approximately 62 percent of large and medium-sized companies worldwide have an active sustainability program in place, and another 11 percent are developing one, according to a sustainability survey commissioned by consulting firm KPMG.[96] Corporate Knights, a Toronto-based media company and sustainability reporter, recently released its seventh annual report of the world's best sustainable corporations. The top five U.S. companies with the most green-friendly, sustainable practices were Johnson & Johnson, Intel Corp., GE, Agilent Technologies, Inc., and Johnson Controls Inc.[97]

PPG Industries recently issued a corporate sustainability report that provides information about the company's financial performance, environmental metrics such as greenhouse gas emissions and energy use, safety statistics, stakeholder engagement, philanthropic activities, and awards and recognition. In the report, Charles E. Bunch, PPG chairman and CEO, said, "Sustainability is business as usual at PPG. An underlying principle for the company since its founding in 1883, a commitment to sustainability has been crucial to our long-term success."[98] Leading up to 2020, PPG will strive to reduce environmental impact, improve employees' safety, health and well-being and encourage and report employee charitable donations and volunteerism.[99] Dow Chemical's way of thinking regarding sustainability is, "If you can't do it better, why do it?" This philosophy is at the very heart of sustainability at Dow. Every decision is made with the future in mind.[100]

Institutional investors managing more than $1.6 trillion in assets are starting to put pressure on the world's 30 largest stock exchanges to force companies to improve their sustainability reporting. Twenty-four institutional shareholders said they want it to be easier to judge the environmental, social, and governance risks of the firms in which they invest.[101]

Sustainability has also become extremely popular for companies operating in the global environment. Recently, Danone's German division switched to a plastic made from plants (not oil) for its Activia yogurt packaging sold in Germany.[102] Coca-Cola Enterprises in Great Britain has cut its carbon emissions by 470,000 tons, which is about a third of its 2020 target. It is also recycling 99 percent of the factory waste it produces, with five out of six of its production sites sending zero waste to landfills.[103] Global polystyrene leader Styron LLC has more than 2,000 employees at 20 plants worldwide with annual sales of $5 billion. It begins each corporate meeting with the topic of sustainability. Employees' bonuses are tied in to meeting sustainability goals. Recently, Styron introduced a recycled-content grade of polycarbonate at the Chinaplas trade show in Guangzhou, China.[104] Renault partnered with Veolia Environment to build the world's first zero-emissions, 100-percent renewable energy-reliant car manufacturing plant in Morocco.[105]

OBJECTIVE 2.11

Describe a social audit.

Social audit

Systematic assessment of a company's activities in terms of its social impact.

Conducting a Social Audit

To overcome the negative publicity of corporate misdeeds and to restore trust, businesses are now conducting audits of their social responsibility activities and not just financial audits. A **social audit** is a systematic assessment of a company's activities in terms of its social impact.

Some of the topics included in the audit focus on core values such as social responsibility, open communication, treatment of employees, confidentiality, and leadership. Firms are now acknowledging responsibilities to various stakeholder groups other than corporate owners.[106]

Some audits even set specific objectives in social areas. They are attempting to formally measure their contributions to various elements of society and to society as a whole. An increasing number of companies, as well as public and voluntary sector organizations, are trying to assess their social performance systematically. Three possible types of social audits are currently being

used: (1) simple inventory of activities, (2) compilation of socially relevant expenditures, and (3) determination of social impact. The inventory is generally a good starting place. It consists of a listing of socially oriented activities undertaken by the firm. Here are some examples: minority employment and training, support of minority enterprises, pollution control, corporate giving, involvement in selected community projects by executives, and a hard-core unemployment program. The ideal social audit would go well beyond a simple listing and involve determining the true benefits to society of any socially oriented business activity.

OBJECTIVE 2.12

Explain whether corporate social responsibility can succeed in the global environment.

Can Corporate Social Responsibility Succeed in the Global Environment?

The global environment has traditionally judged management primarily on furthering the firm's bottom line. If this is so, it may be easier to be socially responsible in a prospering economy but more difficult when the economy is bad. Recently, some global firms appear to be questioning the wisdom of being socially responsible. The question being asked is, "Can firms competing in the global environment continue the lowest possible production costs while still being in compliance with national laws and also be socially responsible?"

Even before the recent recession began, corporations and their contractor manufacturers (often Korean, Taiwanese, and Hong Kong companies operating throughout the world) focused on obtaining the lowest production costs regardless of the accompanying social and environmental impacts. As labor costs have increased in China, companies quickly moved their manufacturing to lower labor cost countries such as Cambodia, Laos, India, and Vietnam.[107] No consideration was made for the workers and families of the workers who were left behind.

Although some companies continue to say that they are fully committed to CSR, their less-than-socially-responsible behavior does not support their stated commitment.[108] The garment factory building collapse in Bangladesh in 2013 stands among history's worst industrial disasters, officially claiming 1,127 lives. The tragedy raised questions about the liability of western retailers for the working conditions of those in their supply chains.[109] For instance, it exposed defects in the CSR machinery of Loblaw, Canada's largest grocer. Loblaw had launched significant CSR programs tackling a wide variety of environmental, labor, and social issues. But it proved wholly insufficient to protect its brand from this disaster, much less ensure the safety of Bangladeshis making Joe Fresh garments.[110] In previous years, a fire in a garment factory in Bangladesh killed 29 workers and hundreds were injured as they were suffocated, burned alive, were trampled in stairwells, or leapt to their deaths from the ninth and tenth floors because four of seven exit doors were locked. After more than 15 years of CSR programs, female garment workers continue to die making clothing for retailers such as Abercrombie & Fitch, Kenneth Cole, DKNY, Gap, Tommy Hilfiger, H&M, Izod, JC Penney, Calvin Klein, Kohl's, Lee, North Face, OshKosh, Sears, Target, Timberland, Wrangler, and Walmart. Moreover, Bangladesh's garment workers are among the worst paid in the world.[111]

There is a growing recognition among some leading global CSR organizations that the first 15 years of CSR efforts have not produced the desired results, and that significant changes will have to be made if CSR is to be anything more than an expensive exercise in "reputational management." Dan Rees, director of the UK's Ethical Trading Initiative, said, "CSR in general has become a bit of a victim of its own hype.... we have to stop pretending that companies in and of themselves can on their own transform industrial relations in foreign lands."[112] However, a recent study does not fully support these conclusions. In the study on global CSR conducted during the economic breakdown, 44 percent believe that CSR policies will be applied more often as a result of the crisis, 28 percent think that the real meaning of CSR will change in the framework of the new conditions, and 22 percent believe that the crisis will have a negative impact on CSR.[113]

Try It!

If your instructor has assigned this, go to MyManagementLab to complete the Management & Ethics simulation and test your application of these concepts when faced with real-world decisions.

Summary

1. ***Define* ethics*, corporate social responsibility, and corporate sustainability***. *Ethics* is the discipline dealing with what is good and bad, right and wrong, or with moral duty and obligation. *Corporate social responsibility* is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves, and *corporate sustainability f*ocuses on the possible future impact of an organization on society, including social welfare, the economy, and the environment.
2. ***Explore business ethics***. Business ethics addresses matters of choices about right and wrong made by business leaders.
3. ***Describe sources of ethical guidance.*** One might use a number of sources to determine what is right or wrong, good or bad, and moral or immoral such as holy books, or one's conscience. Another source of ethical guidance is the behavior and advice of people, including our parents, friends, and role models and members of our churches, clubs, and associations. For most professionals, there are codes of ethics that prescribe certain behavior.
4. ***Discuss attempts at legislating ethics.*** There have been four attempts to legislate business ethics since the late 1980s: the Procurement Integrity Act, the Federal Sentencing Guidelines for Organizations, the Corporate and Auditing Accountability, Responsibility and Transparency Act, and the Dodd–Frank Wall Street Reform and Consumer Protection Act.
5. ***Explain the importance of creating an ethical culture and code of ethics.*** An ethical culture is made up of factors such as ethical leadership, accountability, and values. The climate at the top is fundamental to a company's ethical culture. Ethical leadership begins with the board of directors and CEO and continues to middle managers and supervisors. Building an ethical culture that lasts requires a foundation of practices that continue even when leaders change.

   A *code of ethics* establishes the rules that the organization lives by. Only a few companies have made ethics and compliance a process for determining how employees are compensated.
6. ***Define human resource ethics.*** *Human resource ethics* is the application of ethical principles to HR relationships and activities.
7. ***Discuss the importance of linking pay to ethical behavior.*** It is well known in the compensation world that "what you reward is what you get." If the statement is correct, then a problem exists with regard to compensation because most companies do not link pay to ethical behavior.
8. ***Describe ethics training.*** Ethics training is not merely for top-level managers; it should be for everyone from the bottom to the top. Companies that consistently rank high on the lists of best corporate citizens tend to make ethics training part of a company-wide initiative to promote integrity. Ethics training should be part of a proactive, not reactive, strategy. Regular training builds awareness of common ethical issues and provides tools for effective problem solving.
9. ***Describe the concept of corporate social responsibility.*** *Corporate social responsibility* is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves.
10. ***Explain corporate sustainability.*** *Corporate sustainability* has evolved from the more traditional corporate social responsibility. According to the World Commission on Environment and Sustainability, the narrow definition of sustainability is "meeting the needs of the present without compromising the ability of future generations to meet their own needs." In recent years, sustainability has been expanded to include the social, economic, environmental, and cultural systems needed to support an organization. This type of organization is capable of continuing both now and in the future.
11. ***Describe a social audit.*** A *social audit* is a systematic assessment of a company's activities in terms of its social impact.
12. ***Explain whether corporate social responsibility can succeed in the global environment.*** The global environment often judges management primarily on protecting the firm's bottom line. If this is so, it may be easy to be socially responsible in a prospering economy but more difficult when the economy is bad.

Key Terms

ethics 47
human resource ethics 53
corporate social responsibility (CSR) 47
corporate sustainability 47
social audit 59

MyManagementLab®

Go to **mymanagementlab.com** to complete the problems marked with this icon ✪.

Exercises

✪**2-1.** As discussed in this chapter, a survey of 358 compliance and ethics professionals by the Society of Corporate Compliance and Ethics (SCCE) and Health Care Compliance Association found that only a few companies have made ethics and compliance a process for determining how employees are compensated, and only about one company in six ties employee bonuses and incentives to ethical performance. Should companies link pay to ethical behavior? What might the pros and cons be? Explain your answer.

2-2. Ethics training should begin at the top and continue through all levels in the organization. However, training should take into consideration the differences in these levels. Do you agree? Explain your answer.

Questions for Review

2-3. What laws have been passed in an attempt to legislate ethics?

2-4. What should be included in a code of ethics?

✪**2-5.** With regard to business ethics, what does the statement "what you reward is what you get" mean?

2-6. What are HR ethics?

✪**2-7.** What are the areas in which HR professionals can have a major impact on ethics?

2-8. What is corporate social responsibility?

2-9. Define the three possible types of social audits that are currently being used.

✪**2-10.** Why might it be difficult for corporate social responsibility to succeed in the global environment?

INCIDENT 1 Is It Private and Confidential?

Timothy and Shian Yan were lunchtime buddies at the Pavilion Park Hotel in Singapore. Shian Yan is the HR manager, and Timothy often shared his personal and work problems with her.

One particular incident that Timothy shared with Shian Yan was his unhappiness about being sidestepped for promotion last year even though he was rated very well by his supervisor. The feedback given to him was that although he was easily the best performer at the job, he was also the most junior

"I'm not sure if I can take it if I don't get my promotion again this year, Yan," complained Timothy. "I mean, what's the logic? I have worked hard and I deserve it! This year, if they tell me I'm not being promoted simply because I am one or two years too young, I'm going to leave and join another company that will appreciate my contributions more. But please don't mention this to anyone, because I don't want to jeopardize my chances."

At the appraisal meeting, Timothy's promotion was discussed and the decision was again not to promote him.

"Give him another year. He's not quite ready to be made audit manager yet. He needs more development, because the promotion comes with heavy responsibilities. There will be more opportunities for him to be made manager. He's not yet able to manage the team of auditors," said Ivan, Timothy's head of department.

"Well, I'm afraid you might have to look for someone else to manage the auditors then. Timothy had told me that if he doesn't get his promotion, he is going to resign. Believe me, there are plenty of organizations out there willing to grab a hot young talent like him! We need to promote him to retain him," Shian Yan said.

"Is that so? Timothy told you? That sounds like blackmail to me! Well, he can leave anytime he wants to. I'm not giving in to threats like this!" said Ivan.

Questions

2-11. Does good intention justify Shian Yan's breach of Timothy's confidence? Discuss.

2-12. From an ethical standpoint, discuss Shian Yan's divulging Timothy's intention to resign at the appraisal meeting.

2-13. Discuss alternative actions that Shian Yan can take to exercise her role in the appraisal meeting more effectively.

INCIDENT 2 "You Can't Fire Me"

Norman Blankenship came in the side door of the office at Consolidation Coal Company's Rowland mine, near Clear Creek, West Virginia. He told the mine dispatcher not to tell anyone he was there. Norman was general superintendent of the Rowland operation. He had been with Consolidation for 23 years, having started out as a mining machine operator.

Norman had heard that one of his section bosses, Tom Serinsky, had been sleeping on the job. Tom had been hired two months earlier and assigned to the Rowland mine by the regional personnel office. He had gone to work as section boss, working the midnight to 8:00 A.M. shift. Because of his age and experience, Serinsky was the senior person in the mine on his shift.

Norman took one of the battery-operated jeeps used to transport personnel and supplies in and out of the mine and went to the area where Tom was assigned. Upon arriving, he saw Tom lying on an emergency stretcher. Norman stopped his jeep a few yards away from where Tom was sleeping and approached him. "Hey, are you asleep?" Norman asked. Tom awakened with a start and said, "No, I wasn't sleeping."

Norman waited for Tom to collect his senses and then said, "I could tell that you were sleeping, but that's beside the point. You weren't at your workstation. You know that I have no choice but to fire you." After Tom had left, Norman called his mine foreman and asked him to come in and complete the remainder of Tom's shift.

The next morning, Norman had the mine HR manager officially terminate Tom. As part of the standard procedure, the mine HR manager notified the regional HR manager that Tom had been fired and gave the reasons for firing him. The regional HR manager asked the mine HR manager to get Norman on the line. The regional HR manager said, "Norm, you know Tom is Justus Frederick's brother-in-law, don't you?" Frederick was a regional vice president. "No, I didn't know that," replied Norman, "but it doesn't matter. The rules are clear. I wouldn't care if he was Frederick's son."

The next day, the regional HR manager showed up at the mine just as Norman was getting ready to make a routine tour of the mine. "I guess you know what I'm here for," said the HR manager. "Yeah, you're here to take away my authority," replied Norman. "No, I'm just here to investigate," said the regional HR manager.

By the time Norman returned to the mine office after his tour, the regional HR manager had finished his interviews. He told Norman, "I think we're going to have to put Tom back to work. If we decide to do that, can you let him work for you?" "No, absolutely not," said Norman. "In fact, if he works here, I go." A week later, Norman learned that Tom had gone to work as section boss at another Consolidation coal mine in the region.

Questions

2-14. What would you do now if you were Norman?

2-15. Do you believe the regional HR manager handled the matter in an ethical manner? Explain.

MyManagementLab®

Go to **mymanagementlab.com** for the following Assisted-graded writing questions:

2-16. Why should a firm want to create an ethical culture?

2-17. Why is everyone not on board with regard to corporate social responsibility?

Endnotes

Scan for Endnotes or go to www.pearsonglobaleditions.com/Mondy

3 Equal Employment Opportunity, Affirmative Action, and Workforce Diversity

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Explain the concept of equal employment opportunity.
2. Identify the federal laws affecting equal employment opportunity.
3. Discuss who is responsible for ensuring equal employment opportunity.
4. Define and operationalize types of employment discrimination.
5. Define and discuss affirmative action.
6. Explain the *Uniform Guidelines* related to sexual harassment, national origin, religion, and caregiver (family responsibility) discrimination.
7. Describe sexual harassment in the global environment.
8. Describe the concept of diversity.
9. Discuss diversity management.
10. Explain the various elements of a diverse workforce.

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Learn It

If your professor has chosen to assign this, go to **mymanagementlab.com** to see what you should particularly focus on and to take the Chapter 3 Warm-Up.



Equal Employment Opportunity (EEO)
The set of laws and policies that requires all individuals' rights to equal opportunity in the workplace, regardless of race, color, sex, religion, national origin, age, or disability.

Affirmative Action
Stipulated by Executive Order 11246, it requires employers to take positive steps to ensure that employment of applicants and treatment of employees during employment are without regard to race, creed, color, or national origin.

diversity
Any perceived difference among people: age, race, religion, functional specialty, profession, sexual orientation, geographic origin, lifestyle, tenure with the organization or position, and any other perceived difference.

The workforce of today has become truly diverse. But this was not the case in the early 1960s; in fact, little of the workforce of those days remotely resembled that of today. Then, few mainstream opportunities were available to women, minorities, and those with disabilities. The Civil Rights Movement in the 1960s during which time blacks sought equality in employment and other areas of society led to a series of laws and executive orders, starting with Equal Employment Opportunity laws passed by the U.S. federal government. **Equal Employment Opportunity (EEO)** refers to the set of laws and policies that requires all individuals' rights to equal opportunity in the workplace, regardless of race, color, sex, religion, national origin, age, or disability. Additional requirements, known as Affirmative Action, were established. **Affirmative Action** creates the expectation and program requirements that companies make a positive effort to recruit, hire, train, and promote employees from groups who are underrepresented in the labor force.

Since the Civil Rights movement and the passage of EEO laws, most companies have chosen to embrace the idea of promoting diversity in the workplace. **Diversity** refers to *any* actual or perceived difference among people: age, race, religion, functional specialty, profession, sexual orientation, gender identity, geographic origin, lifestyle, tenure with the organization or position, and any other perceived difference, including values and nontraditional work experiences. As you can see, characteristics of diversity go well beyond protected classes such as race in EEO law. Unlike EEO and Affirmative Action, promoting a diverse workforce is not required by law. Companies choose to embrace workforce diversity as a strategic choice. Capitalizing on a diverse workforce may be seen as contributing to a company's objectives such as profit, productivity, and morale. Diversity is inclusive, encompassing everyone in the workplace. Diversity management is aimed at creating a workplace in which every employee fits, feels accepted, has value, and contributes.

The purpose of this chapter is to explore EEO and Affirmative Action requirements. Then, we will take up the subject of workplace diversity.



OBJECTIVE 3.1

Explain the concept of equal employment opportunity.

Equal Employment Opportunity: An Overview

Legislation (federal, state, and local), Supreme Court decisions, and executive orders have required both public and private organizations to tap the abilities of a workforce that was largely underused before the mid-1960s. The concept of EEO has undergone much modification and fine-tuning since the passage of the Equal Pay Act of 1963, the Civil Rights Act of 1964, and the Age Discrimination in Employment Act of 1967.

Numerous amendments to these acts have been passed, as well as other acts in response to oversights in the initial legislation. Major Supreme Court decisions interpreting the provisions of the acts have also been handed down. A presidential executive order was signed into law that provided for affirmative action. Five decades have passed since the introduction of the first legislation, and EEO has become an integral part of the workplace.

Although EEO has come a long way since the early 1960s, continuing efforts are required because some problems still exist. Although perfection is elusive, the majority of businesses today do attempt to make employment decisions based on who is the best qualified, as opposed to whether an individual is of a certain gender, race, religion, color, national origin, or age or is disabled. Hiring standards to avoid will be identified based on some of the laws and executive orders that have had a major impact in creating this diverse workforce.

OBJECTIVE 3.2

Identify the federal laws affecting equal employment opportunity.

Federal Laws Affecting Equal Employment Opportunity

Numerous federal laws have been passed that have had an impact on EEO. The passage of these laws reflects society's attitude toward the changes that should be made to give everyone an equal opportunity for employment. The most significant of these laws will be described in the following sections after clarifying the sources of legislation based on the unit of government—federal government, state government, and local government The federal government enacts and passes laws that apply throughout the entire United States, and the set of federal laws pertaining to EEO are our focus in this chapter. However, we will briefly consider the role of state and local governments later as well. State government (for example, the states of Illinois and Louisiana) enacts legislation that applies throughout its jurisdiction within the state border. Local government may oversee the activities of a county or municipality within the state (for example, Suffolk County in Massachusetts or New York City in New York). Our main focus will be on federal laws, and we will make reference to state and local laws as necessary.

Constitutional Amendments and the Civil Rights Act of 1866

The oldest federal legislation affecting staffing is the Civil Rights Act of 1866, which is based on the Thirteenth Amendment to the U.S. Constitution. The Thirteenth Amendment abolished slavery in the United States and provides that "Neither slavery nor involuntary servitude, except as a punishment for crime whereof the party shall have been duly convicted, shall exist within the United States, or any place subject to their jurisdiction." The Civil Rights Act of 1866 granted citizenship and the same rights enjoyed by white citizens to all male persons in the United States "without distinction of race or color, or previous condition of slavery or involuntary servitude." Subsequently, the Fourteenth Amendment to the U.S. Constitution was enacted to ensure that the Civil Rights Act passed in 1866 would remain valid ensuring that "all persons born in the United States…excluding Indians not taxed…." were citizens and were to be given "full and equal benefit of all laws."

Title VII of the Civil Rights Act of 1964, Amended in 1972

The statute that has had the greatest impact on EEO is Title VII of the Civil Rights Act of 1964, as amended by the Equal Employment Act of 1972. Under Title VII, it is illegal for an employer to discriminate in hiring, firing, promoting, compensating, or in terms, conditions, or privileges of employment on the basis of race, color, sex, religion, or national origin. The act also forbids retaliation against an employee who has participated in an investigation, proceeding, or hearing.

Title VII covers employers engaged in or affecting interstate commerce who have 15 or more employees for each working day in each of 20 calendar weeks in the current or preceding

calendar year. Also included in the definition of employers are state and local governments, schools, colleges, unions, and private employment agencies with 15 or more employees. All private employers who are subject to the Civil Rights Act of 1964 as amended with 100 employees or more must annually submit an EEO-1 (see Figure 3-1).

Three notable exceptions to discrimination as covered by Title VII are bona fide occupational qualifications (BFOQs), seniority and merit systems, and testing and educational requirements. According to the act it is not an unlawful employment practice for an employer to hire and employ employees on the basis of his or her religion, sex, or national origin in those certain instances where religion, sex, or national origin is a BFOQ reasonably necessary to the normal operation of the particular business or enterprise. For example, religious institutions, such as churches or synagogues, may legally refuse to hire teachers whose religious conviction is different from that of the hiring institution. Likewise, a maximum-security correctional institution housing only male inmates may decline to hire females as security guards. The concept of BFOQ was designed to be narrowly, not

FIGURE 3-1

Equal Employment Opportunity Employer Information Report

Joint Reporting Committee

- Equal Employment Opportunity Commission
- Office of Federal Contract Compliance Programs (Labor)

EQUAL EMPLOYMENT OPPORTUNITY

EMPLOYER INFORMATION REPORT EEO—1

Standard Form 100 (Rev. 4–92)

O.M.B. No. 3048-0007
EXPIRES 12/31/93
100-213

Section A—TYPE OF REPORT

Refer to instructions for number and types of reports to be filed.

1. Indicate by marking in the appropriate box the type of reporting unit for which this copy of the form is submitted (MARK ONLY ONE BOX).

(1) ☐ Single-establishment Employer Report

Multi-establishment Employer:
(2) ☐ Consolidated Report (Required)
(3) ☐ Headquarters Unit Report (Required)
(4) ☐ Individual Establishment Report (submit one for each establishment with 50 or more employees)
(5) ☐ Special Report

2. Total number of reports being filed by this Company (Answer on Consolidated Report only) _____

Section B—COMPANY IDENTIFICATION (*To be answered by all employers*)

OFFICE USE ONLY

1. Parent Company

a. Name of parent company (owns or controls establishment in item 2) omit if same as label — a.

Address (Number and street) — b.

City or town | State | ZIP code — c.

2. Establishment for which this report is filed. (Omit if same as label)

a. Name of establishment — d.

Address (Number and street) | City or town | County | State | ZIP code — e.

b. Employer identification No. (IRS 9-DIGIT TAX NUMBER) — f.

Was an EEO–1 report filed for this establishment last year? ☐ Yes ☐ No

Section C—EMPLOYERS WHO ARE REQUIRED TO FILE (*To be answered by all employers*)

☐ Yes ☐ No 1. Does the entire company have at least 100 employees in the payroll period for which you are reporting?

☐ Yes ☐ No 2. Is your company affiliated through common ownership and/or centralized management with other entitles in an enterprise with a total employment of 100 or more?

☐ Yes ☐ No 3. Does the company or any of its establishments (1) have 50 or more employees AND (b) is not exempt as provided by 41 CFR 60–1.5, AND either (1) is a prime government contractor or first-tier subcontractor, and has a contract, subcontract, or purchase order amounting to $50,000 or more, or (2) serves as a depository for Government funds in any amount or is a financial institution which is an issuing and paying agent for U.S. Savings Bonds and Savings Notes?

If the response to question C–3 is yes, please enter your Dun and Bradstreet Identification number (if you have one): ☐☐☐☐☐☐☐☐☐

NOTE: If the answer is yes to questions 1, 2, or 3, complete the entire form, otherwise skip to Section G.

NSN 7540–00–180–6384

Section D—EMPLOYMENT DATA SF 100—Page 2

Employment at this establishment—Report all permanent full- and part-time employees including apprentices and on-the-job trainees unless specifically excluded as set forth in the instructions. Enter the appropriate figures on all lines and in all columns. Blank spaces will be considered as zeros.

Job Categories	Number of Employees (Report employees in only one category)														
	Race/Ethnicity														
	Hispanic or Latino		Not-Hispanic or Latino												Total Col A - N
			Male						Female						
	Male	Female	White	Black or African American	Native Hawaiian or Other Pacific Islander	Asian	American Indian or Alaska Native	Two or more races	White	Black or African American	Native Hawaiian or Other Pacific Islander	Asian	American Indian or Alaska Native	Two or more races	
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
Executive/Senior Level Officials and Managers 1.1															
First/Mid-Level Officials and Managers 1.2															
Professionals 2															
Technicians 3															
Sales Workers 4															
Administrative Support Workers 5															
Craft Workers 6															
Operatives 7															
Laborers and Helpers 8															
Service Workers 9															
TOTAL 10															
PREVIOUS YEAR TOTAL 11															

1. Date(s) of payroll period used: _____ (Omit on the Consolidated Report.)

Approval

O.M.B. No. 3046-0007
Revised 01/2006
Expires 1/2009

SAMPLE

FIGURE 3-1
Continued

broadly, interpreted and has been so interpreted by the courts in a number of cases. For instance, historically women sales representative were barred from working in a male clothing store because it was thought that men would not purchase from them. This stereotype has certainly been overcome because men regularly see female salespersons working in men's clothing stores. The burden of proving the necessity for a BFOQ rests entirely on the employer.

The second exception to discrimination under Title VII is a bona fide seniority system such as the type normally contained in a union contract. Differences in employment conditions among workers are permitted, provided that such differences are not the result of an intention to discriminate because of race, color, religion, sex, or national origin. Even if a bona fide seniority system has an adverse impact on those individuals protected by Title VII (i.e., it affects a class or group), the system can be invalidated only by evidence that the actual motives of the parties to the agreement were to discriminate.

Finally, in the matter of testing and educational requirements, Title VII states that it is not "an unlawful employment practice for an employer to give, and to act upon, the results of any professionally developed ability test provided that such test, its administration, or action upon the results is not designed, intended or used to discriminate because of race, color, religion, sex, or national origin." Employment testing and educational requirements must be job related, and when adverse impact is shown, the burden of proof is on the employer to establish that a demonstrable relationship exists between actual job performance and the test or educational requirement.

The Civil Rights Act of 1964 also created the Equal Employment Opportunity Commission (EEOC) and assigned enforcement of Title VII to this agency. Consisting of five members appointed by the president, the EEOC is empowered to investigate, conciliate, and litigate charges of discrimination arising under provisions of Title VII. In addition, the commission has the responsibility of issuing procedural regulations and interpretations of Title VII and the other

statutes it enforces. The most significant regulation issued by EEOC is the *Uniform Guidelines on Employee Selection Procedures*. The EEOC enforces other EEO laws, with exceptions noted when those laws are discussed next.

Equal Pay Act of 1963, Amended in 1972

Passed as an amendment to the Fair Labor Standards Act, the Equal Pay Act (EPA) of 1963 prohibits an employer from paying an employee of one sex less money than an employee of the opposite sex, if both employees do work that is substantially the same. The EPA was passed largely to overcome the outdated belief that a man should be paid more than a woman because he was the primary breadwinner. The EPA covers work within the same physical place of business. For example, an employer could pay a female more in San Francisco than a male working in the same position in Slippery Rock, Pennsylvania, even if the jobs were substantially the same, because of the cost-of-living difference. A key point to remember is that the pay difference must be substantial and that small pay differences might be acceptable. Four exceptions that permit unequal pay for equal work include:

- Seniority system
- Merit system
- System that measures earnings by quantity or quality of production
- Any other factor other than sex

The EEOC enforces the EPA. The EEOC possesses the authority to investigate and reconcile charges of illegal discrimination. Title VII protects employees who work for all private sector employers; local, state, and federal governments; and educational institutions that employ 15 or more individuals. Title VII also applies to private and public employment agencies, labor organizations, and joint labor management committees controlling apprenticeship and training. It should be noted that the remaining laws that follow are also enforced by the EEOC.

Lilly Ledbetter Fair Pay Act of 2009

Lilly Ledbetter worked as a supervisor for Goodyear Tire from 1979 until 1998. Just before retirement, she received information that compared her salary with salaries of male coworkers. She was earning $3,727 monthly compared with 15 male coworkers who earned between $4,286 and $5,236. She sued, claiming pay discrimination under Title VII of the Civil Rights Act of 1964 and the Equal Pay Act of 1963.[1] In the 2007 Supreme Court case of *Ledbetter v. Goodyear Tire & Rubber Co., Inc.*, the Court said that discrimination charges must be filed within 180 days after the allegedly discriminatory pay decision. Lilly Ledbetter had worked for Goodyear for many years but she did not realize until she was close to retirement that she was being discriminated against because of pay. Because she did not file a discrimination charge within 180 days of her employment, the Supreme Court ruled against her. To reverse the Ledbetter decision, the Lilly Ledbetter Fair Pay Act was passed by Congress and signed into law in 2009. The law creates a rolling or open time frame for filing wage discrimination claims. Each paycheck that unfairly pays a worker less than it should is a discriminatory act. The act gives the worker a fresh 180-day period (300 days in some states) to file a charge of discrimination with the EEOC.

Pregnancy Discrimination Act of 1978

Passed as an amendment to Title VII of the Civil Rights Act, the Pregnancy Discrimination Act prohibits discrimination in employment based on pregnancy, childbirth, or related medical conditions. Questions regarding a woman's family and childbearing plans should not be asked. Similarly, questions relating to family plans, birth control techniques, and the like may be viewed as discriminatory because they are not asked of men. The basic principle of the act is that women affected by pregnancy and related conditions must be treated the same as other applicants and employees on the basis of their ability or inability to work. A woman is therefore protected against such practices as being fired or refused a job or promotion merely because she is pregnant or has had an abortion. She usually cannot be forced to take a leave of absence as long as she can work. If other employees on disability leave are entitled to return to their jobs when they are able to work again, so too are women who have been unable to work because of pregnancy. Also, limiting job advancement opportunities while a woman is pregnant may be a violation of the act.

The same principle applies in the benefits area, including disability benefits, sick leave, and health insurance. A woman unable to work for pregnancy-related reasons is entitled to disability benefits or sick leave on the same basis as employees unable to work for other medical reasons. Also, any health insurance provided must cover expenses for pregnancy-related conditions on the same basis as expenses for other medical conditions.

Civil Rights Act of 1991

During 1988–1989, the Supreme Court rendered six employment discrimination decisions of such magnitude that a congressional response was required to overturn these decisions. The result was passage of the Civil Rights Act of 1991. The act amended five statutes: (1) the Civil Rights Act of 1866; (2) Title VII of the Civil Rights Act of 1964, as Amended; (3) the Age Discrimination in Employment Act of 1967, as Amended; (4) the Rehabilitation Act of 1973; and (5) the Americans with Disabilities Act of 1990.

The Civil Rights Act of 1991 had the following purposes:

- To provide appropriate remedies for intentional discrimination and unlawful harassment in the workplace.
- To codify the concepts of *business necessity* and *job-relatedness* pronounced by the Supreme Court in *Griggs v. Duke Power Company*.
- To confirm statutory authority and provide statutory guidelines for the adjudication of disparate impacts under Title VII of the Civil Rights Act of 1964. Disparate impact occurs when certain actions in the employment process work to the disadvantage of members of protected groups. Disparate impact will be discussed under the heading, "Adverse Impact."
- To respond to decisions of the Supreme Court by expanding the scope of relevant civil rights statutes to provide adequate protection to victims of discrimination.

Under this act, a complaining party may recover punitive damages if the complaining party demonstrates that the company engaged in a discriminatory practice with malice or with reckless indifference to the law. However, the following limits, based on the number of people employed by the company, were placed on the amount of the award:

- Between 15 and 100 employees—$50,000
- Between 101 and 200 employees—$100,000
- Between 201 and 500 employees—$200,000
- More than 500 employees—$300,000

In each case, aggrieved employees must be with the firm for 20 or more calendar weeks in the current or preceding calendar year.

With regard to burden of proof, a complaining party must show that a particular employment practice causes a disparate impact on the basis of race, color, religion, sex, or national origin. It must also be shown that the company is unable to demonstrate that the challenged practice is job related for the position in question and consistent with business necessity. The act also extends the coverage of the Civil Rights Act of 1964 to extraterritorial employment. However, the act does not apply to U.S. companies operating in other countries if compliance "would cause such employer, or a corporation controlled by such employer, to violate the laws of the country in which such workplace is located."[2] The act also extends the nondiscrimination principles to Congress and other government agencies, such as the General Accounting Office and the Government Printing Office.

Age Discrimination in Employment Act of 1967, Amended in 1978 and 1986

As originally enacted, the Age Discrimination in Employment Act (ADEA) prohibited employers from discriminating against individuals who were 40 to 65 years old. The 1978 amendment provided protection for individuals who were at least 40, but less than 70 years old. In a 1986 amendment, employer discrimination against anyone age 40 or older is illegal. Questions asked about an applicant's age or date of birth may be ill-advised. Also, assuming that only younger applicants are more eager and ready to learn new technology may bring an age discrimination suit because people of any age may possess these qualities. However, a firm may ask for age information to comply with the child labor law. For example, the question could be asked, "Are you under the age of 18?" Nonetheless, questions about the ages of children, if any,

could be potentially discriminatory because a close approximation of the applicant's age often is obtained through knowledge of the ages of the applicant's children. The EEOC is responsible for administering this act. The ADEA pertains to employers who have 20 or more employees for 20 or more calendar weeks (either in the current or preceding calendar year); unions with 25 or more members; employment agencies; and federal, state, and local government subunits.

Enforcement begins when a charge is filed, but the EEOC can review compliance even if no charge is filed. The ADEA differs from Title VII of the Civil Rights Act because it provides for a trial by jury and carries possible criminal penalty for violation of the act. The trial-by-jury provision is important because juries are thought to have great sympathy for older people who may have been discriminated against. The criminal penalty provision means that a person may receive more than lost wages if discrimination is proved. Further, an employer found to have wilfully violated the ADEA can be liable to the victimized person for "liquidated damages" or double damages.[3] The 1978 amendment also makes class action suits possible.

Age Can Actually Be a Bona Fide Occupational Qualification

Age can actually be a BFOQ when it is reasonably necessary to the essence of the business, and the employer has a rational or factual basis for believing that all, or substantially all, people within an age class would not be able to perform satisfactorily. Courts have continued to rule that the Federal Aviation Administration adequately explained its long-standing rule that it can force commercial pilots to retire at age 60. The age 60 rule was first imposed in 1959 and was long controversial. However, in 2007, the retirement age for commercial pilots was raised to 65.

This ruling supported the 1974 Seventh Circuit Court decision that Greyhound did not violate the ADEA when it refused to hire persons 35 years of age or older as intercity bus drivers. Again, the likelihood of risk or harm to its passengers was involved. Greyhound presented evidence concerning degenerative physical and sensory changes that humans undergo at about age 35 that have a detrimental effect on driving skills, and that the changes are not detectable by physical tests. These skills would gradually deteriorate with increased age.



HR Web Wisdom

Office of Contract Compliance Programs

http://www.dol.gov/ofccp/

Home page for the OFCCP, the agency responsible for ensuring that employers doing business with the federal government comply with the laws and regulations requiring nondiscrimination and affirmative action.

Rehabilitation Act of 1973

The Rehabilitation Act prohibits discrimination against disabled workers who are employed by certain government contractors and subcontractors and organizations that receive federal grants in excess of $2,500. Individuals are considered disabled if they have a physical or mental impairment that substantially limits one or more major life activities or if they have a record of such impairment. Protected under the act are diseases and conditions such as epilepsy, cancer, cardiovascular disorders, AIDS, blindness, deafness, mental retardation, emotional disorders, and dyslexia.

There are two primary levels of the act. All federal contractors or subcontractors exceeding the $2,500 base are required to post notices that they agree to take affirmative action to recruit, employ, and promote qualified disabled individuals. If the contract or subcontract exceeds $50,000, or if the contractor has 50 or more employees, the employer must prepare a written affirmative action plan for review by the Office of Federal Contract Compliance Programs (OFCCP), which administers the act. In it, the contractor must specify that reasonable steps are being taken to hire and promote disabled persons.

In an interpretation of Section 8 of the Rehabilitation Act, federal technology buyers are forced to think about people who are blind, deaf, paralyzed, or have other disabilities before they buy software, computers, printers, copiers, fax machines, kiosks, telecommunications devices, or video and multimedia products. Federal employees with disabilities must have access to and use of information and data that is comparable to the access and use by federal employees who are not individuals with disabilities, unless an undue burden would be imposed on the agency.

Vietnam Era Veteran's Readjustment Assistance Act of 1974

The Vietnam Era Veterans' Readjustment Assistance Act (VEVRAA) requires covered federal government contractors and subcontractors to take affirmative action to employ and advance in employment specified categories of veterans protected by the act and prohibits discrimination against such veterans. In addition, VEVRAA requires contractors and subcontractors to

list their employment openings with the appropriate employment service delivery system and that covered veterans receive priority in referral to such openings. Further, VEVRAA requires federal contractors and subcontractors to compile and submit annually a report on the number of current employees who are covered veterans. The affirmative action and mandatory job-listing provisions of VEVRAA are enforced by the Employment Standards Administration's Office of Federal Contract Compliance Programs (OFCCP) within the U.S. Department of Labor (DOL). DOL's Veterans' Employment and Training Service (VETS) administers the veterans' employment reporting requirement.

Vietnam Era Veterans' Readjustment Assistance Act of 1974, as Amended

Under VEVRAA, federal contractors and subcontractors are required to take affirmative action in hiring covered veterans. VEVRAA prohibits federal contractors from discriminating against specified categories of veterans and requires them to take affirmative action to recruit, employ, and promote protected veterans. Contractors with 50 or more employees (and $100,000 in federal contracts made on or after December 1, 2003) must maintain a written affirmative action plan.[4] As originally passed, only covered honorably discharged persons who served more than 18 days on active duty between August 5, 1964, and May 7, 1975. Now the definition of "protected" or "covered" veteran has been expanded to include those who have served in a campaign or expedition for which a campaign badge was issued.[5] This includes campaigns such as current engagements in the Middle East.

Recently, there have been rather significant changes in the OFCCP requirement regarding the Rehabilitation Act and the VEVRAA. The final regulations require contractors to establish a nationwide 7 percent utilization goal for disabled individuals and veterans in each job group of their workforce. If a contractor has less than 100 employees, the final rule requires the 7 percent goal to be applied to the entire workforce. In addition, OFCCP's final rules provide two methods for contractors to establish hiring benchmarks for disabled individuals and veterans based on either the current national percentage of veterans in the workforce, which currently stands at 8 percent, or their own benchmark based on the best available data. The OFCCP stresses that goal is not a rigid and inflexible quota which must be met.

Americans with Disabilities Act of 1990

According to the U.S. Census Bureau, about 56.7 million people in the United States had some type of diagnosed disability in 2010 and more than 40 percent of them were of working age.[6] The Americans with Disabilities Act (ADA) prohibits discrimination against qualified individuals with disabilities. The ADA prohibits discrimination in all employment practices, including job application procedures, hiring, firing, advancement, compensation, training, and other terms, conditions, and privileges of employment. It applies to recruitment, advertising, tenure, layoffs, leaves, benefits, and all other employment-related activities. The employment provisions apply to private employers, state and local governments, employment agencies, and labor unions. Persons discriminated against because they have a known association or relationship with a disabled individual are also protected. Employers with 15 or more employees are covered. The ADA defines an individual with a disability as a person who has, or is regarded as having, a physical or mental impairment that *substantially limits* one or more major life activities and has a record of such an impairment or is regarded as having such an impairment.

Americans with Disabilities Act Amendments Act of 2008

The Americans with Disabilities Act Amendments Act (ADAAA) brings millions more people within the ADA's protection. The ADAAA expands the definition of "disability," so that many more applicants and employees are eligible for reasonable accommodations.[7] The ADAAA broadened the ADA's definition of disability by expanding the term "major life activities," doing away with the "substantially limited" requirement (previously mentioned) for those regarded as having a disability, and overturning two U.S. Supreme Court decisions that interpreted the ADA's definition of disability narrowly.

According to the EEOC, one of the purposes of the ADAAA is the reinstatement of a broad scope of protection by expanding the definition of the term *disability*. Congress found that persons with many types of impairments—including epilepsy, diabetes, multiple sclerosis, major depression,

and bipolar disorder—had been unable to bring ADA claims because they were found not to meet the ADA's definition of disability. The ADA still covers only qualified individuals with disabilities and provides that to be disabled, an individual must have "a physical or mental impairment that substantially limits one or more major life activities," must have a record of such an impairment, or must be regarded as having such an impairment. The ADAAA also defines and vastly expands the term *major life activities* as including caring for oneself, performing manual tasks, seeing, hearing, eating, sleeping, walking, standing, lifting, bending, speaking, breathing, learning, reading, concentrating, thinking, communicating, and working. The amendment states that major life activities include the operation of a major bodily function, such as functions of the immune system, normal cell growth, digestive, bowel, bladder, neurological, brain, respiratory, circulatory, endocrine, and reproductive functions. The only exception to this rule is that if a person's vision can be corrected with eyeglasses or contact lenses, he or she will not be considered disabled.

Immigration Reform and Control Act of 1986

The Immigration Reform and Control Act (IRCA) makes it illegal for certain employers to fire or refuse to hire a person on the basis of that person's national origin or citizenship. This law also makes it illegal for an employer to request employment verification only from people of a certain national origin or only from people who appear to be from a foreign country. An employer who has citizenship requirements or gives preference to U.S. citizens also may violate IRCA.

Uniformed Services Employment and Reemployment Rights Act of 1994

The Uniformed Services Employment and Reemployment Rights Act (USERRA) provides protection to Reserve and National Guard members. Under the USERRA, those workers are entitled to return to their civilian employment after completing their military service. The USERRA is intended to eliminate or minimize employment disadvantages to civilian careers that can result from service in the uniformed services. The USERRA was enacted to protect the reemployment benefits and nondiscrimination rights of individuals who voluntarily or involuntarily take a leave of absence from employment to serve in the military. As a general rule, a returning employee is entitled to reemployment in the same job or position that he or she would have attained with reasonable certainty if not for the absence to serve in the military. Known as the *escalator principle*, this requirement is designed to ensure that a returning employee is not penalized (by losing a pay raise, promotion, etc.) for the time spent on active duty, not exceeding five years. To accomplish this, organizations should track factors ranging from compensation to promotions that employees would have received had they not been on military leave.[8] There are no special rights under USERRA for temporary workers or the new hires taking over the Reserve or National Guide members' jobs.

The Veterans Opportunity to Work (VOW) Act passed in 2011 amended the USERRA. It is now easier for employees to sue employers based on hostile work environment claims related to an employee's military status. Estimates are that USERRA cases will increase based on the new law and the projected budget reduction at the Department of Defense.[9] USERRA is administered by the U.S. Department of Labor.

Genetic Information Nondiscrimination Act of 2008

The Genetic Information Nondiscrimination Act (GINA) of 2008 protects job applicants, current and former employees, labor union members, and apprentices and trainees from discrimination based on their genetic information by making unlawful the misuse of genetic information to discriminate in health insurance and employment. GINA contains two titles.

Title I of GINA applies to employer-sponsored group health plans. This title generally prohibits discrimination in group premiums based on genetic information and the use of genetic information as a basis for determining eligibility or setting health insurance premiums. Title I also places limitations on genetic testing and the collection of genetic information.

Title II of GINA prohibits the use of genetic information in the employment setting for making employment decisions such as hiring decisions, compensation, training, and termination. GINA further restricts the deliberate acquisition of genetic information by employers and others covered by Title II and strictly limits disclosing genetic information.

State and Local Laws

Numerous state and local laws also affect EEO. A number of states and some cities have passed fair employment practice laws prohibiting discrimination on the basis of race, color, religion, sex, or national origin. Even prior to federal legislation, several states had antidiscrimination legislation relating to age and gender. For instance, New York protected individuals between the ages of 18 and 65 prior to the passing of the ADEA, and California had no upper limit on protected age. San Francisco has voted to ban weight discrimination. The Board of Supervisors added body size to city laws that already bar discrimination based on race, color, religion, age, ancestry, sex, sexual orientation, disability, place of birth, or gender identity. The state of California has a law that requires sexual harassment prevention training. Recently, New York City passed a law designed to protect unemployed job seekers from discrimination by employers.[10] When EEOC regulations conflict with state or local civil rights regulations, the legislation more favorable to women and minorities applies. Recently state laws have addressed drug and alcohol testing, EEO, human trafficking, immigration, time off, wages paid, and worker privacy.[11]

OBJECTIVE 3.3

Discuss who is responsible for ensuring equal employment opportunity.

Who's Responsible for Ensuring Equal Employment Opportunity?

The main groups that take responsibility for establishing and supporting EEO include the government (EEOC and OFCCP) and employers.

Equal Employment Opportunity Commission

Title VII of the Civil Rights Act, as amended, created the EEOC, which is charged with administering most of the aforementioned laws. Under Title VII, filing a discrimination charge initiates EEOC action. The EEOC continually receives complaints. According to the EEOC, employees filed 99,412 workplace discrimination charges in 2012. The most common claims focused on discrimination on the basis of race (33.7 percent), sex (30.5 percent), and age (23.0 percent).[12] In 2012, the EEOC obtained approximately $365.4 million in monetary relief for thousands of discrimination victims as well as significant nonmonetary remedies from employers.[13]

Charges may be filed by one of the presidentially appointed EEOC commissioners, by any aggrieved person, or by anyone acting on behalf of an aggrieved person. Charges must be filed within 180 days of the alleged act; however, the time is extended to 300 days if a state or local agency is involved in the case.

Notice in Figure 3-2 that when a charge is filed, the EEOC first attempts a no-fault settlement. Essentially, the organization charged with the violation is invited to settle the case with no admission of guilt. Most charges are settled at this stage. Failing settlement, the EEOC investigates the charges. Once the employer is notified that an investigation will take place, no records relating to the charge may be destroyed. During the investigative process, the employer is permitted to present a position statement. After the investigation has been completed, the district director of the EEOC will issue a probable cause or a no probable cause statement.

In the event of a probable cause statement, the next step involves attempted conciliation. In the event this effort fails, the case will be reviewed for litigation potential. Some of the factors that determine whether the EEOC will pursue litigation are (1) the number of people affected by the alleged practice; (2) the amount of money involved in the charge; (3) other charges against the employer; and (4) the type of charge. Recommendations for litigation are then passed on to the general counsel of the EEOC. If the recommendation is against litigation, a right-to-sue notice will be issued to the charging party.

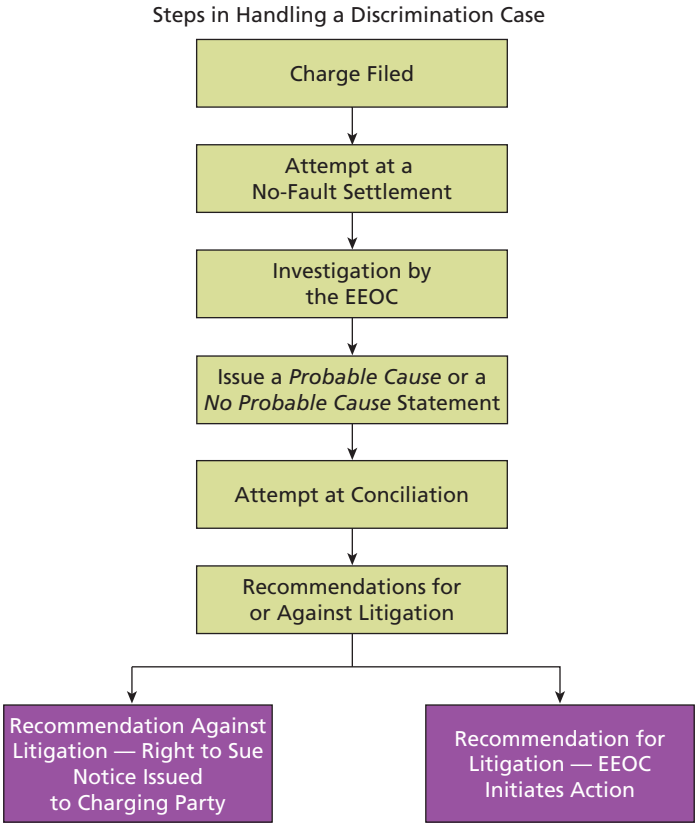
Office of Federal Contract Compliance Programs

The purpose of the OFCCP is to enforce the requirements of affirmative action and EEO required of those who do business with the federal government. The OFCCP is an agency within the U.S. DOL. According to the U.S. DOL, the OFCCP uses the following enforcement procedures:[14]

- Offers technical assistance to federal contractors and subcontractors to help them understand the regulatory requirements and review process.
- Conducts compliance evaluations and complaint investigations of federal contractors and subcontractors personnel policies and procedures.

FIGURE 3-2

EEOC Procedure Once a Charge Is Filed





HR Web Wisdom

EEOC

http://www.eeoc.gov

The home page for the Equal Employment Opportunity Commission.

- Obtains conciliation agreements from contractors and subcontractors who are in violation of regulatory requirements. When a compliance review discloses problems, OFCCP attempts to work with the contractor, often entering into a conciliation agreement. A conciliation agreement may include back pay, job offers, seniority credit, promotions or other forms of relief for victims of discrimination. It may also involve new training programs, special recruitment efforts, or other affirmative action measures
- Monitors contractors and subcontractors progress in fulfilling the terms of their agreements through periodic compliance reports.
- Forms linkage agreements between contractors and DOL job training programs to help employers identify and recruit qualified workers.
- Recommends enforcement actions to the Solicitor of Labor.
- The ultimate sanction for violations is debarment—the loss of a company's federal contracts. Other forms of relief to victims of discrimination may also be available, including back pay for lost wages.

Employers

Much has occurred since the first piece of EEO legislation was enacted approximately 50 years ago, and the basic hiring standards to avoid are largely understood by those in the workforce. In a perfect world, discrimination, retaliation, and harassment would not exist. However, despite a company's best efforts to treat employees fairly, suits are still brought and won because of mistakes in adherence to these standards.[15] Perhaps, it was only a temporary lapse where a manager knowingly decides to hire a less-qualified friend over a qualified member of a protected group. Or the manager may sincerely believe that he or she has the best intention of abiding by the law but still makes a mistake perhaps because of some complexity in the law.

To limit the prospect of an EEO lawsuit, an organization can do a few things. First, and foremost, it must have and enforce a strong EEO policy against discrimination. This policy must begin with top management and filter down to everyone in the organization. This policy should clearly spell out what standards are to be avoided. It should also conspicuously

describe the complaint procedure and the various avenues that can be followed if the person in charge is the cause of the complaint. Certainly, the policy should provide a strong anti-retaliation clause. Workers need to believe that a complaint will result in immediate and appropriate action.

Even with a policy such as the one described, there may still be breakdowns. When they do occur, it becomes an opportunity to train employers how to handle an employee-relations problem better the next time. By taking the high road in the solution of a suit, it provides a means of reinforcing the seriousness of the nondiscrimination policy. [16]

OBJECTIVE 3.4

Define and operationalize the types of employment discrimination.

Defining and Operationalizing Illegal Discrimination

Unfortunately, we hear about *illegal discrimination* in the workplace all too often in the news, through friends or family who may have been victims, or personally. At minimum, every employee should possess an awareness of how the law defines illegal workplace discrimination. Even a basic understanding may help employers and employees to minimize the prevalence of illegal discriminatory acts through self-monitoring or reporting concerns of possible illegal discrimination to human resource management professionals.

Uniform Guidelines on Employee Selection Procedures

Prior to 1978, employers were faced with complying with several different selection guidelines. In 1978, the EEOC, the Civil Service Commission, the Department of Justice, and the DOL adopted the *Uniform Guidelines on Employee Selection Procedures*. These guidelines cover several federal EEO statutes and executive orders, including Title VII of the Civil Rights Act, EO 11246, and the Equal Pay Act.

Uniform Guidelines
Provide a single set of principles that were designed to assist employers, labor organizations, employment agencies, and licensing and certification boards in complying with federal prohibitions against employment practices that discriminate on the basis of race, color, religion, sex, and national origin.

The **Uniform Guidelines** provide a single set of principles that were designed to assist employers, labor organizations, employment agencies, and licensing and certification boards in complying with federal prohibitions against employment practices that discriminate on the basis of race, color, religion, sex, and national origin. The *Uniform Guidelines* provide a framework for making legal employment decisions about hiring, promotion, demotion, referral, retention, licensing and certification, the proper use of tests, and other selection procedures. Under the *Uniform Guidelines*, recruiting procedures are not considered selection procedures and therefore are not covered.

Regarding selection procedures, the *Uniform Guidelines* state that a test is any measure, combination of measures, or procedures used as a basis for any employment decision. Selection procedures include the full range of assessment techniques from traditional paper-and-pencil tests, performance tests, testing programs or probationary periods, and physical, education, and work experience requirement through informal or casual interviews and unscored application forms.

Using this definition, virtually any instrument or procedure used in the selection decision is considered a test.

Concept of Disparate Treatment

disparate treatment
Employer treats some people less favorably than others because of race, religion, color, sex, national origin, or age.

Unlawful employment discrimination, as established through various Supreme Court decisions, can be divided into two broad categories: disparate treatment and adverse impact. **Disparate treatment** means that an employer treats some employees less favorably than others because of race, religion, color, sex, national origin, or age. It is the most easily understood form of discrimination.

For example, males are treated differently from females; Caucasians are treated differently from blacks. The crux of disparate treatment is different treatment on the basis of some nonallowable criterion. It may be thought of as direct discrimination. Common forms of disparate treatment include selection rules with a racial, sexual, or other premise; prejudicial action; unequal treatment on an individual basis; and different hiring standards for different groups. *McDonald v. Santa Fe Trail Transportation Company* offers an example of disparate treatment. Three of the company's employees, two whites and one black, had allegedly misappropriated 60 gallons of antifreeze. Santa Fe took disciplinary action against the workers by terminating the two whites, but not the black employee. The discharged white workers filed suit against the company, charging that their

termination violated both Title VII and the Civil Rights Act of 1866. The Supreme Court agreed with the plaintiffs that they had been the recipients of unequal treatment on the basis of their race. Central to disparate treatment is the matter of proof. The plaintiff must first be able to establish a prima facie case (that is, the appearance of possible illegal discrimination), and second, be able to establish that the employer was acting on the basis of a discriminatory motive.

Concept of Adverse Impact

adverse impact
Concept established by the *Uniform Guidelines*; it occurs if women and minorities are not hired at the rate of at least 80 percent of the best-achieving group.

Before the issuance of the *Uniform Guidelines*, the only way to prove job-relatedness was to validate each test. The *Uniform Guidelines* do not require validation in all cases. Essentially, it is required only in instances in which the test or other selection device produces an adverse impact on a minority group. **Adverse impact**, a concept established by the *Uniform Guidelines*, occurs if women and minorities are not hired at the rate of at least 80 percent of the best-achieving group.

Under the *Uniform Guidelines*, adverse impact has been described in terms of selection rates, the selection rate being the number of qualified applicants hired or promoted, divided by the total number of qualified applicants. This has also been called the four-fifths rule, which is actually a guideline subject to interpretation by the EEOC. The groups identified for analysis under the guidelines are (1) blacks, (2) American Indians (including Alaskan natives), (3) Asians, (4) Hispanics, (5) women, and (6) men.

The following formula is used to compute adverse impact for hiring:

$$\frac{\text{Success rate for least-achieving group of applicants}}{\text{Success rate for best-achieving group of applicants}} = \text{Determination of adverse impact}$$

The success rate for the least-achieving group (often women and minority applicants) is determined by dividing the number of members of a specific group employed in a period by the number of qualified applicants in a period. The success rate of best-achieving group applicants is determined by dividing the number of people in the best-achieving group employed by the number of the best-achieving group applicants in a period.

Using the formula, let us determine whether there has been adverse impact in the following case. During 2014, 400 people were hired for a particular job. Of the total, 300 were white and 100 were black. There were 1,500 qualified applicants for these jobs, of whom 1,000 were white and 500 were black. Blacks were determined to be the least-achieving group because 100/500 = 0.2. Whites were determined to be the best-achieving group because 300/1000 = 0.3. Using the adverse formula, you have:

$$\frac{100/500}{300/1000} = \frac{0.2}{0.3} = 66.67\%$$

Thus, adverse impact exists.

Evidence of adverse impact involves more than the total number of minority workers employed. Also considered is the total number of qualified applicants. For instance, assume that 300 blacks and 300 whites were hired. But there were 1,500 qualified black applicants and 1,000 qualified white applicants. Blacks were determined to be the least-achieving group because 300/1500 = 0.2. Whites were determined to be the best-achieving group because 300/1000 = 0.3. Putting these figures into the adverse impact formula, it can be concluded that adverse impact still exists.

$$\frac{300/1500}{300/1000} = \frac{0.2}{0.3} = 66.67\%$$

Therefore, it is clear that firms must monitor their recruitment efforts carefully. Obviously, firms should attempt to recruit qualified individuals because once in the applicant pool, they will be used in computing whether adverse impact is evident.

Assuming that adverse impact is shown, employers have two avenues available to them if they still desire to use a particular selection standard. First, the employer may validate a selection device by showing that it is indeed a predictor of success. For instance, the employer may be able to show a strong relationship between the selection device and job performance, and that if it

did not use this procedure, the firm's training costs would become prohibitive. If the device has proved to be a predictor of job performance, business necessity has been established.

The second avenue available to employers should adverse impact be shown is the BFOQ defense. The BFOQ defense means that only one group is capable of performing the job successfully. Courts have narrowly interpreted this defense because it almost always relates to sex discrimination. For instance, courts have rejected the concept that because most women cannot lift 100 pounds, all women should be eliminated from consideration for a job requiring heavy lifting.

The *Uniform Guidelines* adopted the bottom-line approach in assessing whether a firm's employment practices are discriminatory. For example, if a number of separate procedures are used in making a selection decision, the enforcement agencies will focus on the end result of these procedures to determine whether adverse impact has occurred. Essentially, the EEOC is more concerned with what is occurring than how it occurs. It admits that discriminatory employment practices that cannot be validated may exist; however, the net effect, or the bottom line, of the selection procedures is the focus of the EEOC attention.

OBJECTIVE 3.5

Define and discuss affirmative action.

Affirmative Action

executive order (EO)
Directive issued by the president that has the force and effect of law enacted by Congress as it applies to federal agencies and federal contractors.

An **executive order (EO)** is a directive issued by the president and has the force and effect of a law enacted by Congress because it applies to federal agencies and federal contractors. An example of a contractor is a company that provides carpentry work in federal government buildings. In 1965, President Lyndon B. Johnson established EO 11246 has two provisions. First, it prohibits federal contractors and subcontractors from engaging in illegal employment discrimination on the basis of race, color, religion, sex, or national origin. This requirement applies to contractors and subcontractors whose contracts with the federal government exceed $10,000. Second, contractors and contractors are required to take affirmative action to hire individuals from underrepresented groups. Contractors and subcontractors must prepare written affirmative action when their contracts exceed $50,000. The OFCCP is responsible for enforcing EO 11246. In 1968, EO 11375 changed the word *creed* to *religion* and added sex discrimination to the other prohibited items.

President Richard M. Nixon issued EO 11478 in 1969. It covers the federal civilian workforce. This EO prohibits discrimination in employment on the basis of race, color, religion, sex, national origin, handicap, and age. And it requires all federal government departments and agencies to take affirmative steps to promote employment opportunities for those classes it covered. In 1998, President Bill Clinton amended EO 11478 with EO 13087, which adds sexual orientation to the list of protected classes. These EOs are enforced by the DOL through the OFCCP. Recently the VEVRAA and the Rehabilitation Act have received additional attention from the OFCCP.[17]

Affirmative action, stipulated by EO 11246, requires covered employers to take positive steps to ensure that employment of applicants and treatment of employees during employment are without regard to race, creed, color, or national origin.

Covered human resource practices relate to employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoffs or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeships. Employers are required to post notices explaining these requirements in conspicuous places in the workplace. In the event of contractor noncompliance, contracts can be canceled, terminated, or suspended in whole or in part, and the contractor may be declared ineligible for future government contracts.

affirmative action program (AAP)
Approach developed by organizations with government contracts to demonstrate that workers are employed in proportion to their representation in the firm's relevant labor market.

An **affirmative action program (AAP)** is an approach developed by organizations with government contracts to demonstrate that workers are employed in proportion to their representation in the firm's relevant labor market.

An AAP may be voluntarily implemented by an organization. In such an event, goals are established and actions taken to hire and move minorities and women up in the organization. In other situations, an AAP may be mandated by the OFCCP. The degree of control the OFCCP will impose depends on the size of the contract, with contracts of $10,000 or less not covered. The first level of control involves contracts that exceed $10,000 but are less than $50,000. The second level of control occurs if the contractor (1) has 50 or more employees; (2) has a contract

of $50,000 or more; (3) has contracts that, in any 12-month period, total $50,000 or more or reasonably may be expected to total $50,000 or more; or (4) is a financial institution that serves as a depository for government funds in any amount, acts as an issuing or redeeming agent for U.S. savings bonds and savings notes in any amount, or subscribes to federal deposit or share insurance. Contractors meeting these criteria must develop a written AAP for each of their establishments and file an annual EEO-1 report. Note that the threshold is 50 employees here, but it is 100 with regard to those covered by the Civil Rights Act of 1964.

The third level of control on contractors is in effect when contracts exceed $1 million. All previously stated requirements must be met, and in addition, the OFCCP is authorized to conduct pre-award compliance reviews. In determining whether to conduct a pre-award review, the OFCCP may consider, for example, the items presented in Table 3-1. Alcoa Mill Products Inc. paid $484,656.19 in back wages to 37 Hispanics and blacks as well as $35,516.88 to two women who were rejected for job positions at the company's plant in Lancaster, Pennsylvania. The OFCCP determined that the company had violated EO 11246 by failing to meet its obligations as a federal contractor. Alcoa holds contracts with the U.S. Army in excess of $50 million.

Recently every 25th supply and service federal contractor selected for a compliance evaluation by the OFCCP is subjected to a full compliance review that includes on-site visits by compliance officers, even though there are no indicators of potential discrimination or other violations. The "active case enforcement" directive also provides that the OFCCP will perform a full desk audit in every compliance evaluation to comprehensively analyze a contractor's written AAPs.[18] Before this decision, only 25 compliance reviews were made per year.[19]

If an investigation indicates a violation, the OFCCP first tries to secure compliance through persuasion. If persuasion fails to resolve the issue, the OFCCP serves a notice to show cause or a notice of violation. A show cause notice contains a list of the violations, a statement of how the OFCCP proposes that corrections be made, a request for a written response to the findings, and a suggested date for a conciliation conference. The firm usually has 30 days to respond. Successful conciliation results in a written contract between the OFCCP and the contractor. In a conciliation agreement, the contractor agrees to take specific steps to remedy noncompliance with an EO. Firms that do not correct violations can be passed over in the awarding of future contracts. The procedures for developing AAPs were published in the *Federal Register* of December 4, 1974. These regulations are referred to as Revised Order No. 4. Revised Order No. 4 is quite specific with regard to dissemination of a firm's EEO policy, both internally and externally. An executive should be appointed to manage the firm's EEO program. This person should be given the necessary support by top management to accomplish the assignment. Revised Order No. 4 specifies the minimum level of responsibility associated with the task of EEO manager. The OFCCP guide for compliance officers, outlining what to cover in a compliance review, is known as Order No. 14.

The OFCCP is specific about what should be included in an AAP. A policy statement has to be developed that reflects the CEO's attitude regarding EEO, assigns overall responsibility for preparing and implementing the AAP, and provides for reporting and monitoring procedures. The policy should state that the firm intends to recruit, hire, train, and promote persons in all job

TABLE 3-1

Factors That the OFCCP May Consider in Conducting a Pre-award Review

1. The past EEO performance of the contractor, including its current EEO profile and indications of underutilization.
2. The volume and nature of complaints filed by employees or applicants against the contractor.
3. Whether the contractor is in a growth industry.
4. The level of employment or promotional opportunities resulting from the expansion of, or turnover in, the contractor's workforce.
5. The employment opportunities likely to result from the contract in issue.
6. Whether resources are available to conduct the review.

titles without regard to race, color, religion, gender, or national origin, except where gender is a BFOQ. Recently protected military veterans and individuals with disabilities have been included in affirmative action. The policy should guarantee that all human resource actions involving areas such as compensation, benefits, transfers, layoffs, return from layoffs, company-sponsored training, education, tuition assistance, and social and recreational programs will be administered without regard to race, color, religion, gender, or national origin.

An acceptable AAP must include an analysis of deficiencies in the utilization of minority groups and women. The first step in conducting a utilization analysis is to make a workforce analysis. The second step involves an analysis of all major job groups. An explanation of the situation is required if members of protected groups are currently being underutilized. A *job group* is defined as one or more jobs having similar content, wage rates, and opportunities.

Underutilization is defined as having fewer minorities or women in a particular job group than would reasonably be expected by their availability. The utilization analysis is important because the calculations determine whether underutilization exists. For example, if the utilization analysis shows that the availability of blacks for a certain job group is 30 percent, the organization should have at least 30 percent black employment in that group. If actual employment is less than 30 percent, underutilization exists, and the firm should set a goal of 30 percent black employment for that job group. The goal of affirmative action is for a contractor's workforce to generally reflect the gender, racial, and ethnic profile of the labor pools from which the contractor recruits and selects.

The primary focus of any AAP is on goals and timetables, with the issue being how many and by when. Goals and timetables developed by the firm should cover its entire AAP, including correction of deficiencies. These goals and timetables should be attainable; that is, they should be based on results that the firm, making good-faith efforts, could reasonably expect to achieve. Goals should be significant and measurable, as well as attainable. Two types of goals must be established regarding underutilization: annual and ultimate. The annual goal is to move toward elimination of underutilization, whereas the ultimate goal is to correct all underutilization. Goals should be specific in terms of planned results, with timetables for completion. However, goals should not establish inflexible quotas that must be met. Rather, they should be targets that are reasonably attainable. Some techniques that can be used to improve recruitment and increase the flow of minority and women applicants are shown in Table 3-2.

TABLE 3-2

Techniques to Improve Recruitment of Minorities and Women

- Identify referral organizations for minorities and women.
- Hold formal briefing sessions with representatives of referral organizations.
- Encourage minority and women employees to refer applicants to the firm.
- Include minorities and women on the personnel relations staff.
- Permit minorities and women to participate in career days, youth motivation programs, and related activities in their community.
- Actively participate in job fairs and give company representatives the authority to make on-the-spot commitments.
- Actively recruit at schools having predominant minority or female enrollments.
- Use special efforts to reach minorities and women during school recruitment drives.
- Undertake special employment programs whenever possible for women and minorities. These might include technical and nontechnical co-op programs, after-school or work-study jobs, summer jobs for underprivileged individuals, summer work-study programs, and motivation, training, and employment programs for the hardcore unemployed.
- Pictorially present minorities and women in recruiting brochures.
- Include the minority news media and women's interest media when expending help wanted advertising.

Source: Federal Register, 45, no. 251 (Tuesday December 30, 2008): 86243.

OBJECTIVE 3.6

Explain the *Uniform Guidelines* related to illegal employment discrimination.

Uniform Guidelines on Preventing Specific Illegal Employment Discrimination

Since the *Uniform Guidelines* were published in 1978, they have been modified several times. Some of these changes reflect Supreme Court decisions; others clarify implementation procedures. The five major changes discussed are the Guidelines on Sexual Harassment, Guidelines on Discrimination Because of National Origin, Guidelines on Discrimination Because of Religion, Guidelines on Caregiver (Family Responsibility) Discrimination, and Discrimination Because of Disability.

Guidelines on Sexual Harassment

As previously mentioned, Title VII of the Civil Rights Act generally prohibits discrimination in employment on the basis of gender. The EEOC has also issued guidelines that state that employers have a duty to maintain a workplace that is free from sexual harassment. The OFCCP has issued similar guidelines. Managers in both for-profit and not-for-profit organizations must be particularly alert to the issue of sexual harassment. The EEOC issued the guidelines because of the belief that sexual harassment was a widespread problem. Table 3-3 contains the EEOC's definition of sexual harassment. As you see, there are two distinct types of sexual harassment: (1) where a hostile work environment is created, and (2) when there is a quid pro quo, for example, an offer of promotion or pay raise in exchange for sex.

According to these guidelines, employers are totally liable for the acts of their supervisors, regardless of whether the employer is aware of the sexual harassment act. In *Faragher v. City of Boca Raton* and *Burlington Industries, Inc. v. Ellerth*, the Supreme Court held that an employer is strictly liable, meaning that it has absolutely no defense, when sexual harassment by a supervisor involves a tangible employment action. Courts expect employers to carefully train supervisors so they do not engage in any type of behavior that could be construed as sexual harassment. In addition, all employees should be trained so as to understand their rights and responsibilities.[20]

As with the Civil Rights Act of 1964, retaliation is forbidden against an employee who has participated in an investigation, proceeding, or hearing. Recently Blockbuster, Inc. entered into a consent judgment requiring it to pay more than $2 million to settle an employment discrimination lawsuit filed by EEOC. The EEOC had charged Blockbuster with subjecting female temporary employees to sexual harassment, retaliating against them for resisting sexual advances and complaining, and subjecting Hispanic temporary employees to national origin and race harassment and other discrimination. "This case should act as a warning to all employers who use staffing agency personnel," said EEOC Philadelphia Regional Attorney Debra M. Lawrence, whose jurisdiction includes Maryland. "Employers who are customers of staffing agencies have a responsibility to protect their temporary workers from unlawful discrimination. Too frequently, such employers fail to create systems to prevent and detect abuse of temporary workers and fail to respond forcefully to it. Those employers do so at their peril."[21]

TABLE 3-3

EEOC Definition of Sexual Harassment

Unwelcome sexual advances, requests for sexual favors, and verbal or physical conduct of a sexual nature that occur under any of the following situations:

1. When submission to such conduct is made either explicitly or implicitly a term or condition of an individual's employment.
2. When submission to or rejection of such contact by an individual is used as the basis for employment decisions affecting such individual.
3. When such conduct has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile, or offensive working environment.

Where coworkers are concerned, the employer is responsible for such acts if the employer knew, or should have known, about them. The employer is not responsible when it can show that it took immediate and appropriate corrective action on learning of the problem. Another important aspect of these guidelines is that employers may be liable for acts committed by nonemployees in the workplace if the employer knew, or should have known, of the conduct and failed to take appropriate action.

Firms are responsible for developing programs and policies to prevent sexual harassment in the workplace. Managers must be trained to know what to do when there is a complaint. They must investigate all formal and informal complaints alleging sexual harassment.[22] Failure to do so constitutes a violation of Title VII, as interpreted by the EEOC. To prevail in court, companies must have clear procedures for handling sexual harassment complaints. If the sexual harassment complaint appears legitimate, the company must take immediate and appropriate action.[23] However, this does not mean that everyone who is guilty of sexual harassment must be fired. A single incident does not mean that sexual harassment exists unless the employer ignores the incident and lets the situation worsen.[24]

The first sexual harassment case to reach the U.S. Supreme Court was the case of *Meritor Savings Bank v. Vinson* in 1986. In the *Vinson* decision, the Supreme Court recognized for the first time that Title VII could be used for offensive-environment claims. According to the EEOC, specific actions that could create a hostile workplace include a pattern of threatening, intimidating, or hostile acts and remarks, negative sexual stereotyping, or the display of written or graphic materials considered degrading. The 1993 Supreme Court decision in *Harris v. Forklift Systems, Inc.* expanded the hostile-workplace concept and made it easier to win sexual harassment claims. In a unanimous decision, the Supreme Court held that "to be accountable as abusive work environment harassment, conduct need not seriously affect … the psychological well-being or lead the plaintiff to suffer injury." No longer does severe psychological injury have to be proved. Under this ruling, the plaintiff only needs to show that his or her employer allowed a hostile-to-abusive work environment to exist.

Duane Reade, the New York/New Jersey drug store chain, agreed to settle an EEOC lawsuit for $240,000 for allowing the work environment at one of its New York stores to become hostile. The store manager frequently made vulgar remarks about women's anatomy, sexually propositioned female employees, made lewd comments about them during pregnancies, assigned pregnant women the least desirable store tasks, and sometimes grabbed female employees' buttocks while they worked.[25] Unchecked sexual harassment can be financially crippling. In a recent case, a jury awarded the plaintiff $95 million, including $80 million in punitive damages.[26]

Males are not precluded from sexual harassment. From 1990 to 2009, the percentage of sexual harassment claims filed by male employees increased from 11.6 to 136.3 percent.[27] Recently, the Ninth U.S. Circuit Court of Appeals held that a female coworker's "relentless" pursuit of a male employee could form the basis of a sexually hostile environment claim, even without any physical conduct of a sexual nature. The Ninth Circuit pointed out that under Title VII of the Civil Rights Act of 1964, "[b]oth sexes are protected from discrimination."[28]

For a long time, an unresolved question in employment law has been whether same-sex harassment (for example, males harassing males) is unlawful under Title VII of the Civil Rights Act of 1964. The Supreme Court, in the case of *Oncale v. Sundowner Offshore Services*, held that same-sex sexual harassment may be unlawful under Title VII. The Supreme Court decided that a plaintiff could make a claim for sexual harassment as long as the harassing conduct was because of sex. The Court emphasized that Title VII does not prohibit all verbal or physical harassment in the workplace, only that which constitutes discrimination because of sex.

Guidelines on Discrimination Because of National Origin

Both EEOC and the courts have interpreted national origin protection under Title VII as extending far beyond discrimination against individuals who came from, or whose forebears came from, a particular country. National origin protection also covers (1) marriage or association with a person of a specific national origin; (2) membership in, or association with, an organization identified with, or seeking to promote the interests of national groups; (3) attendance at, or participation in, schools, churches, temples, or mosques generally used by persons of a national

TABLE 3-4

Selection Procedures That May Be Discriminatory with Regard to National Origin

1. Fluency in English requirements: One questionable practice involves denying employment opportunities because of an individual's foreign accent or inability to communicate well in English. When this practice is continually followed, the EEOC will presume that such a rule violates Title VII and will study it closely. However, a firm may require that employees speak only in English at certain times if business necessity can be shown.
2. Training or education requirements: Denying employment opportunities to an individual because of his or her foreign training or education, or practices that require an individual to be foreign trained or educated may be discriminatory.

origin group; and (4) use of an individual's or spouse's name that is associated with a national origin group. As Table 3-4 shows, the EEOC has identified certain selection procedures that may be discriminatory.

Harassment on the basis of national origin is a violation of Title VII. Employers have a duty to maintain a working environment free from such harassment. Ethnic slurs and other verbal or physical conduct relating to an individual's national origin constitute harassment when this conduct (1) has the purpose or effect of creating an intimidating, hostile, or offensive working environment; (2) has the purpose or effect of unreasonably interfering with an individual's work performance; or (3) otherwise adversely affects an individual's employment opportunity.

Of interest with regard to national origin is the English-only rule. Courts have generally ruled in the employer's favor if the rule would promote safety and product quality and stop harassment. For example, suppose a company has a rule that only English must be spoken except during breaks. That rule must be justified by a compelling business necessity. In *Garcia v. Spun Steak,* the Ninth Circuit Court of Appeals (the Supreme Court refused to review) concluded that the rule did not necessarily violate Title VII. Spun Steak's management implemented the policy after some workers complained they were being harassed and insulted in a language they could not understand. The rule allowed workers to speak Spanish during breaks and lunch periods. A recent ruling supported the job-related aspect of the English-only rule. In *Montes v. Vail Clinic, Inc.,* the Tenth Circuit Court agreed with the English-only rule prohibiting housekeepers from speaking Spanish while working in the operating room. However, English-only policies that are not job related have been challenged and eliminated. The EEOC settled a Title VII lawsuit against a company that enforced an English-only rule solely against Hispanics. "What was strange was that the rule was only targeted at Hispanics. Tagalog, a Spanish language spoken in the Philippines, was openly spoken," said Anna Park, the EEOC's regional attorney in Los Angeles. "This was very troublesome."[29]

Guidelines on Discrimination Because of Religion

The number of religion-related discrimination complaints filed with the EEOC continues to increase. According to the Supreme Court's decision in *TWA v. Hardison*, employers have an obligation to accommodate sincerely held religious practices as long as the requested accommodation does not create more than a minimum cost to the employer.[30] Courts generally do not require employers to hire additional employees just to cover for another employee who needs a religious accommodation. Consideration is given to identifiable costs in relation to the size and operating costs of the employer and the number of individuals who actually need the accommodation. These guidelines recognize that regular payment of premium wages constitutes undue hardship, whereas these payments on an infrequent or temporary basis do not. Undue hardship would also exist if an accommodation required a firm to vary from its bona fide seniority system.

The most common claims filed under the religious accommodation provisions involve employees objecting to either Sabbath employment or membership in or financial support of labor unions. These guidelines identify several means of accommodating religious practices that

prohibit working on certain days. Some of the methods suggested included voluntary substitutes, flexible scheduling, lateral transfer, and change of job assignments. Basically, employers that refuse to accommodate an employee's religious practice may need to provide evidence that doing so would constitute an undue burden.[31] However, if making an accommodation places a true hardship on the company, the accommodation does not have to be given.[32] Some collective bargaining agreements include a provision that each employee must join the union or pay the union a sum equivalent to dues. When an employee's religious beliefs prevent compliance, the union should accommodate the employee by permitting that person to make an equivalent donation to a charitable organization.

Guidelines on Caregiver (Family Responsibility) Discrimination

caregiver (family responsibility) discrimination
Discrimination against employees based on their obligations to care for family members.

Caregiver (family responsibility) discrimination is discrimination against employees based on their obligations to care for family members. The EEOC has issued a technical assistance document titled "Employer Best Practices for Workers with Caregiving Responsibilities" on how employers of workers with caregiving responsibilities can avoid violations of Title VII of the 1964 Civil Rights Act and other fair employment laws and reduce the likelihood of discrimination complaints. This form of discrimination makes an assumption based on what a person assumes to be true about a group, including people with family responsibilities.

According to the EEOC, the guidance is not binding on employers but rather offers best practices that are proactive measures that go beyond federal nondiscrimination requirements. Federal law does not prohibit discrimination on the basis of "caregiver status," but rather it is concerned when workers with caregiving responsibilities are treated differently based on a characteristic that is protected by laws, such as gender, race, or association with an individual with a disability.

Caregiver discrimination has become the new battleground in employment claims.[33] Examples of possible caregiver discrimination violations include treating male caregivers more favorably than female caregivers; reassigning a woman to less desirable projects based on the assumption that, as a new mother, she will be less committed to her job; or lowering subjective evaluations of a female employee's work performance after she becomes the primary caregiver of her grandchildren, despite the absence of an actual decline in work performance.[34]

In recent years, employees have begun filing more and more caregiver discrimination lawsuits. Most cases share a common element—the employee alleges that the caregiving responsibilities cause the alleged discriminatory action by the employer. In EEO-related suits, plaintiffs win in only about 20 percent of cases alleging race, sex, or other more familiar types of discrimination. However, with caregiver discrimination, the win rate is twice that.[35] The challenge for employers is to develop the right mix of flexibility and fairness in work scheduling, leave policies, dependent-care assistance, and benefits. This will promote positive employee relations, recruit and retain a diverse and well-qualified workforce, address and resolve job-related issues, and defend against claims of unfair or unlawful conduct.

Discrimination Because of Disability

The ADA prohibits discrimination in employment as a result of one's disability and requires that employers provide an employee or job applicant with a reasonable accommodation unless doing so would cause significant difficulty or expense for the employer. In 2011, UPS Supply Chain Solutions agreed to pay $95,000 to settle a disability discrimination lawsuit filed by the EEOC. The EEOC had charged that UPS unlawfully denied a reasonable accommodation to a deaf employee.

The EEOC guidelines on pre-employment inquiries and tests regarding disabilities prohibit inquiries and medical examinations intended to gain information about applicants' disabilities before a conditional job offer. In the Supreme Court case of *Leonel v. American Airlines*, the Court ruled that the airline violated the ADA's required sequence for prehire medical inquiries/examinations by making medical inquiries and requiring individuals to take medical examinations before completing and making its hiring decisions.

The guiding principle is to ask only about potential employees' ability to do the job, and not about their disabilities. Lawful inquiries include those regarding performance of specific functions or possession of training appropriate to the job, whereas illegal inquiries include those that ask about previous medical conditions or extent of prior drug use. The ADA does not protect



ETHICAL DILEMMA

What Was the Real Message?

You were recently hired as information technology manager, and one of your first tasks was to prescreen candidates for an IT position with a subsidiary. After interviewing 20 candidates, you recommend to upper management a minority person as the most qualified, and he should be invited for a second interview. A day later, you are taken aside by a friend who suggested that you should not waste management's time by sending certain types for an interview. The intent of the message was clear: if you want to be accepted as a team player with this company, you had better get with the program.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

people currently using illegal drugs. It does protect those in rehabilitation programs who are not currently using illegal drugs, those who have been rehabilitated, and those erroneously labeled as drug users. Coverage under the ADA continues to evolve as evidenced with the passing of the American with Disabilities Act Amendments Act of 2008.

OBJECTIVE 3.7

Describe sexual harassment in the global environment.

Global Sexual Harassment

Sexual harassment was discussed in this chapter only as it pertained to the United States, but it is also a global issue. When individuals from two different cultures interact, there is a potential for sexual harassment problems. Some behaviors that violate U.S. cultural norms may not be perceived as a problem in another culture. In many Mediterranean and Latin countries, physical contact and sensuality are a common part of socializing. The famous Cirque du Soleil, headquartered in Montreal, Canada, has had to adapt to the U.S. definition of sexual harassment when performing in the United States. While kissing good friends and coworkers on both cheeks is common in Montreal, such behavior could be considered a form of sexual harassment in the United States. Also, there are the seminude photos of Cirque performers hanging on the walls of the company's Montreal headquarters.[36] These would likely never be seen in the United States.

The level of enforcement against workplace sexual harassment varies considerably from country to country. Although 117 countries outlaw sexual harassment in the workplace, 311 million working-age women continue to live and work in countries without this legal protection.[37] In a recent study, 26 percent of the workers surveyed in India said they had been sexually harassed, whereas only 1 percent of Sweden's employees said that they had been sexually harassed. Chinese workers had the second-highest rate of sexual harassment victimization (18 percent), followed by Saudi Arabia (16 percent).[38] Sexual harassment remains a significant problem in Pakistan, and women must constantly be alert to protect themselves from problem situations. Lara Arif, 32, who sells fabric for women's dresses from her home in Karachi, avoids taxis when she visits clients. Instead, she favors crowded buses or rickshaws, which have no doors, making escape easier. "You have to be very reserved and remain alert all the time," Arif says.[39]

Australia, Canada, the Netherlands, Sweden, United States, and the United Kingdom have laws specifying prohibited conduct and allowing employees to seek individual remedies. Italy, the Philippines, Taiwan, and Venezuela define sexual harassment as a criminal offense, and penalties and remedies are provided in special statutory penal codes. In Germany, Spain, and Thailand, sexual discrimination laws allow employees to terminate their employment relationships because of discrimination or harassment. Employers are required to pay employees a substantial sum if the cause of their termination is the result of discrimination or harassment.[40]

France considers quid pro quo as the only form of sexual harassment claims. The country does not recognize claims of a sexually hostile work environment. However, France considers the request for sexual favors for a job or promotion to be a criminal matter with the possibility of prison.

In Thailand, quid pro quo is not recognized as sexual harassment because getting a work benefit such as promotion for having sexual relations is considered mutually beneficial. Sexual harassment is mainly defined as some type of sexual assault of a serious nature under criminal law.[41]

In Burma women do not really have an outlet to complain about sexual harassment, and only recently emerged from a 63-year regime that did not allow women some basic freedoms such as freedom of speech. France considers quid pro quo as the only form of sexual harassment claims. The country does not recognize claims of a sexually hostile work environment. However, France considers the request for sexual favors for a job or promotion to be a criminal matter with the possibility of prison. In Thailand, quid pro quo is not recognized as sexual harassment because getting a work benefit such as promotion for having sexual relations is considered mutually beneficial. Sexual harassment is mainly defined as some type of sexual assault of a serious nature under criminal law.

OBJECTIVE 3.8

Describe the concept of diversity.

Diversity

Twenty-five years ago, diversity was primarily concerned with race and gender.[42] Today, the definition is quite different. As we defined in the chapter introduction, diversity refers to *any* actual or perceived difference among people: age, race, religion, functional specialty, profession, sexual orientation, gender identity, geographic origin, lifestyle, tenure with the organization or position, and any other perceived difference. Further, as companies have become more global, the work group itself has become more diverse.[43] The challenge for managers is to recognize that people with characteristics that are common but are different from those in the mainstream, often think, act, learn, and communicate differently. Diversity is more than equal employment and affirmative action; the actual definition is constantly changing and expanding.

OBJECTIVE 3.9

Discuss diversity management.

diversity management
Ensuring that factors are in place to provide for and encourage the continued development of a diverse workforce by melding actual and perceived differences among workers to achieve maximum productivity.

Diversity Management

Diversity management is ensuring that factors are in place to provide for and encourage the continued development of a diverse workforce by combining these actual and perceived differences among workers to achieve maximum productivity. Because every person, culture, and business situation is unique, there are no simple rules for managing diversity; but diversity experts say that employers need to develop patience, open-mindedness, acceptance, and cultural awareness. Diversity management focuses on the principle that all workers regardless of any factor are entitled to the same privileges and opportunities.[44] According to R. Roosevelt Thomas Jr., former president of the American Institute for Managing Diversity, "diversity and diversity management are about managing and engaging people who are different and similar, all for the benefit of the organization and its goals."[45] In his book, *The Future and the Work Ahead of Us*, Harris Sussman writes, "Diversity is about our relatedness, our connectedness, our interactions, where the lines cross."[46]

If organizations want to remain competitive in the marketplace, diversity has to be a part of the strategic goal. New York–based accounting giant KPMG employs more than 23,000 people in the United States. It has a complex diversity program that includes a diversity advisory board, diversity networks, diversity recruiting, accountability mechanisms, scorecards, mandatory training, and a diversity officer. Kathy Hannan, national managing partner for diversity and corporate social responsibility with KPMG, reports directly to the CEO.[47] Programs that highlight a firm's diversity management program can be used to help attract desirable recruits.[48] The following Watch It video captures workers' concerns about the minimum wage level and the collective response of restaurant owners to their concerns. In a diverse workplace, where employees come from a variety of backgrounds and ethnicities, there is always the possibility of harassment between employees. The value of diversity sensitivity training is discussed in its capacity to help prevent incidence of employee harassment.

Watch It 1
If your instructor has assigned this, go to MyManagementLab to watch a video titled UPS: Equal Opportunity Employment and to respond to questions.

You will realize as you read the remainder of this chapter that diversity management and EEO are different. EEO focuses on laws, court decisions, and EOs. Diversity management is about pursuing an inclusive corporate culture in which newcomers feel welcome, and everyone sees the value of his or her job. It involves creating a supportive culture where all employees can be effective. In creating this culture, top management must strongly support workplace diversity as a company goal and include diversity initiatives in their companies' business strategies. It has grown out of the need for organizations to recognize the changing workforce and other social pressures that often result. Achieving diversity is more than being politically correct; it is about fostering a culture that values individuals and their wide array of needs and contributions.

Try It 1

If your instructor has assigned this, go to MyManagementLab to complete the HR and Diversity simulation and test your application of these concepts when faced with real-world decisions.

OBJECTIVE 3.10

Explain the various elements of a diverse workforce.

Elements of the Diverse Workforce

Elements that combine to make up the diverse workforce will be discussed next.

Single Parents and Working Mothers

The number of single-parent households in the United States is growing. Although the divorce rate peaked in the early 1980s, the percentage of marriages ending in divorce remains around 50 percent. Often, children are involved. Of course, there are always widows and widowers who have children, and there are some men and women who choose to raise children outside of wedlock.

Managers need to be sensitive to the needs of working parents. Many women who formerly remained at home to care for children and the household now need and want to work outside the home. In fact, according to the U.S. Bureau of Labor Statistics data, just more than 70 percent of U.S. women with school-age children work.[49] If this valuable segment of the workforce is to be effectively used, organizations must fully recognize the importance of addressing work–family issues. Businesses are seeing that providing child-care services and workplace flexibility may influence workers' choice of employers. Companies that were chosen in *Working Mother* magazine's 100 best companies to work for placed greater emphasis on work–life balance, telecommuting, and flextime. The number of single-parent men has also increased, thus making the same work friendly issues important. According to the Pew Research Center, in 2011 single fathers headed 8 percent of households with minor children, up from 1 percent in 1960.[50]

Women in Business

Numerous factors have contributed to the growth and development of the U.S. labor force. However, nothing has been more prominent than the rise in the number of women in the labor force. More and more women are entering the labor force in high-paying, professional jobs and women dominate the health-care sector, which is one of the fastest-growing categories. In 2010, for the first time ever, women made up the majority of the U.S. workforce. Women-owned businesses now account for nearly one-third of all enterprises in the market today. The American Express Open State of Women-Owned Businesses Report shows the number of women-owned firms from 1997 to 2011 increased by 50 percent.[51]

Professional women are entering the workforce at the same rates as men. However, many opt out of the corporate life. Perhaps this is one of the reasons that women hold only 23 of the 500 CEO positions in Fortune's 2013 list of the largest U.S. companies.[52] But this does not mean that they are opting out of business careers. Instead, they are making their own career paths that allow them to combine work and life on their own terms. As a result, organizations

are losing talented employees in whom they have made substantial investments. Numerous companies are working diligently keep professional women in the workforce although more work needs to be done.[53]

Women who chose to pursue advancement within corporations find it difficult to advance to the highest executive level positions. According to a key finding in Calvert Investments' "Examining the Cracks in the Ceiling: A Survey of Corporate Diversity Practices of the S&P 100," women were underrepresented on corporate boards and in C-level positions. Of the companies surveyed, less than 10 percent of women were found to be highly paid officials, and less than 20 percent were listed as board members.[54]

glass ceiling
Invisible barrier in organizations that impedes women and minorities from career advancement.

This phenomenon is often referred to as the glass ceiling. The **glass ceiling** is the invisible barrier in organizations that impedes women and minorities from career advancement. This act established a Glass Ceiling Commission to study the manner in which businesses fill management and decision-making positions, the developmental and skill-enhancing practices used to foster the necessary qualifications for advancement to such positions, and the compensation programs and reward structures currently used in the workplace. It was also to study the limited progress made by minorities and women. As you will learn in the following Watch It video, the challenges women face are particularly noteworthy in male-dominated professions.

Watch It 2
If your instructor has assigned this, go to MyManagementLab to watch a video titled Woman on Track to Become First NFL Rep and to respond to questions.

Mothers Returning to the Workforce (on Ramping)

Today, many recruiters are focusing on educated women who have taken career breaks as a significant source of potential talent (on ramping).[55] To get them to return, companies are going beyond federal law and giving mothers a year or more for maternity leave. Other businesses are specifically trying to recruit them to return to the labor force.

Although some companies are recruiting these women, other employers have programs that help their employees leave and later return. IBM has a program that allows employees to take up to three years off. Typically, working mothers who use the program take a year or more off, and then they use the remainder of their leave to re-enter work on a part-time basis. After the three years are up, they have the option of returning either full- or part-time. IBM surveyed employees who had taken the leave and found that 59 percent would have left the company if the program had not been available. "We didn't want a situation where women had to opt out," says Maria Ferris, manager of work–life and women's initiatives at IBM. "We've invested in them, trained them. We want to retain them."[56]

A concept called *returnships* is being used to let organizations try-out professionals who are resuming their careers. It provides a vehicle for relaunching a career after a break (most often for full-time parenting). Essentially it is an internship for experienced workers who have been out of work for a while whose résumés might scare recruiters away.[57]

Dual-Career Families

dual-career family
A situation in which both husband and wife have jobs and family responsibilities.

The increasing number of **dual-career families**—in which both husband and wife have jobs and family responsibilities—presents both challenges and opportunities for organizations. The majority of children growing up today have both parents working outside the home. Households consisting of male breadwinner married to a housewife were a majority in the United States in the 1950s, but in the twenty-first century the proportion of U.S. households with only a male wage earner is less than 20 percent.[58]

Today, employees have turned down relocations because of spouses' jobs and concerns about their children. Of the top three reasons employees turn down assignments, family or spouse's career is cited almost twice as often as concern with the employee's career or compensation.[59] As a result, firms are developing polices to assist the spouse of an employee who

is transferred. Some are offering assistance in finding a position for the spouse of a transferred employee. However, companies may need to learn more about how to handle dual-career couples in a global environment. If companies make the willingness to locate globally a requirement for promotion, many in this group will reject the offer, thereby reducing the size of the labor pool.

Ethnicity and Race

According to the U.S. Bureau of Labor Statistics, the percentage of the U.S. labor force made up of whites will decline while growth is expected for other racial groups.[60] These include Hispanics, blacks, and Asians. Unfortunately, at times, these individuals may be subject to stereotyping. They may encounter misunderstandings and expectations based on ethnic or cultural differences. Members of ethnic or racial groups are socialized within their particular culture. People's attitudes are influenced by the ancestral and cultural experiences of their childhood. Many are socialized as members of two cultural groups—the dominant culture and their racial or ethnic culture. Ella Bell refers to this dual membership as *biculturalism*. In her study of black women, Bell identifies the stress of coping with membership in two cultures simultaneously as bicultural stress. She indicates that role conflict (competing roles from two cultures) and role overload (too many expectations to comfortably fulfill) are common characteristics of bicultural stress. Although these issues can be applied to other minority groups, they are particularly intense for women of color because this group experiences dynamics affecting both minorities and women.[61]



HR Web Wisdom

Bureau of Labor Statistics
http://www.bls.gov/

Principal fact-finding agency for the federal government in the broad field of labor economics and statistics.

Socialization in one's culture of origin can lead to misunderstandings in the workplace. This is particularly true when the manager relies solely on the cultural norms of the majority group. According to norms within U.S. culture it is acceptable, even considered positive, to publicly praise an individual for a job well done. However, in cultures that place primary value on group harmony and collective achievement, this method of rewarding an employee may cause emotional discomfort. Some employees feel that, if praised publicly, they will lose face within their group.

Try It 2
If your instructor has assigned this, go to MyManagementLab to complete the Diversity simulation and test your application of these concepts when faced with real-world decisions.

Older Workers

Today, employees age 50 and older represent almost a third of the U.S. workforce.[62] In 2011, the first baby boomers turned 65, and approximately 10,000 more will continue to do so every day for the next 20 years. In recent years, many boomers deferred retirement because of a faltering economy and concerns about the viability of the Social Security retirement program.[63] As the economy improves, plans must be in place to handle a rapid departure of boomers from the workforce. Even so, many boomers will resist retirement, some because they feel healthy enough to continue work and others because their retirement income was hit hard by the economy. The U.S. Bureau of Labor Statistics estimates that about 11 million workers 65 and older will be working in 2022, up from about 6 million today.[64]

Despite massive layoffs resulting from the recent recession, many companies try to keep the worker older than 55. This may be as a result, in part, of legal concerns based on the ADEA, discussed previously in this chapter, which protects workers 40 and older against discrimination. However, a large part of this movement is the desire to keep the experienced workers on board. "Seniority matters," says Marcie Pitt-Catsouphes, director of the Sloan Center on Aging & Work at Boston College.[65]

People with Disabilities

According to the U.S. Bureau of Labor Statistics, approximately 20 percent of the labor force possesses one or more disabilities.[66] Common disabilities include limited hearing or sight, limited mobility, mental or emotional deficiencies, and various nerve disorders. Such

disabilities limit the amount or kind of work a person can do or make its achievement unusually difficult. In jobs for which they are qualified, however, disabled workers do as well as unimpaired workers in terms of productivity, attendance, and average tenure. In fact, in certain high-turnover occupations, disabled workers have lower turnover rates. A DOL survey found that a majority of large businesses are hiring people with disabilities and discovering that costs for accommodations differ very little from those for the general employee population. In fact, the typical one-time expenditure is about $500, according the U.S. DOL's Office of Disability Employment Policy.[67] Further, once an employer hires one person with a disability, it is much more likely to hire other people with disabilities. Walgreens opened its second state-of-the-art distribution center in Windsor, Connecticut, designed specifically to employ people with disabilities. Its goal is to fill at least one-third of the available jobs with individuals with disabilities.[68] The goal may have a business sense because in a recent survey, 92 percent of respondents viewed companies that hire people with disabilities more favorably than they viewed companies that do not.[69]

Immigrants

Large numbers of immigrants from Asia and Latin America have settled in many parts of the United States. Some are highly skilled and well educated and others are only minimally qualified and have little education. They have one thing in common: an eagerness to work. They have brought with them attitudes, values, and mores particular to their home country cultures.

After the end of hostilities in Vietnam, Vietnamese immigrants settled along the Mississippi and Texas Gulf Coast. At about the same time, thousands of Thais fleeing the upheaval in Thailand came to the Boston area to work and live. New York's Puerto Rican community has long been an economic and political force there. Cubans who fled Castro's regime congregated in southern Florida, especially Miami. A flood of Mexicans and other Hispanics continues across the southern border of the United States. The Irish, the Polish, the Italians, and others who came here in past decades have long since assimilated into, and indeed became, the culture. Newer immigrants require time to adapt. Meanwhile, they generally take low-paying and menial jobs, live in substandard housing, and form enclaves where they cling to some semblance of the cultures they left.

Wherever they settle, members of these ethnic groups soon begin to become part of the regular workforce in certain occupations and break out of their isolation. They begin to adopt the English language and U.S. customs. They learn new skills and adapt old skills to their new country. Managers can place these individuals in jobs appropriate to their skills, with excellent results for the organization. As corporations employ more foreign nationals in this country, managers must work to understand the different cultures of their employees.

Foreign Workers

The H-1B employment visa brings in approximately 135,000 skilled foreign workers annually, including some 30,000 researchers and academicians not subject to the annual visa cap set by Congress. Of those 135,000, the majority are distributed to employers through a lottery system each April held by U.S. Citizenship and Immigration Services, an arm of the U.S. Department of Homeland Security. However, the exact number of H-1B visa holders is difficult to determine. A three-year initial visa can be renewed for another three years, and if a worker is on track for a green card, H-1B status can be renewed annually.

Until the recent recession, demand far outpaced supply, and companies constantly encouraged Congress to raise the cap. Many employers say the H-1B visa program provided the only practical avenue for finding high-tech workers with cutting-edge skills. Others do not agree, and there continues to be a debate regarding the hiring of foreign workers. Still, U.S. employers at both ends of the skills spectrum say they have no choice.

Young Persons, Some with Limited Education or Skills

A lower labor force participation rate for young people is being experienced for all those younger than 24 years of age and not merely young persons with limited education and skills, as was so often the case in the past. The recent recession denied many young workers the opportunity

of entering the workforce, so a large number decided to gain additional education to be more competitive.[70]

The downturn was especially harsh for 16- to 24-year olds when the unemployment rate was the highest recorded since the government began monitoring it in the 1940s. Even so, each year, thousands of young, unskilled workers are hired, especially during peak periods, such as holiday buying seasons. These workers generally have limited education, sometimes even less than a high school diploma. Those who have completed high school often find that their education hardly fits the work they are expected to do. Many of these young adults and teenagers have poor work habits; they tend to be tardy or absent more often than experienced or better-educated workers.

Although the negative attributes of these workers at times seem to outweigh the positive ones, they are a permanent part of the workforce. Certainly, when teenagers are hired, an organization is not hiring maturity or experience; but young people possess many qualities, such as energy, enthusiasm, excitement, and eagerness to prove themselves. There are many jobs they can do well. More jobs can be de-skilled, making it possible for lower-skilled workers to do them. A well-known example of de-skilling is McDonald's use of pictures on its cash register keys. Managers should also look for ways to train unskilled workers and to further their formal education.

Baby Boomers, Gen X, Gen Y, and Gen Z

Never in the history of the United States has so many different generations with such different views and attitudes been asked to work together. There have been tremendous changes since the boomers first entered the workplace. Each generation has its unique culture that has shaped its nature. Although generalizations about a group are risky, the following discussion may provide additional insight into each group. The discussion begins with baby boomers fully realizing that there remain some members of the *Silent Generation* in the workforce, those born during the Great Depression and World War II.[71]

baby boomers
People born just after World War II through the mid-1960s.

BABY BOOMERS **Baby boomers** were born just after World War II through the mid-1960s. Corporate downsizing in the 1980s and 1990s cast aside millions of baby boomers. Companies now want to keep the boomers. Employers seek out boomers because they bring a wealth of skills and experience to the workplace, as well as have low turnover rates and high engagement levels. Companies today place considerable value on their skill, experience, and a strong work ethic, characteristics that many boomers possess.[72]



HR BLOOPERS

Affirmative Action and Workforce Diversity

Anne Johnson is a newly hired human resources (HR) associate for Capitol Manufacturing Company. Her first assignment was to develop and propose a plan to increase the diversity of the company's workforce. Anne spent two weeks preparing her ideas and creating a presentation for the company's HR leadership team and department managers throughout the company. She started her presentation by saying that she is not a fan of jargon because it creates confusion. To that end, Anne told the audience "Diversity is just Affirmative Action with a new coat of paint." And she made a similar statement about the relationship between diversity and EEO. About workforce diversity and affirmative action, Anne claimed that both are enforced by the Fair Labor Standards Board. She went on to state that affirmative action, equal opportunity, and workforce diversity are numbers oriented and have little to do with the company's culture. All are simply aimed at changing the demographic composition of the workforce. Anne continued by telling the audience that ensuring EEO is nothing more than a marketing ploy. Finally, she concluded her presentation by saying that only the leadership of the HR and marketing departments within the company is responsible for promoting diversity, affirmative action, and EEO.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

Generation X
Label affixed to the 40 million U.S. workers born between the mid-1960s and late 1970s.

GENERATION X **Generation X** is the label affixed to the approximately 41 million U.S. workers born between the mid-1960s and late 1970s. Many organizations have a growing cadre of Generation X employees who possess lots of energy and promise. Ranjan Dutta, a director at PwC Saratoga said, "Gen X workers will be the largest part of the workforce for years to come, and increasingly make up senior leadership ranks in organizations."[73] They are one of the most widely misunderstood phenomena facing management today. Generation Xers differ from previous generations in some significant ways, including their natural affinity for technology and their entrepreneurial spirit. Job instability and the breakdown of traditional employer–employee relationships brought a realization to Generation Xers that it is necessary to approach the world of work differently from past generations.

Generation Xers recognize that their careers cannot be founded securely on a relationship with any one employer. They are skeptical, particularly when it comes to the business world and job security. They worry about their jobs being outsourced and how they are going to pay for their children's education. They think of themselves more as free agents in a mobile workforce and expect to build career security, not job security, by acquiring marketable skills and expertise. Gen Xers are focused on gaining transferrable skills so that they can be ready should they no longer have a job.[74] They are not afraid of changing jobs quite often. The surest way to gain Gen Xers' loyalty is to help them develop career security. When a company helps them expand their knowledge and skills, it is preparing them for the job market. Gen Xers will often want to stay on board to learn those very skills.

Generation Y
Comprises people born between the late 1970s and mid-1990s.

GENERATION Y **Generation Y** comprises people born between the late 1970s and mid-1990s. Estimates are that by 2016 Gen Yers (or Millennials) will account for nearly half of all employees worldwide.[75] They have never wound a watch, dialed a rotary phone, or plunked the keys of a manual typewriter. But without a thought, they download music from the Internet and insert pictures of events on Facebook. Kevin C. Carlson, CEO of Brill Street + Company said, "They may not have lots of experience in the traditional sense, but they've grown up with technology and social media, which are skills many companies look for today."[76] They cannot imagine how the world ever got along without computers. These individuals are the leading edge of a generation that promises to be the richest, smartest, and savviest ever. They are well educated, well versed in technology, and bursting with confidence.[77] Generation Yers—often referred to as the echo boomers, Millennials, and Nexters—are the coddled, confident offspring of post–World War II baby boomers. Generation Y individuals are a most privileged generation, who came of age during the hottest domestic economy in memory.

Gen Yers tend to have a strong sense of morality and civic-mindedness. They are more ethnically diverse than previous generations, and nearly one-third of them have been raised in single-parent households. They want a workplace that is both fun and rewarding. They want jobs where there is a balance between work and family. They want jobs that conform to their interests and do not accept the way things have been done in the past. Generation Y employees want flexible working hours, which is a benefit that they are very enthusiastic about. They also tend to have more of a sense of entitlement not found in other generation of workers. However, Gen Yers' childhoods have been short-lived because they have been exposed to some of the worst things in life: schoolyard shootings, drug use, terrorism, sex scandals, and war.

Generation Z or Digital Natives
Internet-assimilated children born between 1995 and 2009.

GENERATION Z OR DIGITAL NATIVES After Generation Y came **Generation Z or Digital Natives**, the Internet-assimilated children born between 1995 and 2009. Gen Zers are more worldly, high-tech, and confident in their ability to multitask; they tend to have short attention spans and desire speed over accuracy; and they enjoy media that provides live social interaction.[78] They tend to use social networks to avoid the complications of dealing with face-to-face situations. In a recent survey, almost 25 percent of respondents found their relationship with their significant other was over by first seeing it on Facebook.[79] Digital Natives do not trust politicians, social institutions, the media, or corporations. Rather, they rely largely on themselves and their peers to decide what to think, what to do, and what to buy. The main thrust of the book *2018: Digital Natives Grow Up and Rule the World* was that "Digital natives are protagonists for massive technology adoption and a consequent adaption of human

behavior."[80] Two Gen Zer children sitting in the back seat of the family car may now be texting each other instead of speaking with each other.

GENERATION ALPHA Some have suggested that the next generation, born from 2010 forward, will be called Generation Alpha. Although Generation Z is often referred to as the twenty-first-century generation, Generation Alpha will be the first true millennial generation, as they will be the first born into the twenty-first century.

Multigenerational Diversity

Four generations are now participating in the workforce and each has different defining characteristics and nicknames. The concept of generational differences as a legitimate workplace diversity issue has gained increasing recognition. Baby boomers are remaining on the job longer because of the economy and often find themselves working with Generation Y employees. Traditionally, discussions of workplace diversity tended to focus on topics of race, ethnicity, gender, sexual orientation, and disability. Shirley A. Davis, SHRM's director of diversity and inclusion initiatives, said, "In all parts of the world, there is another category of diversity that cannot be overlooked: multigenerational diversity."[81] Today, there are greater numbers of workers from each segment that bring both new opportunities and challenges. At time there are significant differences in communication style which has the potential to harm communication. Dana Brownlee, president of corporate training firm Professionalism Matters in Atlanta, Georgia said, "Typically the older generations prefer talking face-to-face or on the phone, and the younger generations tend toward text-based messages like email and instant message."[82] If organizations want to thrive in this competitive environment of global talent management, they need employees and managers who are aware of and skilled in dealing with the different generations that make up the workforce.

Lesbian, Gay, Bisexual, and Transgender Employees

There has been an increased focus in the political and workforce arena with regard to lesbian, gay, bisexual, and transgender (LGBT) employees. In addressing the United Nations General Assembly, President Barack Obama said, "No country should deny people their rights to freedom of speech and freedom of religion, but also no country should deny people their rights because of who they love, which is why we must stand up for the rights of gays and lesbians everywhere."[83] President Obama also decided that the 1996 Defense of Marriage Act that bars federal recognition of same-sex marriages was unconstitutional and told the Justice Department to stop defending the law in court, bringing harsh criticism from many congressional members.[84] This became a moot point because in 2013, the Supreme Court in its landmark decision voted 5–4 to strike down Section 3 of the act, which prohibited federal recognition of state-sanctioned, same-sex marriages.[85]

Nearly 90 percent of Americans favor equality of opportunity in the workplace. But the public remains virtually evenly divided on same-sex marriage. To date, 17 states have legalized same-sex marriage. Twenty-one states have passed some form of nondiscrimination law protecting gay and lesbian workers from sexual-orientation bias.[86] Houston's mayor signed an executive order protecting LGBT city employees "at every level of municipal government" from discrimination and harassment based on their sexual orientation.[87]

Many companies have policies supporting LGBT employees perhaps because of legal requirements. Other firms have policies to recruit and retain qualified employees no matter their sexual orientation.[88] Over the last decade, corporations have increasingly created a more-welcoming environment for LGBT employees. An estimated 86 percent of *Fortune 500* firms now ban discrimination on the basis of sexual orientation, up from 61 percent in 2002, and approximately 50 percent also ban discrimination against transsexuals, compared with 3 percent in 2002.[89] Nonetheless, surveys show that many LGBT employees still view their sexual orientation as a hindrance on the job, and approximately 48 percent of those surveyed remain "closeted" at work.[90] However, by 2013, 59 percent of gay workers reported they were "out" at work, a 7 percentage point increase from the previous year.[91]

Summary

1. ***Explain the concept of equal employment opportunity.*** Equal employment opportunity (EEO) refers to the principles and the set of laws and policies that requires all individuals' rights to equal opportunity in the workplace, regardless of race, color, sex, religion, national origin, age, or disability.
2. ***Identify the federal laws affecting equal employment opportunity.*** Major laws include the Civil Rights Act of 1866; Equal Pay Act (EPA) of 1963, amended in 1972; Lilly Ledbetter Fair Pay Act of 2009; Title VII of the Civil Rights Act of 1964, amended in 1972; Pregnancy Discrimination Act of 1978; Civil Rights Act of 1991; Age Discrimination in Employment Act (ADEA) of 1967, amended in 1978 and 1986; Rehabilitation Act of 1973; Americans with Disabilities Act (ADA) of 1990; Americans with Disabilities Act Amendments Act (ADAAA) of 2008; Immigration Reform and Control Act (IRCA) of 1986; the Uniformed Services Employment and Reemployment Rights Act (USERRA) of 1994; the Vietnam Era Veterans' Readjustment Assistance Act (VEVRAA) of 1974, as amended, and the Genetic Information Nondiscrimination Act (GINA) of 2008.
3. ***Discuss who is responsible for ensuring equal employment opportunity.*** The government and employers are responsible for ensuring EEO in the workplace. Two government agencies are charged with this responsibility: Equal Employment Opportunity Commission (EEOC) and the Office of Federal Contract Compliance Programs (OFCCP).
4. ***Define and operationalize the types of employment discrimination.*** With *disparate treatment*, an employer treats some people less favorably than others because of race, religion, sex, national origin, or age.

   Adverse impact occurs if women and minorities are not hired at the rate of at least 80 percent of the best-achieving group.
5. ***Define and discuss affirmative action.*** *Affirmative Action* creates the expectation and program requirements that companies make a positive effort to recruit, hire, train, and promote employees from groups who are underrepresented in the labor force. An *affirmative action program* is an approach that an organization with government contracts develops to demonstrate that women or minorities are employed in proportion to their representation in the firm's relevant labor market.
6. ***Explain the Uniform Guidelines related to illegal employment discrimination.*** The *Uniform Guidelines* adopted a single set of principles that were designed to assist employers, labor organizations, employment agencies, and licensing and certification boards to comply with requirements of federal law prohibiting employment practices that discriminated on the basis of race, color, religion, sex, and national origin. Employers have an affirmative duty to maintain a workplace free from sexual harassment. Discrimination on the basis of national origin is the denial of EEO because of an individual's ancestors or place of birth or because an individual has the physical, cultural, or linguistic characteristics of a national origin group. Employers have an obligation to accommodate religious practices unless they can demonstrate a resulting hardship. Caregiver (family responsibility) discrimination is discrimination against employees based on their obligations to care for family members.
7. ***Describe sexual harassment in the global environment.*** Sexual harassment was discussed in this chapter only as it pertained to the United States, but it is also a global problem. When individuals from two different cultures interact, there is a potential for sexual harassment problems. Some behaviors that violate U.S. cultural norms may not be perceived as a problem in another culture.
8. ***Describe the concept of diversity.*** *Diversity* refers to any perceived difference among people: age, race, religion, functional specialty, profession, sexual orientation, geographic origin, lifestyle, tenure with the organization, or position, and any other perceived difference.
9. ***Discuss the concept of diversity management.*** *Diversity management* is ensuring that factors are in place to provide for and encourage the continued development of a diverse workforce by melding these actual and perceived differences among workers to achieve maximum productivity.
10. ***Explain the elements of a diverse workforce.*** The workforce may include single parents and working mothers, women in business, mothers returning to the workforce, dual-career families, workers of color, older workers, people with disabilities, immigrants, foreign workers, young persons (some with limited education or skills), and multigenerational workers.

Key Terms

equal employment opportunity (EEO) 65
Affirmative Action 65
Uniform Guidelines 76
disparate treatment 76
adverse impact 77
executive order (EO) 78
affirmative action program (AAP) 78
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dual-career family 88
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Generation X 92
Generation Y 92
Generation Z or Digital Natives 92
glass ceiling 88

MyManagementLab®

Go to **mymanagementlab.com** to complete the problems marked with this icon ✪.

Exercises

✪ **3-1.** Many laws, court decisions, and EOs have had a profound effect on the composition of the workforce. It is highly likely that our economy would have ground to a halt without these additional workers. How might the demographic composition of your classroom be different if it was not for these laws, court decisions, and EOs?

3-2. During 2013, 400 people were hired for a particular job. Of the total, 300 were white and 100 were black. There were 1,200 qualified applicants for these jobs, of whom 800 were white and 400 were black. Does adverse impact exist? If adverse impact exists, what does this mean?

3-3. You are a HR manager with a large manufacturing firm that does a large portion of its business with the federal government with sales more than $1,000,000. Your application form asks the following questions: Marital Status, Height and Weight, Age, Sex, Occupation of Spouse, Education, Criminal Convictions, Plans to Have Children (if you are female), Handicaps, and Work Experience. Are any of these factors employment standards to avoid? Why? Discuss as appropriate.

3-4. You are the HR manager for a company that has recently received a federal contract in excess of $1 million. In conducting utilization analysis on your present workforce of operators you find that 10 percent of your workforce is black, whereas 30 percent of the workforce in the relevant labor market is black. According to Affirmative Action guidelines, what must be done to correct this difference?

Questions for Review

✪ **3-5.** What are the components that combine to make up the present diverse workforce? Briefly describe each.

3-6. Briefly describe the following laws:
(a) Civil Rights Act of 1866
(b) Equal Pay Act of 1963
(c) Lilly Ledbetter Fair Pay Act of 2009
(d) Title VII of the Civil Rights Act of 1964, as amended in 1972
(e) Pregnancy Discrimination Act of 1978
(f) Civil Rights Act of 1991
(g) Age Discrimination in Employment Act of 1967, as amended in 1978 and 1986
(h) Rehabilitation Act of 1973
(i) Americans with Disabilities Act of 1990
(j) Americans with Disabilities Act Amendments Act of 2008
(k) Immigration Reform and Control Act of 1986

(l) Uniformed Services Employment and Reemployment Rights Act of 1994
(m) Vietnam Era Veterans' Readjustment Assistance Act of 1974
(n) Genetic Information Nondiscrimination Act of 2008

3-7. Why have employee retaliation charges experienced a dramatic increase?
3-8. When were baby boomers, Generation X, Generation Y, and Generation Z born, and how they can work together in an organization?
3-9. What do we call the phenomenon that impedes women and minorities from career advancement?
3-10. What is the purpose of the *Uniform Guidelines on Employee Selection Procedures?*
3-11. What is the difference between disparate treatment and adverse impact?
3-12. How does the EEOC define sexual harassment?
3-13. How does the EEOC interpret the national origin guidelines?
3-14. What are some guidelines to follow with regard to religion-related discrimination?
3-15. What is meant by the term *caregiver discrimination?*
3-16. What is *underutilization*?
3-17. What is an affirmative action program?
3-18. How do countries other than the United States view sexual harassment?
3-19. Define *diversity* and *diversity management.*

INCIDENT 1 I Feel Great

Les Partain, manager of the training and development department for Gazelle Corporation, was 64 years old and had been with the firm for more than 30 years. For the past 12 years he had served as Gazelle's training and development manager and felt that he had been doing a good job. This belief was supported by the fact that during the past five years he had received excellent performance reports from his boss, LaConya Caesar, HR director.

Six months before Les's birthday, he and LaConya were enjoying a cup of coffee together. "Les," said LaConya, "I know that you're pleased with the progress our T&D section has made under your leadership. We're really going to miss you when you retire this year. You'll certainly live the good life because you'll receive the maximum retirement benefits. If I can be of any assistance to you in developing the paperwork for your retirement, please let me know."

"Gee, LaConya," said Les. "I really appreciate the good words, but I've never felt better in my life, and although our retirement plan is excellent, I figure that I have at least five more good years. There are many other things I would like to do for the department before I retire. I have some excellent employees, and we can get many things done within the next five years."

After finishing their coffee, both returned to their work. As LaConya left, she was thinking, "My gosh, I had no idea that character intended to hang on. The only reason I gave him those good performance appraisals was to make him feel better before he retired. He was actually only an average worker, and I was anxious to move a more aggressive person into that key job. We stand to lose several good people in that department if Les doesn't leave. From what they tell me, he's not doing too much of a job."

Questions

3-20. From a legal viewpoint, what do you believe LaConya can do regarding this situation? Discuss.
3-21. What actions should LaConya have taken in the past to avoid her current predicament?
3-22. What might occur if LaConya begins to evaluate Les in the manner she should likely have been doing all along?

INCIDENT 2 Gender Diversity: Change for the Better?

Talal Engineering Company (TEC) was founded early in the 21st century as a small, family-run business located in Dubai, United Arab Emirates (UAE). Many companies in this area are family-run, and some have grown significantly as the UAE has expanded into a global trading hub. TEC grew quickly, and soon the number of employees had grown to 75; the new recruits were mainly engineers, but also included some sales staff, clerical personnel, and project managers.

In 2007, Mr. Talal's daughter, Fatima, graduated from university and joined the company full-time. Fatima earned an undergraduate degree in engineering in the United States and received an MSci (engineering management) from a local university. Previously, she had completed an internship in a U.S. engineering company and had worked for TEC during vacations from college. Fatima was given increasing responsibility over the years.

In 2012, Fatima realized that she was still the only qualified female engineer in the company, and only 10 percent of TEC's employees were women, and they all work as clerks. She was also puzzled as to why there were no female managers within the company. Fatima submitted a diversity management program review to the founder and the other senior managers in TEC.

Several weeks later management considered the review, and Fatima found that the majority of them were against having a specific gender diversity program. The feedback she received was that it will be a waste of money to have such a program, that all jobs are open to both genders anyway, and that the company has been successful without it.

Questions

3-23. Explain why the senior managers may be against gender diversity in TEC.
3-24. Generally, what should the diversity management program be designed to accomplish?
3-25. According to diversity management, what are the benefits of introducing gender diversity to TEC?

MyManagementLab®

Go to **mymanagementlab.com** for the following Assisted-graded writing questions:

3-26. What is the purpose of the EEOC?

3-27. How do equal employment opportunity laws differ from diversity management?

Endnotes

Scan for Endnotes or go to www.pearsonglobaleditions.com/Mondy

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Part Two
Staffing

Chapter 4
Strategic Planning, Human Resource Planning, and Job Analysis

Chapter 5
Recruitment

Chapter 6
Selection



4 Strategic Planning, Human Resource Planning, and Job Analysis

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Describe the strategic planning process.
2. Explain the human resource planning process.
3. Describe forecasting requirements.
4. Summarize forecasting human resource availability.
5. Explain what a firm can do when either a shortage or surplus of workers exists.
6. Describe strategic succession planning in today's environment.
7. Describe the types of information required for job analysis and the reasons for conducting it.
8. Summarize the types of job analysis information.
9. Explain the various job analysis methods.
10. Describe the components of a job description.
11. Explain the Standard Occupational Classification (SOC) and the Occupational Information Network (O*NET)
12. Summarize job analysis for team members.
13. Explain how job analysis helps satisfies various legal requirements.
14. Describe what competencies and competency modeling are.
15. Summarize job design concepts.
16. Describe the importance of global talent management.

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Learn It

If your professor has chosen to assign this, go to **mymanagementlab.com** to see what you should particularly focus on and to take the Chapter 4 Warm-Up.

The tools we describe in this chapter and in Chapters 5 and 6 provide human resources (HR) professionals with a foundation to harness the capability of a company's human capital to its competitive advantage. Let's consider a metaphor to bring the opening sentence to life. Take, for example, your favorite hit movie or television show. Many factors contribute to the show's success, which we might measure as the size of enduring viewership and awards recognizing excellent talent. Perhaps three of the most important factors to determine whether a show will be successful are the story line, character development and scripts, and casting actors into roles.

From an HR standpoint, the story line can be thought of as a strategy to create a distinctive story that is unique from others, character development and scripts as job analysis and work flow, and casting requirements as HR planning. We take up these topics in this chapter.

OBJECTIVE **4.1**

Describe the strategic planning process.

Strategic Planning Process

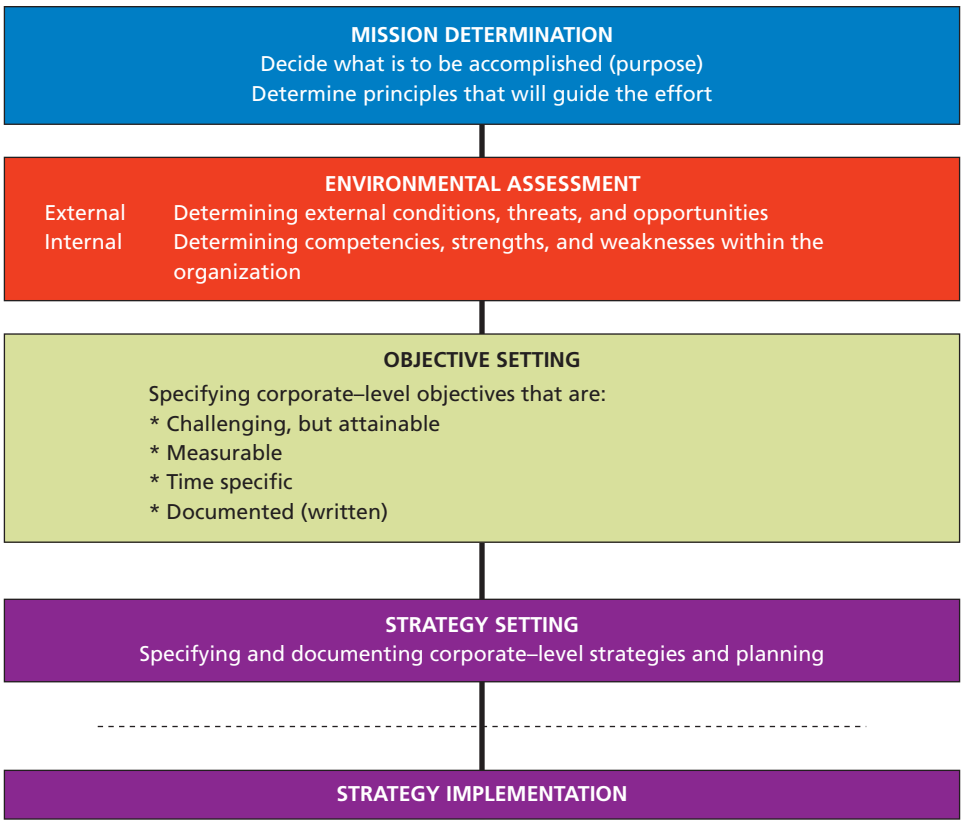
strategic planning
Process by which top management determines overall organizational purposes and objectives and how they are achieved.

As discussed in Chapter 1, HR executives are now focusing their attention on how HR can help the organization achieve its strategic objectives. Thus, HR executives are highly involved in the strategic planning process. In the past they often waited until the strategic plan was formulated before beginning **strategic planning**, which is the process by which top management determines overall organizational purposes and objectives and how they are achieved.

Strategic planning is an ongoing process that is constantly changing to find a competitive advantage. At times an organization may see the need to diversify and increase the variety of the



FIGURE 4-1
Strategic Planning Process



goods that are made or sold. At other times, downsizing may be required in response to the external environment. Or the strategic plan may see integration, the unified control of a number of successive or similar operations, as their driving force. Strategic planning attempts to position the organization in terms of the external environment. For example, the recent recession showed weakness in the marketplace for some firms, which led to lower company valuations, increased business failures, and firms spinning out or selling off their noncore business units. Forward-thinking companies found opportunities that were not available when business was booming, such as expanding their company through acquisition.[1] Companies always need to look for ways to stay competitive, gain market share, and be the first to innovate a new product or service.

Strategic planning at all levels of the organization can be divided into four steps: (1) determination of the organizational mission, (2) assessment of the organization and its environment, (3) setting of specific objectives or direction, and (4) determination of strategies to accomplish those objectives (see Figure 4-1). The strategic planning process described here is basically a derivative of the strengths, weaknesses, opportunities, and threats (SWOT) framework that affects organizational performance, but it is less structured.

Mission Determination

mission
Company's continuing purpose or reason for being.

The first step in the strategic planning process is to determine the corporate mission. The **mission** is a company's continuing purpose or reason for being. The corporate mission is the sum total of the organization's ongoing purpose. Arriving at a mission statement should involve answering questions such as: What are we in management attempting to do for whom? Should we maximize profit so shareholders will receive higher dividends or so share price will increase? Or should we emphasize stability of earnings so employees will remain secure? In the case of not-for-profit companies, is the focus on extending its humanitarian reach from tragic events in the United States to tragic events in other countries? Certainly, HR can provide valuable assistance in answering these questions.

There are many other mission possibilities. Mission determination also requires deciding on the principles on which management decisions will be based. Will the corporation be

socially responsible and environmentally friendly (sustainability)? Will the company be forthright in dealing with its various constituents such as its customers? The answers to these questions tend to become embedded in a corporate culture and help determine the organizational mission. Top management expects HR activities to be closely aligned to this mission and add value toward achieving these goals. The following is a part of General Mills' corporate mission:

Our mission at General Mills is Nourishing Lives—making lives healthier, easier and richer.

- *We make lives healthier with foods such as yogurt, soups, vegetables and whole grain breakfast cereals.*
- *We make lives easier with foods that are simple to prepare—we have hundreds of products that can be made in less than 15 minutes.*
- *And whether it's a cake for a child's birthday, a savory snack to help unwind after work or the trimmings for a holiday family meal, we make lives richer with foods to celebrate special moments.*[2]

General Mills also includes two additional objectives: environmental sustainability (Nourishing the Future) and community enhancement (Nourishing Communities). For instance, General Mills uses recycled materials for its product packaging and it regularly contributes money to K–8 education, respectively.

Environmental Assessment

Once the mission has been determined, the organization should assess its *strengths* and *weaknesses* in the internal environment and the *threats* and *opportunities* from the external environment (often referred as a SWOT analysis). Making strategic plans involves information flows from both the internal and the external environments. From inside comes information about organizational competencies, strengths, and weaknesses. Scanning the external environment allows organizational strategists to identify threats and opportunities, as well as constraints. In brief, the strategy would be to take advantage of the company's strengths and minimize its weaknesses to grasp opportunities and avoid threats. For example, social networking company LinkedIn can capitalize on the following opportunities, which include the growing adoption of LinkedIn's recruitment services among corporations, growing urbanization, changing attitudes toward employment, and increasing premium subscriptions.[3]

HR professionals can take advantage of LinkedIn technology and services by connecting to more candidates who subscribe to LinkedIn than would typically otherwise be the case for traditional recruitment methods such as career portals on corporate Web sites, campus hiring, recruitment agencies, and job boards. Also HR professionals are in the best position to identify workforce strengths and weaknesses. Should the company be considering, for instance, a merger or acquisition, HR would be able to work with top management to determine whether the present workforce can be effectively integrated into the workforce of the merged company. For example, does the workforce of the merged company improve the overall value of the company, or is there only duplication of talent? Any reorganization affects people and HR professionals must be in the forefront of people-related matters.

There are always threats that counterbalance opportunities. For example, LinkedIn faces at least two significant future threats.[4] Competitors such as Google and Facebook could challenge LinkedIn's success by offering similar services to customers such as mixing social networking with recruitment services. In addition, although LinkedIn has established a presence in Latin America, South America, and Asia-Pacific regions, the growth in average revenue per customer will be much lower than in the United States because of lower purchasing power of countries in these international regions.

LinkedIn's revenue challenges are relevant to the work of its HR professionals. In particular, research and development (R&D) costs and sales and marketing costs are likely to rise. R&D costs increase when a company is enhancing current services or developing new ones. In addition, sales and marketing costs stand to increase when a company is expanding its reach to prospective customers. These activities are likely to translate into stepped up recruitment efforts for software engineers and sales professionals. As well, establishing competitive compensation and benefits programs stand to represent a significant challenge.

In the following Watch It video, learn about iRobot, which is best known for the iRobot Roomba® vacuum cleaning robot. This product helped to change how people view robots. iRobot continues to develop robotic products to change the way customers include robots in their daily life. This video will provide an appreciation of SWOT analysis.

Watch It 1
If your instructor has assigned this, go to MyManagementLab to watch a video titled iRobot: Competitive Strategy of Home Robots and respond to questions.

Objective Setting

Objectives are the desired end results of any activity. Objectives should have four basic characteristics: (1) They should be expressed in writing, (2) they should be measurable, (3) they should be specific as to time, and (4) they should be challenging but attainable. Strategic objectives might be directed at factors such as profitability, customer satisfaction, financial returns, technological leadership, and operating efficiency. Objectives should be developed only after a cost–benefit analysis of each alternative is considered. Because HR professionals are in the people business, it is difficult to imagine any strategic objective that would not involve them in some manner, and the LinkedIn example illustrates this point.

Strategy Setting

Strategies can now be developed for accomplishing those objectives. Strategies should be developed to take advantage of the company's strengths and minimize its weaknesses to grasp opportunities and avoid threats. HR professionals should be highly involved in these activities because the composition of the workforce will certainly influence the strategies chosen. For the sake of illustration, let's consider two fundamental strategies: lowest cost and differentiation.

Lowest-cost strategy focuses on gaining competitive advantage by being the lowest-cost producer of a product or service within the marketplace, while selling the product or service at a price advantage relative to the industry average. Lowest-cost strategies require aggressive construction of efficient-scale facilities and vigorous pursuit of cost minimization in such areas as operations, marketing, and HR.

Ryanair, a low-cost commercial airline based in Ireland, is an excellent illustration of an organization that pursues a lowest-cost strategy because its management successfully reduced operations costs. At least four noteworthy decisions have contributed to Ryanair's goals. First, Ryanair's training and aircraft maintenance costs are lower than similar competitors' costs because the airline uses only Boeing 737 aircraft. Ryanair enjoys substantial cost savings because it does not need to buy different curricula for training flight attendants, mechanics, and pilots to learn about procedures specific to different aircraft makes (e.g., Boeing) and models (e.g., Boeing 747). Second, newer aircraft sport spartan seats that do not recline, have seat-back pockets, or have life jackets stowed under the seat (life jackets are stowed elsewhere on Ryanair planes). Not only does such seating cost less, but it also allows service personnel to clean aircraft more quickly, saving on labor costs. Third, Ryanair airplanes have one toilet to make room for additional passenger seats. Fourth, Ryanair passengers are required to carry their luggage to the plane, reducing the costs of baggage handling.

Companies adopt differentiation strategies to develop products or services that are unique from those of their competitors. Differentiation strategy can take many forms, including design or brand image, technology, features, customer service, and price. Differentiation strategies lead to competitive advantage through building brand loyalty among devoted consumers. Brand-loyal consumers are less sensitive to price increases, which enables companies to invest in R&D initiatives to further differentiate themselves from competing companies.

P&G Corporation manufactures, markets, and distributes a variety of consumer goods products, including dog food. This company successfully pursues a differentiation strategy based on brand image and price premiums. The company offers two separate dog food lines—Iams, a super-premium line that is nutritionally well balanced for dogs and that uses high-quality ingredients, and Eukanuba, an ultra-premium line that contains more chicken and vital nutrients than

the Iams line, as well as OmegaCOAT Nutritional Science (fatty acids), which promotes shiny and healthy coats. Together, the Iams and Eukanuba brands appeal to a substantial set of dog owners. The Iams Company distinguishes Eukanuba from Iams by claiming that Eukanuba delivers "Extraordinary Nutrition." The Eukanuba slogan is the company's basis for brand image. In addition to brand image, P&G also differentiates its Eukanuba line by charging a price premium. This price premium has enabled the Iams Company to be an innovator in canine nutrition by investing heavily in product R&D. Eukanuba was one of the first brands to offer several formulas to meet the needs of small, medium, and large breeds of dogs according to life stage, activity level, and particular health conditions.

In the following Watch It video, learn about the online retailer Zappos' competitive strategy. In many retail sectors, the goal is product differentiation to create brand-loyal customers and generate pricing power. Companies achieve differentiation through formulating and implementing competitive strategies that define how organizations will compete in their businesses. Zappo's strategy is to "be about the very best customer service."

Watch It 2
If your instructor has assigned this, go to MyManagementLab to watch a video titled Zappos: Competitive Strategy and respond to questions.

Employee Roles Associated with Competitive Strategies

Common wisdom and experience tell us that HR professionals must decide which employee roles are instrumental to the attainment of competitive strategies. Knowledge of these required roles should enable HR professionals to implement HR tactics that encourage their enactment of these roles. Of course, HR professionals are responsible for designing and implementing compensation tactics that elicit strategy-consistent employee roles. As we've noted in the introduction, job analysis is a critical tool used by HR professionals to define employee jobs; thus, the role behavior that is expected of them.

For the lowest-cost strategy, the imperative is to reduce output costs per employee. The desired employee roles for attaining a lowest-cost strategy include repetitive and predictable behaviors, a relatively short-term focus, primarily autonomous or individual activity, high concern for quantity of output, and a primary concern for results.

The key employees' roles for differentiation strategies include highly creative behavior, a relatively long-term focus, cooperative and interdependent behavior, and a greater degree of risk taking. Compared with lowest-cost strategies, successful attainment of differentiation strategies depends on employee creativity, openness to novel work approaches, and willingness to take risks. In addition, differentiation strategies require longer time frames to provide sufficient opportunity to yield the benefits of these behaviors.

Strategy Implementation

Once the strategic planning process is complete, the strategy must be implemented. Some people argue that strategy implementation is the most difficult and important part of strategic management. No matter how creative and well formulated the strategic plan, the organization will not benefit if it is incorrectly implemented. Strategy implementation requires changes in the organization's behavior, which can be brought about by changing one or more organizational dimensions, including management's leadership ability, organizational structure, information and control systems, production technology, and HR.[5]

LEADERSHIP A leader is able to get others to do what he or she wants them to do. Managers must influence organization members to adopt the behaviors needed for strategy implementation. Top-level managers seeking to implement a new strategy may find it useful to build coalitions and persuade others to go along with the strategic plan and its implementation. HR must take the leadership role in dealing with HR matters. Basically, leadership is used to encourage employees to adopt supportive behaviors, and when necessary, to accept the required new values and attitudes.

ORGANIZATIONAL STRUCTURE A company's organizational structure is typically illustrated by its organizational chart. The particular form of structure needed is determined by the needs of the firm. It may be informal and highly changeable in small, uncomplicated businesses. By contrast, large, diverse, and complex organizations usually have a highly formalized structure. But that should not mean the structure is so rigid that it does not change, perhaps even frequently. Newly formed high-tech companies are most likely to restructure or reorganize frequently, but even some of the largest *Fortune 500* industrial firms such as General Motors and Chrysler have experienced major reorganizations. Many variations of organizational structures are available for use today. HR should be in a good position to recommend the most effective structure needed by the organization.

INFORMATION AND CONTROL SYSTEMS Among the information and control systems are reward systems; incentives; objectives-oriented systems; budgets for allocating resources; information systems; and the organization's rules, policies, and implementations. Certainly, HR should be a valuable asset in developing and working with these systems. A proper mix of information and control systems must be developed to support the implementation of the strategic plan.

TECHNOLOGY The knowledge, tools, and equipment used to accomplish an organization's assignments comprise its technology. The appropriate level of technology must be found for proper implementation of the strategic plan. Certainly, technology is revolutionizing how organizations operate today. This is definitely the case for HR professionals.

HUMAN RESOURCES The HR functions must be properly aligned to successfully implement the strategic plan. HR will be central to understanding the future of an asset that is increasingly important to the organization—the intellectual and productive capacity of its workforce. In essence, a proper balance of HR must be developed to support strategy implementation. Once strategic planning has taken place, HR planning may be developed to help implement the strategic plan.

OBJECTIVE 4.2

Explain the human resource planning process.

Human Resource Planning

human resource planning
Systematic process of matching the internal and external supply of people with job openings anticipated in the organization over a specified period of time.

Human resource planning (workforce planning) is the systematic process of matching the internal and external supply of people with job openings anticipated in the organization over a specific period of time. Workforce planning has evolved from a knee-jerk planning undertaking to a fundamental strategic function. It includes business plan, HR data, and statistical analyses of those data. It is also incorporated into the business and financial planning process, so it provides a foundation for a plan that is aligned with the business strategy. As organizations exited the recent recession, there was evidence that they were becoming more focused on workforce planning. A recent poll found that 53 percent of the respondents conducted, or planned to conduct, a strategic workforce planning assessment to identify skills gaps.[6]

The HR planning process is illustrated in Figure 4-2. Note that strategic planning precedes HR planning. HR planning has two components: *requirements* and *availability*. A **requirements forecast** involves determining the number, skill, and location of employees the organization will need at future dates to meet its goals.

requirements forecast
Determining the number, skill, and location of employees the organization will need at future dates to meet its goals.

The determination of whether the firm will be able to secure employees with the necessary skills, and from what sources, is called an **availability forecast**.

availability forecast
Determination of whether the firm will be able to secure employees with the necessary skills, and from what sources.

When employee requirements and availability have been analyzed, the firm can determine whether it will have a surplus or shortage of employees. Ways must be found to reduce the number of employees if a surplus is projected. If a worker shortage is forecast, the firm must obtain the proper quantity and quality of workers from outside the organization. In this case, external recruitment and selection are required.

Because conditions in the external and internal environments can change quickly, the HR planning process must be continuous. Changing conditions could affect the entire organization, thereby requiring extensive modification to the forecasts. The recent recession provided a major challenge for some firms as they raced to develop a downsizing strategy. And, as the economy improved, plans were made to increase the size of the workforce.



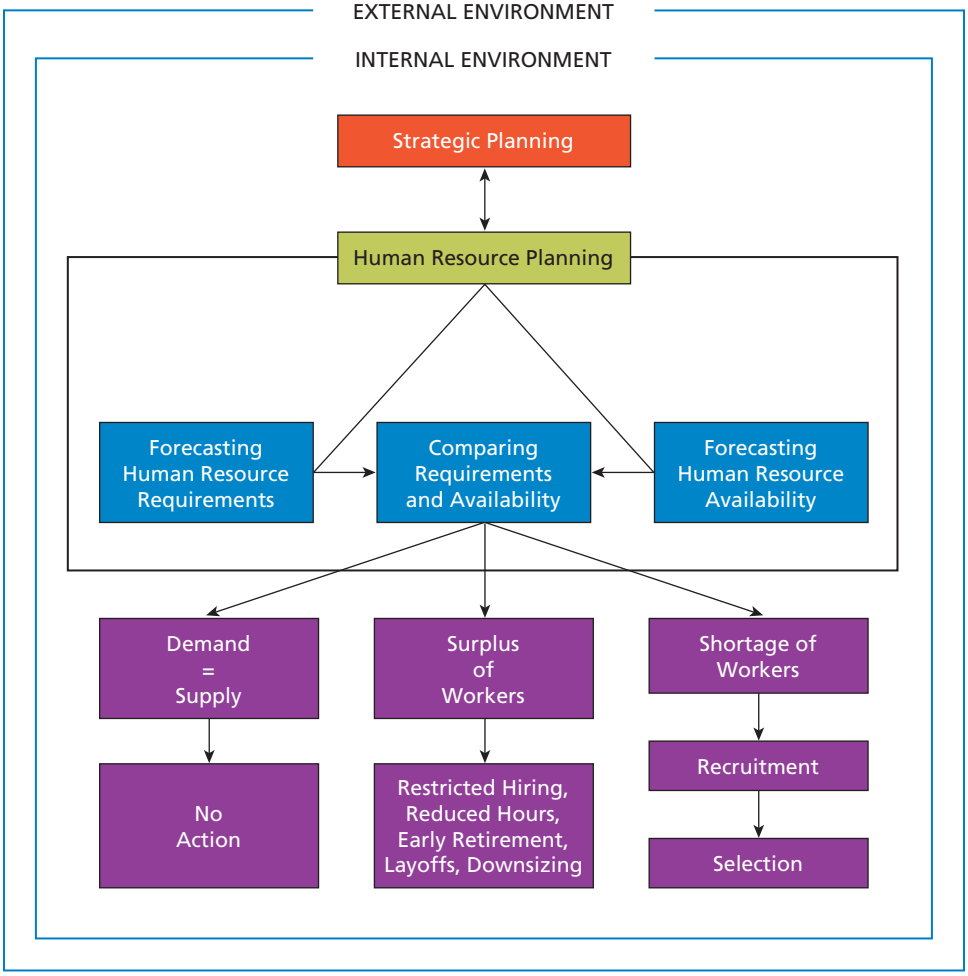
HR BLOOPERS

Workforce Planning at Master Cleaners

Master Cleaners provides residential cleaning services through more than 100 cleaning employees throughout their geographic area. As the HR manager hired just more than a year ago, Jack Potts has worked hard to establish many of their HR practices. As the company's first HR manager, Jack believes his primary responsibility is to make sure administrative processes are in place. He has been attending senior leadership meetings regarding the organization's strategy and knows there are some plans to expand into the commercial market. However, he hasn't paid much attention to those discussions because there is just too much work to do to get HR processes established. Now he's received a request from one of the cleaning managers about hiring 25 new commercial cleaners and he's worried about finding these new hires. The problem is that because the commercial cleaners must work at night after the office buildings are closed for the day, his current recruiting strategy won't necessarily work. Jack now must find experienced cleaners willing to work in the evening and that is a challenging task. Further, turnover is already high in the residential cleaning business. Exit interviews with employees who have quit suggest that they find the work tedious. Jack expresses his concerns about these staffing challenges to the cleaning manager. But the cleaning manager reminds him they have been talking about this expansion for a while and suggests that Jack should have been planning for this.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

FIGURE 4-2
The Human Resource Planning Process



OBJECTIVE 4.3

Describe forecasting requirements.

Forecasting Human Resource Requirements

Before HR requirements can be projected, demand for the firm's goods or services must be forecasted. This forecast is then converted into people requirements for the activities necessary to meet this demand. For a firm that manufactures personal computers, activities might be stated in terms of the number of units to be produced, number of sales calls to be made, number of vouchers to be processed, or a variety of other activities. For example, manufacturing 1,000 laptop computers each week might require 10,000 hours of work by assemblers during a 40-hour week. Dividing the 10,000 hours by the 40 hours in the workweek gives 250 assembly workers needed. Similar calculations are performed for the other jobs needed to produce and market the computers.

Several techniques for forecasting HR requirements are currently used. Some of the techniques are qualitative in nature, and others are quantitative.



HR Web Wisdom

HR Planning Organization

http://www.hrps.org

This is the Web site for the Human Resource Planning Society.

Zero-Base Forecast

zero-base forecast
Forecasting method that uses the organization's current level of employment as the starting point for determining future staffing needs.

The **zero-base forecast** uses the organization's current level of employment as the starting point for determining future staffing needs.

Essentially, the same procedure is used for HR planning as for zero-base budgeting, whereby each budget must be justified again each year. If an employee retires, is fired, or leaves the firm for any reason, the position is not automatically filled. Instead, an analysis is made to determine whether the firm can justify filling it. Equal concern is shown for creating new positions when they appear to be needed. The key to zero-base forecasting is a thorough analysis of HR needs. Frequently, the position is not filled and the work is spread out among remaining employees, as often is the case with firms that downsize. Plans may also involve outsourcing or other approaches as an alternative to hiring.

Bottom-Up Forecast

bottom-up forecast
Forecasting method in which each successive level in the organization, starting with the lowest, forecasts its requirements, ultimately providing an aggregate forecast of employees needed.

In the **bottom-up forecast**, each successive level in the organization, starting with the lowest, forecasts its requirements, ultimately providing an aggregate forecast of employees needed.

It is based on the reasoning that the manager in each unit is most knowledgeable about employment requirements. Beginning with the lowest-level work units in the organization, each unit manager makes an estimate of personnel needs for the period of time encompassed by the planning cycle. As the process moves upward in the company, each successively higher level of management in turn makes its own estimates of needs, incorporating the input from each of the immediately preceding levels. The result, ultimately, is an aggregate forecast of needs for the entire organization. This process is often highly interactive in that estimated requirements from the previous level are discussed, negotiated, and re-estimated with the next level of management as the forecast moves upward through the organization. The interactive aspect of managerial estimating is one of the advantages of this procedure because it forces managers to justify their anticipated staffing needs.

Relationship between Volume of Sales and Number of Workers Required

Historically, one of the most useful predictors of employment levels is sales volume. The relationship between demand and the number of employees needed is a positive one. As you can see in Figure 4-3, a firm's sales volume is depicted on the horizontal axis and the number of employees actually required is shown on the vertical axis. In this illustration, as sales decrease, so does the number of employees. Using such a method, managers can approximate the number of employees required at different demand levels. Quantitative methods such as regression analysis can be helpful in determining the number of workers needed.

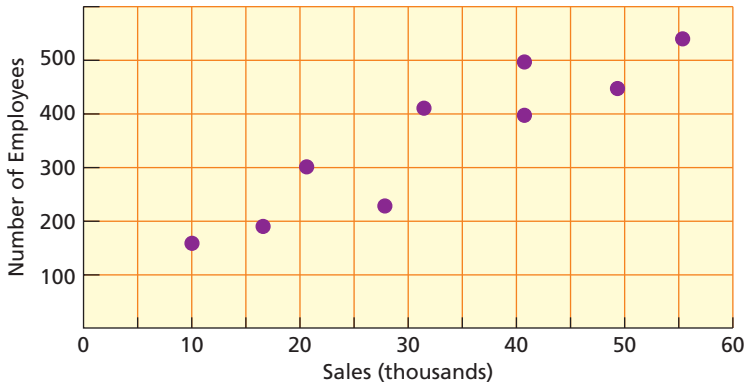
OBJECTIVE 4.4

Summarize forecasting human resource availability.

Forecasting Human Resource Availability

To forecast availability, the HR manager looks to both internal sources (current employees) and external sources (the labor market). The determination of whether the firm will be able to secure employees with the necessary skills, and from what sources, is an *availability forecast*. It helps to show whether the needed employees may be obtained from within the company,

FIGURE 4-3
Relationship of Sales Volume to Number of Employees



from outside the organization, or from a combination of the two sources. Another possibility is that the required skills are not immediately available from any feasible source. Consider the following example:

> *A large manufacturing firm on the West Coast was preparing to begin operations in a new plant. Analysts had already determined there was a large long-term demand for the new product. Financing was available and equipment was in place. But production did not begin for two years! Management had made a critical mistake: It had studied the demand side of HR but not the supply side. There were not enough qualified workers in the local labor market to operate the new plant. New workers had to receive extensive training before they could move into the newly created jobs.*

This illustration provides one more instance of the importance of HR involvement in strategic planning.

OBJECTIVE 4.5
Explain what a firm can do when either a shortage or surplus of workers exists.

Shortage or Surplus of Workers Forecasted

When firms are faced with a shortage of workers, organizations will have to intensify their efforts to recruit the necessary people to meet the needs of the firm. Some possible actions will be discussed next.

Registered nurses and other health-care occupations are expected to grow rapidly from 2012 to 2022. The employment of registered nurses is expected to grow 19 percent during this period,



ETHICAL DILEMMA

Which "Thinker" Should Go?

Your company is a leading producer of advanced microchips. You are the chief researcher in your firm's *think tank*, which consists of eight people with various specialties. Your group has generated most of the ideas and product innovations that have kept the company an industry leader for 10 years. In fact, the think tank has been so successful that another one has been organized to support the company's newest manufacturing operation on the West Coast. The individuals included in the new think tank have already been selected, but your boss has just assigned you the task of deciding who from your group of thinkers will head the new organization.

The person best qualified for the job is Tim Matherson. Tim is an MIT graduate, the informal team leader, and the individual who personally spearheaded three of the team's five most successful product advancements. However, if Tim is given the promotion, the void created by his leaving will be difficult to fill. On the other hand, the boss forced his nephew, Robert Jones, into your group. He is a sharp graduate of the local state university, but he is not a team player and he is always trying to push you around. You can either recommend Tim, illustrating that those who produce the most benefit the most, or you can recommend Robert, making the boss happy, getting rid of a problem, and, most important of all, keeping your best performer.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

which is faster than average for all occupations. According the U.S. Labor of Bureau of Statistics, multiple factors are contributing to increased demand for registered nurses:

> *Demand for healthcare services will increase because of the aging population, since older people typically have more medical problems than younger people. Nurses also will be needed to educate and to care for patients with various chronic conditions, such as arthritis, dementia, diabetes, and obesity. In addition, the number of individuals who have access to healthcare services will increase, as a result of federal health insurance reform. More nurses will be needed to care for these patients.*
>
> *The financial pressure on hospitals to discharge patients as soon as possible may result in more people admitted to long-term care facilities, outpatient care centers, and greater need for home healthcare. Job growth is expected in facilities that provide long-term rehabilitation for stroke and head injury patients, as well as facilities that treat people with Alzheimer's disease. In addition, because many older people prefer to be treated at home or in residential care facilities, registered nurses will be in demand in those settings.*
>
> *Growth is also expected to be faster than average in outpatient care centers where patients do not stay overnight, such as those that provide same-day chemotherapy, rehabilitation, and surgery. In addition, an increased number of procedures, as well as more sophisticated procedures previously done only in hospitals, are performed in ambulatory care settings and physicians' offices.*[7]

Job openings by major occupational group are expected to vary widely from 2012 to 2022. Two factors contribute to the expected values: Growth in a profession given demand (such as in the case of nursing) and company replacement needs, likely as employees retire or choose to work elsewhere. Figure 4-4 shows these projections for several occupational groups. The greatest growth in job openings is predicted to be in office and administrative support followed by sales and related occupations. The lowest growth is expected in the legal profession as well as in farming, fishing, and forestry.

Innovative Recruiting

A shortage of personnel often means that new approaches to recruiting must be used. The organization may have to recruit in different geographic areas than in the past, explore new methods, and seek different kinds of candidates. In using innovative recruiting, businesses must attempt to determine who their prospective employees are and what motivates them. For example, given the physical and emotional demands of the nursing profession, many organizations offer flexible work schedules, child care, and educational benefits. Other practices for other occupational groups may be required to attract employees to a firm, such as four-day workweeks (compressed workweeks), telecommuting, and part-time employment.

Compensation Incentives

Firms competing for workers in a high-demand situation may have to rely on compensation incentives. Premium pay is one obvious method; however, this approach may trigger a bidding war that the organization cannot sustain for an extended period. To offset the bidding war, some organizations use signing bonuses to entice individuals to join the firm. For example, the U.S. Army Corps offers a signing bonus up to $30,000 for individuals who join as nurses.[8]

Alternatives to Layoffs

Special training programs may be needed to prepare previously unemployable individuals for positions with a firm. Remedial education and skills training are two types of programs that may help attract individuals to a particular company. For example, a small firm in Los Angeles expanded its market by hiring people with few, if any, qualifications. The firm was willing to spend the necessary time and money needed to provide even basic training.

When a comparison of requirements and availability indicates that a worker surplus will result, most companies look to alternatives to layoffs but downsizing may ultimately be required. At times, layoffs can be a necessary cost-cutting measure. However, there are counterproductive problems associated with layoffs, such as increased turnover, especially among the best, most productive workers, and the creation of anxiety among remaining staff, resulting in lower morale, reduced

FIGURE 4-4

Job openings by major occupational group, projected 2012–2022, in thousands of openings

Source: Occupational Outlook Quarterly (Winter 2013–14): Page 9. Accessed February 23, 2014, at http://www.bls.gov/ooq.



worker engagement, and decreased productivity. Therefore, whenever financially feasible, firms need to look for alternatives to layoff and retain as many workers as possible.

One of the first alternatives to layoffs is to implement a restricted hiring policy that reduces the workforce by not replacing employees who leave. There are basically three forms of freezes. A *hard freeze* means that no new workers are hired to replace a vacated position. A *soft freeze* means that the company is only hiring to fill critical positions. New workers are hired only when the overall performance of the organization may be affected. A new term, *smart freeze* has entered HR vocabulary. HR and managers evaluate every position to determine the ones the company could not survive without and those that are difficult to fill and continue to hire them. Some companies might even lay off marginal workers in critical positions and seek more qualified workers to fill these positions.[9]

Early retirement is another way to reduce the number of workers. Some employees will be delighted to retire, but others will be somewhat reluctant. However, the latter may be willing to accept early retirement if the total retirement package is made sufficiently attractive. A tactic that is popular in the construction market is swapping employees. Some companies loan out staff to partner companies during slow times, while promising to hire back the workers when conditions improve. While the workers were away, they learned new skills and those left behind learned the skills to replace them.

Another alternative to layoffs is permitting an employee to go from full-time to 30 hours a week without losing health benefits.[10] Some companies may offer job-sharing arrangements. This arrangement can enable organizations to retain top talent in lieu of layoffs while having minimal impact on the overall labor budget. For example, employee benefits can be fairly managed on a

per-employee basis, as two 20-hour-a-week part timers may have comparably pro-rated, scaled back benefits. Other companies may reduce the workweek from five days to four thereby having a 20 percent reduction in wages. Some companies may offer an unpaid holiday option where instead of taking two weeks off, employees are being asked to take five, with three being unpaid.

The classic case of a firm that believes a no-layoff policy is best for continuous well-being of the firm is Cleveland's Lincoln Electric, a manufacturer of arc welding equipment. Lincoln Electric offers its Guaranteed Continuous Employment Plan, which provides covered employees with security against layoffs because of lack of work.[11] Since the 1930s, this $3 billion company has kept its promise to its U.S. employees to never lay them off for economic reasons. For decades, wages were 20 to 30 percent above industry averages. The firm believes that a stable workforce provides a long-term competitive advantage. In difficult times, hours are reduced, people are reassigned, and white-collar salaries are cut. As long as workers meet the firm's performance standards, no one is laid off.

The recession that began in 2007 created uncertainty, and job losses were prevalent in much of the media industry. Gawker Media founder Nick Denton faced difficult staffing choices because of the recession. Ultimately, they chose to hire new talent in growth areas of their business, but laid off employees assigned to underperforming areas of the business. The following Watch It video describes Gawker Media's efforts to make staffing decisions to the benefit of the company's long-term success.

Watch It 3
If your instructor has assigned this, go to MyManagementLab to watch a video titled Gawker Media: Personnel Planning and Recruiting and to respond to questions.

OBJECTIVE 4.6
Describe strategic succession planning in today's environment.

Succession Planning: A Component of Strategic Planning

succession planning
Process of ensuring that qualified persons are available to assume key managerial positions once the positions are vacant.

Succession planning is the process of ensuring that qualified persons are available to assume key managerial positions once the positions are vacant.

Nothing could be as important to the strategic well-being of a company as ensuring that a qualified person is in place to lead the company both now and in the future. This succession planning definition includes untimely deaths, resignations, terminations, or the orderly retirements of key managerial personnel. The goal is to help ensure a smooth transition and operational efficiency, but the transition is often difficult. The Institute for Corporate Productivity (i4cp) paper "Succession Planning Highlight Report" found that succession planning will be among the top five challenges executives face in the future.[12] However, in another survey, more than half of U.S. and Canadian companies surveyed could not immediately name a successor to their organization's chief executive officer.

General Electric (GE) provides an example of a company with an excellent succession plan. At GE the goal is same-day succession. When senior vice president Larry Johnston quit to become the CEO at Albertsons, the position was filled the same day. Bill Conaty, former senior vice president of HR at General Electric said, "We had candidates with two or three backups for all key positions—including the C-suite and all business units. And the board already knew who was lined up thanks to six-month reviews."[13] This process is in sharp contrast to the difficulty that Hewlett-Packard has experienced in the selection of a new CEO. HP has its third CEO in slightly more than a year[14] and its eighth CEO since 1999. [15]None of the former CEOs at HP had implemented a succession plan that would have at least identified internal candidates who were qualified to take over should the need arise.[16] This form of disruption can be a serious drain on both morale and the financial well-being of the firm.

Because of the tremendous changes that will confront management this century, succession planning is taking on more importance than ever before. Deaths are not the only challenges that have created an increased focus on succession planning. For example, the premature firing of CEOs is no longer a rare event. CEOs are being terminated more quickly than in the past.

In recent years, succession planning is going much deeper into the workforce. A firm might have a good succession plan for top-level positions but few plans for the levels where all the work is performed. There is a movement away from traditional succession planning, which was focused only on top executives of the company. Succession management is now involving middle managers, where they are developed to help ensure that key roles below the C-suite have ready replacements.[17] The succession plan needs to consider both external and internal candidates.

Succession planning is often neglected in small businesses because it is generally thought of in terms of replacing CEOs and key executives within larger businesses. But, succession planning is just as, or more, important for small businesses. A problem, however, is that only 31 percent of small business owners say their businesses are extremely or very prepared for such an event.[18] Without proper succession planning, the company could face economic and tax disasters. Often the small business owner's argument against succession planning may be "we're too small," "we're too new," "we have good people in place," or "I'm not going anywhere soon."[19] Many of today's small businesses will not survive to the next generation of same family ownership. In fact, it is estimated that only 30 percent of businesses make it to the second generation, and just 10 percent survive to the third generation.[20] Peter Handal, president, CEO, and chairman of Dale Carnegie Training, said, "The failure to establish a comprehensive succession plan is a leading cause of this phenomenon."[21]

OBJECTIVE 4.7

Describe the types of information required for job analysis and the reasons for conducting it.

Job Analysis: A Basic Human Resource Management Tool

job analysis
Systematic process of determining the skills, duties, and knowledge required for performing jobs in an organization.

Job analysis is the systematic process of determining the skills, duties, and knowledge required for performing jobs in an organization. With job analysis, the tasks needed to perform the job are identified. Traditionally, it is an essential and pervasive HR technique and the starting point for other HR activities. In today's rapidly changing work environment, the need for a sound job analysis system is critical. New jobs are being created, and old jobs are being redesigned or eliminated. A job analysis that was conducted only a few years ago may now be obsolete and must be redone. Some have even suggested that changes are occurring too fast to maintain an effective job analysis system.

job
Group of tasks that must be performed for an organization to achieve its goals.

position
Collection of tasks and responsibilities performed by one person.

A **job** consists of a group of tasks that must be performed for an organization to achieve its goals. A job may require the services of one person, such as that of the president, or the services of 75, as might be the case with machine operators in a large manufacturing firm. A **position** is the collection of tasks and responsibilities performed by *one* person; there is a position for every individual in an organization.

In a work group consisting of a supervisor, two senior analysts, and four analysts, there are three jobs and seven positions. A small company might have 25 jobs for its 75 employees, whereas in a large company 2,000 jobs may exist for 50,000 employees. In some firms, as few as 10 jobs may make up 90 percent of the workforce.

The purpose of job analysis is to obtain answers to six important questions:

1. What physical and mental tasks does the worker accomplish?
2. When is the job to be completed?
3. Where is the job to be accomplished?
4. How does the worker do the job?
5. Why is the job done?
6. What qualifications are needed to perform the job?

Job analysis provides a summary of a job's duties and responsibilities, its relationship to other jobs, the knowledge and skills required, and working conditions under which it is performed. Job facts are gathered, analyzed, and recorded, as the job exists, not as the job should exist.[22] Determining how the job should exist is most often assigned to industrial engineers, methods analysts, or others. Job analysis is conducted after the job has been designed, the worker has been trained, and the job is being performed.

Job analysis is performed on three occasions: (1) when the organization is founded and a job analysis program is initiated for the first time; (2) when new jobs are created; and (3) when jobs

are changed significantly as a result of new technologies, methods, procedures, or systems. Jobs also change when there is increased emphasis on teamwork in organizations, empowerment of employees, or other managerial interventions such as quality management systems. Job analysis is most often performed because of changes in the nature of jobs. From job analysis information, both job descriptions and job specifications can be prepared.

job description
Document that provides information regarding the essential tasks, duties, and responsibilities of a job.

job specification
A document that outlines the minimum acceptable qualifications a person should possess to perform a particular job.

The **job description** is a document that provides information regarding the essential tasks, duties, and responsibilities of the job. The minimum acceptable qualifications a person should possess to perform a particular job are contained in the **job specification**.[23] Both types of documents will be discussed in greater detail later in this chapter.

Reasons for Conducting Job Analysis

As Figure 4-5 shows, data derived from job analysis in the form of the job description/specification can have an impact on virtually every aspect of HR management.[24] In practice, both the job description and job specification are combined into one document with the job specification presented after the job description.

Staffing

All areas of staffing would be haphazard if the organization did not know the qualifications needed to perform the various jobs. A major use of job analysis data is found in HR planning (discussed later in this chapter). Merely knowing that the firm will need l000 new employees to produce goods or services to satisfy sales demand is insufficient. Each job requires different knowledge, skills, and ability levels. Obviously, effective HR planning must take these job requirements into consideration. Also, lacking up-to-date job descriptions and specifications, a firm would have to recruit and select employees for jobs without having clear guidelines, a practice that could have disastrous consequences.

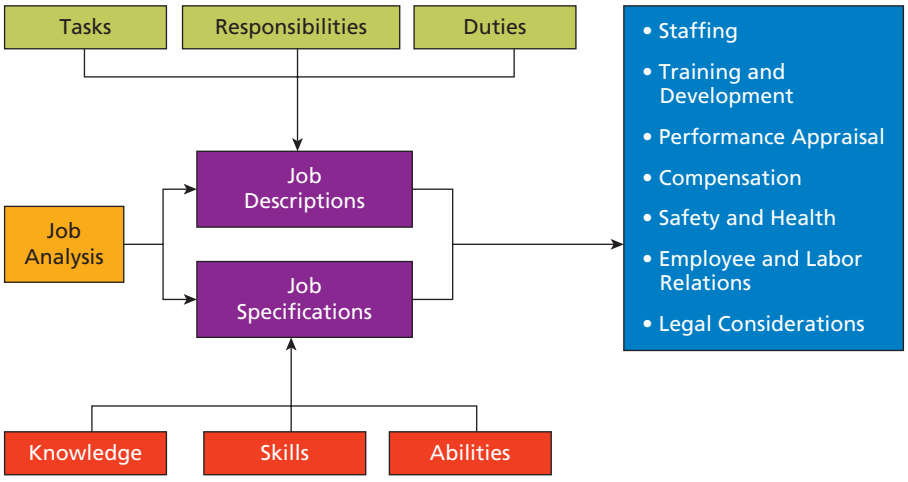
Training and Development

Job description information often proves beneficial in identifying training and development needs. If it suggests that the job requires a particular knowledge, skill, or ability, and the person filling the position does not possess all the qualifications required, training or development are probably in order. Training should be directed at assisting workers in performing duties specified in their present job descriptions or at developing skills for broader responsibilities.

Performance Appraisal

Most workers want to know what they are supposed to accomplish and good job descriptions provide that. Then, employees should be evaluated in terms of how well they accomplish the duties specified in their job descriptions and any other specific goals that may have been established. A manager who evaluates an employee on factors not clearly predetermined is left open to allegations of discrimination.

FIGURE 4-5
Job Analysis: A Basic Human Resource Management Tool



Compensation

In the area of compensation, it is helpful to know the relative value of a particular job to the company before a dollar value is placed on it. Jobs that require greater knowledge, skills, and abilities should be worth more to the firm. For example, the relative value of a job calling for a master's degree normally would be higher than that of a job that requires a high school diploma. This might not be the case if the market value of the job requiring only a high school diploma was higher, however. Such a situation occurred in a major West Coast city a number of years ago. It came to light that city sanitation engineers (garbage collectors) were paid more than better-educated public schoolteachers.

Safety and Health

Information derived from job analysis is also valuable in identifying safety and health considerations. For example, employers are required to inform workers when a job is hazardous. The job description/specification should reflect this condition. In addition, in certain hazardous jobs, workers may need specific information about the hazards to perform their jobs safely.

Employee and Labor Relations

Job analysis information is also important in employee and labor relations. When employees are considered for promotion, transfer, or demotion, the job description provides a standard for evaluation and comparison of talent. Information obtained through job analysis can often lead to more objective human resource decisions.

Legal Considerations

A properly prepared job analysis is particularly important for supporting the legality of employment practices. Before the equal employment opportunity movement in the early 1960s and 1970s, few firms had effective job analysis systems.[25] But the need to validate basic job requirements hastened the growth in the use of job analysis to prepare job descriptions/specifications. The importance of job analysis is well documented in the *Uniform Guidelines on Employee Selection Procedures*.[26] Job analysis data are needed to defend decisions involving termination, promotion, transfers, and demotions. Job analysis provides the basis for tying the HR functions together and the foundation for developing a sound HR program.

OBJECTIVE 4.8

Summarize the types of job analysis information.

Types of Job Analysis Information

Considerable information is needed for the successful accomplishment of job analysis. The job analyst identifies the job's actual duties and responsibilities and gathers the other types of data such as work activities; worker-oriented activities; machines, tools, equipment, and work aids used; and personal requirements. This information is used to help determine the job skills needed. In addition, the job analyst looks at job-related tangibles and intangibles, such as the knowledge needed, the materials processed, and the goods made or services performed. Essential functions of the job are determined in this process.

Some job analysis systems identify job standards. Work measurement studies may be needed to determine how long it takes to perform a task. With regard to job content, the analyst studies the work schedule, financial and nonfinancial incentives, and physical working conditions. Specific education, training, and work experience pertinent to the job are identified. Because many jobs are often performed in conjunction with others, organizational and social contexts are also noted. Subjective skills required, such as strong interpersonal skills, should be identified if the job requires the jobholder to be personable.

OBJECTIVE 4.9

Explain the various job analysis methods.

Job Analysis Methods

Job analysis has traditionally been conducted in a number of different ways because organizational needs and resources for conducting job analysis differ. Selection of a specific method should be based on the purposes for which the information is to be used (job evaluation, pay increases, development, and so on) and the approach that is most feasible for a particular organization. The historically most common methods of job analysis are discussed in the following sections.

Questionnaires

Questionnaires are typically quick and economical to use. The job analyst may administer a structured questionnaire to employees, who identify the tasks they perform. However, in some cases, employees may lack verbal skills, a condition that makes this method less useful. Also, some employees may tend to exaggerate the significance of their tasks, suggesting more responsibility than actually exists.

Observation

When using the observation method, the job analyst watches the worker perform job tasks and records his or her observations. This method is used primarily to gather information on jobs emphasizing manual skills, such as those of a machine operator. It can also help the analyst identify interrelationships between physical and mental tasks. Observation alone is usually an insufficient means of conducting job analysis, however, particularly when mental skills are dominant in a job. Observing a financial analyst at work would not reveal much about the requirements of the job.

Interviews

An understanding of the job may also be gained through interviewing both the employee and the supervisor. Usually, the analyst interviews the employee first, helping him or her describe the duties performed. Then, the analyst normally contacts the supervisor for additional information, to check the accuracy of the information obtained from the employee, and to clarify certain points.

Employee Recording

In some instances, job analysis information is gathered by having employees describe their daily work activities in a diary or log. With this method, the problem of employees exaggerating job importance may have to be overcome. Even so, valuable understanding of highly specialized jobs, such as recreational therapist, may be obtained in this way.

Combination of Methods

Usually an analyst does not use one job analysis method exclusively. A combination of methods is often more appropriate. In analyzing clerical and administrative jobs, the analyst might use questionnaires supported by interviews and limited observation. In studying production jobs, interviews supplemented by extensive work observations may provide the necessary data. Basically, the analyst should use the combination of techniques needed for accurate job descriptions/specifications.

Over the years, attempts have been made to provide more systematic methods of conducting job analysis. Several of these approaches are discussed in Table 4-1.

The person who conducts job analysis is interested in gathering data on what is involved in performing a particular job. The people who participate in job analysis should include, at a minimum, the employee and the employee's immediate supervisor. Large organizations may have one or more job analysts, but in small organizations line supervisors may be responsible for the task. Organizations that lack the technical expertise may use outside consultants to perform job analysis.

Regardless of the approach taken, before conducting job analysis, the analyst should learn as much as possible about the job by reviewing organizational charts and talking with individuals acquainted with the jobs to be studied. Before beginning, the supervisor should introduce the analyst to the employees and explain the purpose of the job analysis. Upon completion of the job analysis, two basic HR documents—job descriptions and job specifications—can be prepared. As previously mentioned, in practice, both the job description and job specification are combined into one document with the job specification presented after the job description.

OBJECTIVE 4.10

Describe the components of a job description.

Job Descriptions

Information obtained through job analysis is crucial to the development of job descriptions. It is vitally important that job descriptions are both relevant and accurate.[27] They should provide concise statements of what employees are expected to do on the job, how they do it, and the

TABLE 4-1

Other Methods Available for Conducting Job Analysis

Department of Labor Job Analysis Schedule

The U.S. Department of Labor established a method of systematically studying jobs and occupations called the job analysis schedule (JAS). When the JAS method is used, a trained analyst gathers information. A major component of the JAS is the Work Performed Ratings section. Here, what workers do in performing a job with regard to data (D), people (P), and things (T) is evaluated. Each is viewed as a hierarchy of functions, with the items higher in the category being more difficult. The codes in the worker functions section represent the highest level of involvement in each of the three categories.

The JAS component "Worker Traits Ratings" relates primarily to job requirement data. The topics general education designation (GED), specific vocational preparation (SVP), aptitudes, temperaments, interests, physical demands, and environmental conditions are included. The Description of Tasks section provides a specific description of the work performed. Both routine tasks and occasionally performed tasks are included.

Functional Job Analysis

Functional job analysis (FJA) is a comprehensive job analysis approach that concentrates on the interactions among the work, the worker, and the organization. This approach is a modification of the job analysis schedule. It assesses specific job outputs and identifies job tasks in terms of task statements.

Position Analysis Questionnaire

The position analysis questionnaire (PAQ) is a structured job analysis questionnaire that uses a checklist approach to identify job elements. It focuses on general worker behaviors instead of tasks. Some 194 job descriptors relate to job-oriented elements. Advocates of the PAQ believe that its ability to identify job elements, behaviors required of job incumbents, and other job characteristics makes this procedure applicable to the analysis of virtually any type of job. Each job descriptor is evaluated on a specified scale such as extent of use, amount of time, importance of job, possibility of occurrence, and applicability.

Each job being studied is scored relative to the 32 job dimensions. The score derived represents a profile of the job; this can be compared with standard profiles to group jobs into known job families, that is, job of a similar nature. In essence, the PAQ identifies significant job behaviors and classifies jobs. Using the PAQ, job descriptions can be based on the relative importance and emphasis placed on various job elements. The PAQ has been called one of the most useful job analysis methods.

Management Position Description Questionnaire

The management position description questionnaire (MPDQ) is a method of job analysis designed for management positions; it uses a checklist to analyze jobs. The MPDQ has been used to determine the training needs of individuals who are slated to move into managerial positions. It has also been used to evaluate and set compensation rates for managerial jobs and to assign the jobs to job families.

Guidelines-Oriented Job Analysis

The guidelines-oriented job analysis (GOJA) responds to the legislation affecting staffing and involves a step-by-step procedure to define the work of a particular job classification. It is also used for developing selection tools, such as application forms, and for documenting compliance with various legal requirements. The GOJA obtains the following types of information: (1) machines, tools, and equipment; (2) supervision; (3) contacts; (4) duties; (5) knowledge, skills, and abilities; (6) physical and other requirements; and (7) differentiating requirements.

conditions under which the duties are performed. Concise job descriptions put an end to the possibility of hearing "that's not my job." Among the items frequently included in a job description are these:

- Major duties performed
- Percentage of time devoted to each duty
- Performance standards to be achieved
- Working conditions and possible hazards
- Number of employees performing the job, and to whom they report
- The machines and equipment used on the job

Having accurate job descriptions is the starting point for most HR tasks. Table 4-2 provides some suggestions for the proper language to be used in job descriptions.

TABLE 4-2

Proper Language in the Job Description

Keep each statement in the job description crisp and clear:

- Structure your sentences in classic verb/object and explanatory phrases. Since the occupant of the job is your sentences' implied subject, it may be eliminated. For example, a sentence pertaining to the description of a receptionist position might read: "Greets office visitors and personnel in a friendly and sincere manner."
- Always use the present tense of verbs.
- If necessary, use explanatory phrases telling why, how, where, or how often to add meaning and clarity. For example: "Collects all employee time sheets on a biweekly basis for payroll purposes."
- Omit any unnecessary articles such as "a," "an," "the," or other words for an easy-to-understand description. Using the above example, the statement could have read, "Greets all visitors and the office personnel to the building in a friendly and a sincere manner."
- Use unbiased terminology. For example, use the 'he/she' approach or construct sentences in such a way that gender pronouns are not required.
- Avoid using words which are subject to differing interpretations. Try not to use words such as "frequently," "some," "complex," "occasional," and "several."

Source: http://www.sba.gov/content/writing-effective-job-descriptions

The contents of the job description vary somewhat with the purpose for which it will be used. The next sections address the parts of a job description.

Job Identification

The job identification section includes the job title, the department, the reporting relationship, and a job number or code. A good title will closely approximate the nature of the work content and will distinguish that job from others. Unfortunately, job titles are often misleading. An executive assistant in one organization may be little more than a highly paid clerk, whereas a person with the same title in another firm may practically run the company. For instance, one former student's first job after graduation was with a major tire and rubber company as an *assistant district service manager*. Because the primary duties of the job were to unload tires from trucks, check tread wear, and stack tires in boxcars, a more appropriate title would probably have been *tire checker and stacker*.

Date of the Job Analysis

The job analysis date is placed on the job description to aid in identifying job changes that would make the description obsolete. Some firms have found it useful to place an expiration date on the document. This practice ensures periodic review of job content and minimizes the number of obsolete job descriptions.

Job Summary

The job summary provides a concise overview of the job. It is generally a short paragraph that states job content.

Duties Performed

The body of the job description delineates the major duties to be performed. Usually, one sentence beginning with an action verb (such as *receives, performs, establishes,* or *assembles*) adequately explains each duty. Essential functions may be shown in a separate section to aid in complying with the Americans with Disabilities Act. An example of a job description/specification of a records clerk is shown in Figure 4-6.

Job Specification

Job specifications should always reflect the minimum, not the ideal qualifications for a particular job. Several problems may result if specifications are inflated. First, if specifications are set too high, they might systematically eliminate minorities or women from consideration for jobs. Therefore, the organization runs the risk of being charged with discrimination. Second, compensation costs

FIGURE 4-6
Job Description/ Specification Example

Administrative Information
Job Title: Records Clerk
Department: Loan Operations
Reports To: Loan Operation Manager
Job Number: 11

Date of Job Analysis
January 21, 2015

Expiration Date
January 2018

Job Summary
Returns all consumer paid loan documents to customers. Supervises the daily activities of two clerks.

Essential Functions Performed
Receives monthly files for accounts that have been paid in full and require the return of contracts, mortgage documents, auto titles, and other documents.

Answers telephone and e-mail inquiries from customers or loan officers concerning documents.

Maintains file on temporary automobile titles until permanent title is received.
Files permanent automobile titles, contracts, mortgage documents, and other documents in customer files on a daily basis.

Supervises two file clerks who maintain correspondence and other general files.

Performs file clerk duties as needed.

Performs other duties, as required, on a temporary basis, to maintain section or departmental operations and services.

Job Specifications

Education
High school diploma preferred, but not required
Experience
Six months or more in a financial institution and familiarity with various loan documents
Skills Required
Working knowledge of Microsoft Word and Excel
Ability to enter data at a rate of 35 words per minute

will increase because ideal candidates will have to be compensated more than candidates with lesser skills. Third, job vacancies will be harder to fill because ideal candidates are more difficult to find than minimally qualified candidates. Finally, including an unnecessary requirement in the job specification may actually keep really qualified applicants out of the selection pool.[28]

Determining the appropriate qualifications for a job is undoubtedly the most difficult part of job analysis. It requires a great deal of probing on the part of the job analyst as well as a broad understanding of the skills needed to perform varieties of work. Items typically included in the job specification are factors that are job related, such as educational requirements, experience, and job-related personality traits and physical abilities. As previously mentioned, in practice, job specifications are often included as a major section of job descriptions.

After jobs have been analyzed and the descriptions written, the results should be reviewed with the supervisor and the worker to ensure that they are accurate, clear, and understandable. The courtesy of reviewing results with employees also helps to gain their acceptance.

OBJECTIVE 4.11
Explain the Standard Occupational Classification (SOC) and the Occupational Information Network (O*NET).

Standard Occupational Classification (SOC) and the Occupational Information Network (O*NET)

The 2010 Standard Occupational Classification (SOC) system is used by federal statistical agencies to classify workers into occupational categories for the purpose of collecting, calculating, or disseminating data. All workers are classified into one of 840 detailed occupations according to

TABLE 4-3

Representative SOC Descriptions for HR Professionals

13-1071 Human Resources Specialists

Perform activities in the human resource area. Includes employment specialists who screen, recruit, interview, and place workers. Excludes "Compensation, Benefits, and Job Analysis Specialists" (13-1141) and "Training and Development Specialists" (13-1151).

Illustrative examples: *Staffing Coordinator, Personnel Recruiter, Human Resources Generalist*

11-3111 Compensation and Benefits Managers

Plan, direct, or coordinate compensation and benefits activities of an organization. Job analysis and position description managers are included in "Human Resource Managers" (11-3121).

Illustrative examples: *Wage and Salary Administrator, Employee Benefits Director, Compensation Director*

13-1141 Compensation, Benefits, and Job Analysis Specialists

Conduct programs of compensation and benefits and job analysis for employer. May specialize in specific areas, such as position classification and pension programs.

Illustrative examples: *Employee Benefits Specialist, Retirement Plan Specialist, Job Analyst*

11-3131 Training and Development Managers

Plan, direct, or coordinate the training and development activities and staff of an organization.

Illustrative examples: *Labor Training Manager, Employee Development Director, E-Learning Manager*

17-2111 Health and Safety Engineers, Except Mining Safety Engineers and Inspectors

Promote worksite or product safety by applying knowledge of industrial processes, mechanics, chemistry, psychology, and industrial health and safety laws. Includes industrial product safety engineers.

Illustrative examples: *Product Safety Engineer, Fire Protection Engineer, Industrial Safety Engineer*

Source: http://www.bls.gov/soc/2010/soc.



HR Web Wisdom

Standard Occupational Classification (SOC)

http://www.bls.gov/soc/2010/soc_alph.htm

Provides an alphabetical list of SOC occupations.

their occupational definition. To facilitate classification, detailed occupations are combined to form 461 broad occupations, 97 minor groups, and 23 major groups. Detailed occupations in the SOC with similar job duties, and in some cases skills, education, or training, are grouped together. The federal government updates job descriptions for all U.S. workers every 10 years. The 2010 SOC replaced the 2000 system. The SOC's substantive structural changes are based on actual changes in the nature or organization of work activities being performed in the economy. The update also provides an opportunity for professional organizations and labor groups to seek recognition or a higher profile for their members' occupations by gaining a separate listing or reclassification. Most current occupations will be unaffected except perhaps for a change in the description's wording. Some representative SOC descriptions for HR professionals may be seen in Table 4-3.[29]



HR Web Wisdom

*O*NET OnLine*

http://www.onetonline.org/

O*NET OnLine has detailed descriptions of the world of work for use by job seekers, workforce development and HR professionals, students, researchers, and more!

The Occupational Information Network (O*NET)

The Occupational Information Network (O*NET) is a comprehensive database of worker attributes and job characteristics, which is administered by the U.S. Department of Labor's Employment and Training Administration and developed in collaboration with a variety of private and public companies. It is the nation's primary source of occupational information. It is a flexible, easy-to-use database system that provides a common language for defining and describing occupations. Its flexible design also captures rapidly changing job requirements. It provides the essential foundation for facilitating career counseling, education, employment, and training activities by containing information about knowledge, skills, abilities; interests; general work activities; and work context.[30] Portions of the information included in an O*NET description for a Human Resources Specialist may be seen in Table 4-4.

OBJECTIVE **4.12**

Summarize job analysis for team members.

Job Analysis for Team Members

Historically, companies have established permanent jobs and filled these jobs with people who best fit the job description. The jobs then continued in effect for years to come. In many firms today, people are being hired as team members. Whenever someone asks a team member, "What

TABLE 4-4

Human Resources Specialist

Tasks

Prepare or maintain employment records related to events such as hiring, termination, leaves, transfers, or promotions, using human resources management system software.

Interpret and explain human resources policies, procedures, laws, standards, or regulations.

Hire employees and process hiring-related paperwork.

Inform job applicants of details such as duties and responsibilities, compensation, benefits, schedules, working conditions, or promotion opportunities.

Address employee relations issues, such as harassment allegations, work complaints, or other employee concerns.

Maintain current knowledge of Equal Employment Opportunity (EEO) and affirmative action guidelines and laws, such as the Americans with Disabilities Act (ADA).

Knowledge

Personnel and Human Resources—Knowledge of principles and procedures for personnel recruitment, selection, training, compensation and benefits, labor relations and negotiation, and personnel information systems.

English Language—Knowledge of the structure and content of the English language including the meaning and spelling of words, rules of composition, and grammar.

Clerical—Knowledge of administrative and clerical procedures and systems such as word processing, managing files and records, stenography and transcription, designing forms, and other office procedures and terminology.

Administration and Management—Knowledge of business and management principles involved in strategic planning, resource allocation, human resources modeling, leadership technique, production methods, and coordination of people and resources.

Skills

Active Listening—Giving full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times.

Speaking—Talking to others to convey information effectively.

Reading Comprehension—Understanding written sentences and paragraphs in work related documents.

Oral Comprehension—The ability to listen to and understand information and ideas presented through spoken words and sentences.

Oral Expression—The ability to communicate information and ideas in speaking so others will understand.

Written Comprehension—The ability to read and understand information and ideas presented in writing.

Source: http://online.onetcenter.org/

is your job description?" the reply might well be "Whatever." What this means is that if a project has to be completed, individuals do what has to be done to complete the task.

With team design, there are no narrow job descriptions. Today, the work that departments do is often bundled into teams. The members of these teams have a far greater depth and breadth of skills than would have been required in traditional jobs. Formerly, there might have been 100 separate job classifications in a facility. With team design, there may be just 10 or fewer broadly defined roles of teams. Another dimension is added to job analysis when teams are considered: Job analysis may determine how important it is for employees to be team players and work well in group situations.

Jobs are changing by getting bigger and more complex. The last duty shown on the job description, "And any other duty that may be assigned," is increasingly becoming *the* job description. This enlarged, flexible, complex job changes the way many tasks are performed. Managers cannot simply look for individuals who possess narrow job skills. They must go deeper and seek competencies, intelligence, ability to adjust, and ability and willingness to work in teams. Today more than ever, people go from project to project and from team to team. Job definitions become blurred, and titles become almost meaningless as job descriptions have become even more all-encompassing. Basically, what matters is what you know and how well you apply it to the business.

OBJECTIVE 4.13

Explain how job analysis helps satisfies various legal requirements.

Job Analysis and the Law

Effective job analysis is essential to sound HR management as an organization recruits, selects, and promotes employees. Although the law does not require that companies use job analysis, successful defense against claims of alleged violations of the following laws may depend on the appropriate use of job analysis:

- *Fair Labor Standards Act:* Employees are categorized as exempt or nonexempt, and job analysis is basic to this determination. Nonexempt workers must be paid time and a half when they work more than 40 hours per week. Overtime pay is not required for exempt employees.
- *Equal Pay Act:* If jobs are not substantially different, employees performing them must receive similar pay. When pay differences exist, job descriptions can be used to show whether jobs are substantially equal in terms of skill, effort, responsibility, and working conditions.
- *Civil Rights Act:* HR management has focused on job analysis because selection methods need to be clearly job related. Job descriptions may provide the basis for an equitable compensation system and an adequate defense against unfair discrimination charges in initial selection, promotion, and all other areas of HR administration. When job analysis is not performed, defending certain qualifications established for the job is usually difficult. In the *Griggs v. Duke Power Company* case, the company stated that supervisors must have a high school diploma. However, the company could show no business necessity for this standard. Placing a selection standard in the job specification without having determined its necessity through job analysis makes the firm vulnerable in discrimination suits.
- *Occupational Safety and Health Act:* Job descriptions are required to specify elements of the job that endanger health or are considered unsatisfactory or distasteful by the majority of the population. Showing the job description to the employee in advance is a good defense.
- *Americans with Disabilities Act (ADA)/ADA Amendments Act:* Employers are required to make reasonable accommodations for workers with disabilities who are able to perform the *essential functions* of a job and job analysis is needed to obtain this information. Key elements used to determine essential functions include physical skills, mental skills, job duties, and behavioral skills.[31] The EEOC defines *reasonable accommodation* as any modification or adjustment to a job, an employment practice, or the work environment that makes it possible for an individual with a disability to enjoy an equal employment opportunity. The ADA Amendments Act expands the definition of "disability" and many more applicants and employees are eligible for reasonable accommodations. Certainly stating that every task in a job is essential sends a red flag to the EEOC.[32]

OBJECTIVE 4.14

Describe what competencies and competency modeling are.

Competencies and Competency Modeling

competencies
An individual's capability to orchestrate and apply combinations of knowledge, skills, and abilities consistently over time to perform work successfully in the required work situations.

The term *competency* has become an increasingly important topic in HR practice because of the changing nature of work. Competencies build on the use of knowledge, skills, and abilities, which we describe with job analysis, to describe work. **Competencies** refer to an individual's capability to orchestrate and apply combinations of knowledge, skills, and abilities consistently over time to perform work successfully in the required work situations. Traditionally, as we have seen, work has been described by many dimensions including knowledge, skills, and abilities. Indeed, although this is largely still the case, HR professionals have embraced the ideas of competencies as the field has increasingly taken on strategic importance.

Oftentimes, HR professionals' identification of competencies is derived from an analysis of the overall strategic statements of companies. For example, GE emphasizes three strategic goals for corporate growth: Globalization, Product Services, and Six Sigma (quality improvement). GE's top management relies on four core competencies to drive business success, which they call the four "Es": high Energy, the ability to Energize others, Edge (i.e., the ability to make tough calls), and Execute (i.e., the ability to turn vision into results).

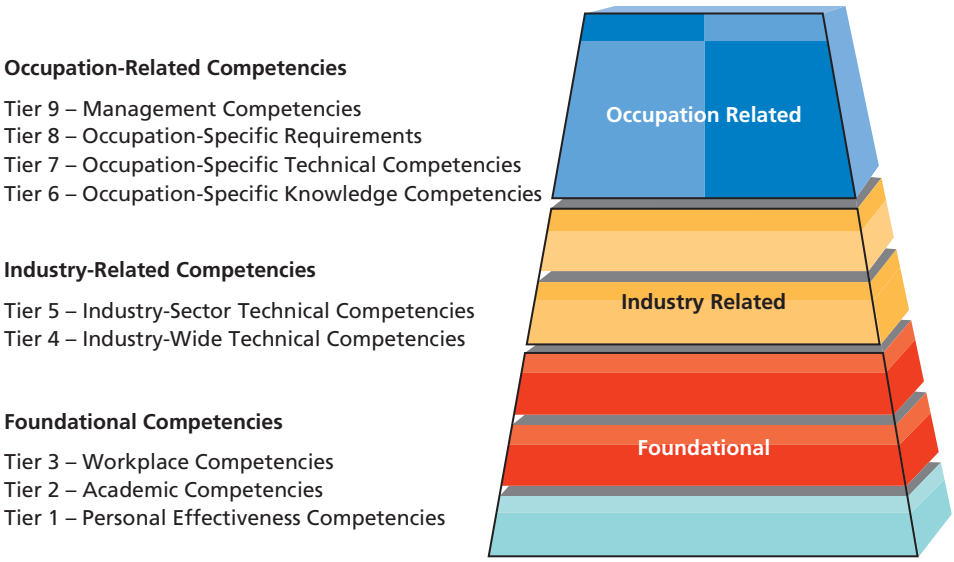
competency modeling
Specifies and defines all the competencies necessary for success in a group of jobs that are set within an industry context.

Apart from the work of many private consulting firms, the U.S. Department of Labor's Employment and Training Administration developed a framework for describing competencies and for building competency models. **Competency modeling** specifies and defines all the competencies necessary for success in a group of jobs that are set within an industry context. Figure 4-7 shows the basic framework for the Department of Labor's competency model structure. According to the U.S. Department of Labor:

FIGURE 4-7

U.S. Department of Labor Competency Model

Source: U.S. Department of Labor Employment and Training Administration, "Competency Model General Instructions," *CareerOneStop* (2014). Accessed January 5, 2014, at http://www.careeronestop.org/CompetencyModel/CareerPathway/CPWGenInstructions.aspx.



Foundational Competencies

At the base of the model, Tiers 1 through 3 represent competencies that provide the foundation for success in school and in the world of work. Foundational competencies are essential to a large number of occupations and industries. Employers have identified a link between foundational competencies and job performance and have also discovered that foundational competencies are a prerequisite for workers to learn industry-specific skills.

Industry-Related Competencies

The competencies shown on Tiers 4 and 5 are referred to as Industry Competencies and are specific to an industry or industry sector. Industry-wide technical competencies cut across industry subsectors making it possible to create career lattices where a worker can move easily across industry subsectors. Rather than narrowly following a single occupational career ladder, this model supports the development of an agile workforce.

Occupation-Related Competencies

The competencies on Tiers 6, 7, 8, and 9 are referred to as Occupational Competencies. Occupational competency models are frequently developed to define performance in a workplace, to design competency-based curriculum, or to articulate the requirements for an occupational credential such as a license or certification.[33]

Figure 4-8 illustrates an example of a competency model for Solar Photovoltaic Installers who work in the renewable energy industry. The lower tiers, from personal effectiveness competencies through industry-sector technical competencies, apply to most jobs within the renewable energy industry. Hydroelectric production managers and wind engineers are examples of jobs within this industry. The top tiers, in this case, management competencies and occupation-specific competencies, apply to one or more, but not all, jobs within this industry. Figure 4-8 lists sample management competencies and occupation-specific competencies for the solar photovoltaic installer job.

job design
Process of determining the specific tasks to be performed, the methods used in performing these tasks, and how the job relates to other work in an organization.

OBJECTIVE 4.15
Summarize job design concepts.

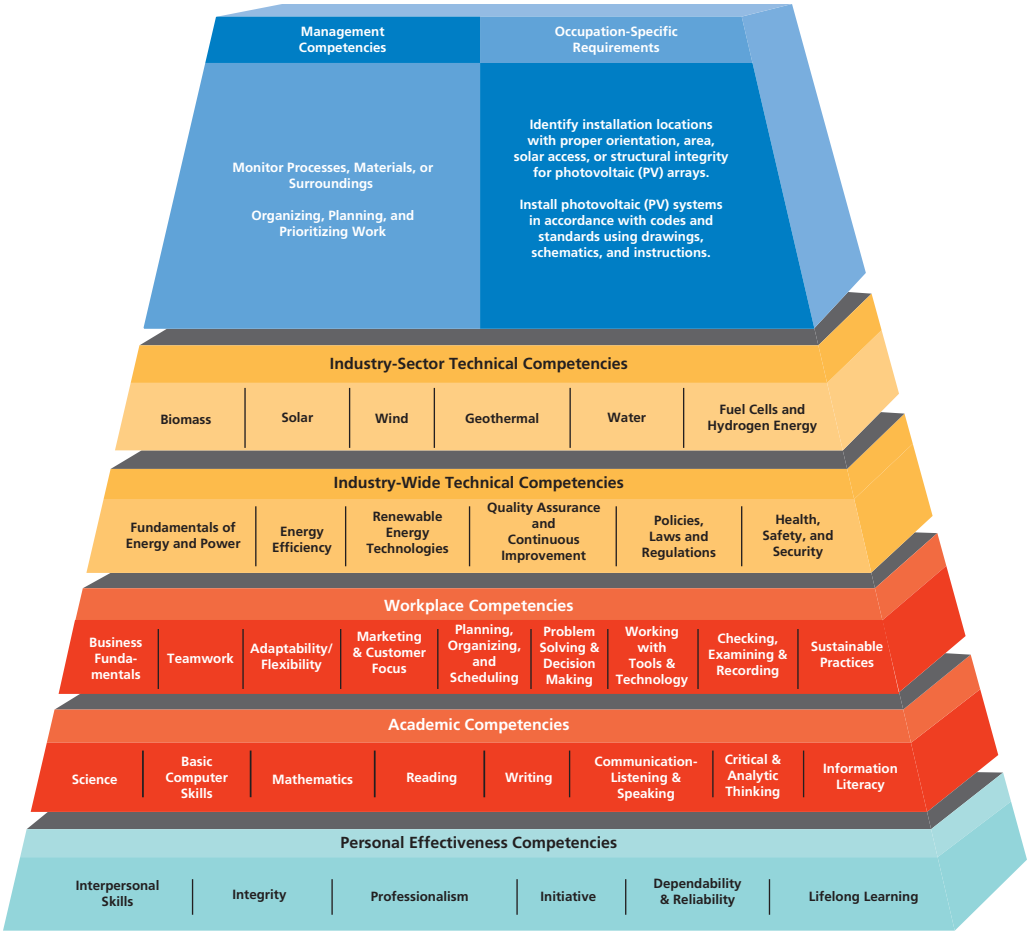
Job Design Concepts

We previously said that new jobs were being created at a rapid pace. If this is so, jobs have to be designed. **Job design** is the process of determining the specific tasks to be performed, the methods used in performing these tasks, and how the job relates to other work in the organization. Several concepts related to job design will be discussed next.

FIGURE 4-8

Renewable Energy Industry Competency Model

Source: U.S. Department of Labor Employment and Training Administration, "Renewable Energy," *CareerOneStop* (2014). Accessed January 5, 2014, at http://www.careeronestop.org/CompetencyModel/pyramid.aspx?RE=Y.



Job Enrichment

job enrichment
Changes in the content and level of responsibility of a job so as to provide greater challenges to the worker.

Strongly advocated by Frederick Herzberg, **job enrichment** consists of basic changes in the content and level of responsibility of a job so as to provide greater challenges to the worker. Job enrichment provides a vertical expansion of responsibilities.

The worker has the opportunity to derive a feeling of achievement, recognition, responsibility, and personal growth in performing the job. Although job enrichment programs do not always achieve positive results, they have often brought about improvements in job performance and in the level of worker satisfaction in many organizations. Today, job enrichment is moving toward the team level, as more teams become autonomous, or self-managed.

Job Enlargement

job enlargement
Increasing the number of tasks a worker performs, with all of the tasks at the same level of responsibility.

There is a clear distinction between job enrichment and job enlargement. **Job enlargement** is defined as increasing the number of tasks a worker performs, with all of the tasks at the same level of responsibility.

Job enlargement, sometimes called cross-training, involves providing greater variety to the worker. For example, instead of knowing how to operate only one machine, a person is taught to operate two or even three, but no higher level of responsibility is required. Workers with broad skills may become increasingly important as fewer workers are needed because of tight budgets. Some employers have found that providing job enlargement opportunities improves employee engagement and prevents stagnation.[34]

Job Rotation

job rotation
Moves workers from one job to another to broaden their experience.

Job rotation (cross-training) moves employees from one job to another to broaden their experience. Higher-level tasks often require this breadth of knowledge. Rotational training programs help employees understand a variety of jobs and their interrelationships, thereby improving

productivity. Job rotation is often used by organizations to relieve boredom, stimulate better performance, reduce absenteeism, and provide additional flexibility in job assignments. Also if the task to be accomplished is boring or distasteful, job rotation means that one person will not be stuck with it for all times.[35] Individuals who know how to accomplish more than one task are more valuable both to themselves and to the firm. Staffing then becomes more flexible and these multiskilled workers are then more insulated from layoffs.[36] If job rotation is to be effective, management must be sure to provide sufficient training so that each individual in the rotation can perform the task in a similar manner.[37]

Reengineering

reengineering
Fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service, and speed.

Reengineering is "the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed."[38]

Reengineering essentially involves the firm rethinking and redesigning its business system to become more competitive. It emphasizes the radical redesign of work in which companies organizes around process instead of by functional departments. Incremental change is not what is desired; instead, deep-seated changes are wanted that will alter entire operations at one time. Essentially, the firm must rethink and redesign its business system from the ground up.

Reengineering focuses on the overall aspects of job designs, organizational structures, and management systems. It stresses that work should be organized around outcomes as opposed to tasks or functions. Reengineering should never be confused with downsizing even though a workforce reduction often results from this strategy. Naturally, job design considerations are of paramount concern because as the process changes, so do essential elements of jobs. Through an initiative called Project Accelerate, Family Dollar reengineered its merchandising and supply chain processes to enable better performance by store teams. In doing so, it produced a new store layout that is easier and more convenient to shop.[39]

LG Electronics provides another example of how reengineering can work. LG management previously let each division deal with suppliers. That meant a procurement manager in Seoul did not know how much his counterpart at a flat-screen TV factory in Mexico paid for chips from the same company. Then Chief Executive Nam Yong decided to reengineer and rethink the company where managers seldom shared information. Today no one at LG can issue a purchase order without clearance from procurement engineering. By centralizing purchases, LG has cut more than $2 billion from its annual $30 billion purchases.[40]

Global Talent Management

OBJECTIVE 4.16
Describe the importance of global talent management.

talent management
Strategic endeavor to optimize the use of human capital, which enables an organization to drive short- and long-term results by building culture, engagement, capability, and capacity through integrated talent acquisition, development, and deployment processes that are aligned to business goals.

Talent management is a strategic endeavor to optimize the use of human capital, which enables an organization to drive short- and long-term results by building culture, engagement, capability, and capacity through integrated talent acquisition, development, and deployment processes that are aligned to business goals. Roger Cude, senior vice president of global talent management at Walmart Stores Inc., said through talent management, "Our leaders know what they're getting reviewed on and how they're getting calibrated on what's important but also where the business is heading."[41] Six key components of talent management include recruitment, compensation and rewards, performance management, succession management, engagement and retention, and leadership development.[42] Talent management attempts to ensure that the right person is in the right job at the right time. A fully integrated talent management system helps answer many questions that a CEO may ask, such as "Do I have the executive talent to lead an initiative?" or "How long before we have enough knowledge and skills within the organization for the initiative to take hold?" CEOs want assurance that they have the workers available to achieve their business goals, both now and in the future.[43] A recent study found that high-performing organizations tend to integrate talent management components more than low-performing organizations.[44] Companies such as GE, Unilever, PepsiCo, and Shell are known for their painstaking attention to talent management. But these companies are typically not the norm.[45]

Heath Williams, Plateau Systems' vice president, international sales, said, "Good talent management systems start with careful analysis not just of HR functions, but of the organization itself, including existing processes, long and short-term goals, the organization's competitive

position, culture and so on."[46] More and more companies are automating the talent management process into a single information system. At Chevron Corporation, Taryn Shawstad, general manager of global workforce development, works with a database of about 60,000 employees from approximately180 countries. She says, "In the past, we were siloed by country. Now, instead of looking at the United States or Indonesia or Nigeria, we can look across the globe at job families, capabilities, supply, and demand."[47]

According to an Ernst & Young report "Managing Today's Global Workforce," top-quality talent management is strongly associated with improved business performance. Companies that aligned talent management programs with their business strategy produced a return on investment (ROI) that was approximately 20 percent higher over a five-year period than companies without such an orientation. Companies that combined certain key elements of talent management such as succession planning and recruiting saw even more dramatic results. The ROI over a five-year period averaged being 38 percent higher than those that failed to integrate those capabilities.[48] Also a recent report from Bersin & Associates found that organizations in the United States with a mature, integrated talent management strategy enjoyed 17 percent lower voluntary turnover, 26 percent higher revenue-per-employee, and better business stability.[49] Basically, talent management exists to support company objectives. In today's dynamic international environment, talent management provides HR with a significant and demanding challenge. As Vic Speers, director of talent management at Hudson, a provider of talent management services worldwide, says, "The second war for talent is brewing. Young and talented employees are increasingly rare and firms are faced with an aging population where more people retire every year than join the workforce."[50] Organizations are finding it increasingly difficult to recruit quality talent because competitors want these same individuals.

The successful firms in this dynamic global environment will be the ones that have been successful at talent management.[51] Much has changed in the world today, and firms that move beyond the traditional approach to talent management will have the advantage.

Summary

1. ***Describe the need for the human resource manager to be a strategic partner, explain the strategic planning process, and describe the human resource planning process.*** If HR is to be a strategic partner, HR executives must work with top management in achieving concrete plans and results.

   Strategic planning is the process by which top management determines overall organizational purposes and objectives and how they will be achieved.

   Strategic planning at all levels of the organization can be divided into four steps: (1) determination of the organizational mission, (2) assessment of the organization and its environment, (3) setting of specific objectives or direction, and (4) determination of strategies to accomplish those objectives.

   Human resource planning (sometimes called workforce planning) is the systematic process of matching the internal and external supply of people with job openings anticipated in the organization over a specified period of time.

2. ***Describe forecasting human resource requirements and availability and how databases can assist in matching internal employees to positions.*** A *requirements forecast* is an estimate of the numbers and kinds of employees the organization will need at future dates to realize its goals. Determining whether the firm will be able to secure employees with the necessary skills and from what sources these individuals may be obtained is called an *availability forecast*.

   Databases are being used by organizations to enable human resources to match people with positions.

3. ***Identify what a firm can do when either a shortage or a surplus of workers exists and explain strategic succession planning in today's environment.*** When a shortage of workers exists, creative recruiting, compensation incentives, training programs, and different selection standards are possible. When a worker surplus exists, most companies look for alternatives to layoffs, but downsizing may ultimately be required.

Succession planning is the process of ensuring that qualified persons are available to assume key managerial positions once the positions are vacant.

4. ***Explain why job analysis is a basic human resource tool, and give the reasons for conducting job analysis.*** *Job analysis* is the systematic process of determining the skills, duties, and knowledge required for performing jobs in an organization. It is an essential and pervasive HR technique.

   Without a properly conducted job analysis, it would be difficult, if not impossible, to satisfactorily perform the other HR–related functions.

5. ***Describe the types of information required for job analysis and describe the various job analysis methods.*** Work activities, worker-oriented activities, and the types of machines, tools, equipment, and work aids used in the job are important. This information is used to help determine the job skills needed. In addition, the job analyst looks at job-related tangibles and intangibles.

   The job analyst may administer a structured questionnaire or witness the work being performed, or he or she may interview both the employee and the supervisor or ask them to describe their daily work activities in a diary or log. A combination of methods is often used.

6. ***Describe the components of a job description.*** Components include the job identification section, which includes the job title, department, reporting relationship, and a job number or code; the job analysis date; the job summary; and the body of the job description that delineates the major duties to be performed.

7. ***Explain Standard Occupational Classification (SOC), Occupational Information Network (O*NET), job analysis for team members, and describe how job analysis helps satisfy various legal requirements.*** The SOC's substantive structural changes are based on actual changes in the nature or organization of work activities being performed in the economy.

   O*NET, the Occupational Information Network, is a comprehensive, government-developed database of worker attributes and job characteristics.

   In many firms today, people are being hired as team members. Whenever someone asks a team member, "What is your job description?" the reply might well be "Whatever."

   Legislation requiring thorough job analysis includes the following acts: Fair Labor Standards Act, Equal Pay Act, Civil Rights Act, Occupational Safety and Health Act, and the Americans with Disabilities Act (ADA)/ADA Amendments Act.

8. ***Discuss the relevance of competencies and competency modeling.*** The term *competency* has become an increasingly important topic in HR practice because of the changing nature of work. Competencies build on the use of knowledge, skills, and abilities, which we describe with job analysis, to describe work. Competencies refer to an individual's capability to orchestrate and apply combinations of knowledge, skills, and abilities consistently over time to perform work successfully in the required work situation. A competency model specifies and defines all the competencies necessary for success in a group of jobs that are set within an industry context.

9. ***Explain some job design concepts.*** *Job design* is the process of determining the specific tasks to be performed, the methods used in performing the tasks, and how the job relates to other work in the organization. *Job enrichment* consists of basic changes in the content and level of responsibility of a job so as to provide greater challenge to the worker. *Job enlargement* is increasing the number of tasks a worker performs, with all of the tasks at the same level of responsibility. *Job rotation* (sometimes called cross-training) moves employees from one job to another to broaden their experience. *Reengineering* is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed.

10. ***Describe the importance of global talent management.*** *Talent management* is a strategic endeavor to optimize the use of human capital, which enables an organization to drive short- and long-term results by building culture, engagement, capability, and capacity through integrated talent acquisition, development, and deployment processes that are aligned to business goals.

Key Terms

strategic planning 101
mission 102
human resource planning 106
requirements forecast 106
availability forecast 106
zero-base forecast 108
bottom-up forecast 108
succession planning 112
job analysis 113
job 113
position 113
job description 114
job specification 114
competencies 122
competency modeling 122
job design 123
job enrichment 124
job enlargement 124
job rotation 124
talent management 125
reengineering 125

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Exercises

4-1. Prepare a job specification for each of the following jobs:
a. social media recruiter
b. automobile mechanic for Lexus dealership
c. chef for an upscale restaurant
d. cook at Burger King

✪ **4-2.** The section titled "Alternatives to Layoffs" suggests that layoffs should only be used as a last alternative. Do you agree that alternatives should only be used as a desperate measure? Be prepared to defend your decision.

Questions for Review

4-3. What are the steps involved in the strategic planning process?
4-4. What are the steps involved in the HR planning process?
4-5. What are the HR forecasting techniques?
4-6. What is the role of HR in environmental assessment as part of the strategic planning process?
4-7. What are the purposes of strategic planning?
✪ **4-8.** What actions could a firm take if it forecasted a shortage of workers?
✪ **4-9.** What are some alternatives to layoffs?
4-10. Why is succession planning important for small businesses?
4-11. What is the distinction between a job and a position? Define job analysis.
4-12. How can a firm determine whether it will have a shortage or surplus of employees?
4-13. What are the types of information required for job analysis?
4-14. What is a job specification?
4-15. What are the basic components of a job description? Briefly describe each.
4-16. What is the purpose of the Standard Occupational Classification (SOC)?
4-17. What are the tasks of a human resources specialist?
✪ **4-18.** What is meant by the statement "With team design, there are no narrow jobs"?
4-19. Describe how effective job analysis can be used to satisfy each of the following statutes:
(a) Fair Labor Standards Act
(b) Equal Pay Act
(c) Civil Rights Act
(d) Occupational Safety and Health Act
(e) Americans with Disabilities Act (ADA)/ADA Amendments Act
4-20. Why is competency modeling an important practice?
4-21. Define each of the following:
(a) Mission
(b) Job description
(c) Objective settings
(d) Competencies
(e) Reengineering
✪ **4-22.** Why is the use of *talent management* so important in today's environment?

INCIDENT 1 A Degree for Meter Readers

Judy Anderson was assigned as a recruiter for South Illinois Electric Company (SIE), a small supplier of natural gas and electricity for Cairo, Illinois, and the surrounding area. The company had been expanding rapidly, and this growth was expected to continue. In January 2014, SIE purchased the utilities system serving neighboring Mitchell County. This expansion concerned Judy. The company workforce had increased by 30 percent the previous year, and Judy had struggled to recruit enough qualified job applicants. She knew that new expansion would intensify the problem.

Judy was particularly concerned about meter readers. The tasks required in meter reading are relatively simple. A person drives to homes served by the company, finds the gas or electric meter, and electronically records its current reading. If the meter has been tampered with, it is reported. Otherwise, no decision making of any consequence is associated with the job. The reader performs no calculations. The pay was $10.00 per hour, high for unskilled work in the area. Even so, Judy had been having considerable difficulty keeping the 37 meter reader positions filled.

Judy was thinking about how to attract more job applicants when she received a call from the HR director, Sam McCord. "Judy," Sam said, "I'm unhappy with the job specification calling for only a high school education for meter readers. In planning for the future, we

need better-educated people in the company. I've decided to change the education requirement for the meter reader job from a high school diploma to a college degree."

"But, Mr. McCord," protested Judy, "the company is growing rapidly. If we are to have enough people to fill those jobs we just can't insist that college graduates get paid to do such basic tasks. I don't see how we can meet our future needs for this job with such an unrealistic job qualification."

Sam terminated the conversation abruptly by saying, "No, I don't agree. We need to upgrade all the people in our organization. This is just part of a general effort to do that. Anyway, I cleared this with the president before I decided to do it."

Questions

4-23. Should there be a minimum education requirement for the meter reader job? Discuss.

4-24. What is your opinion of Sam's effort to upgrade the people in the organization?

4-25. What legal ramifications, if any, should Sam have considered?

4-26. Based on the information provided in this incident, what tasks would likely be included in the "Duties Performed" section? How would this affect the job specification section?

INCIDENT 2 Strategic HR?

Brian Charles, the vice president of marketing for Sharpco Manufacturing, commented at the weekly executive directors' meeting, "I have good news. We can get the large contract with Medord Corporation. All we have to do is complete the project in one year instead of two. I told them we could do it."

Charmagne Powell, vice president of HR, brought Brian back to reality by reminding him, "Remember the strategic plan we were involved in developing and we all agreed to? Our present workers do not have the expertise required to produce the quality that Medord's particular specifications require. Under the two-year project timetable, we planned to retrain our present workers gradually. With this new time schedule, we will have to go into the job market and recruit workers who are already experienced in this process. We all need to study your proposal further. HR costs will rise considerably if we attempt to complete the project in one year instead of two. Sure, Brian, we can do it, but with these constraints, will the project be cost effective?"

Questions

4-27. Was Charmagne considering the strategic nature of HR planning when she challenged Brian's "good news" forecast? Discuss.

4-28. How did the involvement in developing the corporate strategic plan assist Charmagne in challenging Brian?

4-29. Strategic planning at all levels of the organization can be divided into four steps. Which step in the strategic planning process did Brian violate?

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Go to **mymanagementlab.com** for the following Assisted-graded writing questions:

4-30. Why is job analysis considered to be a basic HR tool?

4-31. Why does the HR manager need to be a strategic partner with top management?

Endnotes

Scan for Endnotes or go to www.pearsonglobaleditions.com/Mondy

5 Recruitment

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Define *recruitment*.
2. Describe the recruitment process.
3. Explain internal recruitment methods.
4. Identify external recruitment sources.
5. Explain recruiting technology.
6. Identify traditional external recruitment methods.
7. Describe how recruitment methods and sources are tailored to each other.
8. Summarize the environment of recruitment.
9. Describe alternatives to recruitment.
10. Explain the global implications for recruitment.

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OBJECTIVE 5.1

Define *recruitment*.

Recruitment Defined

recruitment
Process of attracting individuals on a timely basis, in sufficient numbers, and with appropriate qualifications to apply for jobs with an organization.

Recruitment is the process of attracting individuals on a timely basis, in sufficient numbers, and with appropriate qualifications to apply for jobs with an organization. The firm may then select those applicants with qualifications most closely related to job descriptions. Finding the appropriate way of encouraging qualified candidates to apply for employment is extremely important, however, because recruiting costs can be expensive. Thus, a properly functioning recruiting program can have a major impact on the bottom line of a company.

The recruitment process is critical because employees quickly become either assets or liabilities based on how they contribute to the value of the company.[1] How many times have we heard CEOs state, "Our employees are our most important asset"? Instead they should be saying, "The right employees are our most important asset." Hiring the best people available has never been more critical than it is today because of the economy and global competition. A company's ability to recruit and manage talent has become the measure for the overall health and longevity of the organization.[2] It is estimated that just the cost of replacing an employee alone when a bad decision is made is two to three times the employee's annual salary. Therefore, it is crucial to have a finely tuned recruitment process if the selection process is to function properly.

OBJECTIVE 5.2

Describe the recruitment process.

Recruitment Process

employee requisition
Document that specifies job title, department, the date the employee is needed for work, and other details.

When human resource planning indicates a need for employees, the firm may evaluate alternatives to hiring (see Figure 5-1). Frequently, recruitment begins when a manager initiates an **employee requisition**, a document that specifies job title, department, the date the employee is needed for work, and other details. With this information, managers can refer to the appropriate job description to determine the qualifications the recruited person needs.

The next step in the recruitment process is to determine whether qualified employees are available within the firm (the internal source) or if it is necessary to look to external sources, such as colleges, universities, and other organizations. Because of the high cost of recruitment, organizations need to use the most productive recruitment sources and methods available.

recruitment sources
Where qualified candidates are located.

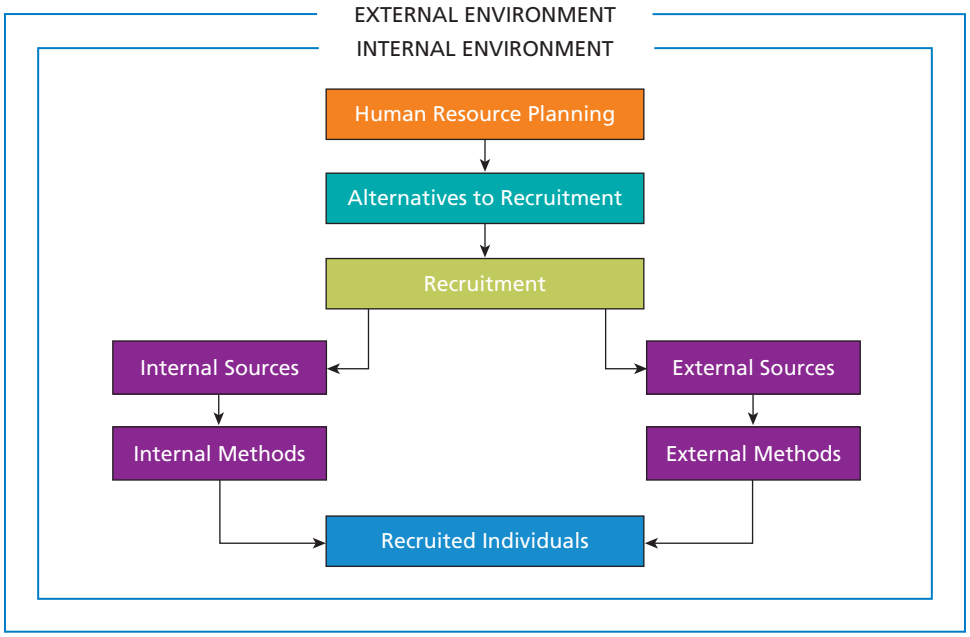
recruitment methods
Specific means used to attract potential employees to the firm.

Recruitment sources are where qualified candidates are located, such as colleges or competitors. **Recruitment methods** are the specific means used to attract potential employees to the firm, such as online recruiting.

Identifying productive sources of applicants and using suitable recruitment methods are essential to maximizing recruiting efficiency and effectiveness. When a firm identifies the sources of candidates, it uses appropriate methods for either internal or external recruitment to accomplish



FIGURE 5-1
The Recruitment Process



recruitment objectives. A candidate responds to the firm's recruitment efforts by submitting professional and personal data on either an application for employment or a résumé, depending on the company's policy.

Companies may discover that some recruitment sources and methods are superior to others for locating and attracting potential talent. Smart recruiters want to post their job where the best prospects are likely to be. For instance, one large, heavy-equipment manufacturer determined that medium-sized, state-supported colleges and universities located in rural areas were good sources of potential managers. Ever wonder why the job ad section of the Sunday paper is not as large as it once was? Recruiters are now placing their recruiting money in areas that are most productive, such as with the use of social media. To maximize recruiting effectiveness, using recruitment sources and methods tailored to specific needs is vitally important (a topic discussed later in this chapter).



HR Web Wisdom

Social Network Recruiting

https://www.linkedin.com

LinkedIn is an online social network Web site.

OBJECTIVE **5.3**

Explain internal recruitment methods.

Internal Recruitment Methods

Management should be able to identify current employees who are capable of filling positions as they become available. Helpful tools used for internal recruitment include human resource databases, job postings and job bidding, and employee referrals.

Human Resource Databases

Human resource databases permit organizations to determine whether current employees possess the qualifications for filling open positions. As a recruitment device, these databases have proven to be extremely valuable to organizations. Databases can be valuable in locating talent internally and supporting the concept of promotion from within.

Job Posting and Job Bidding

job posting
Procedure for informing employees that job openings exist.

job bidding
Procedure that permits employees who believe that they possess the required qualifications to apply for a posted position.

Job posting is a procedure for informing employees that job openings exist. **Job bidding** is a procedure that permits employees who believe that they possess the required qualifications to apply for a posted job.

Hiring managers usually want to give internal candidates priority as a way to improve employees' attitudes and stimulate their interest in the company. The job posting and bidding procedures can help minimize the commonly heard complaint that insiders never hear of a job opening until it is filled. Typically, vacant jobs are posted to internal candidates before external recruiting takes place. A number of forums are available today to advise employees that a vacancy exists. In years past, jobs were literally posted on a bulletin board. Today, companies use the intranet, the Internet, or post the job on the company Web site or company Facebook page.



HR BLOOPERS

Recruiting Skilled Machinists

Two months into her new position as Lead Recruiter at New World Manufacturing, Emily Lang is starting to feel frustrated. Emily was promoted to the Lead Recruiter position after three years as a Recruiter for the company's management training program. In that position, Emily impressed upper management with her ability to fill the trainee positions quickly and cost-effectively. Emily's expertise in using social media helped her develop an impressive pipeline of talented candidates. Thus, she was promoted to a Lead Recruiter in the manufacturing division to help address their challenging staffing issues. The unemployment rate in the area is high and the company is having problems finding skilled machinists to staff their manufacturing positions. Emily immediately put her expertise to work to attempt to build a solid pipeline of candidates for the multitude of entry level positions in the factory. She started an online recruiting campaign including a LinkedIn and a Facebook page specifically for the division. She also started using the company Twitter account to spread the word about the open positions. Knowing that many of the applicants for these entry-level positions didn't have resumes, she also created an easy to use online application on the company Web site. But her recruiting savvy doesn't seem to be paying off. The manufacturing manager has informed her that there are still a dozen open positions and she doesn't have any new applicants to share.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

Some companies send out e-mails and voice mail to selected managers and employees advising them that a vacancy exists.

Many organizations, including Whirlpool, BMW Manufacturing Co., Kellogg, Hyatt, and Hewlett-Packard, manage internal candidates with Web-based applications. Employees create profiles that detail their skills and interests for their next ideal position and are notified when such a position exists. FedEx's philosophy is that employees should be doing the kind of work they want to do. Its Web site helps candidates identify their ideal job. Using drop-down lists, it prompts them to enter data about desires, location, type of work, and so forth; it also asks them to describe their skills. When jobs open, managers have instant access to these electronic résumés in which the candidates have specified what they can and want to do.

Today, if a worker does not know about a vacancy, it is usually because he or she did not check the internal posting system regularly. Yet, even with an online system, a job posting and bidding system has some potential negative features. For one thing, an effective system requires the expenditure of time, effort, and money. Organizations need to be sure to treat internal candidates properly so they will not be discouraged or prompted to leave if they do not get the job. When bidders are unsuccessful, someone must explain to them why they were not selected. Management must choose the most qualified applicant or else the system will lack credibility. Still, complaints may occur, even in a well-designed and well-implemented system.

Employee Referrals

employee referral
An employee of the company recommends a friend or associate as a possible member of the company; this continues to be the way that top performers are identified.

Employee referrals involve an employee of the company recommending a friend or associate as a possible member of the company; this continues to be the way that top performers are identified. In many organizations, the use of employee referrals produces the most and best-qualified applicants. Organizations such as Southwest Airlines, Microsoft, Disney, and Ritz typically employ many of their new hires exclusively through employee referrals. It is just human nature that employees do not want to recommend a person unless they believe they are going to fit in and be productive. Thus, it is a powerful recruiting tool. Because of this, many companies have strengthened their employee referral program. These organizations have found that their employees can serve an important role in the recruitment process by actively soliciting applications from among their friends and associates.

Some firms give incentives to their employees for successful referrals. A WorldatWork Bonus Program Practices survey found that 60 percent of companies offer referral bonuses and an additional 9 percent are considering one.[3] Typically, the types of positions that a company would pay referral bonuses include professionals, technical, IT staff, and sales.[4] Most often,

bonuses range from $1,000 to $2,500 per successful referral. However, employee referral has also proven valuable for other professions. The trucking firm of CRST Malone offers its drivers a $1,000 bonus for recruiting other drivers.[5]

Typically, those who are referred by a present employee are more productive. Costs can be much lower than using advertising or agencies. Using referrals also reduces turnover among both new and existing employees because applicants come prescreened for culture fit. Small companies especially prefer to find candidates through referrals and networks of people they trust. Groupon, the online discounter, grew from 37 to 7,100 employees in 21 months. It acquires about 40 percent of new hires through employee referrals.[6] A recent study found that referrals are twice as more likely to be interviewed than those who are not referred.[7] Also, referrals are 40 percent more likely to be hired than those who are not referred.

Employee enlistment is a unique form of employee referral in which every employee becomes a company recruiter. This is not the same as merely asking employees to refer friends to the company. The firm supplies employees with simple business cards that do not contain names or positions. Instead, these cards have a message similar to: "We are always looking for great. For additional information, log on to our Web site." Employees then distribute the cards wherever they go, at parties, sports events, family gatherings, picnics, or the park. The purpose is to let people know that the company really does want people to apply. An interesting way of using e-mail in the recruitment process is to ask employees to put a footer in their e-mails reminding people that their company is hiring. It might say something like the following: "Note: We're hiring amazing engineers, BD people, and a star Ops person. Refer a friend and get a fully paid trip to Hawaii for two."[8]

Recruiters can often obtain referrals from new employees when they first join the firm. These new hires may provide leads regarding other candidates that have the skills and competences that the organization needs. Information from such candidates is often easy to obtain because the new hire is excited about joining the company and would like to have their friends and associates join them. Recruiters may simply ask: "Do you know anyone in your field who might like to work here?" A capable recruiter can then develop a list of good candidates with special skills who can be recruited.

A note of caution should be observed with regard to the extensive use of employee referral. The *2014 EEOC Compliance Manual* explicitly warns that recruiting only at select colleges or relying on word-of-mouth recruiting, which includes employee referral programs, may generate applicant pools that do not reflect diversity in the labor market.

OBJECTIVE 5.4

Identify external recruitment sources.

External Recruitment Sources

At times, a firm must look beyond its own borders to find employees, particularly when expanding its workforce. External recruitment is needed to (1) fill entry-level jobs; (2) acquire skills not possessed by current employees; and (3) obtain employees with different backgrounds to provide a diversity of ideas. As Figure 5-2 shows, even with internal promotions, firms still have to fill entry-level jobs from the outside. Thus, after the president of a firm retires, a series of internal promotions follows. Ultimately, however, the firm has to recruit externally for the entry-level position of salary analyst. If an outside candidate was selected for the president's position, the chain reaction of promotions from within would not have occurred. If no current employee has the desired qualifications, candidates may be attracted from a number of outside sources.



HR Web Wisdom

HR Internet Guides

www.hr-guide.com

This Web site contains links to other Internet-based resources for topics such as recruitment, selection, and equal employment opportunity.

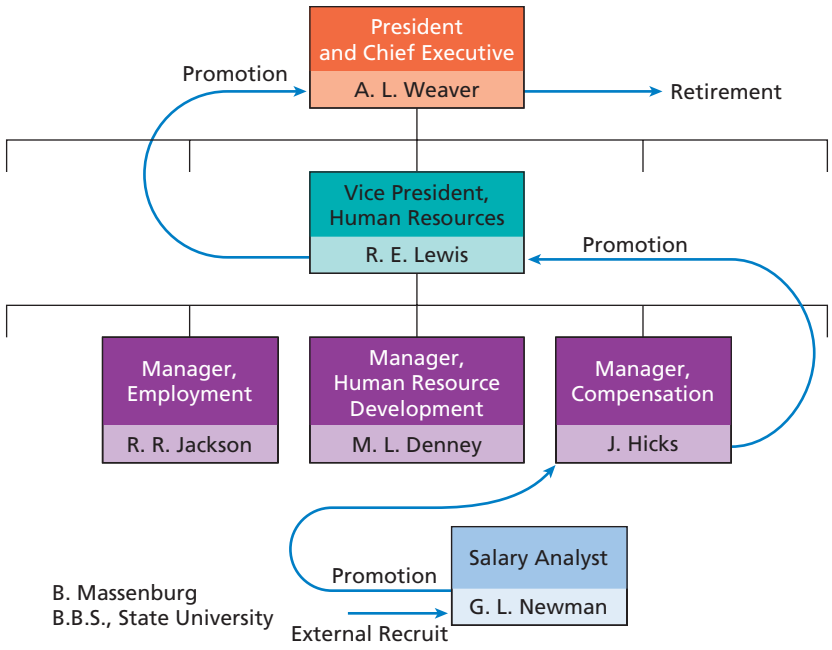
High Schools and Vocational Schools

Organizations concerned with recruiting clerical and other entry-level employees often depend on high schools and vocational schools. Many of these institutions have outstanding training programs for specific occupational skills, such as home appliance repair and small engine mechanics. Some companies work with schools to ensure a constant supply of trained individuals with specific job skills. In some areas, companies even loan employees to schools to assist in the training programs.

Community Colleges

Many community colleges are sensitive to the specific employment needs in their local labor markets and graduate highly sought-after students with marketable skills. Typically, community colleges have two-year programs designed for both a terminal education and preparation

FIGURE 5-2
Internal Promotion and External Recruitment



for a four-year university degree program. Many community colleges also have excellent mid-management programs combined with training for specific trades. Sowela Technical Community College located in Lake Charles, Louisiana, has a well-respected culinary program that is known nationwide. Career centers often provide a place for employers to contact students, thereby facilitating the recruitment process.

Colleges and Universities

Colleges and universities represent a major recruitment source for potential professional, technical, and management employees. Placement directors, faculty, and administrators can be helpful to organizations in their search for recruits. Establishing a relationship with faculty members is important because most professors are well aware of their students' academic performance and abilities. Because on-campus recruitment is mutually beneficial, both employers and universities should take steps to develop and maintain close relationships. It is important that the firm knows the school and the school knows the firm.

Competitors in the Labor Market

When recent experience is required, competitors and other firms in the same industry or geographic area may be the most important source of recruits. Another name for actively recruiting employees from competitors is called *poaching*. It has been estimated that poaching may account for 30 percent of the movement in labor.[9] In fact, the most highly qualified applicants often come directly from competitors in the same labor market. Competitors and other firms serve as external sources of recruitment for high-quality talent. Even organizations that have policies of promotion from within occasionally look elsewhere to fill positions. For example, the rapidly expanding shale gas industry has found itself desperate for experienced engineering talent as demand quickly outpaces supply.[10] Many companies in that industry have resorted to luring experienced engineers away from other engineering specialists at exorbitantly high salaries.

Smaller firms in particular look for employees trained by larger organizations that have greater developmental resources. For instance, one optical firm believes that its own operation is not large enough to provide extensive training and development programs. Therefore, a person recruited by this firm for a significant management role is likely to have held at least two previous positions with a competitor. In the following Watch It video, Hanno Holm, Chief Operating Office of Rudi's Organic Bakery, discusses how his small, dynamic, and fast-growing company searches for the right employees and how the process differs from large companies.

Watch It 1
If your instructor has assigned this, go to MyManagementLab to watch a video titled Rudi's Bakery: Human Resource Management and respond to questions.

Former Employees

At one time, when employees quit, their managers and peers tended to view them as being disloyal and ungrateful, and they were "punished" with no-return policies. A common attitude was that if you left your firm, you did not appreciate what the company had done for you. Those days are gone and often "goodbye" may not be forever. In fact according to a recent survey, only 11 percent of human resources (HR) professionals said that they would not rehire departing workers if they wished to return.[11] Today's young workers are more likely to change jobs and later return to a former employer than their counterparts who entered the workforce 20 or 30 years ago, and smart employers try to get their best ex-employees to come back. The *boomerang* effect might happen because there was a strong bond with previous coworkers or the new job was not what the employee envisioned. Van Alstyne, HR manager for Staffing Plus, based in Haverford, Pennsylvania, said, "If employees depart on good terms, contact should be maintained through proactive networking efforts by the company. It keeps the door open for good employees to return."[12]

The advantage of tracking former employees is that the firm knows their strengths and weaknesses and the ex-employees know the company. Tracking, recruiting, and hiring a former employee can be a tremendous benefit and can encourage others to stay with the firm. It sends the message that things are not always greener on the other side of the fence. The large number of people who will change jobs during their lifetime means businesses would be foolish to lose touch with them.

Unemployed

The unemployed often provide a valuable source of recruits. Qualified applicants join the unemployment rolls every day for various reasons. Companies may downsize their operations, go out of business, or merge with other firms, leaving qualified workers without jobs. Employees are also fired sometimes merely because of personality differences with their bosses. Not infrequently, employees become frustrated with their jobs and quit. Even individuals who have been out of work for extended periods should not be overlooked. According to the U.S. Bureau of Labor Statistics, the total number of job openings in was 4 million,[13] with more than 10.2 million unemployed workers.[14] In January 2014, the unemployment rate was 6.6 percent; however, if discouraged workers who have given up looking for jobs are counted, the total unemployment rate was about 12.7 percent.[15]

Military Personnel

Hiring former service members makes sense to a lot of employers because many of these individuals have a proven work history and are flexible, motivated, and drug-free. General Electric (GE) found an endless supply of talent in junior military officers. Many were graduates of U.S.



ETHICAL DILEMMA

Unfair Advantage?

You are the vice-president of human resources for a high-tech company that is competing for a major government project. You believe that one of your key competitors is ahead of you in project development and you would like to recruit some of its engineers who are knowledgeable about the project. You receive an anonymous e-mail that includes the names and phone numbers of key people involved in your competitor's project. If you use the information and are able to hire some of the competitor's key people, your company has a chance to beat the competitor and you will become a hero. If you do not use the information, your company may lose a great deal of money.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

military academies who had spent four to five years in the service. They were found to be hard-working, smart, and intense; they had leadership experience and were flexible. They are prompt, used to reporting for work on time, and know the importance of a professional appearance and presence.[16] Walmart, along with many other companies, has discovered the benefits of recruiting military talent. Often, military veterans are "incredibly loyal" employees.[17] It even hired a retired Army brigadier general, Gary Profit, to expand military recruiting to all levels and divisions of the business.[18]

Service members nationwide looking for jobs can also go to HirePatriots.com. "We help citizens and businesses to thank our current military, veterans, and their spouses by posting their job opportunities on our free military job posting and search Web site," said Mark Baird, president of Patriotic Hearts.[19]

Self-Employed Workers

The self-employed worker may also be a good potential source. These individuals may be true entrepreneurs who are ingenious and creative. For many firms, these qualities are essential for continued competitiveness. Such individuals may constitute a source of applicants for any number of jobs requiring technical, professional, administrative, or entrepreneurial expertise within a firm.

Ex-Offenders

Some organizations have found it beneficial to hire ex-offenders. A recent analysis by the National Employment Law Project shows that more than one in four U.S. adults has an arrest or conviction that would appear in a routine criminal background check.[20] Studies estimate that as many as 60 to 75 percent of ex-offenders are unemployed.[21] Many are nonviolent substance abusers who were locked up because of federal and state drug laws. This statistic is not surprising because of an increase in the use of criminal background checks in the employment process, and most employers indicate that they would "probably" or "definitely" not be willing to hire an applicant with a criminal record.[22]

As of this writing, 11 states have implemented *Ban the Box* laws or policies that reduce unfair barriers to employment of people with criminal records.[23] Four of the 11 states' laws prohibit deliberate exclusion of ex-offenders from employment consideration by public and private employers (Hawaii, Massachusetts, Minnesota, and Rhode Island). According to Multicultural Foodservice & Hospitality Alliance President Gerry Fernandez, "I'm aware of several chains that have programs to hire ex-offenders, though they do not want publicity. Who do you think works third shift, where they don't come in contact with customers?"[24] In another example, supermarket retail consultant and restaurateur Howard Solganik has launched a program that puts ex-offenders to work helping area farmers increase the supply of local, seasonal produce to consumers. Solganik said, "My experience in the restaurant business exposed me to ex-offenders. I saw that most were hard workers and also were grateful for the jobs they were given."[25]

OBJECTIVE 5.5
Explain recruiting technology.

Recruiting Technology

The use of mobile (smartphone) technology and online methods has revolutionized the way companies recruit employees and job seekers search and apply for jobs.

Mobile Recruiting

Owen Williams, executive recruiting director at Macys Inc., provides an example of the power of mobile recruiting. During his three-block walk to his office, he regularly uses his BlackBerry and the mobile version of LinkedIn to post job listings and connect to potential candidates. Time is money for Owen because he personally fills more than 80 store manager and regional buyer positions a year. "It's amazing what work I can get done in that walk," he says."[26]

The world of recruiting via mobile technology is moving at lightning speed. More and more people are adopting mobile technology, and many organizations are trying to figure out how to use mobile devices in the recruiting process. Recruiters use mobile apps to post jobs, run text message–based recruiting campaigns, create online communities for potential new hires to learn about their companies, monitor social networks for news about industries they hire for, and keep in touch with staff and outside agencies. These tasks previously had to be done from a desktop

or laptop computer.[27] According to a 2012 survey from CareerXroads more than half (about 54 percent) of staffing companies are now providing or subsidizing their recruiters and hiring managers' mobile phones as an important business expense. In addition, nearly four in five (79 percent) of recruiting companies are conducting mobile-related staffing practices to better connect with job seekers—prospects and candidates.[28]

The move to mobile recruiting has generated blogs, webinars, seminars, e-newsletters, and online groups. Recruiters who want to keep up with technology and trends can join the LinkedIn group CloudRecruit.net or read blogs such as RecruiterGuy.net.

Internet Recruiter

internet recruiter
Person whose primary responsibility is to use the Internet in the recruitment process (also called cyber recruiter).

The **Internet recruiter**, also called a cyber recruiter, is a person whose primary responsibility is to use the Internet in the recruitment process.

Most companies currently post jobs on their corporate career Web site. Individuals must be in place to monitor and coordinate these activities. The more companies recruit on the Internet, the greater the need for Internet recruiters. Currently, high-tech firms have the greatest needs.

Virtual Job Fair

virtual job fair
Online recruiting method engaged in by a single employer or group of employers to attract a large number of applicants.

A **virtual job fair** is an online recruiting method engaged in by a single employer or group of employers to attract a large number of applicants. They are designed to be a first step in the recruitment process. Many recruiters have found that traditional job fairs where applicants and recruiters go to a physical location are ineffective. In addition to the time and expense of attending them in person, recruiters often find them wasteful because many people who stop by their booth do not possess the right skills.

At virtual job fairs, recruiters prescreen résumés, contact candidates who are a potential fit, and store e-mail addresses. If applicants pass the initial screening, they typically must complete a questionnaire, take a behavioral test, and do a telephone interview before meeting a recruiter in person. Virtual fairs usually last about five hours, though recruiters can receive résumés online for as long as a week after the event. In their virtual "booth," recruiters often provide links to their online career site, obtained résumés from candidates, and interact with applicants in a live chat room.

Corporate Career Web Sites

corporate career Web sites
Job sites accessible from a company home page that list available company positions and provide a way for applicants to apply for specific jobs.

Corporate career Web sites are job sites accessible from a company home page that list the company positions available and provide a way for applicants to apply for specific jobs. They have become a major resource for both job seekers and companies seeking new employees.

A career Web site should be relevant and engaging, informing the reader about the company and the specific position being advertised. It should be used as a selling device that promotes the company to prospective job candidates. Writing effective recruitment ads on the Internet is different from the short, one-inch-column ads in the Sunday newspaper. The Internet provides enough space to fully describe the job, location, and company. It provides an opportunity to convert consumers into great employees. A good Web site should provide a feeling of the kind of corporate culture that exists within the company.

Weblogs (Blogs for Short)

Weblogs, or *blogs,* have changed the ways in which individuals access information. Google or a blog search engine such as Technorati.com can be used. All a person has to do is type in a key phrase like *marketing jobs*. The blogs themselves make it pretty easy to find, with names like HRJobs.com, AttorneyJobs.com, and SalesJobs.com. Some employers and employment agencies have also discovered that blogging is a way to do detailed and stealthy background checks.

General-Purpose Job Boards

Firms use general-purpose job boards by typing in key job criteria, skills, and experience, and indicating their geographic location. Job seekers can search for jobs by category, experience, education, location, or any combination of categories. General-purpose job boards continue to attract large number of applicants, but their use has declined somewhat in recent years. Many believe that the general-purpose big job boards are best for job seekers in professions that experience high turnover like sales but often are less effective for highly qualified applicants or those

looking for work in smaller industries. They are also not as effective in finding jobs for senior level positions because most firms prefer referrals or Web sites such as LinkedIn.[29] The two most widely recognized general employment Web sites are, Monster.com and CareerBuilder.com.

MONSTER.COM Monster Worldwide, Inc. is the parent company of Monster. It is a premier global online employment solution for people seeking jobs and the employers who need people. Information helpful to job seekers such as résumé tips, interview tips, salary information, and networking information is available on the site.

CAREERBUILDER.COM CareerBuilder offers a vast online and print network to help job seekers connect with employers. CareerBuilder.com powers the career sites for more than 9,000 Web sites, including 140 newspapers and broadband portals such as MSN and AOL.[30]

NACElink Network

NACElink Network
The result of an alliance among the National Association of Colleges and Employers, DirectEmployers Association, and Symplicity Corporation, it is a national recruiting network and suite of Web-based recruiting and career services automation tools serving the needs of colleges, employers, and job candidates.

The **NACElink Network**, the result of an alliance among the National Association of Colleges and Employers, DirectEmployers Association, and Symplicity Corporation, is a national recruiting network and suite of Web-based recruiting and career services automation tools serving the needs of colleges, employers, and job candidates. Currently more than 900 colleges use the NACElink system. The system includes three components: job posting, résumé database, and interview scheduling. It is available to employers to post jobs and search for students and new graduates. DirectEmployers Association has also created an employment Web site for returning veterans that uses military codes to help veterans identify jobs in their fields.

.Jobs

.jobs
Network of employment Web sites where any company can list job openings for free.

.Jobs is a network of employment Web sites where any company can list job openings for free. There are 40,000 sites, with all Web addresses ending in ".jobs." The initiative is being backed by nearly 600 hundred industrial companies such as Google, American Express, IBM, Northrop Grumman, and Lockheed Martin. Finding jobs on the sites is simple. Possible searches might include Nurse.jobs, Attorney.jobs, HR.jobs, and Sales.jobs. For someone looking for a job in the Washington, D.C., there's www.washingtondc.jobs. It works for many professions and is available in every state and any U.S. city with more than 5,000 people.

AllianceQ

AllianceQ
Group of *Fortune 500* companies, along with more than 3,000 small and medium-sized companies, that have collaborated to create a pool of job candidates.

AllianceQ is a group of Fortune 500 companies, along with more than 3,000 small and medium-sized companies, that have collaborated to create a pool of job candidates. AllianceQ provides a way for candidates to be found by top employers.[31] Those passed over by one company are invited to submit their résumés to the AllianceQ database. "It's a no-brainer," says Phil Hendrickson, a recruiting manager at member company Starbucks.[32]

Niche Sites

niche sites
Web sites that cater to highly specialized job markets such as a particular profession, industry, education, location, or any combination of these specialties.

Niche sites are Web sites that cater to highly specialized job markets such as a particular profession, industry, education, location, or any combination of these specialties. They continue to grow in popularity and are giving the top two general-purpose job boards major competition.[33] There seems to be a site for virtually everyone. A few catchy ones include:

- cfo.com (a comprehensive online resource center for senior finance executives)
- dice.com (a leading provider of online recruiting services for technology professionals)
- internshipprograms.com (employers who are exclusively looking for interns)
- techjobbank.com (focuses on the recruiting needs of the technology companies)
- coolworks.com (find seasonal job or career in places such as Yellowstone, Yosemite, or other national parks)
- college.monster.com (job listings and résumé service that targets college students and alumni)
- Job.com (maintains sites specialized by geography)

A niche site is also available for professors who desire to change jobs. Formerly, college and university professors went to the campus library and thumbed through the many pages of *The Chronicle of Higher Education* to hunt for a job. Now all they have to do is enter www.chronicle.com, *The Chronicle of Higher Education* Web site. All the jobs listed with the *Chronicle* are

available to view for free. Each position announcement has a hot link to a university home page where additional information can be obtained. The universities pay the fees.

Contingent Workers' Sites

Contract workers are a part of the contingent workforce. Recruiting technology also serves the benefit of these workers. Sites are available to assist contingent workers. Specialized Web sites let workers advertise their skills, set their price, and pick an employer. Two such sites are:

- Freelance.com is a company that offers to clients the services of talented freelancers.
- Guru.com is an online marketplace for freelance talent.

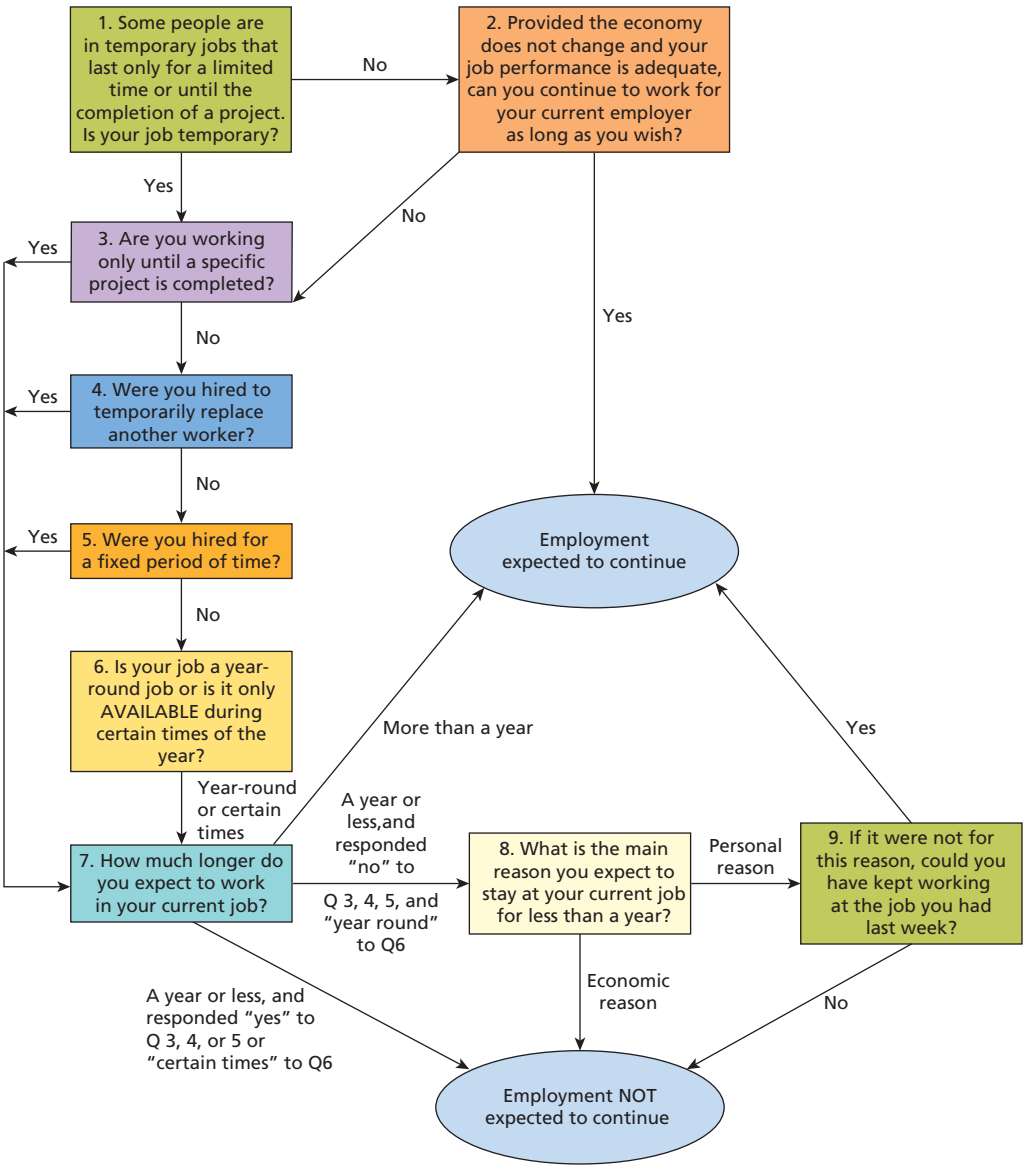
contingent workers
Described as the "disposable American workforce" by a former secretary of labor, have a nontraditional relationship with the worksite employer, and work as part-timers, temporaries, or independent contractors.

But who are contingent workers? According to the U.S. Bureau of Labor Statistics, **contingent workers**[34] are those who do not have an implicit or explicit contract for ongoing employment. Persons who do not expect to continue in their jobs for such personal reasons as retirement or returning to school are not considered contingent workers, provided that they would have the option of continuing in the job were it not for these reasons. Given the slowly recovering job market since the economic downturn ended in 2009, the prevalence of contingent workers in companies is noteworthy. Figure 5-3 details questions that determine whether workers expect their employment to continue, that is, whether their work arrangement is considered to be contingent.

FIGURE 5-3

Questions that Determine Whether Workers Expect Their Employment to Continue

Source: Polivka, A. E. (1996). Contingent and alternative work arrangements, defined. *Monthly Labor Review, 119*(10), p. 5.



Contingent workers are the human equivalents of just-in-time inventory. These *disposable workers* permit maximum flexibility for the employer and lower labor costs. Historically, contingent workers have been called the bookends of recessions. They are the first to go when a recession begins and the last to be recalled when the economy gets better. However, toward the end of the recent recession, many companies were reversing this trend and following the strategy of holding off on the hiring of regular full-time employees and choosing instead to use contingent workers. Companies are now using contingent workers as a continuing strategy in both good and bad times.[35]

The latest recession caused companies to rethink the way work gets done. This brought a refocus on the use of contingent workers, who can be added or cut as demand requires. In fact, the pace of contingent job growth suggests a shift toward more use of temporary labor at the expense of permanent jobs.[36] Garry Mathiason, vice chairman of Littler Mendelson in San Francisco, said, "In the future companies will likely make wider use of staffing methods similar to those practiced by the film industry. There, entire crews of contingent production workers are assembled for a movie then disbanded once it is finished."[37] A study by the Institute for Corporate Productivity (i4cp) found that high-performing organizations have increased their use of contingent workers from traditional administrative positions to technical support, operations, and high-skilled professional positions, including engineering, legal, and finance.[38] If the use of contingent workers is indeed the trend, the manner that human resource is practiced will experience considerable change.

Hourly Workers' Sites

After years of focusing primarily on professionals and their prospective employers, job sites are now available to attract blue-collar and service workers. Traditionally, there have been major differences between the ways hourly and salaried workers look for jobs. Most hourly workers pursue jobs by filling out applications rather than creating and sending out résumés. So sites allow job seekers to build an application that can be viewed by employers. Recognizing that some hourly workers do not have computer access, they have set up phone-based services to accept applications. Some job boards have bilingual call-center operators who can help job applicants through the process. Many of the large boards such as Monster.com and CareerBuilder.com have moved into this large market.

OBJECTIVE 5.6
Identify traditional external recruitment methods.

Traditional External Recruitment Methods

Although online recruiting has greatly impacted how recruiting is accomplished, traditional methods are not dead.

Media Advertising

Advertising communicates the firm's employment needs to the public through media such as newspapers, trade journals, radio, television, and billboards. The firm's previous experience with various media should suggest the most effective approach for specific types of jobs. Although few individuals base their decision to change jobs on advertising, ads create awareness, generate interest, and encourage a prospect to seek more information about the firm and the job opportunities that it provides. A traditional common form of advertising that provides broad coverage at a relatively low cost is the newspaper ad. Firms using the newspaper ad attempt to appeal to the self-interest of prospective employees, emphasizing the job's unique qualities. Recently, the use of newspaper advertising has declined because other recruiting methods are more effective and less expensive.

Certain media attract audiences that are more homogeneous in terms of employment skills, education, and orientation. Advertisements placed in publications such as the *Wall Street Journal* relate primarily to managerial, professional, and technical positions. The readers of these publications are generally individuals qualified for many of the positions advertised. Focusing on a specific labor market minimizes the likelihood of receiving marginally qualified or even totally unqualified applicants. Like most professional publications, jobs that are advertised in the paper copy of the *Journal* are also available on the publication's Web site. Journals specific to particular trades are also widely used. For example, *Automotive News* might have jobs related to the automobile industry and *American Drycleaner* likely will list jobs in the dry cleaning business.

Qualified prospects who read job ads in newspapers and professional and trade journals may not be so dissatisfied with their present jobs that they will pursue opportunities advertised. Therefore, in high-demand situations, a firm needs to consider all available media resources such as radio, billboards, and television. These methods are likely more expensive than newspapers or journals, but in specific situations, they may prove successful. For instance, a regional medical center used billboards effectively to attract registered nurses. One large manufacturing firm had considerable success in advertising for production trainees by means of spot advertisements on the radio. A large electronics firm used television to attract experienced engineers when it opened a new facility and needed more engineers immediately. Thus, in situations where hiring needs are urgent, television and radio may provide good results. Broadcast messages can let people know that an organization is seeking recruits. A primary limitation is the amount of information they can transmit.

Private Employment Agencies

Private employment agencies, often called "headhunters," are best known for recruiting white-collar employees and offer an important service in bringing qualified applicants and open positions together.[39] Firms and job hunters use private employment agencies for virtually every type position. Job seekers should carefully select the employment agency to use because there are both good and bad recruiters. Today, private employment agencies often specialize in filling a particular niche in the job market. Agencies should be selected based on knowledge of the industry and the specific position being sought.

Private employment agencies fees can range up to 35 percent of a person's first year salary. The one-time fees that some agencies charge often turn off candidates, although many private employment agencies also deal with firms that pay the fees. Either way, the headhunter does not get paid until a person is placed. The recent recession has significantly impacted the use of private employment agencies, which has resulted in a general retrenchment of the industry.

Public Employment Agencies

Public employment agencies are operated by each state but receive overall policy direction from the U.S. Employment Service. Public employment agencies have become increasingly involved in matching people with technical, professional, and managerial positions. They typically use computerized job-matching systems to aid in the recruitment process, and they provide their services without charge to either the employer or the prospective employee.

Executive Search Firms

Executive search firms are used by some firms to locate experienced professionals and executives when other sources prove inadequate. The key benefit of executive search firms is the targeting of ideal candidates. In addition, the executive search firm can often find passive candidates, those not actively looking for a job.

An executive search firm's representatives often visit the client's offices and interview the company's management. This enables them to gain a clear understanding of the company's goals and the job qualifications required. After obtaining this information, they contact and interview potential candidates, check references, and refer the best-qualified person to the client for the selection decision. Search firms maintain databases of résumés for this process. Other sources used include networking contacts, files from previous searches, specialized directories, personal calls, previous clients, colleagues, and unsolicited résumés. The search firm's task is to present candidates who are eminently qualified to do the job; it is the company's decision whom to hire.

There are two types of executive search firms: contingency and retained. *Contingency search firms* receive fees only on successful placement of a candidate in a job opening. The search firm's fee is generally a percentage of the individual's compensation for the first year. The client pays expenses, as well as the fee. A contingency recruiter goes to work when there is an urgent need to fill a position, when an opening exists for a difficult position, or when a hiring executive wants to know about top-notch talent as those people surface, regardless of whether there is an opening.

Retained search firms are considered consultants to their client organizations, serving on an exclusive contractual basis, and typically recruit top business executives. With a retained search firm, the company typically gets a firmer commitment from their search firm, as well as more personalized attention, dedicated time, and customized searches.[40]

Recruiters

Recruiters most commonly focus on technical and vocational schools, community colleges, colleges, and universities. The key contact for recruiters on college and university campuses is often the student placement director. This administrator is in an excellent position to arrange interviews with students possessing the qualifications desired by the firm. Placement services help organizations use their recruiters efficiently. They identify qualified candidates, schedule interviews, and provide suitable rooms for interviews.

The company recruiter plays a vital role in attracting applicants. The interviewee often perceives the recruiter's actions as a reflection of the character of the firm. If the recruiter is dull, the interviewee may think the company is dull; if the recruiter is apathetic, discourteous, or vulgar, the interviewee may well attribute these negative characteristics to the firm. Recruiters must always be aware of the image they present because it makes a lasting impression. Recruitment success comes down to good personal selling, appealing to the candidate's priorities, and addressing his or her concerns. The recruiter should underscore the job's opportunities and keep the lines of communication open.

A recent trend is the use of videoconferencing with equipment at both corporate headquarters and on college campuses. Recruiters can communicate with college career counselors and interview students through a videoconferencing system without leaving the office.

Job Fairs

job fair
Recruiting method engaged in by a single employer or group of employers to attract a large number of applicants to one location for interviews.

A **job fair** is a recruiting method engaged in by a single employer or group of employers to attract a large number of applicants to one location for interviews.

From an employer's viewpoint, a primary advantage of job fairs is the opportunity to meet a large number of candidates in a short time. Conversely, applicants may have convenient access to a number of employers. As a recruitment method, job fairs offer the potential for a much lower cost per hire than traditional approaches. Job fairs are often organized by universities to assist their students in obtaining jobs. Here, employers from many organizations meet at a single point on the campus. The job fair is available from disciplines from across the university. Students and employers can meet here to ask and answer questions.

At times job fairs are tailored to recruit specific types of individuals. At a job fair in Tucson, Arizona, the event was designed to bring together senior citizens and companies looking to hire them, as well as offer assistance to those seeking to improve their job skills as a first step toward employment. The job fair attracted two dozen companies seeking to fill positions for everything from teachers' aides to bank tellers to tour bus drivers and call-center staff.[41] Job fairs are also held to bring together military service members and companies with openings to fill. Recently the Veterans Career Fair and Expo was held in Washington, D.C. Employers representing companies across the private sector, as well as several government agencies, were on site to discuss career and job opportunities to thousands of veterans from the mid-Atlantic region.[42]

Internships

internship
Special form of recruitment that involves placing a student in a temporary job with no obligation either by the company to hire the student permanently or by the student to accept a permanent position with the firm following graduation.

An **internship** is a special form of recruitment that involves placing a student in a temporary job with no obligation either by the company to hire the student permanently or by the student to accept a permanent position with the firm following graduation.

An internship typically involves a temporary job for the summer months or a part-time job during the school year. It may also take the form of working full-time one semester and going to school full-time the next. Recently nontraditional virtual internships are being used by businesses for students who would be required to commute long distances through the use of Skype, e-mail, and conference calls.[43] Employers are able to *try out* future employees prior to making a job offer. If the trial period proves unsuccessful, there is no obligation on either side. Google has long been known for using the internship as a recruiting method. Even in a slowed economy, Google offered interns competitive pay and on-site perks that include free gourmet food, a gym, fitness classes, massage therapy, bike repair, dry cleaning, a hair stylist, oil changes, and car washes.[44]

During the internship, the student gets to view business practices firsthand. At the same time, the intern contributes to the firm by performing needed tasks. In addition to other benefits, internships provide opportunities for students to bridge the gap from business theory to practice. Through this relationship, a student can determine whether a company would be a desirable employer. Similarly, having a relatively lengthy time to observe the student's job performance, the firm can make a better judgment regarding the person's qualifications.



HR Web Wisdom

Internship Web Site

http://www.internships.com/

The world's largest internship marketplace.

In today's job market, just having a degree is often not enough to get a job offer; internships are often the deciding factor in getting a good job or not. Students with internship and co-op experience are often able to find jobs easier, and they progress much further and faster in the business world than those without. Paid internships for college students have become even more valuable in recent years for both new graduates and companies. In a NACE's 2013 Student Survey, more than half of the interns from the Class of 2011 were paid, and 63 percent of students with a paid summer internship received at least one full-time job offer after graduation; the median starting salary for subsequent full-time jobs was about 45 percent higher than students with unpaid or no internship experience.[45] Steve Canale, manager, global recruiting and staffing services, at General Electric Co., based in Fairfield, Connecticut, said, "If I had my budget slashed and only had $100 to spend, I'd spend it all on my internship program. They become my brand ambassadors."[46]

Professional Associations

Virtually every professional group publishes a journal and has a Web site that is widely used by its members. Many professional associations in business areas including finance, marketing, accounting, and human resources provide recruitment and placement services for their members. Jobs advertised are placed in the journal in hard copy and also advertised on the professional group's Web site. The Society for Human Resource Management (SHRM), for example, operates a job referral service for members seeking new positions and employers with positions to fill.

Unsolicited Applicants

A company must have a positive image or employer brand to attract unsolicited applicants. If an organization has the reputation of being a good place to work, it may be able to attract qualified prospects even without extensive recruitment efforts. Acting on their own initiative, well-qualified workers may seek out a specific company to apply for a job. Unsolicited applicants who apply because they are favorably impressed with the firm's reputation often prove to be valuable employees. In the Internet age, applicants can go to the firm's corporate career Web site and *walk in* by making an application online.

Open Houses

Open houses pair potential hires and recruiters in a warm, casual environment that encourages on-the-spot job offers. Open houses are cheaper and faster than hiring through recruitment agencies, and they are also more popular than job fairs. There are pros and cons to holding a truly *open* house. If the event is open, it may draw a large turnout, but it also may attract a number of unqualified candidates. Some companies prefer to control the types of candidates they host, and so they conduct invitation-only sessions. In this scenario, someone screens résumés in response to ads, then invites only preselected candidates. Open house advertising may be through both conventional media and the Internet, where a firm might feature its open house on its home page.

Event Recruiting

event recruiting
Recruiters going to events being attended by individuals the company is seeking.

Event recruiting involves having recruiters go to events being attended by individuals the company is seeking. Cisco Systems pioneered event recruiting as a recruitment approach. In the case of programmers in the Silicon Valley, the choice spots have been marathons and bike races. Companies that participate in these events become involved in some way that promotes their name and cause. For example, they might sponsor or cosponsor an event, pass out refreshments, and give away prizes. Individuals get to know that the company is recruiting and the types of workers it is seeking. Event recruiting gives a company the opportunity to reflect its image.

Sign-on Bonuses

Employers use sign-on bonuses to attract top talent, particularly in high-demand fields such as health care, sales, marketing, and accounting. Bonuses allow a firm to pay a premium to attract individuals without dramatically upsetting its salary scale. Even as Wall Street continued to lay off workers, some firms were offering sign-on bonuses for top management talent. NACE's *Job Outlook 2014* survey, 47 percent of employers planned to offer signing bonuses to college graduates. Signing bonuses are most commonly found in the utilities, transportation, management consulting, and pharmaceutical manufacturing industry.[47]

Competitive Games

Google has a unique way to get individuals interested in applying for technical positions. Google Code Jam is an international programming competition hosted and administered by Google. The competition began in 2003 as a means to identify top engineering talent for potential employment at Google. The competition consists of a set of algorithmic problems that must be solved in a fixed amount of time. Competitors may use any programming language and development environment to obtain their solutions. The final round for the 2014 Code Jam was in Los Angeles.

Google is not the only company that uses games as a recruiting tool. TopCoder is a Glastonbury, Connecticut, company that creates software coding competitions. Internet advertising firm DoubleClick hired TopCoder to run a software coding competition contest between students from Columbia University and New York University. TopCoder identified about 100 programmers to participate in this software competition, and 10 made it to the final round.

OBJECTIVE 5.7

Describe how recruitment methods and sources are tailored to each other.

Tailoring Recruitment Methods to Sources

Because each organization is unique, so are the needed types and qualifications of workers to fill positions. Thus, to be successful, a firm must tailor its recruitment sources and methods to its specific needs.

Suppose, for example, that a large firm has an immediate need for an experienced information technology manager and no one within the firm has these qualifications. Figure 5-4 shows a matrix that depicts sources and methods of recruitment for such a manager. Managers must first identify the *source* (where prospective employees are located) before choosing the *methods* (how to attract them). It is likely that other firms, possibly competitors, employ such individuals. After considering the recruitment source, the recruiter must then choose the method (or methods) of recruitment that offers the best prospects for attracting qualified candidates. Perhaps it would be appropriate to advertise the job in the classified section of the *Wall Street Journal* and use online recruiting. Alternatively, an executive search firm may serve as a viable option. In addition, the recruiter may attend meetings of professional information technology associations. One or more of these methods will likely yield a pool of qualified applicants.

FIGURE 5-4

Methods and Sources of Recruitment for an Information Technology Manager

External Sources \ External Methods	Online recruiting	Advertising	Employment agencies	Recruiters	Job fairs	Internships	Executive search firms	Professional associations	Walk-in applicants	Open houses	Event recruiting	Sign-on bonuses	High Tech Competition
High/Vocational schools													
Community colleges													
Colleges and universities													
Competitors in the labor market	X	X	X				X	X					
Unemployed													
Self-employed													
Former employees													
Military personnel													
Ex-offenders													

In another scenario, consider a firm's need for 20 entry-level machine operators, whom the firm is willing to train. High schools and vocational schools would probably be good recruitment sources. Methods of recruitment might include newspaper ads, public employment agencies, recruiters, visiting vocational schools, and employee referrals.

OBJECTIVE 5.8

Summarize the environment of recruitment.

Environment of Recruitment

Like other human resource functions, the recruitment process does not occur in a vacuum. Factors external to the organization can significantly affect the firm's recruitment efforts.

Labor Market Conditions

Of particular importance to the success of recruitment is the demand for and supply of specific skills in the labor market. In general, a firm's recruitment process is often simplified when the unemployment rate in an organization's labor market is high. The number of unsolicited applicants is usually greater, and the increased size of the labor pool provides a better opportunity for attracting qualified applicants. However, if demand for a particular skill is high relative to supply, an extraordinary recruiting effort may be required. Further, the area where recruitment takes place often impacts the labor market conditions. Today, the labor market for many professional and technical positions is much broader and truly global. Even in a depressed economy, top-quality workers are in demand and forward-thinking organizations are looking to entice these individuals to join their firms. For example, wind turbine technicians are in considerably high growth in wind electricity generation.[48]

Some companies are focusing on actively recruiting employees from competitors' most productive workers. This competition for specific skills has driven up pay for certain job skills. The specific type of job being recruited for can have a major impact on the recruiting process. For example, recently, tech companies were aggressively recruiting engineers, designers, computer scientists, and executives who could compete and adapt to the rapid changes that are occurring in the industry.[49] The competition for qualified applicants was especially aggressive among workers involved in social media, mobile technology, and e-commerce even as others remain unemployed and the unemployment rate remained relatively high.

Possessing a college degree used to be the passport to secure a good job.[50] This largely remains to be the case when we consider unemployment rates and average weekly earnings by educational attainment. Figure 5-5 shows lower unemployment rates and higher average weekly earnings for progressively highly educational attainment. However, in the present job market, the type of degree awarded may mean the difference between getting a job that does not require a college degree and obtaining a professional well-paying position.[51] Also, many of the jobs available today do not require a college degree. Rather, skills to perform crafts such as welders, pipe fitters, painters, and machinists are needed. In fact, today there is a critical shortage of such skills in the United States particularly because most skilled trades workers are older and approaching retirement rapidly.[52]

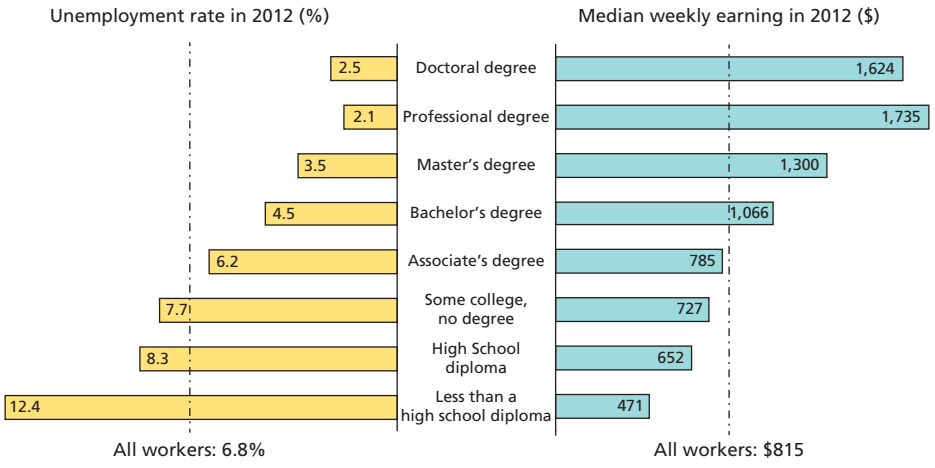


FIGURE 5-5

Earnings and Unemployment Rates by Educational Attainment

Source: Bureau of Labor Statistics, Current Population Survey

According to a recent McKinsey Global Institute report, 40 percent of full-time job openings in companies planning to hire remain unfilled for six months or longer because they cannot find qualified applicants.[53] New technology may require that workers have a specialized degree even though one was unnecessary 10 years ago.[54] There has been a "skill-based technology" change in the job market. According to CareerBuilder's Brent Rasmussen, "Two in five employers (41 percent) reported that they continuously recruit throughout the year so that they have candidates in their pipeline in case a position opens up down the road. The skills gap that exists for high-growth, specialized occupations will become even more pronounced in the years to come, prompting the need to place a greater emphasis on reskilling workers through formal education and on-the-job training."[55] Computers have automated many of the repetitive physical and mental tasks. Workers are now being recruited who can perform tasks that cannot be automated and are nonrepetitive and more sophisticated.[56]

Active or Passive Job Seekers

active job seekers
Individuals committed to finding another job whether presently employed or not.

passive job seekers
Potential job candidates, who are typically employed, satisfied with their employer, and content in their current role but if the right opportunity came along, they might like to learn more.

The recruitment method that proves to be most successful will depend to an extent on whether the recruited individual is an active or passive job seeker. **Active job seekers** are individuals who are committed to finding another job whether presently employed or not. These individuals are usually easier to identify because their names have been placed in the job market. Their résumés are on job boards and friends, associates, or companies have been contacted directly to learn about job opportunities. **Passive job seekers**, on the other hand, are potential job candidates who are typically employed, satisfied with their employer, and content in their current role. But if the right opportunity came along, they might like to learn more. These individuals want to move slower and will ask a lot of questions before making a job change. They are more hesitant to risk leaving a good job for a new challenge and increased risk. This chapter identifies numerous recruitment methods. Some are more useful in identifying active job seekers and others are better used in recruiting passive job seekers. Naturally, some will be directed at both groups.

Legal Considerations

Legal matters also play a significant role in recruitment practices in the United States. This is not surprising because the candidate and the employer first make contact during the recruitment process. A poorly conceived recruiting process can do much to create problems in the selection process. Therefore, it is essential for organizations to emphasize nondiscriminatory practices at this stage.

The Office of Federal Contract Compliance Programs (OFCCP) has issued guidelines concerning the online recruiting policies of federal contractors and subcontractors. Companies must keep detailed records of each online job search. They must also identify what selection criteria were used and be able to explain why a person with protected status was not hired. Equal Employment Opportunity Commission (EEOC) guidelines suggest that companies with more than 100 employees keep staffing records for a minimum of two years. The threshold coverage is 50 employees if dealing with the OFCCP.

A dramatic increase in firms using the Internet for recruiting has added to management's challenge to comply with the OFCCP. Under the rule, there are four criteria to determine whether an individual is an Internet applicant:

- The job seeker has expressed interest through the Internet. Applicants have gone to the corporate career Web site and applied for a particular job that is listed.
- The employer considers the job seeker for employment in a particular open position. If the applicant does not meet specific qualifications spelled out in the job-specification section of the job description, the résumé does not have to be considered.
- The job seeker has indicated that he or she meets the position's basic qualifications. If the position description calls for three years of work experience, and the individual has three years of experience in previous jobs, he or she would believe that meets the basic qualifications.
- The applicant has not indicated he or she is no longer interested in the position.[57]

Employers must keep records of any and all expressions of interest through the Internet, including online résumés and internal databases. Employers are also expected to obtain the gender, race, and ethnicity of each applicant, when possible. This information enables a compilation of demographic data, such as age, race, and gender, based on that applicant pool. This data is used to determine whether a company's hiring practices are discriminatory.

OBJECTIVE 5.9
Describe alternatives to recruitment.

Alternatives to Recruitment

Even when HR planning indicates a need for additional employees, a firm may decide against increasing the size of its workforce. Recruitment and selection costs are significant when you consider all the related expenses. The cost of replacing a person making $50,000 per year can easily reach $75,000.[58] Therefore, a firm should consider alternatives carefully before engaging in recruitment.

Promotion Policies

promotion from within (PFW)
Policy of filling vacancies above entry-level positions with current employees.

Promotion from within (PFW) is the policy of filling vacancies above entry-level positions with current employees. An organization's promotion policy can have a significant impact on recruitment. A firm can stress a policy of promoting from within its own ranks or one in which positions are generally filled from outside the organization. Depending on specific circumstances, either approach may have merit, but usually a combination of the two approaches proves best.

When an organization emphasizes PFW, its workers have an incentive to strive for advancement. When employees see coworkers promoted, they become more aware of their own opportunities. General Motors and Cisco fill approximately 60 to 80 percent of their senior management positions internally.[59] As another example, employees with Royal Caribbean Cruises have the opportunity to progress over time based on performance from an entry-level position such as assistant cabin steward to an officer position. Motivation provided by PFW often improves employee morale. PFW also communicates to the workers that the firm wants them to succeed. In addition, an internal hire understands the firm's culture.

Another advantage of internal recruitment is that the organization is usually well aware of its employees' capabilities. Internal candidates have knowledge of the firm, its policies, and its people.[60] An employee's present job performance, by itself, may not be a reliable criterion for promotion. Nevertheless, management will know many of the employee's personal and job-related qualities. The employee has a track record, as opposed to being an unknown entity. Also, the company's investment in the individual may yield a higher return.

It is unlikely, however, that a firm can, or would even desire to, adhere rigidly to a practice of PFW. A strictly applied PFW policy eventually leads to inbreeding, a lack of cross-fertilization, and a lack of creativity. Although seldom achieved, a good goal would be to fill 80 percent of openings above entry-level positions from within. Frequently, new blood provides new ideas and innovation that must take place for firms to remain competitive. In such cases, even organizations with PFW policies may opt to look outside the organization for new talent. In any event, a promotion policy that first considers insiders is great for employee morale and motivation, which is beneficial to the organization.

In the following Watch It video, learn about the online fashion retailer Hautelook, which is growing quickly and needs to recruit new employees at a rapid rate. Hautelook prefers most of all to promote internal job candidates, but also to employ applicants who are most familiar with the company: ideally, previous customers. The company's methods for recruiting job applicants as well as finding the best potential employees from among its applicants are discussed.

Watch It 2
If your instructor has assigned this, go to MyManagementLab to watch a video titled Hautelook: Recruiting and respond to questions.

Overtime

Perhaps the most commonly used alternative to recruitment, especially in meeting short-term fluctuations in work volume, is overtime. Overtime may help both employer and employee. The employer benefits by avoiding recruitment, selection, and training costs. The employees gain from increased income during the overtime period.

There are potential problems with overtime, however. Some managers believe that when employees work for unusually long periods, the company pays more and receives less in return. Employees may become fatigued and lack the energy to perform at a normal rate. Two additional

possible problems relate to the use of prolonged overtime. Consciously or not, employees may pace themselves to ensure overtime. They may also become accustomed to the added income resulting from overtime pay. Employees may even elevate their standard of living to the level permitted by this additional income. Then, when a firm tightens its belt and overtime is limited, employee morale may deteriorate along with the pay.

Onshoring

onshoring
Moving jobs not to another country but to lower-cost U.S. cities.

Onshoring involves moving jobs not to another country but to lower-cost U.S. cities. Some companies might like to offshore their jobs but the government may require onshore handling of certain financial, health, and defense data. This requirement often represents more than 15 percent of all IT service work. As an example, one global company opened a midwestern U.S. facility with more than 1,000 IT service employees. Wages at the facility were 35 percent lower than at headquarters, and the company also received $50 million in government incentives.[61]

OBJECTIVE 5.10
Explain the global implications for recruitment

Global Implications for Recruitment

outsourcing
Process of hiring an external provider to do the work that was previously done internally.

Outsourcing, offshoring, and reshoring are three global activities that affect recruitment activities. **Outsourcing** is the process of hiring an external provider to do the work that was previously done internally. As a result, a company that outsources some of its work will, effectively, reduce or eliminate recruitment of individuals who would have completed work in-house. Outsourcing has become a widespread and increasingly popular alternative involving virtually every business area and has been a common practice in industry for decades. An increasing number of businesses are looking to outsource noncore services such as IT, payroll services, and fleet management to a third-party specialist.[62]

offshoring
Migration of all or a significant part of the development, maintenance, and delivery of services to a vendor located in another country.

Offshoring is the migration of all or a significant part of the development, maintenance, and delivery of services to a company located in another country. From a recruitment standpoint, the shift moves from a labor pool in the home country to labor pools in overseas countries where business is being transplanted. With rare exception, employees do not move with the jobs. Traditionally, the reason given for offshoring is to reduce costs. Today, increased quality service is also being given as reasons for offshoring.[63] Another rationale is labor cost savings because wages and salaries in many other countries, particularly in Asia, have generally been lower than in the United States.[64] Offshoring growth concentrates in information technology, software development, and innovation services (product design, research and development, and engineering services).[65] However, offshoring activities increasingly are being reversed.

reshoring
Reverse of offshoring and involves bringing work back to the United States.

Reshoring is the reverse of offshoring and involves bringing work back to the United States or to the country of origin. Advocates of reshoring believe that manufacturers should calculate the total impact of offshoring because there are often hidden expenses such as higher costs for travel, packaging, shipping, and inventory.[66] Also, rising wages in countries where wages were predominantly lower have contributed to reshoring activities.[67] Harry Moser, who has emerged as the champion of reshoring in the United States, said, "Reshoring is bringing back work, parts or tools that will finally be used in North America."[68] Reshoring has also become a part of recent labor agreements. For instance, a portion of the 2011 labor agreement between Ford Motor Company and the United Auto Workers involved Ford agreeing to reshore some work presently being done in Mexico, China, and Japan.

There are numerous examples of reshoring by U.S. firms. GE is reshoring its appliance manufacturing with an investment of about $432 million in its facilities in Kentucky, Tennessee, Alabama, and Indiana. Some of the reasons cited included rising costs for currency exchange, transportation, and labor in countries that were once much less expensive.[69] Wham-O, a company that makes inexpensive toys, recently announced it was moving 50 percent of its Frisbee and Hula Hoop production back to the United States from China and Mexico, which will create hundreds of new U.S. jobs.[70] Vaniman Manufacturing, a dental equipment producer that has been offshoring most of its sheet metal fabrication to China since 2002, is now returning to the United States. NCR Corporation, which has been producing its ATMs in China, India, and Hungary, is returning all of its production to a facility in Columbus, Georgia.[71] Lenovo, manufacturer of computers, tablets, workstations, servers, and storage, returned jobs to the United States. The following Watch It video describes Lenovo's decision to relocate jobs from China and Mexico to a new facility in North Carolina.

Watch It 3
If your instructor has assigned this, go to MyManagementLab to watch a video titled Bringing Back Jobs to the United States and respond to questions.

Summary

1. ***Define recruitment.*** *Recruitment* is the process of attracting individuals on a timely basis, in sufficient numbers, and with appropriate qualifications to apply for jobs with an organization.
2. ***Describe the recruitment process.*** Recruitment frequently begins when a manager initiates an employee requisition. Next, the firm determines whether qualified employees are available from within (the internal source) or must be recruited externally from sources such as colleges, universities, and other firms. Sources and methods are then identified.
3. ***Explain different internal recruitment methods.*** Human resource databases permit organizations to determine whether current employees possess the qualifications for filling open positions. *Job posting* is a method of internal recruitment that is used to communicate the fact that job openings exist. *Job bidding* is a system that permits individuals in an organization to apply for a specific job within the organization. *Employee referrals* involves an employee of the company recommending to management a friend or associate as a possible member of the company and continues to be the way that top performers are identified.
4. ***Identify external recruitment sources.*** External sources of recruitment include high schools and vocational schools, community colleges, colleges and universities, competitors and other firms, the unemployed, older individuals, military personnel, self-employed workers, and ex-offenders.
5. ***Explain recruiting technology.*** The world of recruiting via mobile technology is moving at lightning speed. More and more people are adopting mobile technology, and many organizations are trying to figure out how to start using mobile devices in the recruiting process.

   Some online methods include Internet recruiter, virtual job fairs, corporate career Web sites, blogs, general-purpose job boards, NACElink Network, .jobs, AllianceQ, niche sites, contract workers' sites, and hourly workers' job sites
6. ***Identify traditional external recruitment methods.*** Traditional external recruitment methods include media advertising, private employment agencies, public employment agencies, recruiters, job fairs, internships, executive search firms, professional associations, unsolicited applicants, open houses, event recruiting, sign-on bonuses, and high-tech competition.
7. ***Describe how recruitment methods and sources are tailored to each other.*** Recruitment must be tailored to the needs of each firm. In addition, recruitment sources and methods often vary according to the type of position being filled.
8. ***Summarize the environment of recruitment.*** Of particular importance to the success of recruitment is the demand for and supply of specific skills in the labor market. The recruitment method that proves to be most successful will depend to an extent on whether the recruited individual is an active or passive job seeker. Legal matters also play a significant role in recruitment practices in the United States. This is not surprising because the candidate and the employer first make contact during the recruitment process. A poorly conceived recruiting process can do much to create problems in the selection process. Therefore, it is essential for organizations to emphasize nondiscriminatory practices at this stage. The Office of Federal Contract Compliance Programs (OFCCP) has issued guidelines concerning the online recruiting policies of federal contractors and subcontractors.
9. ***Explain alternatives to recruitment.*** Even when HR planning indicates a need for additional employees, a firm may decide against increasing the size of its workforce. Recruitment and selection costs are significant when you consider all the related expenses. Alternatives include contingent workers, outsourcing, offshoring, onshoring, and overtime.
10. ***Discuss some of the global challenges in recruitment.*** *Offshoring* is the migration of all or a significant part of the development, maintenance, and delivery of services to company based in another country. This requires employers to become familiar with and understand the labor market in other countries and acceptable recruitment practices. *Reshoring* is the reverse of offshoring and involves bringing work back to the United States. Advocates of reshoring believe that manufacturers should calculate the real impact of offshoring because there are often hidden expenses such as higher costs for travel, packaging, shipping, and inventory.

Key Terms

recruitment 131
employee requisition 131
recruitment sources 131
recruitment methods 131
job posting 132
job bidding 132
employee referral 133
Internet recruiter 138
contingent workers 140
virtual job fair 138
corporate career Web sites 138
NACElink Network 139
.jobs 139
AllianceQ 139
niche sites 139
job fair 143
internship 143
event recruiting 144
active job seekers 147
passive job seekers 147
promotion from within (PFW) 148
outsourcing 149
offshoring 149
onshoring 149
reshoring 149

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Exercises

5-1. Contingent workers are seen as a valuable resource to employers. Describe the conditions under which contingent workers are likely to be most highly valued by employers. Also, do you believe that employers will replace many of their full-time workers with contingent workers? Explain your answer.

5-2. You see the following ad in your local newspaper: Telephone sales: Woman, age 25–40, needed for telephone sales. Selected applicant must have high school diploma and good credit rating. Call Mr. Smith at Acme Manufacturing Co., Inc. Are there possibly hiring standards to avoid in this ad? Discuss.

✪ **5-3.** The process of matching sources and methods of recruitment was discussed in this chapter. For the following positions, match sources and methods. Assume that in all cases you must use external recruitment to fill the position. Justify your choices.

a. Computer programmer
b. Maintenance worker
c. Illustrator
d. Postdoctoral researcher
e. CEO

Questions for Review

5-4. What is employee requisition?

✪ **5-5.** What are factors external to the organization that can significantly affect the firm's recruitment efforts?

5-6. How has social media emerged as an important force in recruiting?

5-7. What is an internship?

5-8. Distinguish between recruitment sources and recruitment methods.

5-9. What are some internal recruitment methods?

5-10. Why is employee referral so important in the recruitment process?

5-11. What traditional external methods of recruitment are available?

5-12. What external sources of recruitment are available?

5-13. What might be some advantages of using mobile recruiting?

5-14. What online recruitment methods are available?

✪ **5-15.** What are the typical alternatives to recruitment that a firm may use?

5-16. What is meant by the policy of *promotion from within*?

5-17. Define offshoring and explain the difference between offshoring and onshoring.

INCIDENT 1 A Problem Ad?

Dorothy Bryant was the new recruiting supervisor for International Manufacturing Company in Salt Lake City, Utah. One of Dorothy's first assignments was to recruit two software design engineers for International. Design engineers are hard to recruit because of the difficulty of their training and the high demand for them. After considering various recruitment alternatives, Dorothy placed the following ad in a local newspaper with a circulation in excess of 1,000,000:

Employment Opportunity for Software Design Engineers

2 positions available for engineers desiring career in growth industry.

Prefer recent college graduates with good appearance.

Good credit rating

Apply Today! Send your résumé,

in confidence, to: D. A. Bryant

International Manufacturing Co., P.O. Box 1515

Salt Lake City, UT 84115

More than 300 applications arrived in the first week, and Dorothy was elated. When she reviewed the applicants, however, it appeared that few people possessed the desired qualifications for the job.

Questions

5-18. Dorothy overlooked some of the proper recruiting practices, which resulted in an excessive number of unqualified people applying. What are they?

5-19. Are there any hiring standards that should be avoided? Identify them and explain why they should be avoided.

5-20. What recruitment sources and methods might have been used to have generated a better applicant pool for the two software design engineer positions for International Manufacturing? Defend your recommendations.

INCIDENT 2 I Am Qualified, Why Not Me?

Five years ago when Bobby Bret joined Crystal Productions as a junior accountant, he felt that he was on his way up. He had just graduated with a B+ average from college, where he was well liked by his peers and by the faculty and had been an officer in several student organizations. Bobby had shown a natural ability to get along with people as well as to get things done. He remembered what Roger Friedman, the controller at Crystal, had told him when he was hired: "I think you will do well here, Bobby. You've come highly recommended. You are the kind of guy that can expect to move right on up the ladder."

Bobby felt that he had done a good job at Crystal, and everybody seemed to like him. In addition, his performance appraisals had been excellent. However, after five years he was still a junior accountant. He had applied for two senior accountant positions that had opened, but they were both filled by people hired from outside the firm. When the accounting supervisor's job came open two years ago, Bobby had not applied. He was surprised when his new boss turned out to be a hotshot graduate of State University whose only experience was three years with a large accounting firm. Bobby had hoped that Ron Greene, a senior accountant he particularly respected, would get the job.

On the fifth anniversary of his employment at Crystal, Bobby decided it was time to do something. He made an appointment with the controller. At that meeting Bobby explained to Mr. Friedman that he had worked hard to obtain a promotion and shared his frustration about having been in the same job for so long. "Well," said Mr. Friedman, "you don't think that you were all that much better qualified than the people that we have hired, do you?" "No," said Bobby, "but I think I could have handled the senior accountant job. Of course, the people you have hired are doing a great job too." The controller responded, "We just look at the qualifications of all the applicants for each job, and considering everything, try to make a reasonable decision."

Questions

5-21. Do you believe that Bobby has a legitimate complaint? Explain.

5-22. Explain the benefits of a promotion from within policy. Would such a policy be appropriate for Crystal?

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5-23. Why might a firm want to use contingent workers as opposed to full-time employees?

5-24. Why is it important to match sources and methods of recruitment?

Endnotes

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6 Selection

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Explain the significance of employee selection.
2. Describe the selection process.
3. Explain the importance of preliminary screening.
4. Describe reviewing applications and résumés.
5. Describe the use of tests in the selection process.
6. Explain the use of the employment interview.
7. Explain pre-employment screening and background checks.
8. Describe the selection decision.
9. Describe the metrics for evaluating recruitment/selection effectiveness.
10. Identify environmental factors that affect the selection process.
11. Discuss selection in a global environment.

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OBJECTIVE 6.1

Explain the significance of employee selection.

Significance of Employee Selection

selection
Process of choosing from a group of applicants the individual best suited for a particular position and the organization.

Selection is the process of choosing from a group of applicants the individual best suited for a particular position and the organization (optimal types and levels of human capital). Properly matching people with jobs and the organization is the goal of the selection process. If individuals are overqualified, underqualified, or for any reason do not fit either the job or the organization's culture, they will be ineffective and probably leave the firm, voluntarily or otherwise. There are many ways to improve productivity, but none is more powerful than making the right hiring decision. A firm that selects high-quality employees reaps substantial benefits, which recur every year the employee is on the payroll. On the other hand, poor selection decisions can cause irreparable damage. A bad hire can negatively affect the morale of the entire staff, especially in a position where teamwork is critical.

Many companies would rather go short and work overtime than hire one bad apple. If a firm hires many bad apples, it cannot be successful for long even if it has perfect plans, a sound organizational structure, and finely tuned control systems. Competent people must be available to ensure the attainment of organizational goals. Today, with many firms having access to the same technology, *people* make the real difference.

OBJECTIVE 6.2

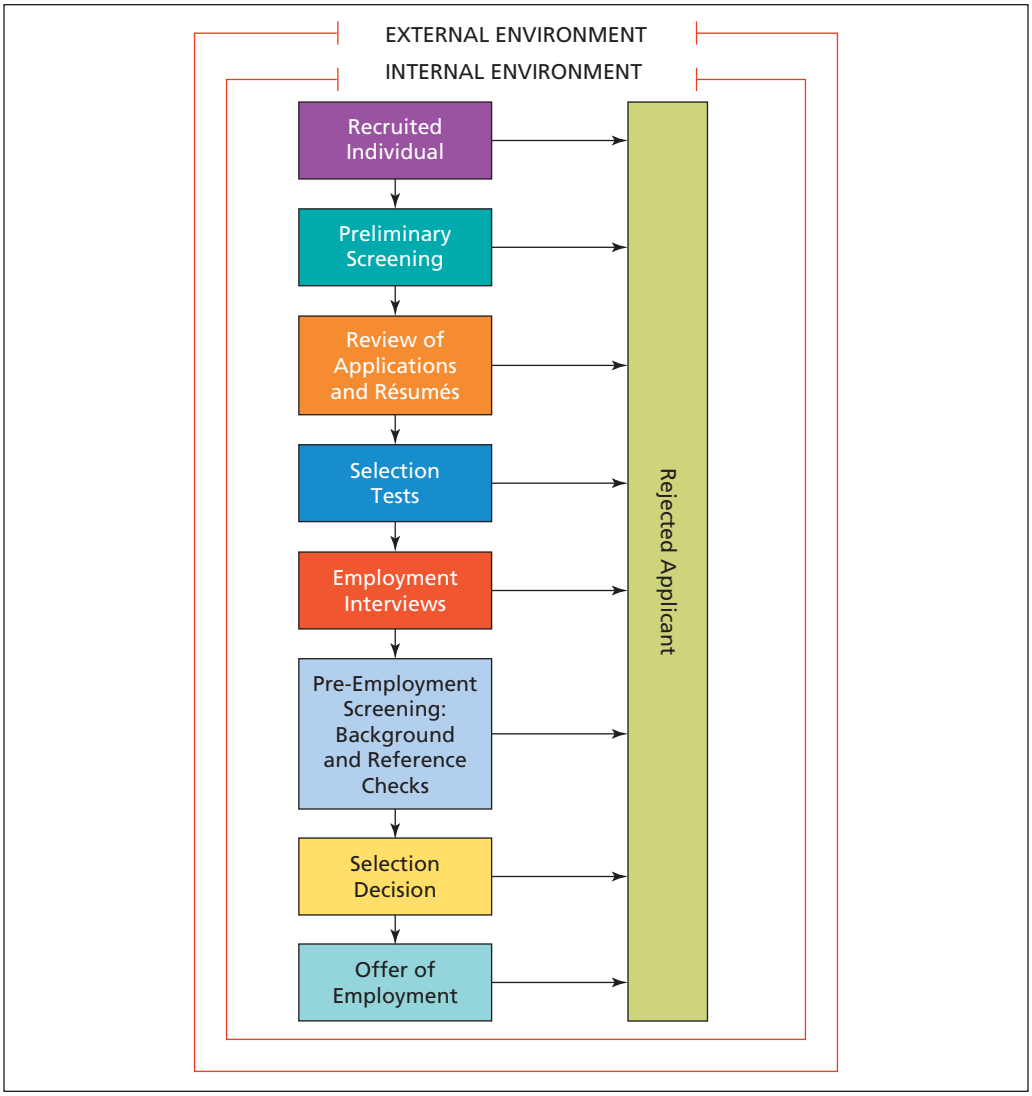
Describe the selection process.

Selection Process

Companies make selection decisions to determine whether individuals who were identified through the selection process will be offered employment. Figure 6-1 illustrates a generalized selection process, but it may vary from company to company and also according to the type of job being filled. This process typically begins with preliminary screening. Next, applicants complete the firm's application for employment or provide a résumé. Then they progress through a series of selection tests, one or more employment interviews, and pre-employment screening, including background and reference checks. The hiring manager then offers the successful applicant a job, subject to successful completion of a medical examination. Notice that an applicant may be rejected or opt out at any time during the selection process. To a point, the more screening tools used to assess an applicant, the greater the chance of making a good selection decision. A good selection decision results in either one of two outcomes. First, job candidates who do not meet the standard for employment are not offered employment. Second, job candidates who do meet the standard for employment are offered employment, and those individuals accept the company's offer of employment.



FIGURE 6-1
Selection Process



OBJECTIVE 6.3

Explain the importance of preliminary screening.

preliminary screening
In employee selection, a review to eliminate those who obviously do not meet the position's requirements.

Preliminary Screening

The selection process often begins with preliminary screening. The basic purpose of **preliminary screening** is to eliminate those who obviously do not meet the position's requirements. Preliminary screening may take the form of reviewing for obviously unqualified applicants with a brief interview, test, or only a review of the application or résumé for clear mismatches. In addition to eliminating clearly unqualified job applicants quickly, preliminary screening may produce other positive benefits for the firm. It is possible that the position for which the applicant applied is not the only one available. If the person doing the screening knows about other vacancies in the firm, he or she may be able to steer the prospective employee to another position. For instance, the assessor may decide that although an applicant is not a good fit for the applications-engineering job, she is an excellent candidate for an internal research-and-development position. This type of assessment not only builds goodwill for the firm but also can maximize recruitment and selection effectiveness.

At times a short test may be administered to determine if a person should proceed in the selection process. For example, in the recruitment of sales representatives, a brief sales aptitude test may be given to determine if the applicant has a talent or interest in sales. Then the company knows that the people they interview are already more likely to succeed in the role. By conducting a quick assessment before scheduling interviews, the company is more likely to hire people who will add value to the organization.

OBJECTIVE 6.4
Discuss reviewing applications and résumés.

Review of Applications and Review of Résumés

Having the candidate complete an application for employment is another early step in the selection process. This may either precede or follow preliminary screening. The employer then evaluates it to see whether there is an apparent match between the individual and the position. A well-designed and properly used application form can be helpful because essential information is included and presented in a standardized format. Completion of an application may not be initially required for many management and professional positions. In these cases, a résumé may suffice. A complete application usually is obtained at a later time often for job candidates who have successfully passed the initial screening process and for whom the company intends to further consider for employment.

The specific information requested on an application form may vary from firm to firm, and even by job type within an organization. An application typically contains sections for name, address, telephone number, e-mail address, military service, education, and work history. Managers compare the information contained in a completed application to the job description to determine whether a potential match exists between the firm's requirements and the applicant's qualifications. As you might expect, this judgment is often difficult.

Several preprinted statements are usually included on the application form. First, by signing the form, the applicant certifies that information provided on the form is accurate and true. Employers will likely reject candidates who make false claims for major issues. Candidates may be terminated after employment if they made any representation or statement that was not accurate or if they did not disclose matters that might significantly prejudice the employer's hiring decision. Second, when not prohibited by state law, the form should also state that a condition of employment is employment-at-will. *Employment-at-will* is a policy that either the employer or the employee can terminate employment at any time for any reason. Finally, the form should contain a statement whereby the candidate gives permission to have his or her background and references checked.

An employment application form must reflect not only the firm's informational needs but also legal requirements. Potentially discriminatory questions inquiring about such factors as gender, race, age, convictions, national origin, citizenship, birthplace, dependents, disabilities, religion, color, and marital status should be avoided.

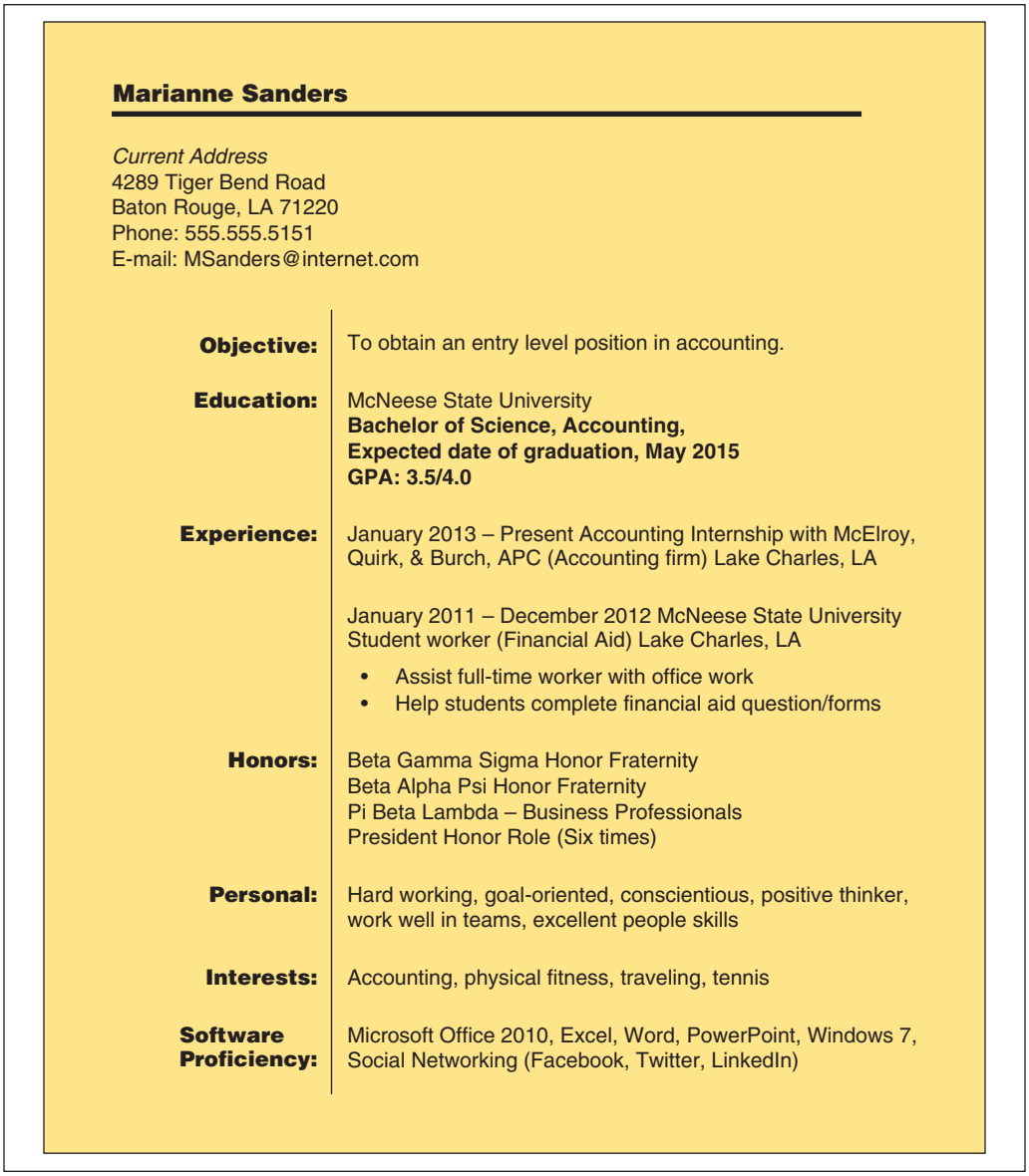
Applicants sometimes deliberately leave out information on the application that may present them in a negative light. To combat this, many employers are requiring applicants to use online applications that force a person to complete a required field before the application is successfully submitted. In fact, corporations have increasingly declined to accept a printed résumé and applicants are directed to company Web sites for employment application and résumé submission.

résumé
Goal-directed summary of a person's experience, education, and training developed for use in the selection process.

A **résumé** is a goal-directed summary of a person's experience, education, and training developed for use in the selection process. Professional and managerial applicants often begin the selection process by submitting a résumé. Figure 6-2 illustrates a traditional résumé. Note that the résumé includes the career objective for the specific position the applicant is seeking (a curriculum vitae does not contain a career objective). Some human resources (HR) professionals suggest that a professional summary at the beginning of the résumé is more useful to the recruiter. However, young job seekers with little work experience may be best served by using a career objective statement. The remainder of the résumé should be directed toward showing how a person has the skills and competencies necessary to accomplish the position identified in the career objective statement.[1] Using keywords from the job description or employment ad will help an applicant get past the résumé-scanning programs many firms use.[2] Only information necessary to show a relationship to the objective should be included. The all-important concept of relevancy is crucial in selling the applicant to the company. A new trend that has evolved over time is that the content of the résumé is more important than fitting an applicant's entire career onto one page. Historically, a one-page résumé was the standard that applicants were told to use.

In developing a résumé, the sender should be careful not to misrepresent the truth. An applicant who has three credit hours to meet graduation requirements has not graduated, and therefore, does not possess the degree for which she or he is studying. Certainly, the résumé should be designed to present the applicant in a positive light but without exaggeration. With regard to job

FIGURE 6-2
Example of a Traditional Résumé



Marianne Sanders

Current Address
4289 Tiger Bend Road
Baton Rouge, LA 71220
Phone: 555.555.5151
E-mail: MSanders@internet.com

Objective:	To obtain an entry level position in accounting.
Education:	McNeese State University **Bachelor of Science, Accounting,** **Expected date of graduation, May 2015** **GPA: 3.5/4.0**
Experience:	January 2013 – Present Accounting Internship with McElroy, Quirk, & Burch, APC (Accounting firm) Lake Charles, LA January 2011 – December 2012 McNeese State University Student worker (Financial Aid) Lake Charles, LA • Assist full-time worker with office work • Help students complete financial aid question/forms
Honors:	Beta Gamma Sigma Honor Fraternity Beta Alpha Psi Honor Fraternity Pi Beta Lambda – Business Professionals President Honor Role (Six times)
Personal:	Hard working, goal-oriented, conscientious, positive thinker, work well in teams, excellent people skills
Interests:	Accounting, physical fitness, traveling, tennis
Software Proficiency:	Microsoft Office 2010, Excel, Word, PowerPoint, Windows 7, Social Networking (Facebook, Twitter, LinkedIn)

history, dates of employment should be accurate. It goes without saying that résumés should not contain grammar and spelling errors. The résumé should show that the applicant has an understanding of the job and how his or her work history can assist in accomplishing the job.

When sending a résumé via the Internet, applicants should realize that most large companies now use applicant-tracking systems. These systems assume a certain résumé style. Résumés that deviate from the assumed style are ignored or deleted. These systems scan résumés into databases, search the databases on command, and rank the résumés according to the number of resulting "hits" they receive. At times such searches use multiple (10–20) criteria. Some systems flag résumés that appear to misrepresent the truth, present misleading information, or are in other ways suspicious.

keyword résumé
Résumé that contains an adequate description of the job seeker's characteristics and industry-specific experience presented in keyword terms in order to accommodate the computer search process.

keywords
Words or phrases that are used to search databases for résumés that match.

The use of applicant-tracking systems coupled with the downsizing of HR departments has resulted in a situation in which many résumés are never seen by human eyes once they enter the system. Therefore, a job applicant should make his or her résumé as computer/scanner friendly as possible so that its life in a database will be extended. Even if you are a perfect match for the job, your résumé may never get to someone who could decipher your potential value. To make the process work, a keyword résumé style should be used. **Keywords** refer to those words or phrases that are used to search databases for résumés that match. A **keyword résumé** contains an adequate description of the job seeker's characteristics and industry-specific experience



ETHICAL DILEMMA

Employee Selection Criteria?

You are the newly appointed sales manager for a large manufacturing organization that has been struggling of late, even though your region is the firm's most successful one. Your office is located in a very close-knit community where people place a high value on local basketball. In fact, it didn't take you long to realize that to most people, local basketball is even more important than the Super Bowl. While you were watching a game the other night with your biggest customer, who purchases almost 40 percent of your yearly volume, he told you that the star on the team may soon be leaving the community because his father was laid off. He has heard that your region has an opening for a sales representative, and he asks you to hire the boy's father. You tell him that you will be glad to review the man's résumé, but you think that you have already found an extremely qualified person.

As you are reviewing the résumé of your customer's recommended candidate the next day, the person you are replacing comes by the office to say good-bye. In the conversation he mentions that in this town, people do each other favors, and that is how they build trust. He also tells you that if the boy's father is not hired, the firm may lose most, if not all, of the buyer's business. That is quite a shock because you realize that the customer's candidate lacks some qualifications for the position.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

presented in keyword terms to accommodate the computer search process. The keywords are often job titles, skills, or areas of expertise related to the position. Keywords tend to be more of the noun or noun-phrase type (Office 2013, Windows 8, UNIX, Biochemist) as opposed to power action verbs often found in traditional résumés (developed, coordinated, empowered, organized). Another way to look at keyword phrases is to think in terms of job duties. The terms employers search for most often are problem solving and decision making, oral and written communication, customer service or retention, performance and productivity improvement, leadership, technology, team building, project management, and bilingual.

Applicants should study the job posting and industry ads to get an overview of the phrases that keep reappearing. Detailing an individual's job duties may require a change in mind-set away from traditional résumé writing. Recruiters should be mindful that applicants have gotten smarter in résumé preparation and at times include words that hardly resemble their past accomplishment.

OBJECTIVE **6.5**

Describe the use of tests in the selection process.

Selection Tests

Tests are essential components of employee selection. There are many considerations, including advantages and disadvantages, property of tests, validation approaches, and test type.

Preliminary Considerations

Recognizing the shortcomings of other selection tools, many firms have added selection tests to their hiring process. These tests rate factors such as aptitude, personality, abilities, and motivation of potential employees, allowing managers to choose candidates according to how they will fit into the open positions and corporate culture. However, tests alone are not enough to make a sufficient evaluation of a candidate because they are not fool proof. Firms need to use them in conjunction with other selection tools such as reference checks and interviews.

Advantages and Disadvantages of Selection Tests

Research indicates that customized tests can be a reliable and accurate means to predict on-the-job performance.[3] Organizations use tests to identify attitudes and job-related skills that interviews cannot recognize. Also, the cost of employment testing is small in comparison to ultimate hiring costs. They are a more efficient way to get at information that results in better-qualified people being hired.

Job performance depends on an individual's ability and motivation to do the work. Selection tests may accurately predict an applicant's ability to perform the job, the "can do," but they are

less successful in indicating the extent to which the individual will be motivated to perform it, the "will do." The most successful employees are likely to have two things in common: they identify with their firm's goals, and they are highly motivated. For one reason or another, some employees with high potential never seem to reach it. The factors related to success on the job are so numerous and complex that selection may always be more of an art than a science.

Employers should be aware that tests might be unintentionally discriminatory. Office of Federal Contract Compliance Programs (OFCCP) former director Charles E. James Sr. said, "Testing is a 'necessary business tool' to help employers select qualified candidates. Hiring the wrong person puts your company at risk. The key is to make the test fit the job you're using it for."[4] When a test excludes a protected class at a significant rate, the test should be avoided unless the employer can show that the test is job related for the position in question and consistent with business necessity. Using selection tests carries with it legal liabilities of two types. One is a lawsuit from rejected applicants who claim a test was not job related or that it unfairly discriminated against a protected group, violating federal employment laws. The second potential legal problem relates to *negligent hiring* lawsuits filed by victims of employee misbehavior or incompetence (a topic discussed later in this chapter).

Test anxiety can also be a problem. Applicants often become quite anxious when confronting yet another hurdle that might eliminate them from consideration. The test administrator's reassuring manner and a well-organized testing operation should serve to reduce this threat. Actually, although a great deal of anxiety is detrimental to test performance, a slight degree is helpful.

The problems of hiring unqualified or less-qualified candidates and rejecting qualified candidates will continue regardless of the procedures followed. Well-developed tests administered by competent professionals help organizations minimize such consequences.

Characteristics of Properly Designed Selection Tests

Properly designed selection tests are standardized, objective, based on sound norms, reliable, and of utmost importance, valid. These concepts and the application of these concepts are discussed next.

standardization
Uniformity of the procedures and conditions related to administering tests.

STANDARDIZATION The uniformity of the procedures and conditions related to administering tests is **standardization**. To compare the performance of several applicants taking the same test, it is necessary for all to take the same test under conditions that are as identical as possible. For example, the content of instructions provided and the time allowed must be the same, and the physical environment must be similar. If one person takes a test in a room with jackhammers operating just outside and another takes it in a more tranquil environment, differences in test results are likely.

objectivity
Condition that is achieved when everyone scoring a given test obtains the same results.

OBJECTIVITY In testing, **objectivity** occurs when everyone scoring a test obtains the same results. Multiple-choice and true–false tests are objective. The person taking the test either chooses the correct answer or does not.

norm
Frame of reference for comparing an applicant's performance with that of others.

NORMS A frame of reference for comparing an applicant's performance with that of others is a **norm**. Specifically, a norm reflects the distribution of many scores obtained by people similar to the applicant being tested. A score by itself is insignificant. It becomes meaningful only when compared with other applicants' scores. To better understand this important concept, think about one of the standardized tests required for college admission such as the ACT or SAT. For example, scores of 400 and 700 have limited usefulness. At best, they indicate that the applicant who scored 700 answered more questions correctly than the applicant who scored 400, and this conclusion might favor admission for the higher score. However, a comparison of raw test scores does not inform college admissions committees about how well these individuals performed relative to everyone who took this test. A more useful metric is to convert the raw scores into percentile rankings. For example, a percentile ranking of 90 tells admissions committees that the raw scores earned by those in this percentile ranking exceed 90 percent of the scores of other test takers.

When a sufficient number of employees are performing the same or similar work, employers can standardize their own tests. Typically, this is not the case, and a national norm for a particular test is used. A prospective employee takes the test, the score obtained is compared to the norm, and the significance of the test score is then determined.

reliability
Extent to which a selection test provides consistent results.

RELIABILITY The extent to which a selection test provides consistent results is **reliability**. For example, if a person were to take the same test of personality several times and received highly similar scores (consistent results), this personality test would be judged to be reliable. Reliability data reveal the degree of confidence placed in a test. For example, if a person scores 130 on a certain test of conscientiousness this week and retakes the test next week and scores 80, the test reliability would likely be low. Tests with low reliability have implications for validity. For example, if a test has low reliability, its validity (accuracy) as a predictor (for example, of job performance) will also be low. If after scoring 130 the first week a person scores another 130 the second week, the test is reliable. However, the existence of reliability alone does not guarantee the test's validity.

Reliability is expressed as a correlation coefficient. A correlation coefficient shows the strength and direction of the relationship between two variables, for example, personality measured at time 1 (say, on February 1, 2014) and the same personality test measured at a later time, time 2 (say, on December 1, 2014). Correlation coefficients can range between –1.0 and +1.0. In the cases of –1.0 and +1.0, there is evidence of perfect correlation. For example, when the correlation coefficient is +1.0, for every 1-unit change in personality test score at time 1, we see a corresponding 1-unit *increase* in personality score at time 2. When the correlation coefficient is –1.0, for every 1-unit change in personality score assessed at time 1, we see a corresponding 1-unit *decrease* in personality measured at time 2. When the correlation coefficient equals 0, then there is no correspondence between changes in scores on the personality test at times 1 and 2. In the selection context, we hope to obtain correlations equal to +1.0. In reality, correlation coefficients fall somewhere between these scores, which allows us to talk about the reliability of the test in terms of *degrees* of reliability. The goal is to obtain positive correlations that are as close to 1.0 as possible. Correlations equal to zero or thereabouts have no utility as a selection tool. That is, such tests do not aid in the selection process.

validity
Extent to which a test measures what it claims to measure.

VALIDITY The basic requirement for a selection test is that it be valid. **Validity** is the extent to which a test measures what it claims to measure. If a test cannot indicate ability to perform the job, it has no value. And if used, it will result in poor hiring decisions and a potential legal liability for the employer.

Title VII requires the test to work without having an adverse impact on minorities, females, and individuals with backgrounds or characteristics protected under the law. If using the test results in an adverse impact on certain members of protected groups, the firm must have a compelling reason why it is used; that is, it must validate the test. Employers are not required to validate their selection tests automatically.

Test Validation Approaches

The *Uniform Guidelines on Employee Selection Procedures* established three approaches to validating selection tests: criterion-related validity, content validity, and construct validity.

criterion-related validity
Test validation method that compares the scores on selection tests to some aspect of job performance determined, for example, by performance appraisal.

CRITERION-RELATED VALIDITY A test validation method that compares the scores on selection tests to some aspect of job performance determined, for example, by performance appraisal is **criterion-related validity**. Performance measures might include quantity and quality of work, turnover, and absenteeism. A close relationship between the score on the test and job performance suggests that the test is valid. The two basic forms of criterion-related validity are concurrent and predictive validity.

Concurrent validity is determined when the firm obtains test scores and the criterion data at essentially the same time. For instance, it administers the test to all currently employed telemarketers and compares the results with company records that contain current information about each employee's job performance. If the test is able to identify productive and less productive workers, one could say that it is valid. A potential problem in using this validation procedure results from changes that may have occurred within the work group. For example, firms may have fired the less productive workers, and promoted the more productive employees out of the group.

Predictive validity involves administering a test and later obtaining the criterion information. For instance, all applicants take the test but the firm uses other selection criteria, not the test results, to make the selection decision. After observing employee performance over time, the company analyzes test results to determine whether they differentiate the successful and less successful employees.

content validity
Test validation method whereby a person performs certain tasks that are actually required by the job or completes a paper-and-pencil test that measures relevant job knowledge.

construct validity
Test validation method that determines whether a test measures certain constructs, or traits, that job analysis finds to be important in performing a job.

aptitude tests
A test of how well a person can learn or acquire skills or abilities.

achievement tests
A test of current knowledge and skills.

cognitive ability tests
Tests that determine general reasoning ability, memory, vocabulary, verbal fluency, and numerical ability.

personality
Individual differences in characteristic patterns of thinking, feeling, and behaving.

personality tests
Self-reported measures of traits, temperaments, or dispositions.

CONTENT VALIDITY A test validation method whereby a person performs certain tasks that are actually required by the job or completes a paper-and-pencil test that measures relevant job knowledge is **content validity**. Although statistical concepts are not involved, many practitioners believe that content validity provides a sensible approach to validating a selection test. This form of validation requires thorough job analysis and carefully prepared job descriptions. An example of the use of content validity is giving a word-processing test to an applicant whose primary job would be word processing. Court decisions have supported the concept of content validity.

CONSTRUCT VALIDITY A test validation method that determines whether a test measures certain constructs, or traits, that job analysis finds to be important in performing a job is **construct validity**. For instance, a job may require a high degree of creativity or reasoning ability. Or a sales representative position may require the applicant to be extroverted and aggressive. Construct validity in and of itself is not a primary method for validating selection tests.

Employment Tests

Individuals differ in characteristics related to job performance. Broadly, tests fall into one of two categories: aptitude tests and achievement tests. **Aptitude tests** measure how well a person can learn or acquire skills or abilities. **Achievement tests** assess a person's current knowledge and skills. These differences, which are measurable, relate to cognitive abilities, psychomotor abilities, job knowledge, work samples, and personality.

COGNITIVE ABILITY TESTS Tests that determine general reasoning ability, memory, vocabulary, verbal fluency, and numerical ability are **cognitive ability tests**.

Cognitive ability tests are a form of IQ tests and these measure the capacity of an individual to learn at higher levels of difficulty (for example, learning to write at the fifth-grade level and learning to write at the college level). As the content of jobs becomes broader and more fluid, employees must be able to adapt quickly to job changes and rapid technological advances. It is likely that testing will be necessary to match the broader range of characteristics required for successful performance of these flexible jobs. The NFL uses the Wonderlic Personnel Test, which is designed as a way to measure cognitive ability, the applicant's natural aptitude for learning new information.

PSYCHOMOTOR ABILITIES TESTS Psychomotor abilities refer to the capacity to connect brain or cognitive functions and functions of the body such as physical strength. An example of a psychomotor ability is reaction time, which is defined as "the ability to quickly respond (with the hand, finger, or foot) to a signal (sound, light, picture) when it appears."[5]

PERSONALITY TESTS According to the American Psychological Association, "**personality** refers to individual differences in characteristic patterns of thinking, feeling and behaving. The study of personality focuses on two broad areas: One is understanding individual differences in particular personality characteristics, such as sociability or irritability. The other is understanding how the various parts of a person come together as a whole."[6] Self-reported measures of temperaments, or dispositions, are **personality tests**. For example, health-care social workers "Job requires being reliable, responsible, and dependable, and fulfilling obligations."[7] Personality tests, unlike ability tests, are not time constrained and do not measure specific problem-solving skills. These questionnaires tap into areas, such as leadership, teamwork, and personal assertiveness. A properly designed personality profile can measure and match the appropriate personality dimensions to the requirements of the job.

Most large companies now use psychometric testing to identify future managers. These individuals are being assessed for their ability to bring about long-term change and their ability to handle day-to-day management tasks. Generally, fire departments and law enforcement agencies use the Minnesota Multiphasic Personality Inventory (MMPI) test, which consists of 567 statements that help to determine a subject's degree of paranoia, depression, mania, or anxiety. In police departments the MMPI is used to detect the inclination toward substance abuse. These types of tests are typically used in the early stage of the selection process.

Integrity tests represent a specific type of personality attribute. Integrity refers to "being honest and ethical."[8] Employers have used them to measure candidates' attitudes toward theft, dishonesty, absenteeism, violence, drug use, alcohol abuse, and other counterproductive behaviors.

Retail stores, nuclear plants, law enforcement agencies, and child-care facilities typically use integrity tests. Research has shown that integrity tests have high validity for predicting undesirable behaviors at work.[9] Because the polygraph test (discussed later) has been effectively banned in the private sector as a hiring tool, integrity tests have often been used to detect dishonesty in candidates.

As the previous discussion indicates, many companies consider a variety of factors before offering employment. Rudi's Organic Bakery discusses the elements and dimensions they look for in potential employees. In addition to looking at a candidate's "ability" (mental horsepower to understand and process information and find solutions to problems), which comes from experience, they are also looking at "personality" (how motivated a person is and how they will interact as part of a team). Besides "technical fit"—a background in food science—the company is looking for how an individual will fit into the company's organizational culture and wants individuals who are reliable, positive, team players, and proactive. The following Watch It video describes Rudi Bakery's employee selection considerations.

Watch It 1
If your instructor has assigned this, go to MyManagementLab to watch a video titled Rudi's Bakery: Ability and Testing and respond to questions.

CH2M Hill is another example of a company that considers both ability and personality in their selection process. An employee from CH2M Hill, an industry-leading and global project delivery engineering firm, discusses key indicators that they look for in potential employees—from ability (technical fit) to personality (organizational fit) and why these indicators are essential to finding the right candidate for the job.

Watch It 2
If your instructor has assigned this, go to MyManagementLab to watch a video titled CH2M Hill's and respond to questions.

job-knowledge tests
Tests designed to measure a candidate's knowledge of the duties of the job for which he or she is applying.

JOB-KNOWLEDGE TESTS Tests that measure a candidate's knowledge of the duties of the job for which he or she is applying are **job-knowledge tests**. For example, lawyers must have knowledge of law and government, which is defined as "Knowledge of laws, legal codes, court procedures, precedents, government regulations, executive orders, agency rules, and the democratic political process."[10] Such tests are commercially available but individual firms may also design them specifically for any job, based on data derived from job analysis.

work-sample tests
Tests that require an applicant to perform a task or set of tasks representative of the job.

JOB PERFORMANCE AND WORK-SAMPLES Tests that require an applicant to perform a task or set of tasks representative of the job are **work-sample tests**. For positions that require heavy use of spreadsheets, having the applicant construct a sample spreadsheet, with data the firm provides, will be useful in assessing a required ability. Electrical and electronic equipment assemblers "position, align, or adjust work pieces or electrical parts to facilitate wiring or assembly."[11] Such tests, by their nature, are job related. A real test of validity, in the opinion of some experts, should be a performance assessment: take individuals to a job and give them the opportunity to perform it.

assessment center
Selection technique that requires individuals to perform activities similar to those they might encounter in an actual job.

An **assessment center** is a selection approach that requires individuals to perform activities similar to those they might encounter in an actual job. The assessment center is one of the most powerful tools for assessing managerial talent because it is designed to determine if they will be effective in performing a specific job. Research has established the validity of the assessment center approach to predicting performance. Many of the top companies in the United States have set up assessment centers where they can first interview potential employees and then evaluate them in real work situations. It provides an excellent way to determine an individual's capabilities to perform an entry-level management job.

In an assessment center, candidates perform a number of exercises that simulate the tasks they will carry out in the job they seek. Typical assessment center tests include having applicants complete *in-basket exercises* and perform in *management games*, *leaderless discussion groups*, *mock interviews*, and other simulations. The traditional in-basket exercise has received a technological boost by replacing the paper memos with e-mail messages, faxes, tweets, or voice mail. Assessment centers measure candidates' skills in prioritizing, delegating, and decision making. The professional assessors who evaluate the candidates' performances usually observe them away from the workplace over a certain period of time, perhaps a single day. The assessors selected are typically experienced managers who may not only evaluate performance but also participate in the exercises.

An advantage of the assessment center approach is the increased reliability and validity of the information provided. Research has shown that the in-basket exercise, a typical component of assessment centers, is a good predictor of management performance. Its validity provides an alternative to paper-and-pencil tests.



HR Web Wisdom

Genetic Testing

http://ghr.nlm.nih.gov/

A guide to understanding genetic conditions.

Unique Forms of Testing

genetic tests
Tests given to identify predisposition to inherited diseases, including cancer, heart disease, neurological disorders, and congenital diseases.

GENETIC TESTING Tests performed to identify predisposition to inherited diseases, including cancer, heart disease, neurological disorders, and congenital diseases are **genetic tests**. DNA-testing companies can tell us our potential risk for breast cancer, cystic fibrosis, Alzheimer's disease, and other common chronic conditions. Scientists have assembled the entire set of genetic instructions for building a human body, and world leaders likened this achievement to putting a human being on the moon. This brings both hope and concerns to the forefront in employment testing.

Genetic tests may predict a predisposition to having a disease. However, such tests cannot tell whether a person is certain to get the disease or when he or she would become ill. In addition, everyone has some disposition to genetic disease and a genetic predisposition is not the same as a preexisting condition.

The Equal Employment Opportunity Commission (EEOC) has issued guidelines stating that healthy individuals with a genetic predisposition to a disease, and thus perceived as disabled, are protected by the Americans with Disabilities Act (ADA). The Genetic Information Nondiscrimination Act (GINA) of 2008 is designed to prohibit the improper use of genetic information in health insurance and employment. Recently the EEOC issued a final regulation, which generally bars employers, unions, employment agencies, and joint apprenticeship programs from requesting, requiring, or purchasing an individual's genetic information and making employment decisions based on such data.[12]

graphoanalysis
Use of handwriting analysis as a selection factor.

GRAPHOANALYSIS (HANDWRITING ANALYSIS) The use of handwriting analysis as a selection factor is **graphoanalysis**. Many in the United States view handwriting analysis in the same context as psychic readings or astrology. In Europe, however, many employers use graphoanalysis to help screen and place job applicants. It is not unusual for European companies to have full-time handwriting analysts on staff. With graphoanalysis, every stroke of handwriting has a meaning that can be understood only within the context of the other strokes present in the handwriting.

Although no definitive study exists on the extent of its use in the United States, according to some handwriting experts, graphoanalysis is becoming more common. A basic reason for the reluctance of U.S. employers to use this approach appears to be a concern over the ability to validate such tests. And there is little research demonstrating the effectiveness of graphology in employee selection. This and the worry about possible legal action seem to make many U.S. employers wary of the process.

POLYGRAPH TESTS For many years, another means used to verify background information was the polygraph, or lie-detector test. One purpose of the polygraph was to confirm or refute the information contained in a candidate's application. However, the Employee Polygraph Protection Act of 1988 severely limited the use of polygraph tests in the private sector. It made unlawful the use of a polygraph test by any employer engaged in interstate commerce. However, the act does not apply to governmental employers, and there are other limited exceptions. Even here, the technology has been found to be flawed. Effective techniques for beating lie detectors, which only measure stress and anxiety, have been developed and are available for use.

The act permits use of polygraph tests in the private sector in screening certain prospective employees for security service firms and pharmaceutical manufacturers, distributors, and

dispensers. The act also permits, with certain restrictions, polygraph testing of certain employees reasonably suspected of involvement in a workplace incident, such as theft or embezzlement. Persons who take polygraph tests have a number of specific rights. For example, they have the right to a written notice before testing, the right to refuse or discontinue a test, and the right not to have test results disclosed to unauthorized persons.

OBJECTIVE 6.6

Explain the use of the employment interview.

Employment Interview

employment interview
Goal-oriented conversation in which an interviewer and an applicant exchange information.

The **employment interview** is a goal-oriented conversation in which the interviewer and applicant exchange information. Traditionally, interviews have not been valid predictors of success on the job.[13] In fact, courts are often suspicious of hiring decisions based primarily on interview results because of their inherently subjective nature. For 500 years, Leonardo da Vinci's *Mona Lisa* has confounded viewers who try to read her expression. Like the *Mona Lisa*, every job applicant presents a mysterious façade. Nevertheless, interviews continue to be the primary method companies use to evaluate applicants. The employment interview is especially important because the applicants who reach this stage are the survivors. They have endured preliminary screening, had their applications reviewed, and scored satisfactorily on selection tests. At this point, the candidates appear to be qualified, at least on paper. Every seasoned manager knows, however, that appearances can be quite misleading. Additional information is needed to indicate whether the individual is willing to work and can adapt to that particular organization (organizational fit).

Interview Planning

Interview planning is essential to effective employment interviews. A primary consideration should be the speed in which the process occurs. Many studies have demonstrated that the top candidates for nearly any job are hired and off the job market within anywhere from 1 to 10 days.

The physical location of the interview should be both pleasant and private, providing for a minimum of interruptions. The interviewer should possess a pleasant personality, empathy, and the ability to listen and communicate effectively. He or she should become familiar with the applicant's qualifications by reviewing the data collected from other selection tools. As preparation for the interview, the interviewer should develop a job profile based on the job description/specification. After listing job requirements, it is helpful to have an interview checklist that involves comparing an applicant's application and résumé with the job description. Also questions should be prepared that relate to the qualities needed in a person being sought. In doing so, it is helpful to ask for examples of past job-related applicant behavior.



HR BLOOPERS

The First Interview

As Henry Davidson heads to the conference room for his first interview, he starts to think about what he is going to ask the candidate. As a new Human Resources Assistant at Samson Corporation, Henry is conducting interviews of candidates being considered for an administrative assistant position. Although he has a degree in HR and has worked in the field for more than a year now, this is his first opportunity to conduct an interview. His manager directed him to the company's interview training program, but Henry believes that an interview is really just a conversation so he didn't bother with the training. He has great interpersonal skills and can't wait to tell the candidate all about the company. As Henry enters the room and shakes the candidate's hand, he realizes that he forgot to bring her resume and the job description he had sitting on his desk. He's not worried though, as he is good at engaging people in conversation and should do just fine without them. After greeting the candidate, Henry spends the first 20 minutes telling her about the job and the company. Once finished he asks her to "tell me about yourself." The first thing Henry learns is that she attended the same college as he did, so he knows she is a good candidate. Although he is unsure on what to ask next, he doesn't think it really matters as he already knows he is going to recommend her for the job.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

Content of the Interview

Both the interviewer and the candidate have agendas for the interview. After establishing rapport with the applicant, the interviewer seeks additional job-related information to complement data provided by other selection tools. The interview permits clarification of certain points, the uncovering of additional information, and the elaboration of data needed to make a sound selection decision. The interviewer should provide information about the company, the job, and expectations of the candidate. Other areas typically included in the interview are discussed next.

OCCUPATIONAL EXPERIENCE The interviewer will explore the candidate's knowledge, skills, abilities, and willingness to handle responsibility. Although successful performance in one job does not guarantee success in another, it does provide an indication of the person's ability and willingness to work.

ACADEMIC ACHIEVEMENT In the absence of significant work experience, a person's academic record takes on greater importance. Managers should, however, consider grade point average in the light of other factors. For example, involvement in work, extracurricular activities, or other responsibilities may have affected an applicant's academic performance.

INTERPERSONAL SKILLS An individual may possess important technical skills significant to accomplishing a job. However, if the person cannot work well with others, chances for success are slim. This is especially true in today's world, with the increasing use of teams. The biggest mistake an interviewee can make is thinking that firms hire people only for their technical skills.

PERSONAL QUALITIES Personal qualities normally observed during the interview include physical appearance, speaking ability, vocabulary, poise, adaptability, assertiveness, leadership ability, and cooperative spirit. As with all selection criteria, these attributes should be considered only if they are relevant to job performance.

Candidate's Role and Expectations

Although the interviewer will provide information about the company, it is still important for candidates to do their homework, including studying the job description and checking the Internet (including the firm's Web site) before the interview. Employees are also conducting background checks on companies to check out potential employers on such things as financial stability, whether or not the company would be a good place to work, and career opportunities. Most company sites include information tailored to job seekers. They often provide a history of the company and a description of its products and customers. Applicants can often find out the culture of the firm by doing a thorough search of the Internet and the news media. WetFeet.com provides insightful profiles of companies, careers, and industries to guide job seekers toward finding the right career, the right industry, the right company, and the right job for them. A person applying for a management position, especially, should have a thorough understanding of the firm's business priorities, its strengths and weaknesses, and its major competitors. Applicants should consider how they would address some of the issues facing the company. They need to be able to show how their experiences can help in addressing these issues.



HR Web Wisdom

WetFeet.com

Helps equip job seekers with the advice, research, and inspiration needed to plan and achieve a successful career

Recruiters need to remember that interviewees also have objectives for the interview. One might be to determine what the firm is willing to pay as a starting salary. Job seekers have other goals that may include the following:

- To be listened to and understood
- To have ample opportunity to present their qualifications
- To be treated fairly and with respect
- To gather information about the job and the company
- To make an informed decision concerning the desirability of the job

Candidates can learn what interviewing skills they need to improve by undergoing a mock interview or two. Having a colleague or friend interview them and afterward critically reviewing their own responses can be beneficial. This mock interview allows candidates to analyze the strengths and interests that they would bring to a job. The process would also help them prioritize the points they want to make in the real interview.

General Types of Interviews

Types of interviews are often broadly classified as structured, unstructured, behavioral, and situational. A discussion of the differences follows.

unstructured interview
Interview in which the job applicant is asked probing, open-ended questions.

UNSTRUCTURED INTERVIEW An **unstructured interview** is one in which the interviewer asks probing, open-ended questions. This type of interview is comprehensive, and the interviewer encourages the applicant to do much of the talking. Questions such as "What professional accomplishments are you most proud of and why?" "What is your greatest professional strength, and how have you used it to overcome a challenge in your career?" and "What specifically attracted you to our organization?" might be asked. The unstructured interview is often more time consuming than the structured interview and results in obtaining different information from different candidates. This adds to the potential legal woes of organizations using this approach. Compounding the problem is the likelihood of discussing ill-advised, potentially discriminatory information. Applicants who are being encouraged to pour their heart out may volunteer facts that the interviewer does not need or want to know. Unsuccessful applicants subjected to this interviewing approach may later claim in court that the reason for their failure to get the job was the employer's use of this information.

structured interview
Interview in which the interviewer asks each applicant for a particular job the same series of job-related questions.

STRUCTURED INTERVIEW In the **structured interview**, the interviewer asks each applicant for a particular job the same series of job-related questions. Although interviews have historically been very poor predictors of job success, use of structured interviews increases reliability and accuracy by reducing the subjectivity and inconsistency of unstructured interviews. With the structured interview, questions are developed and asked in the same order of all applicants applying for the vacant position. This makes it easier to compare candidates fairly. There is a better chance that the best candidate will be selected using this technique. Often benchmark answers are determined beforehand.

Certainly, job-knowledge questions would be asked to probe the applicant's job-related knowledge; these questions may relate to basic educational skills or complex scientific or managerial skills. Worker requirements questions might also be asked of each applicant to determine the applicant's willingness to conform to the requirements of the job. For example, the interviewer may ask whether the applicant is willing to perform repetitive work or move to another city. Determining what questions to ask involves a thorough analysis of the position including a detailed analysis of the job description. Questions related to major job requirements in the job description make the process extremely job related.

behavioral interview
Structured interview in which applicants are asked to relate actual incidents from their past relevant to the target job.

BEHAVIORAL INTERVIEW Traditional interviewing has a reputation of being a poor predictor of job success. Because of the low success rate of traditional interviews, the behavioral interview is often used. The **behavioral interview** is a structured interview in which applicants are asked to relate actual incidents from their past relevant to the target job. Once used exclusively for senior executive positions, behavioral interviewing is now a popular technique for lower-level positions also. The assumption is that past behavior is the best predictor of future behavior.

Behavioral interviewers look for three main things: a description of a challenging situation, what the candidate did about it, and measurable results. In the behavioral interview, the questions are selected for their relevance to job success in a particular job. Questions are formed from the behaviors by asking applicants how they performed in the described situation. For example, when probing to determine how creative an applicant is, the candidate might be requested to "Describe an experience when you were faced with a new problem and how you handled it."[14] Or if seeking to determine the applicant's enthusiasm, the request might be, "Relate a scenario during which you were responsible for motivating others." Behavioral interviewers ask each candidate the same open-ended questions, and then score responses on a scale. Interviewing is based on the principle that what you did previously in your life is a good predictor of what you will do in the future. Interviewees are asked to give an example of a situation when they faced a dilemma, a problem, or a situation.

In behavioral interviews, candidates may unwittingly reveal information about their attitudes, intelligence, and truthfulness. Arrogance, lack of cooperation with team members, and anger can all spill out during such an interview. Although some candidates may think the interview is all about technical skills, it is as much about them as a person as anything.

Questions asked during behavioral interviews are legally safe because they are job related. Equally important, because both questions and answers are related to successful job performance, they are more accurate in predicting whether applicants will be successful in the job they are hired to perform. It answers the one question both the hiring manager and the candidate want to know most: Is this a good fit?

situational interview
Gives interviewers better insight into how candidates would perform in the work environment by creating hypothetical situations candidates would be likely to encounter on the job and asking them how they would handle them.

SITUATIONAL INTERVIEW Whereas the behavioral interview focuses on how an individual handled circumstances in the past, the **situational interview** creates hypothetical situations candidates would likely encounter on the job and asks how they would handle them. For example, the question might be asked: "One of your employees has experienced a significant decline in productivity. How would you handle it?" As another example, "You completely disagree with the way that your boss has told you to handle a project. What would you do?" Basically, a situational interview provides a preview of the "how" a candidate might handle situations in a simulated work environment.

Methods of Interviewing

Organizations conduct interviews in several ways. The level of the open position and the appropriate labor market determine the most fitting approach. A discussion of these methods follows.

ONE-ON-ONE INTERVIEW In a typical employment interview, the applicant meets one-on-one with an interviewer. As the interview may be a highly emotional occasion for the applicant, meeting alone with the interviewer is often less threatening. This method provides a better opportunity for an effective exchange of information to take place.

group interview
Meeting in which several job applicants interact in the presence of one or more company representatives.

GROUP INTERVIEW In a **group interview**, several applicants interact in the presence of one or more company representatives. This approach, although not mutually exclusive of other interview types, may provide useful insights into the candidates' interpersonal competence as they engage in a group discussion. Another advantage of this technique is that it saves time for busy professionals and executives.

board interview
An interview approach in which several of the firm's representatives interview a candidate at the same time.

BOARD (OR PANEL) INTERVIEW In a **board interview**, several of the firm's representatives interview a candidate at the same time. Companies use the board interview to gain multiple viewpoints because there are many cross-functional workplace relationships in business these days. Once the interview is complete, the board members pool their evaluation of the candidate. Most Ph.D. recipients are quite familiar with the board interview because they were required to defend their dissertation as their professors asked questions. At times, some candidates claimed that professors having opposing views were deliberately placed on the board and the candidate had to tiptoe through the session, hoping not to offend anyone.

MULTIPLE INTERVIEWS At times, applicants are interviewed by peers, subordinates, and potential superiors. This approach permits the firm to get a more encompassing view of the candidate. It also gives the candidate a chance to learn more about the company from a variety of perspectives. The result of this type of interview is a stronger, more cohesive team that shares the company's culture and helps ensure organizational fit.

STRESS INTERVIEW What would you do if you were in an interview that was going quite well and all at once the interviewer said, "I think your answer is totally inadequate: it doesn't deal with my concerns at all, can't you do better than that?" You may not realize it, but you have just been exposed to a stress interview. In the **stress interview**, the interviewer intentionally creates anxiety.

stress interview
Form of interview in which the interviewer intentionally creates anxiety.

Most interviewers strive to minimize stress for the candidate. However, in the stress interview, the interviewer deliberately makes the candidate uncomfortable by asking blunt and often discourteous questions. The purpose is to determine the applicant's tolerance for stress that may accompany the job. Knowledge of this factor may be important if the job requires the ability to deal with a high level of stress.

Amazon.com interviewers have been known to ask job candidates to guess how many gas stations there are in the United States or to estimate the cost to wash all of Seattle's windows. Google interviewers have also been known to ask, "You are shrunk to the height of a nickel and your mass is proportionally reduced so as to maintain your original density. You are then thrown

into an empty glass blender. The blades will start moving in 60 seconds. What do you do?"[15] The answer is not as important as your logic in approaching an answer.

Stress interviews are not new. The late Admiral Hyman G. Rickover, father of the U.S. Navy's nuclear submarine program, was known to offer interviewees a chair that had one or two legs shorter than the other. The candidates' problems were compounded by the chair's polished seat. The admiral once stated that "they had to maintain their wits about them as they answered questions while sliding off the chair."[16]

realistic job preview (RJP)
Method of conveying both positive and negative job information to an applicant in an unbiased manner.

REALISTIC JOB PREVIEW A **realistic job preview (RJP)** conveys both positive and negative job information to the applicant in an unbiased manner. Many applicants have unrealistic expectations about the prospective job they are seeking. They may have been told the exciting part of the job, but the less glamorous areas are not mentioned. RJPs have become increasingly common in certain fields because of the high turnover rates and the constant cost of replacing those individuals who do not work out.[17] For instance, when conducting an interview in the fast-food restaurant industry, an applicant might be taken behind the counter to see what it is like to work in a hot, greasy environment, smell food cooking all day, and scramble around other bodies in close quarters. An inaccurate perception may occur when interviewers paint false, rosy pictures of the job and the company. This practice leads to mismatches of people and positions. What compounds the problem is when candidates exaggerate their own qualifications. The RJP should typically be done early in the selection process, and definitely, before a job offer is made.

An RJP conveys information about tasks the person would perform and the behavior required to fit into the culture of the organization. This approach helps applicants develop a more accurate perception of the job and the firm. Employers who give detailed RJPs get two results: fewer employees accept the job offer, and applicants who do accept the offer are less likely to leave the firm. Given an RJP, some candidates will take themselves out of the selection process, minimizing the number of unqualified candidates. Another reason to use RJPs is the benefit a firm receives from being an up-front, ethical employer.

As the previous discussion indicates, interviews play a crucial role in the employee selection process. Zipcar is a car-sharing business. When interviewing, they recommend not speaking negatively about past employers, being genuine but respectful, showing interest in the organization with which you are interviewing, and being prepared. The interview process helps Zipcar to identify prospective employees who are passionate about the brand, professional, courteous, and presentable. The following Watch It video describes Zipcar's perspectives on employee selection.

Watch It 3
If your instructor has assigned this, go to MyManagementLab to watch a video titled Zipcar: Interviewing Candidates and respond to questions.

Potential Interviewing Problems

Potential interviewing problems that can threaten the success of employment interviews are discussed next.

INAPPROPRIATE QUESTIONS Many questions are clearly hiring standards to avoid. When they are asked, the responses generated create a legal liability for the employer. The most basic interviewing rule is this: "Ask only job-related questions." The definition of a test in the *Uniform Guidelines* includes "physical, education, and work experience requirements *informal or casual interviews*." Because the interview is a test, if adverse impact is shown, it is subject to the same validity requirements as any other step in the selection process. For unstructured interviews, this constraint presents special difficulties. Historically, the interview has been more vulnerable to charges of discrimination than any other tool used in the selection process.

The ADA also provides a warning for interviewers. Interviewers should inquire about the need for reasonable accommodations in only a few situations. For example, the topic is appropriate if the applicant is in a wheelchair or has an obvious disability that will require accommodation. Also the applicant may voluntarily disclose a disability or even ask for some

reasonable accommodation. Otherwise, employers should refrain from broaching the subject. Instead, interviewers should frame questions in terms of whether applicants can perform the essential functions of the jobs for which they are applying.

PERMITTING NON–JOB-RELATED INFORMATION If a candidate begins volunteering personal information that is not job related, the interviewer should steer the conversation back on course. The interviewer might do well to begin the interview by tactfully stating something like, "This selection decision will be based strictly on qualifications. Let's not discuss topics such as religion, social activities, national origin, gender, or family situations. We are definitely interested in you, personally. However, these factors are not job related and will not be considered in our decision." This enables better decisions to be made while decreasing the likelihood of discrimination charges.[18]

To elicit needed information in any type of interview, the interviewer must create a climate that encourages the applicant to speak freely. However, the conversation should not become too casual. Whereas engaging in friendly chitchat with candidates might be pleasant, in our litigious society, it may be the most dangerous thing an interviewer can do. Asking a woman a question about her children that has nothing to do with the job would not be appropriate.

INTERVIEWER BIAS Often a problem that may arise in an interview is interviewer bias where the interviewer makes assumptions about the interviewee that may be incorrect and lets these biases influence the selection decision. Various forms of biases will next be discussed.

Stereotyping bias occurs when the interviewer assumes that the applicant has certain traits because they are members of a certain class. The classic case of stereotyping bias is when an interviewer assumes that a woman applicant cannot meet a certain physical requirement such as being able to lift 50 pounds.

A *positive halo bias* occurs when the interviewer generalizes one positive first impression feature of the candidate. Such might be the case with discovering that you have something in common with the applicant. The opposite could occur with negative *horn bias* where the interviewer's first negative impression of the candidate generalizes throughout the interview.

Contrast errors may occur when, for example, an interviewer meets with several poorly qualified applicants and then confronts a mediocre candidate. By comparison, the last applicant may appear to be better qualified than he or she actually is. The opposite can also occur. Suppose that a clearly outstanding candidate is followed by a very good candidate. The second candidate may not be considered even if the first candidate turns down the job offer.

Premature judgment bias suggests that interviewers often make a judgment about candidates in the first few minutes of the interview.[19] Apparently, these interviewers believe that they have the ability to determine immediately whether a candidate will be successful or not. When this occurs, a great deal of potentially valuable information is not considered. Even if an interviewer spent a week with an applicant, the sample of behavior might be too small to judge the candidate's qualifications properly. In addition, the candidate's behavior during an interview is seldom typical or natural, thereby making a quick judgment difficult.

Interview illusion bias is closely related to premature judgment but not the same. Managers may say something to the effect "Give me just five minutes with an applicant and I can tell if they will be successful with our company." Their belief in their interview ability was likely exaggerated. Recruiters are often overconfident about their ability to judge others in general. Interviewers have to be careful about placing excessive weight on interviews and thinking "I just feel good about this applicant" when making the hiring decision.[20]

INTERVIEWER DOMINATION In successful interviews, relevant information must flow both ways. Sometimes, interviewers begin the interview by telling candidates what they are looking for, and then are excited to hear candidates parrot back their own words. Other interviewers are delighted to talk through virtually the entire interview, either to take pride in their organization's accomplishments or to express frustrations over their own difficulties. After dominating the meeting for an hour or so, these interviewers feel good about the candidate. Therefore, interviewers must learn to be good listeners as well as suppliers of information.

LACK OF TRAINING Anyone who has ever conducted an interview realizes that it is much more than carrying on a conversation with another person. The interviewer is attempting to gain insight into how the applicant answers job-related questions. There should be a reason for asking

each question. For instance, suppose the applicant is told, "Tell me about yourself." A trained interviewer asks this question to determine whether the applicant's life experiences qualify the applicant for the job, not the fact that he or she had a little dog named Moe as a child. Interviewers should be trained to have a job-related purpose for asking each question. When the cost of making poor selection decisions is considered, the expense of training employees in interviewing skills can be easily justified.

NONVERBAL COMMUNICATION *Body language* is the nonverbal communication method in which physical actions such as motions, gestures, and facial expressions convey thoughts and emotions. The interviewer is attempting to view the nonverbal signals from the applicant. Applicants are also reading the nonverbal signals of the interviewer. Therefore, interviewers should make a conscious effort to view themselves as applicants do to avoid sending inappropriate or unintended nonverbal signals.

Concluding the Interview

When the interviewer has obtained the necessary information and answered the applicant's questions, he or she should conclude the interview. Management must then determine whether the candidate is suitable for the open position and organization. If the conclusion is positive, the process continues; if there appears to be no match, the candidate is no longer considered. Also in concluding the interview, the interviewer should tell the applicant that he or she will be notified of the selection decision shortly. Keeping this promise helps maintain a positive relationship with the applicant.

OBJECTIVE 6.7

Explain pre-employment screening and background checks.

Pre-employment Screening and Background Checks

Pre-employment screening has experienced tremendous growth since the terrorist attack of 9/11. It went from a possible step in the selection process to that of a necessary step. Background investigation is more important than ever because of the rise in negligent hiring (to be discussed later in this chapter) lawsuits, recent corporate scandals, and national security concerns. At this stage of the selection process, an applicant has normally completed an application form or submitted a résumé, taken the necessary selection tests, and undergone an employment interview. On the surface the candidate looks qualified. It is now time to determine the accuracy of the information submitted or to determine whether vital information was not submitted.

Background investigations involve obtaining data from various sources, including previous employers, business associates, credit bureaus, government agencies, and academic institutions. Fingerprinting also is becoming a more common part of checks, especially for companies that employ workers in charge of securing a worksite—for example, airports, the financial services industry, hospitals, schools, the gaming industry, and hazardous materials services. Reasons for leaving jobs or gaps in employment may be cleverly disguised to present a work history that does not provide an accurate or complete picture. Letters of recommendation from companies that are no longer in existence and differences between their résumé and completed job application may raise a red flag.

Checking for criminal records is important because many applicants with criminal records tend to lie about it on their applications. A 2010 Society for Human Resource Management (SHRM) survey that found criminal background investigations are conducted to ensure a safe work environment, to reduce legal liability for negligent hiring, and to eliminate or reduce criminal activity in the workplace.[21]

The intensity of background investigations depends on the nature of the open position's tasks and its relationship to customers or clients. To be legally safe, employers should ask applicants to sign a liability waiver permitting a background investigation. The waiver is typically a statement on the application form that releases former employers, business references, and others from liability. It also authorizes checks of court records and the verification of the applicant's educational history and other credentials.

Employment Eligibility Verification (Form I-9)

The employment eligibility verification form I-9 must be filled out by U.S. job applicants, but it allows any number of documents to be used to demonstrate their legal right to work in the United States. Every employee hired since 1986 must have a completed Form I-9 on file. In an audit,

federal immigration agents review the Form I-9 that employers are required to keep on file. The law provides for penalties from $100 to $1,000 for each incorrect or missing I-9. Recently, the government required 1,000 companies to turn over employment records for inspection. Organizations including Chipotle Mexican Grill, apple grower Gebbers Farms, and clothing retailer Abercrombie & Fitch have received substantial fines for I-9 violations.[22] Disneyland in California was accused of having more than 1,000 paperwork violations and received a $395,000 fine.[23]

An additional level of verification involves the use of *E-Verify* to check out new hires, and its use is required for federal contractors and subcontractors with contracts of $100,000 or more. Recently, the U.S. Supreme Court granted states the right to require employers to use the federal E-Verify system to check on the eligibility of employees to work in the United States. E-Verify is a Web-based system that lets employers check Social Security and visa numbers submitted by workers against government databases. The system is not checking for citizenship, but for eligibility to be lawfully employed in the United States. The E-Verify system is not flawless because a recent report found that 6 percent passed the E-Verify checks because they had used fraudulent or stolen identities.[24]

Continuous Background Investigation

Background investigations are not just for pre-employment any more. Some employers are screening their employees on an ongoing basis. In certain industries, such as banking and health care, employers are required by regulation to routinely research the criminal records of employees. People and events are ever-changing. For example, financial devastation, marital collapse, or a medical crisis can send a person with the cleanest record over the edge. It has been estimated that every year one or two of every 1,000 existing employees acquire a new criminal record. Because only a small percent of convictions lead to jail time, the employer may never know of a conviction unless there is an ongoing background investigation.

Background Investigation with Social Networking

An increasing number of employers are using social networking to conduct background investigations. Employers use an applicant's Facebook page, LinkedIn profile, and postings made on an industry blog to find out about individuals they are considering hiring. According to one study, more than 8 out of 10 employers say that a positive online reputation influences their hiring decisions at least to some extent, and nearly half say a strong online reputation influences their decisions to a great extent.[25] Industries most likely to conduct background investigations on applicants are those that specialize in technology or that use sensitive information.

Employers reported that they have found content on social networking sites that caused them not to hire the candidate. Some examples include posting provocative or inappropriate photographs or information, posting content about alcohol or drug use, and posting negative comments about their previous employer, coworkers, or clients. Other information found on these sites supported their decision to hire the candidate. For example, the profile provided a good feel for the candidate's personality and fit within the organization, the profile supported candidate's professional qualifications, and other people posted good references about the candidate.

As the cost of background checking has dropped and technology has improved, background checking has entered new dating relationships. Prior to accepting an invitation for a date with a new person, that individual can be "checked out" to determine if what was said was fact or fiction. Apps are now available to conduct a background check before entering into any relationship. Through these new apps, one can quickly determine if a person is telling the truth about factors such as age, relatives, addresses, criminal history, bankruptcies, judgments, liens, aliases, and current contact information. The cost for these background checks is under $10.00.

Remembering Hiring Standards to Avoid

Some of the standards used in the background investigation have the potential to violate a hiring standard to avoid. A word of caution is advised in situations when an applicant *acknowledges* that he or she has been convicted of a crime. A major implication of the *Griggs v. Duke Power Company* Supreme Court case was that when HR management practices eliminate substantial numbers of minority or women applicants (prima facie evidence), the burden of proof is on the employer to show that the practice is job related. If a criminal record automatically eliminates a candidate that means that approximately 65 million people who have been convicted of felonies

and misdemeanors may struggle to find employment.[26] Some states and cities have done away with asking about criminal convictions on applications, and there is a push to do it also on the national level. Therefore, caution should be taken using criminal conviction as a hiring criterion if it cannot be shown to be job related.

The same rationale can be said for conducting credit checks. If a disproportionate number of members of a protected group are rejected through the use of the credit check, the company would need to validate its use. Certainly, if a company does a credit check on all applicants, it is difficult to say that the credit check is job related. Presently 10 states have laws on their books limiting credit check uses, and other states are considering credit check proposals.[27]

Congress created somewhat of an obstacle for employers when it amended the federal Fair Credit Reporting Act (FCRA). Employers' obligations are triggered under the act when they use consumer reports that contain information about an individual's personal and credit characteristics, character, general reputation, and lifestyle. To avoid legal problems, employers need to allow sufficient time between notifying an applicant or employee of a less than favorable consumer report and taking adverse action. If an unfavorable credit check surfaces, the potential employee should be given time to dispute and correct the errors.[28] The FCRA covers only reports that are prepared by a consumer reporting agency such as a credit bureau.

The EEOC has recently conducted hearings claiming there are employers that hire only individuals who are presently employed.[29] Paul C. Evans, a partner with law firm Morgan Lewis & Bockius LLP in Philadelphia, said, "I do think the EEOC will look to see whether or not employers are de facto, even without an explicit policy, precluding or eliminating from consideration" those who have been out of work for long periods of time.[30]

Much of the social media content contains information regarding possible hiring standards to avoid. The typical Facebook page will reveal race, sex, age, ethnic background, and more by just looking at the pictures and profile. Religion, especially if it is a strong part of the member's belief system, is often easy to detect. None of these factors should be considered in the selection process. However, information is usually available that is legal to consider. In fact, according to a survey by Microsoft Corporation, 7 out of 10 U.S. hiring managers reject candidates based on information they have posted online even though 90 percent of these managers are concerned that the information they find can be inaccurate and unreliable.[31]

reference checks
Validations from individuals who know the applicant that provide additional insight into the information furnished by the applicant and verification of its accuracy.

Reference checks are validations from those who know the applicant that provide additional insight into the information furnished by the applicant and allow verification of its accuracy. They are a valuable source of information to supplement the background investigation. Applicants are often required to submit the names of several references who can provide additional information about them. A possible flaw with reference checking is that virtually everyone can name three or four individuals willing to make favorable statements about him or her. Even so, there is anecdotal evidence that personal references do not always provide favorable information. They may not necessarily be committed to shading the truth for the applicant.

A related problem in obtaining information from previous employers is their general reluctance to reveal such data and this trend continues to grow. In a 2010 Society for Human Resource Management poll on background investigations, 98 percent of respondents said their organizations would verify dates of employment for current or former employees, 68 percent said they would not discuss work performance, and 82 percent said they would not discuss character or personality.[32]

There are two schools of thought with regard to supplying information about former employees. One is, "Don't tell them anything." The other is, "Honesty is the best policy." In the more conservative approach, the employer typically provides only basic data such as name, job title, and dates of employment. The honesty approach is based on the reality that facts honestly given or opinions honestly held constitute a solid legal defense. It is helpful to know why the person left that job. If the response differs from that given by the applicant, it is definitely a red flag. Although protective laws regarding reference checking do exist, apparently there is a wait-and-see attitude among some employers. It will likely take litigation and court rulings before employers fully understand, and have confidence in, the statutes.

Traditional reference checking has been heavily labor intense. *Automated reference checking (ARC)* has been a boon in this area. With ARC, references are anonymous and more efficient and a more comprehensive report can be provided. ARC automates one of the last elements of recruiting that used to be heavily manual. Because it is confidential, people are more forthcoming. And

because it is online, the process goes faster. Reference checking requires an e-mail link to the job candidate. It is the candidate, not the recruiter, who contacts references to fill out the questionnaire. The system collects the surveys and prepares a report for the recruiter. Referencing is much faster, going from an average of 4 days to an average of 1.2 days. ARC can help reduce the legal risks for the company seeking the reference because the request comes from the candidate, not the organization. The company does not run the risk of a recruiter asking an inappropriate question, because the applicant has preapproved the questions.

negligent hiring
Liability a company incurs when it fails to conduct a reasonable investigation of an applicant's background, and then assigns a potentially dangerous person to a position in which he or she can inflict harm.

Negligent hiring is the liability an employer incurs when it fails to conduct a reasonable investigation of an applicant's background, and then assigns a potentially dangerous person to a position in which he or she can inflict harm. The typical negligent hiring case involves a deliberate inflicting of harm committed by an employee including fraud, assault, or battery. Reasonable investigation varies according to the nature of the job. The risk of harm to third parties, for example, requires a higher standard of care when hiring a taxi driver as opposed to a machinist. The taxi cab driver is alone and has control of his or her customer during the time the customer is in the car. This would not be the case for the machinist. Employers who operate home-service businesses, day-care centers, and home health-care operations are particularly at risk, as are those with employees who drive company vehicles, visit customer locations, handle money, or work with children, the elderly, or the impaired.[33] The primary consideration in negligent hiring is whether the risk of harm from a dangerous employee was reasonably foreseeable. Accusers will argue that employers knew, or should have known, about a hire's potential threat to others.[34] In one negligent hiring case, a hospital nursing assistant was hired without a background investigation and the medical center did not ask former employers why the worker had left. If it had, the medical center would have discovered that the worker had previously sexually harassed, assaulted, and inappropriately touched female patients. Once hired, the worker was left alone in rooms with vulnerable female patients and sexually abused them.[35]

OBJECTIVE 6.8
Describe the selection decision.

Selection Decision

At this point, the focus is on the manager who must take the most critical step of all: the actual hiring decision. If a firm is going to invest thousands of dollars to recruit, select, and train an employee, it is important for the manager to hire the most qualified available candidate, according to the firm's criteria. The final choice is made from among those still in the running after selection tests, interviews, background investigations, and reference checks have been evaluated. Usually, the person selected has qualifications that most closely conform to the requirements of the open position and the organization.

The person who normally makes the final selection is the manager who will be responsible for the new employee's performance. In making this decision, the manager will review results of the selection methods used. All will not likely be weighted the same. The question then becomes, "Which data are most predictive of job success?" For each firm or group of jobs, the optimal selection method may be different.

Medical Examination

The ADA does not prohibit pre-employment medical examinations. However, it does determine the point at which they may be administered during the selection process. The ADA explicitly states that all exams must be directly relevant to the job requirements and that a firm cannot order a medical exam until the applicant is offered employment. Typically, a job offer is contingent on the applicant's passing this examination. The basic purpose of the medical examination is to determine whether an applicant is physically capable of performing the work. The *Uniform Guidelines* state that these examinations can be used to reject applicants only when the results show that job performance would be adversely affected.

At this stage, some companies may also require drug testing to determine whether applicants are using chemical substances or alcohol. There are a variety of reasons for choosing to test applicants for drug use. Primarily, the use of illegal drugs, which impairs judgment and psychomotor coordination, may create workplace hazards. Pre-empting drug-related accidents through systematic drug testing may reduce the cost to provide employees with disability insurance. In addition, health-care claims may be higher for drug users than for those who do not use illegal

substances. Ultimately, employers bear the cost of higher health insurance premiums. Finally, wherever called for by industry standards or government regulation, drug testing help companies to maintain compliance.

Notification of Candidates

Management should notify both successful and unsuccessful candidates of selection decisions as soon as possible. This action is a matter of courtesy and good public relations. Any delay may also result in the firm losing a prime candidate because top prospects often have other employment options.

Employers may reject applicants at any time during the selection process. Most people can accept losing if they lose fairly. Problems occur when the selection process appears to be less than objective. It is therefore important for firms to develop and use rational selection tools. Time constraints prevent firms from spending much time explaining a decision to an unsuccessful candidate. If the person rejected was an internal candidate, managers may visit or make a personal phone call to the rejected applicant. A rejection letter is a more likely method if the candidate was not an internal candidate. However, a letter with a personal touch may reduce the stigma of rejection and avoid the applicant's having a negative feeling about the company. An impersonal letter is likely to have the opposite effect. The best an organization can do is to make selection decisions objectively. Hopefully, most unsuccessful individuals can, with time, accept the fact that they were not chosen.

OBJECTIVE 6.9

Describe the metrics for evaluating recruitment/selection effectiveness.

Metrics for Evaluating the Effectiveness of Recruitment/Selection

There is, however, no one-size-fits-all metric that employers can adopt to achieve greater hiring efficiency. The metrics that best suit each company depends on a variety of factors, including its business goals. The recent recession heightened the need to have metrics regarding the productivity of employees. When employee cost-cutting decisions must be made, it is important that the most productive employees are retained. One survey revealed that companies with best-in-class talent acquisition programs were most successful at measuring the following four performance criteria: time to hire, quality of hire, new-hire retention, and hiring managers' overall satisfaction with the program.[36] Possible metrics for evaluating the effectiveness of recruitment/selection are described next. Metrics for evaluating other functions are discussed at the appropriate time.

Quality of Hire

Many recruiters believe that quality of hire is the most important metric to use in the selection process. Some possible measures to determine the quality of hire might be communication effectiveness, ability to motivate others, leadership ability, and cultural fit.[37] Even though the question of how to measure quality of hire and set standards for new-hire performance is difficult to determine, it is an important decision that HR professionals are constantly striving to determine. Realistically, the answer depends on the system and the company involved. For quality of hire to be usable, one needs to have performance assessment for two or three years before the real capabilities of a new hire will be understood.

Time Required to Hire

The shorter the time to hire, the more efficient the HR department is in finding the replacement for the job. The top candidates for nearly any job are hired and off the job market within anywhere from 1 to 10 days. It then becomes crucial that the time required to hire be as low as possible while still ensuring quality of hire. Otherwise your best prospect will have already signed on to work for a competitor.

New-Hire Retention

It is important to measure new-hire retention because costs go up dramatically if a position has to be filled again in a short period. New-hire retention is calculated by determining the percentage of the new hires that remain with the company at selected intervals, typically one or two years. If this situation is happening excessively, HR should analyze the selection process to determine if there are flaws in the system that cause new hires to terminate prematurely. Perhaps, as was mentioned previously, an RJP needs to be instituted.

Hiring Manager Overall Satisfaction

The manager is largely responsible for the success of his or her department. It is the quality of the employees in the workgroup that have a major impact on success of the department. A manager's belief that employees being hired through the recruitment and selection system do not perform as well as expected casts doubt on the entire selection process. Some measure manager satisfaction based on the survey of hiring managers, compared to previous period. Other firms provide a rating scale for the manager to evaluate how a new hire is performing after the employee's first 90 or 120 days.



HR Web Wisdom

HR Advice for Small Businesses

http://hradviceforsmallbusinesses.blogspot.com/

Offers advice for the small business owner to hire, manage, and retain employees.

Turnover Rate

Turnover rate is the number of times on average that employees have to be replaced during a year. For example, if a company has 200 employees and 200 workers had been hired during the year, a 100 percent turnover rate would be experienced. As one might expect, a 100 percent rate is quite costly to the organization, and ways need to be found to reduce the rate. Employees who are hired and then quit within 120 days are called "False Starts" and are considered to be especially expensive because the company spends money on their hire but then quickly must spend even more to replace them. Across all industries, the average turnover rate is 15 percent, whereas companies in the service industries typically have the highest turnover rates at 35 percent.[38]

As the previous discussion indicates, there are a variety of measures to judge whether recruitment and selection decisions are effective. Among them is turnover. Patagonia, maker of outdoor gear, strives to select employees whose values are consistent with the philosophies and values of the company. They boast a high employee retention rate, which they attribute, in part, to their approach to employee selection. The following Watch It video describes Patagonia's approach to employee selection.

Watch It 4

If your instructor has assigned this, go to MyManagementLab to watch a video titled Patagonia: Employee Testing and Selection and respond to questions.

Cost Per Hire

In determining the recruiting cost per hire, the total recruiting expense must first be calculated. Then, the cost per hire may be determined by dividing the recruiting expenses (calculation of advertising, agency fees, employee referrals, relocation, recruiter pay, and benefits costs) by the number of recruits hired. Naturally, the difficulty associated with this measure is in determining the exact costs to include as recruiting expenses. It may be beneficial for a firm to use a benchmark cost per hire to compare to the specific cost for the company.

Selection Rate

The number of applicants hired from a group of candidates expressed as a percentage is the *selection rate.* For example, if 100 qualified candidates are available and 25 are chosen, the selection rate would be 25 percent. Certainly, the selection rate is affected by the condition of the economy. Also the validity of the selection process (previously discussed) will impact the selection rate.

Acceptance Rate

Once an offer has been extended, the firm has said that this applicant meets the requirements for the position. The *acceptance rate* is the number of applicants who accepted the job divided by the number who were offered the job. If this rate is unusually low, it would be wise to determine the reason that jobs are being turned down. A low acceptance rate increases recruiting cost.

Yield Rate

It has been suggested that the selection process can be viewed somewhat as a funnel, with the number of applicants available at each stage of the selection process getting smaller. A *yield rate* is the percentage of applicants from a particular source and method that make it to the next

stage of the selection process. For example, if 100 applicants submitted their résumés through the firm's corporate career Web site and 25 were asked in for an interview, the yield rate for the corporate career Web site would be 25 percent. Each recruitment method would be analyzed in a similar manner. Continuing this example, assume that 10 of the 25 applicants who were interviewed received job offers, and 5 of those accepted the offers. The yield rate would be 50 percent.

OBJECTIVE 6.10
Identify environmental factors that affect the selection process.

Environmental Factors Affecting the Selection Process

A standardized selection process followed consistently would greatly simplify the selection process. However, circumstances may require making exceptions. The following sections describe environmental factors that affect the selection process.

Other HR Functions

The selection process affects, and is affected by, virtually every other HR function. For example, if the compensation package is inferior to those provided by competitors, hiring the best-qualified applicants will be difficult or impossible to achieve. The same situation applies if the firm's safety and health record is substandard or if the firm has a reputation for providing minimal training. Certainly, if marginal workers are hired, additional training will be needed to get them qualified.

Legal Considerations

Legal matters play a significant role in HR management because of EEOC legislation, executive orders, and court decisions. Although the basic purpose of selection is to determine candidates' eligibility for employment, it is also essential for organizations to maintain nondiscriminatory practices. The guiding principles in determining what information to get from an applicant are: Why am I asking this question and why do I want to know this information? If the information is job related, usually asking for the information is appropriate. The following are examples of recent EEOC litigation and settlements illustrating basic EEO principles that focus on testing:[39]

- **Title VII and Cognitive Tests:** Less Discriminatory Alternative for Cognitive Test with Disparate Impact. *EEOC v. Ford Motor Co. and United Automobile Workers of America*, involved a court-approved settlement agreement on behalf of a nationwide class of African Americans who were rejected for an apprenticeship program after taking a cognitive test known as the Apprenticeship Training Selection System (ATSS). The ATSS was a written cognitive test that measured verbal, numerical, and spatial reasoning to evaluate mechanical aptitude. Although it had been validated in 1991, the ATSS continued to have a statistically significant disparate impact by excluding African American applicants. Less discriminatory selection procedures were subsequently developed that would have served Ford's needs, but Ford did not modify its procedures. In the settlement agreement, Ford agreed to replace the ATSS with a selection procedure, to be designed by a jointly-selected industrial psychologist, that would predict job success and reduce adverse impact. Additionally, Ford paid $8.55 million in monetary relief.
- **Title VII and Physical Strength Tests:** Strength test must be job-related and consistent with business necessity if it disproportionately excludes women. In *EEOC v. Dial Corp.*, women were disproportionately rejected for entry-level production jobs because of a strength test. The test had a significant adverse impact on women; prior to the use of the test, 46 percent of hires were women, and after use of the test, only 15 percent of hires were women. Dial defended the test by noting that it looked like the job and use of the test had resulted in fewer injuries to hired workers. The EEOC established through expert testimony, however, that the test was considerably more difficult than the job and that the reduction in injuries occurred two years before the test was implemented, most likely because of improved training and better job rotation procedures. On appeal, the Eighth Circuit upheld the trial court's finding that Dial's

use of the test violated Title VII under the disparate impact theory of discrimination. *See* http://www.eeoc.gov/press/11-20-06.html.

- **ADA and Test Accommodation:** Employer must provide reasonable accommodation on pre-employment test for hourly, unskilled manufacturing jobs. The EEOC settled *EEOC v. Daimler Chrysler Corp.*, a case brought on behalf of applicants with learning disabilities who needed reading accommodations during a pre-employment test given for hourly unskilled manufacturing jobs. The resulting settlement agreement provided monetary relief for 12 identified individuals and the opportunity to take the hiring test with the assistance of a reader. The settlement agreement also required that the employer provide a reasonable accommodation on this particular test to each applicant who requested a reader and provided documentation establishing an ADA disability. The accommodation consisted of either a reader for all instructions and all written parts of the test, or an audiotape providing the same information.

Speed of Decision Making

The time available to make the selection decision can also have a major effect on the selection process. Conditions also can impact the needed speed of decision making. Suppose, for instance, that the only two quality-control inspectors on a production line just had a fight and both resigned, and the firm cannot operate until the positions are filled. In this situation, speed is crucial, and a few phone calls, two brief interviews, and a prayer may constitute the entire selection procedure. On the other hand, conducting a national search to select a CEO may take months or even a year. In bureaucracies, it is not uncommon for the selection process to take a considerable amount of time.

Organizational Hierarchy

Organizations usually take different approaches to filling positions at varying levels. For instance, consider the differences in hiring a CEO versus filling a clerical position. Extensive background investigations and multiple interviews would most likely apply for the executive position. On the other hand, an applicant for a clerical position would probably take a word-processing test and perhaps have a short employment interview.

Applicant Pool

applicant pool
Number of qualified applicants recruited for a particular job.

The number of qualified applicants recruited for a particular job makes up the **applicant pool**. The process can be truly selective only if there are several qualified applicants. Yet, only one or two applicants with the required skills may be available, and companies report a shortage of skilled individuals available for employment, particularly in the science, technology, engineering, and mathematics fields.[40] The expansion and contraction of the labor market also affects the size of the applicant pool. According to the U.S. Bureau of Labor Statistics, the total number of job openings in early 2014 was 4 million,[41] with more than 10.2 million unemployed workers.[42]

selection ratio
Number of people hired for a particular job compared to the number of qualified individuals in the applicant pool.

The number of people hired for a particular job compared to the number of qualified individuals in the applicant pool is often expressed as a **selection ratio**, or

$$\text{Selection Ratio} = \frac{\text{Number of people hired}}{\text{Number of qualified applicants (applicant pool)}}$$

A selection ratio of 1.00 indicates that the number of people hired equals the number of qualified applicants. The lower the ratio falls below 1.00, the more alternatives the manager has in making a selection decision. For example, a selection ratio of 0.10 indicates that one in ten applicants were qualified for an open position.

Note in the preceding selection ratio formula that "qualified" applicants are sought and not just a warm body to fill a vacant position. One might think that during a recession it would be easy to find "qualified" applicants for vacant positions. True, in a recession there are often many candidates, but after screening for qualified applicants, the realistic selection pool may be greatly reduced. Often companies are finding it difficult to attract critical-skills employees. The jobs that are going unfilled often require a combination of new skills or entirely new skill sets compared with those that were required before the recession.

Type of Organization

The type of organization employing individuals, such as private, governmental, or not for profit, can also affect the selection process. Most private-sector businesses are heavily profit oriented. Prospective employees who can help achieve profit goals are the preferred candidates. Consideration of the total individual, including job-related personality factors, is involved in the selection of employees for this sector.

Government civil service systems typically identify qualified applicants through competitive examinations. Often a manager may select only from among the top three applicants for a position. A manager in this sector may not have the prerogative of interviewing other applicants.

Individuals considered for positions in not-for-profit organizations (such as the Boy Scouts and Girl Scouts, YMCA, or YWCA) confront still a different situation. The salary level in these organizations may not be competitive with those of private and governmental organizations.[43] Therefore, a person who fills one of these positions must be not only qualified but also dedicated to this type of work.

Probationary Period

Many firms use a probationary or introductory period that permits them to evaluate an employee's ability based on established performance. The purpose of a probationary period is to establish the suitability of a new employee for the position and to resolve any issues there might be in the new employee's performance over the first three months or so. This practice may be either a substitute for certain phases of the selection process or a check on the validity of the process. The rationale is that if an individual can successfully perform the job during the probationary period, the process does not require other selection tools. From a legal viewpoint, the use of a probationary period in the selection process is certainly job related.

Even in unionized firms, the labor–management agreement typically does not protect a new employee until after a certain probationary period. This period is typically from 60 to 90 days. During that time, an employee can be terminated with little or no justification. On the other hand, firing a marginal employee in a union environment may prove to be quite difficult after the probationary period.

Organizational Fit

organizational fit
Management's perception of the degree to which the prospective employee will fit in with the firm's culture or value system.

Organizational fit refers to management's perception of the degree to which the prospective employee will fit in with the firm's culture or value system. There are numerous reasons that a new hire does not work out but none is as important as cultural fit. Knowledge and skill are important but the most lasting component of the employment relationship is cultural match.[44] The commonly heard statement, "the chemistry was just not right" may describe a poor fit. This was supported by Steven Rice, executive vice president of HR Juniper Networks Inc., who said, "If the customer sees you as team-oriented and such and the customer service guy is different, you have a problem. You have to hire against the brand."[45] A poor fit harms organizational effectiveness, hurts morale, and drains creativity. Nina Brody, head of talent for Take Care Health Systems in Conshohocken, Pennsylvania, said, "If we have 10 qualified clinical people in front of us, we want to know who will fit best with our culture, because that's where we tend to experience trouble, not necessarily with someone's ability to do the job technically."[46]

Using *fit* as a criterion may raise legal and diversity questions, and perhaps this explains the low profile of its use.[47] Nevertheless, there is considerable evidence that managers use it in making selection decisions and that it is not a minor consideration. Complicating the situation further is the fact that the same employee may be a poor fit with one firm and a perfect fit with another. Applicants also should consider organizational fit when assessing whether to accept a job offer.

Selection Technology

The application of technology to employee selection practices has increased dramatically in recent years.[48] Two tools that are invaluable to the selection process in the technology boom that is sweeping HR today are applicant-tracking systems (ATSs) and candidate relationship management (CRM). "ATS and CRM are really your backbone," says Jim McCoy, vice-president of solutions for ManpowerGroup Solutions, the RPO software division of Milwaukee-based ManpowerGroup.[49]

An *ATS*, also called a talent management system, is a software application designed to help an enterprise select employees more efficiently. Current ATSs permit human resource and line managers to oversee the entire selection process. They often involve screening résumés and spotting qualified candidates, conducting personality and skills tests, and handling background investigations. They allow companies to compile job applications electronically, to more quickly gather candidates, set up interviews, and get new hires on board. An ATS can be used to post job openings on a corporate Web site or job board and generate interview requests to potential candidates by e-mail. Other features may include individual applicant tracking, requisition tracking, automated résumé ranking, customized input forms, prescreening questions and response tracking, and multilingual capabilities. ATSs are used extensively to help ease the labor-intensive process of sorting résumés from online job boards. In most cases, the goal is not merely to reduce costs but also to speed up the hiring process and find people who fit an organization's success profile. ATSs continue to be enhanced to make recruiters more efficient and extend sourcing into the global market. Developers of ATSs are now focusing efforts on developing quality-of-hire metrics.

Helene Richter, director of talent operations for Liz Claiborne, New York City, said, "People choose an applicant-tracking tool to streamline process. But you have EEO and compliance issues that you need to streamline as well." The applicant-tracking function does both.[50] Hiring information is tracked to comply with Office of Federal Contract Compliance Programs.

The purpose of *candidate relationship management (CRM)* is to help manage potential and actual applicants in an organized manner. It is useful in managing the relationship between the company and prospective applicants.[51] CRM can be used to send job postings and job descriptions to job boards and other sites. It has the capability to search the Internet, including social media sites, for résumés, and then adds and catalogues them and other information to the database. CRM systems have the ability to link with other ATSs and any Web site. CRM systems permit candidates to get to know more about the company and allow the company to get to know more about the candidate.

CRM systems are used to communicate with those who have applied or appear qualified for jobs with the firm. Once the CRM system identifies an individual who might be appropriate for an open position, the system can e-mail that person asking them to respond. Gerry Crispin, a principal at the consulting firm CareerXroads in Kendall Park, New Jersey, said, "Candidate relationship management systems can provide information that helps a candidate recognize himself as an employee of the company, creating an 'I'd fit there' attitude."[52]

The Internet has created a situation in which a large number of résumés can be received. Often, candidates send an application and never get a reply. Whether as a result of arrogance, ignorance, or incompetence, companies sometime fail to inform applicants after they have been rejected. To overcome this situation, organizations use CRM software to help job seekers have good experiences with the companies' Web sites and to bolster efforts to build talent pools. Companies truly dedicated to CRM do not stop after sending an auto reply; they also let them know when the position has been filled.

OBJECTIVE 6.11
Discuss selection in a global environment.

Selection in a Global Environment

Organizational fit was discussed in this chapter as management's perception of the degree to which the prospective employee will fit in with the firm's culture or value system. When determining which leadership style will be more appropriate for a company, a country's culture plays a major role in determining whether an executive will be successful or not. Regardless of how far-flung their markets and operations, multinational leaders typically retain and reflect the cultural mores of their home countries. Because the vast majority of firms are deeply rooted in the culture of their home countries, leaders who adhere to the cultural norms have a better chance of success.[53] D. Quinn Mills, professor emeritus of business administration at Harvard Business School, said, "They are very much shaped by national culture. That's why it's very hard to lead an organization that's of a different national culture."[54] A perfect example of where style and culture clashed was with the ill-fated, co-presidency between Germany's Daimler and Detroit's Chrysler when one president was unwilling to share the authority

resulting in the resignation of the other president. Even though there does not appear to be a global market for CEOs, there are a few exceptions. Carlos Ghosn provides one exception. He was born in Brazil to Lebanese parents, educated in France, and speaks four languages fluently. He is chief executive officer of both French automaker Renault and its alliance partner Nissan, the Japanese car company.

Think of global business styles as a continuum with U.S. executives at one end and their Asian counterparts at the other. The United States and Japan provide an excellent example for studying cross-cultural leadership interaction because of the cultural differences between the countries. U.S. CEOs differ in styles, but most have a common denominator; they have more leeway to make large, strategic decisions themselves.[55] Japanese leaders tend to make decisions by consensus. Some wonder if it is possible for the various styles of executives to ever come together. It is too early to tell. However, there appears to be a shift away from emulating U.S. leaders, especially since the recent financial crisis.

Philip R. Harris and Robert T. Moran, in their book, *Managing Cultural Differences*, summarize feedback from Arab businesspeople regarding how they perceive many Westerners. To them, Westerners act superior, as if they know the answer to everything; are not willing to share credit for joint efforts; are unable or unwilling to respect and adjust to local customs and culture; prefer solutions based on their home cultures rather than meeting local needs; resist working through local administrative and legal channels and procedures; manage in an autocratic and intimidating way; and are too imposing and pushy.[56] In such an environment, a U.S. leader chosen for duty in an Arab country could possibly have difficulties being successful.

Summary

1. ***Explain the significance of employee selection.*** *Selection* is the process of choosing from a group of applicants the individual best suited for a particular position. There are many ways to improve productivity, but none is more powerful than making the right hiring decision.
2. ***Describe the selection process.*** The selection process typically begins with preliminary screening. Next, applicants complete the firm's application form, and this is followed by the administration of selection tests and a series of employment interviews with reference and background investigations. Once the selection decision has been made, the prospective employee may be given a company medical examination.
3. ***Explain the importance of preliminary screening.*** Preliminary screening is important because it identifies those who obviously do not meet the position's requirements. Preliminary screening may take the form of reviewing for obviously unqualified applicants with a brief interview, test, or only a review of the application or résumé for clear mismatches.
4. ***Describe reviewing applications and résumés.*** Having the applicant complete an application for employment is another early step in the selection process. The employer evaluates this application to see whether there is an apparent match between the individual and the position.

   When writing their résumés, applicants should realize that most companies now use automated résumé systems. These systems assume a certain résumé style. Résumés that deviate from the assumed style are ignored or deleted.
5. ***Describe the use of tests in the selection process.*** Recognizing the shortcomings of other selection tools, many firms have added pre-employment tests to their hiring process. Selection tests may accurately predict an applicant's ability to perform the job, the "can do," but they are less successful in indicating the extent to which the individual will be motivated to perform it, the "will do." Employers should also be aware that tests might be unintentionally discriminatory. Test anxiety can also be a problem.
6. ***Explain the use of the employment interview.*** The interview permits clarification of certain points, the uncovering of additional information, and the elaboration of data needed to make a sound selection decision. The interviewer should provide information about the company, the job, and expectations of the candidate.

The general types of interviews are the unstructured interview and the structured interview, including the behavioral interview and the situational interview.

7. ***Explain pre-employment screening and background checks.*** Pre-employment screening has experienced tremendous growth since the terrorist attack of 9/11. It went from a possible step in the selection process to that of a necessary step. Background investigation is more important than ever because of the rise in negligent hiring, lawsuits, recent corporate scandals, and national security concerns. Background investigations involve obtaining data from various sources, including previous employers, business associates, credit bureaus, government agencies, and academic institutions.
8. ***Describe the selection decision.*** The selection decision is when the final choice is made from among those still in the running after reference checks, selection tests, background investigations, and interview information are evaluated.
9. ***Describe the metrics for evaluating recruitment/selection effectiveness.*** Metrics available to assess HR efficiency are numerous, and a comprehensive set of metrics can be produced to evaluate recruitment and selection. Possible metrics include quality of hire, time required to hire, new-hire retention, hiring manager overall satisfaction, turnover rate, costs per hire, selection rate, acceptance rate, and yield rate.
10. ***Identify environmental factors that affect the selection process.*** The environmental factors that affect the selection process include other HR functions, legal considerations, speed of decision making, organizational hierarchy, applicant pool, type of organization, probationary period, organizational fit, and selection technology.
11. ***Discuss selection in the global environment.*** More often than not, trying to make different styles of leadership work in foreign lands is an exercise in frustration. The vast majority of firms are deeply rooted in their home countries.

Key Terms

selection 155
preliminary screening 156
résumé 157
keywords 158
keyword résumé 158
standardization 160
objectivity 160
norm 160
reliability 161
validity 161
criterion-related validity 161
content validity 162
construct validity 162
aptitude tests 162
achievement tests 162
cognitive ability test 162
personality 162
personality tests 162
job-knowledge tests 163
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employment interview 165
unstructured interview 167
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behavioral interview 167
situational interview 168
group interview 168
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realistic job preview (RJP) 169
reference checks 173
negligent hiring 174
applicant pool 178
selection ratio 178
organizational fit 179

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Exercises

✪ **6-1.** What would be the selection ratio if there were 15 applicants to choose from and only one position to fill? Interpret the meaning of this selection ratio.

6-2. What do you believe would be the most important components of the selection process for the following jobs?
- a. Telemarketer
- b. Restaurant manager
- c. School teacher
- d. A beginner football player

6-3. A friend of yours with another company about the same size as yours showed you their application form. They asked a lot more questions and you wonder if your company could also ask them. Could the following items be added to our application blank? Why or why not?
- a. Marital status
- b. Height and weight
- c. Age
- d. Sex
- e. Do you have children?
- f. What is your credit score?
- g. Have you ever been convicted?
- h. If you are a female, do you plan to have any more children?
- i. What handicaps do you have?

6-4. Calculate the metrics for the following situations:
- a. A company hires 150 new workers at the beginning of the year, and only 80 of them remain at the end of the year. What is the new-hire retention rate for the firm?
- b. A company employs 300 workers and 200 of them had to be replaced during the year. What is the turnover rate for the firm?
- c. A firm makes an offer of employment to 40 applicants and 20 of them accept the offer. What is the acceptance rate for the firm?

Questions for Review

6-5. What are the typical steps in the selection process?

6-6. What is the general purpose of preliminary screening?

6-7. Explain what a keyword résumé is.

6-8. What types of questions should be asked on an application form?

✪ **6-9.** What are the advantages and potential problems in the use of selection tests?

6-10. What are the basic characteristics of a properly designed selection test?

6-11. What are the test validation approaches? Define each.

6-12. Identify and describe the various types of employment tests.

6-13. What is the purpose of an assessment center?

6-14. List some guidelines to follow in planning for an interview.

6-15. What are the general types of interviews? Explain each.

6-16. What are the main strengths of the behavioral interview?

6-17. What are the various methods of interviewing? Define each.

6-18. What are some potential interview problems?

6-19. What is a realistic job preview (RJP) and what happens when employers provide one?

✪ **6-20.** Why should an employer be concerned about negligent hiring?

6-21. Why is it important to notify both successful and unsuccessful candidates about the selection decision?

6-22. What are some metrics for evaluating recruitment and selection?

6-23. Should a multinational company be concerned about how its local executive will perform in a different culture?

✪ **6-24.** In terms of employee selection, what is the significance of organizational fit?

6-25. Distinguish between an applicant-tracking system and candidate relationship management.

INCIDENT 1 A Matter of Priorities

As production manager for Thompson Manufacturing, Sheila Stephens has the final authority to approve the hiring of any new supervisors who work for her. The human resource manager performs the initial screening of all prospective supervisors and then sends the most likely candidates to Sheila for interviews.

One day recently, Sheila received a call from Pete Peterson, the human resource manager: "Sheila, I've just spoken to a young man who may be just who you're looking for to fill the final line supervisor position. He has some good work experience and appears to have his head screwed on straight. He's here right now and available if you could possibly see him."

Sheila hesitated a moment before answering. "Gee, Pete" she said, "I'm certainly busy today, but I'll try to squeeze him in. Send him on down."

A moment later Allen Guthrie, the applicant, arrived at Sheila's office and she introduced herself. "Come on in, Allen," said Sheila. "I'll be right with you after I make a few phone calls." Fifteen minutes later Sheila finished the calls and began talking with Allen. Sheila was quite impressed. After a few minutes Sheila's door opened and a supervisor yelled, "We have a small problem on line one and need your help." Sheila stood up and said, "Excuse me a minute, Allen." Ten minutes later Sheila returned, and the conversation continued for 10 more minutes before a series of phone calls again interrupted the pair.

The same pattern of interruptions continued for the next hour. Finally, Allen looked at his watch and said, "I'm sorry, Mrs. Stephens, but I have to pick up my wife."

"Sure thing, Allen," Sheila said as the phone rang again. "Call me later today."

Questions

6-26. What should Sheila have done to avoid interviews like this one?

6-27. Explain why Sheila, not Pete, should make the selection decision.

6-28. What steps in the selection process were missed, if any? What problems might occur as a result of these omissions?

INCIDENT 2 But I Didn't Mean To!

David Corbello, the office manager of the *Daily Gazette*, a midwestern newspaper, was flabbergasted as he spoke with the HR manager, Amanda Dervis. He had just discovered that he was the target of a lawsuit filed by an applicant who had not been selected. "All I did was make friendly inquiries about her children. She seemed quite receptive about talking about them. She was proud of her family. She even told me about every aspect of the difficult divorce she had just gone through. She seemed to want to talk so I let her. I thought I was merely breaking the ice and setting the tone for an effective dialogue. I thought nothing of it when she told me that she needed a day-care facility when she went to work. A year later she claims to have been the victim of discrimination because she believes that a man would not have been asked questions about his children. There's nothing to this lawsuit, is there, Amanda?"

Questions

6-29. How should Amanda respond to David's question?

6-30. What hiring standards to avoid did David violate?

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6-31. What is the significance of employee selection?

6-32. Why is background investigation important to the selection process?

Endnotes

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Part Three

Performance Management and Training

Chapter 7

Performance Management and Appraisal

Chapter 8

Training and Development



7 Performance Management and Appraisal

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Describe performance management.
2. Define performance appraisal.
3. Identify the uses of performance appraisal.
4. Discuss the performance appraisal process.
5. Identify the various performance criteria (standards) that can be established.
6. Identify who may be responsible for performance appraisal.
7. Explain the performance appraisal period.
8. Describe the various performance appraisal methods.
9. List the problems that have been associated with performance appraisal.
10. Explain the characteristics of an effective appraisal system.
11. Describe the legal considerations associated with performance appraisal.
12. Explain how the appraisal interview should be conducted.
13. Discuss how performance appraisal is affected by a country's culture.

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The tools we describe in this chapter and in Chapters 8 provide human resources (HR) professionals with a foundation to evaluate and improve the capability of a company's employees (human capital) to its competitive advantage. Let's consider a metaphor to bring the opening sentence to life. Think about, for example, a delivery vehicle. Many factors contribute to fuel efficiency, two of which include low tire pressure or an air conditioner that is low in refrigerant. In the former case, insufficient tire pressure creates greater drag on the vehicle, which raises fuel consumption. In the latter case, the air conditioner will not efficiently cool the car, and the compressor will continually run because it cannot keep the interior of the car at the desired lower temperature. Compressors are driven by the engine, which, of course, are fueled by gasoline.

Companies prefer to have fuel-efficient vehicles to maintain lower operating costs because they want to maximize profitability. Mechanics can use an air gauge to determine whether tire pressure falls within standard limits specified by the automobile manufacturer. Specialized thermometers can be used to determine the adequacy of refrigerant levels in air conditioning systems.

From an HR standpoint, delivery vehicles are capital, and we have learned that employees are human capital. Both help add value to companies. Fuel efficiency is a measure of performance. Lower-than-standard or expected fuel efficiency can be thought of as (lower) job performance. Air gauges and specialized thermometers can be thought of as performance appraisal techniques that help mechanics (managers or supervisors) judge two factors known to influence a vehicle's fuel efficiency (an employee's job performance). We take up the topics of performance management and performance appraisal in this chapter.



HR Web Wisdom

Performance Management

http://www.opm.gov/perform/overview.asp

Office of Personnel Management Web site on performance management.

OBJECTIVE **7.1**

Describe performance management.

Performance Management

performance management (PM)
Goal-oriented process directed toward ensuring that organizational processes are in place to maximize the productivity of employees, teams, and ultimately, the organization.

Performance management (PM) is a goal-oriented process directed toward ensuring that organizational processes are in place to maximize the productivity of employees, teams, and ultimately, the organization. It is a major player in accomplishing organizational strategy in that it involves measuring and improving the value of the workforce. PM includes incentive goals and the corresponding incentive values so that the relationship can be clearly understood and communicated. There is a close relationship between incentives and performance.

PM systems are one of the major focuses in business today. Although every HR function contributes to PM, training, performance appraisal, and compensation appraisal play a more significant role. Whereas performance appraisal occurs at a specific time, PM is a dynamic, continuous process. Every individual in the organization is a part of the PM system. Every component of the system is integrated to ensure continuous organizational effectiveness. With PM, every



worker's efforts should focus on achieving strategic goals. A well-developed job description is needed to determine whether performance expectations have been achieved. If workers' skills need improvement, additional training should be provided. In PM systems, training has a direct tie-in to achieving organizational effectiveness, as does pay and performance. A good PM system ensures that people make good, effective use of their time.

PM may be the single largest contributor to organizational effectiveness in recent years. An effective PM system should be the responsibility of everyone in the organization starting with the CEO and moving throughout the entire organization because companies that disregard PM do not prosper.[1]

OBJECTIVE 7.2
Define performance appraisal.

performance appraisal (PA)
Formal system of review and evaluation of individual or team task performance.

Performance Appraisal

Performance appraisal (PA) is a formal system of review and evaluation of individual or team task performance. A critical point in the definition is the word *formal* because, in actuality, managers should be reviewing an individual's performance on a continuing basis.

PA is especially critical to the success of PM. Although PA is but one component of PM, it is a vital one, in that it directly reflects the organization's strategic plan. Although evaluation of team performance is critical when teams exist in an organization, the focus of PA in most firms remains on the individual employee. Regardless of the emphasis, an effective appraisal system evaluates accomplishments and initiates plans for development, goals, and objectives.

Most managers rely on PA techniques as a basis to provide feedback, encourage performance improvement, make valid decisions, justify terminations, identify training and development needs, and defend personnel decisions such as why one employee received a higher pay increase than another employee. PA serves many purposes, and improved results and efficiency are increasingly critical in today's globally competitive marketplace. Therefore, abandoning the only program with *performance* in its name and *employees* as its focus would seem to be an ill-advised overreaction. Additionally, managers must be concerned about legal issues, which we consider later in this chapter. Developing an effective PA system has been and will continue to be a high priority for management.

OBJECTIVE 7.3
Identify the uses of performance appraisal.

Uses of Performance Appraisal

For many organizations, the primary goal of an appraisal system is to improve individual and organizational performance. There may be other goals, however. A potential problem with PA, and a possible cause of much dissatisfaction, is expecting too much from one appraisal plan. For example, a plan that is effective for developing employees may not be the best for determining pay increases. Yet a properly designed system can help achieve organizational objectives and enhance employee performance. In fact, PA data are potentially valuable for virtually every human resource functional area.

Human Resource Planning

In assessing a firm's HR, data must be available to identify those who have the potential to be promoted or for any area of internal employee relations. Through PA it may be discovered that there is an insufficient number of workers who are prepared to enter management. Plans can then be made for greater emphasis on management development. Succession planning is a key concern for all firms. A well-designed appraisal system provides a profile of the organization's human resource strengths and weaknesses to support this effort.

Training and Development

Performance appraisal should point out an employee's specific needs for training and development. For instance, if Pat Compton's job requires skill in technical writing and her evaluation reveals a deficiency in this factor, she may need additional training to overcome this shortcoming. If a firm finds that a number of first-line supervisors are having difficulty in administering disciplinary action, training sessions addressing this problem may be appropriate. By identifying deficiencies that adversely affect performance, training and development (T&D) programs can be developed that permit individuals to build on their strengths and minimize their deficiencies.

An appraisal system does not guarantee properly trained and developed employees. However, determining T&D needs is more precise when appraisal data are available.

Career Planning and Development

Career planning is an ongoing process whereby *an individual* sets career goals and identifies the means to achieve them. On the other hand, *career development* is a formal approach used by the organization to ensure that people with the proper qualifications and experiences are available when needed. PA data is essential in assessing an employee's strengths and weaknesses and in determining the person's potential. Managers may use such information to counsel subordinates and assist them in developing and implementing their career plans.

Compensation Programs

PA results provide a basis for rational decisions regarding pay adjustments. Most managers believe that you should reward outstanding job performance tangibly with pay increases. They believe that *the behaviors you reward are the behaviors you get*. Rewarding behaviors necessary for accomplishing organizational objectives is at the heart of a PM system. To encourage good performance, a firm should design and implement a reliable PA system and then reward the most productive workers and teams accordingly. Creators of total rewards systems want to ensure that individual performance supports organizational objectives.

Internal Employee Relations

PA data are also used for decisions in several areas of internal employee relations, including promotion, demotion, termination, layoff, and transfer. For example, an employee's performance in one job may be useful in determining his or her ability to perform another job on the same level, as is required in the consideration of transfers. Certainly, PA data is vital when promotions are considered or layoffs must be made. However, when the performance level is unacceptable, demotion or even termination may be appropriate.

Assessment of Employee Potential

Some organizations attempt to assess an employee's potential as they appraise his or her job performance. Although past behaviors may be a good predictor of future behaviors in some jobs, an employee's past performance may not accurately indicate future performance in other jobs. The best salesperson in the company may not have what it takes to become a successful district sales manager, where the tasks are distinctly different. Similarly, the best systems analyst may, if promoted, be a disaster as an information technology manager. Overemphasizing technical skills and ignoring other equally important skills is a common error in promoting employees into management jobs. Recognition of this problem has led some firms to separate the appraisal of performance, which focuses on past behavior, from the assessment of potential, which is future oriented.

OBJECTIVE 7.4

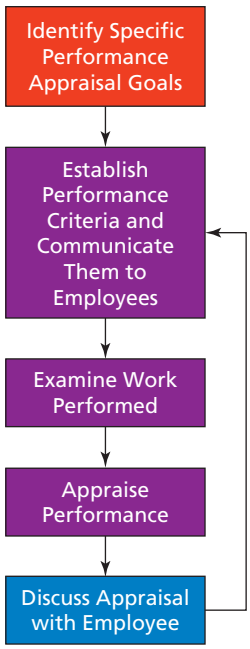
Discuss the performance appraisal process.

Performance Appraisal Process

As shown in Figure 7-1, the starting point for the PA process is identifying specific performance goals. An appraisal system probably cannot effectively serve every desired purpose, so management should select the specific goals it believes to be most important and realistically achievable. For example, some firms may want to stress employee development, whereas other organizations may want to focus on pay adjustments. Many firms rely on PA results to help inform decisions to terminate employment, particularly after a regular pattern of inadequate job performance. In any case, PA serves a developmental purpose, evaluative purpose, or both.

The next step in this ongoing cycle continues with establishing performance criteria (standards) and communicating these performance expectations to those concerned. Then the work is performed and the supervisor appraises the performance. At the end of the appraisal period, the appraiser reviews work performance and evaluates it against established performance standards. This review helps determine how well employees have met these standards, determines reasons for deficiencies, and develops a plan to correct the problems. At this meeting, goals are set for the next evaluation period, and the cycle repeats.

FIGURE 7-1
Performance Appraisal Process



OBJECTIVE **7.5**

Identify the various performance criteria (standards) that can be established.

Establish Performance Criteria (Standards)

Management must carefully select performance criteria as it pertains to achieving corporate goals.[2] The most common appraisal criteria are traits, behaviors, competencies, goal achievement, and improvement potential.

Traits, Behaviors, and Competencies

Traits, behaviors, and competencies are often used as PA standards. *Traits* represent an individual's predisposition to think, feel, and behave, and many traits are usually thought of as being biologically created. A personality trait is more ingrained with an individual as with a person being introverted or extroverted, or less conscientious or more conscientious.

Behaviors are typically viewed as resulting from a variety of sources including traits and situational context. For example, a highly conscientious person is more likely to engage in behaviors that lead to timely task completion than someone who is less conscientious because conscientiousness is associated with dutifulness. Employees who tend to be less conscientious may step up their game in situations where they have the opportunity to earn substantial performance-based bonuses than in situations where pay is the same regardless of performance differences.

A behavior may have been learned from parents, from significant friends, or from a certain work environment. A behavior can be changed, but traits are usually more established. Often a young person who joins the military will have many behavioral changes take place prior to returning to civilian life. An appropriate behavior to evaluate for a manager might be leadership style. For individuals working in teams, developing others, teamwork and cooperation, or customer service orientation might be appropriate. Desired behaviors may be appropriate as evaluation criteria because if they are recognized and rewarded, employees tend to repeat them. If certain behaviors result in desired outcomes, there is merit in using them in the evaluation process.

Competencies, as we discussed in Chapter 4, refer to an individual's capability to orchestrate and apply combinations of knowledge, skills, and abilities consistently over time to perform work successfully in the required work situations. Competencies may be technical in nature, relate to interpersonal skills, or are business oriented. For example, analytical thinking and achievement orientation might be essential in professional jobs. In leadership jobs, relevant competencies might include developing talent, delegating authority, and people management skills. The competencies selected for evaluation purposes should be those that are closely associated with job success.

Many of these commonly used traits, behaviors, and competencies are subjective and may be either unrelated to job performance or difficult to define. In such cases, inaccurate evaluations may

occur and create legal problems for the organization as well. This was the case in *Wade v. Mississippi Cooperative Extension Service* where the circuit court ruled:

> *In a performance appraisal system, general characteristics such as leadership, public acceptance, attitude toward people, appearance and grooming, personal conduct, outlook on life, ethical habits, resourcefulness, capacity for growth, mental alertness, and loyalty to organization are susceptible to partiality and to the personal taste, whim, or fancy of the evaluator as well as patently subjective in form and obviously susceptible to completely subjective treatment by those conducting the appraisals.*

At the same time, certain traits, behaviors, and competencies may relate to job performance and, if this connection is established, using them may be appropriate.

Goal Achievement

If organizations consider *ends* more important than *means*, goal achievement outcomes become an appropriate factor to evaluate. The outcomes established should be within the control of the individual or team and should be results that lead to the firm's success. At upper levels, the goals might deal with financial aspects of the firm such as profit or cash flow, and market considerations such as market share or position in the market. At lower organizational levels, the outcomes might be meeting the customer's quality requirements and delivering according to the promised schedule.

To assist the process, the manager needs to provide specific examples of how the employee can further his or her development and achieve specific goals. Both parties should reach an agreement as to the employee's goals for the next evaluation period and the assistance and resources the manager needs to provide. This aspect of employee appraisal should be the most positive element in the entire process and help the employee focus on behavior that will produce positive results for all concerned.

Improvement Potential

When organizations evaluate their employees' performance, many of the criteria used focus on the past. From a PM viewpoint, the problem is that you cannot change the past. Unless a firm takes further steps, the evaluation data become merely historical documents. Therefore, firms should emphasize the future, including the behaviors and outcomes needed to develop the employee, and in the process, achieve the firm's goals. This involves an assessment of the employee's potential. Including *potential* in the evaluation process helps to ensure more effective career planning and development.

The HR Director of the California Health Foundation explains the nature of the company's PM system. The employee appraisal system is open-ended and includes just a few general categories, covering the employee's past performance with respect to their objectives set at the previous year's appraisal, and their future goals in the company. The following Watch It video describes California's PA system, including a review of the criteria for an employee receiving a good PA, and HR's methods of dealing with both positive and negative PAs and efforts to maintain a positive work culture that emphasizes a culture of personal responsibility, flexibility, and development.

Watch It 1
If your instructor has assigned this, go to MyManagementLab to watch a video titled The California Health Foundation: Performance Management and respond to questions.

OBJECTIVE 7.6
Identify who may be responsible for performance appraisal.

Responsibility for Performance Appraisal

Often the human resource department is responsible for coordinating the design and implementation of PA programs. However, it is essential that line managers play a key role from beginning to end. These individuals usually conduct the appraisals, and they must directly participate in developing the program if it is to succeed. In a recent survey of 1,143 U.S. employees, 53 percent get

feedback about their performance from their managers. But many would like to get an expanded view of their performance and receive input from others such as from peers, project leaders, and even clients.[3] Several possibilities exist with regard to the person(s) who will actually rate the employee.

Immediate Supervisor

An employee's immediate supervisor has traditionally been the most logical choice for evaluating performance, and this continues to be the case. The supervisor is usually in an excellent position to observe the employee's job performance, and the supervisor has the responsibility for managing a particular unit. When someone else has the task of evaluating subordinates, the supervisor's authority may be undermined. Also, subordinate T&D is an important element in every manager's job, and as previously mentioned, appraisal programs and employee development are usually closely related.

On the negative side, the immediate supervisor may emphasize certain aspects of employee performance and neglect others. Also managers have been known to manipulate evaluations to justify pay increases and promotions and vice versa.

In most instances, the immediate supervisor will probably continue to be involved in evaluating performance. Organizations will seek alternatives, however, because of technological advances and a desire to broaden the perspective of the appraisal.

Subordinates

Historically, our culture has viewed evaluation by subordinates negatively. However, this thinking has changed somewhat. Some firms conclude that evaluation of managers by subordinates is both feasible and needed. They reason that subordinates are in an excellent position to view their superiors' managerial effectiveness. Advocates believe that this approach leads supervisors to become especially conscious of the work group's needs and to do a better job of managing. In the higher education environment, it is a common practice for instructors to be evaluated by students. Critics are concerned that managers (and instructors) will be caught up in a popularity contest or that employees will be fearful of reprisal. If this approach has a chance for success, one thing is clear: the evaluators must be guaranteed anonymity. Ensuring this might be particularly difficult in a small department and especially if demographic data on the appraisal form could identify raters.

Peers and Team Members

A major strength of using peers to appraise performance is that they work closely with the evaluated employee and probably have an undistorted perspective on typical performance, especially in team assignments. Problems with peer evaluations include the reluctance of some people who work closely together, especially on teams, to criticize each other. On the other hand, if an employee has been at odds with another worker, he or she might really "unload on the enemy," which results in an unfair evaluation. Another problem concerns peers who interact infrequently and lack the information needed to make an accurate assessment.

Organizations are increasingly using teams, including those that are self-directed. Team members know each other's performance better than anyone and can, therefore, evaluate performance more accurately. Also, peer pressure is a powerful motivator for team members, and members who recognize that peers within the team will be evaluating their work show increased commitment and productivity. When employees work in teams and their appraisal system focuses entirely on individual results, it is not surprising that they show little interest in their teams. But this problem can be corrected. If teamwork is essential, make it a criterion for evaluating employees; rewarding collaboration will encourage teamwork.

Self-Appraisal

If employees understand their objectives and the criteria used for evaluation, they are in a good position to appraise their own performance. Many people know what they do well on the job and what they need to improve. If they have the opportunity, they will criticize their own performance objectively and take action to improve it. Many times employees are tougher on themselves than the supervisor will be. Also because employee development is self-development, employees who

appraise their own performance may become more highly motivated. Self-appraisal provides employees with a means of keeping the supervisor informed about everything they have done during the appraisal period.[4]

Even if a self-appraisal is not a part of the system, the employee should at least provide the manager a list of his or her most important accomplishments and contributions over the appraisal period. This will prevent the manager from being blindsided when the employee complains, perhaps justifiably, "You didn't even mention the Bandy contract I landed last December!"

As a complement to other approaches, self-appraisal has great appeal to managers who are primarily concerned with employee participation and development. For compensation purposes, however, its value is considerably less. Some individuals are masters at attributing good performance to their own efforts and poor performance to someone else's.

Customer Appraisal

Customer behavior determines a firm's degree of success. Therefore, some organizations believe it is important to obtain performance input from this critical source. Organizations use this approach because it demonstrates a commitment to the customer, holds employees accountable, and fosters change. Customer-related goals for executives generally are of a broad, strategic nature, whereas targets for lower-level employees tend to be more specific. For example, an objective might be to improve the rating for accurate delivery or reduce the number of dissatisfied customers by half. It is important to have employees participate in setting their goals and to include only factors that are within the employees' control.



HR Web Wisdom

360-Degree Evaluation

http://www.custominsight.com/360-degree-feedback/what-is-360-degree-feedback.asp

360-Degree Evaluation—Delivering Feedback

360-Degree Feedback

People all around the employee whose performance is being judged may provide input. Those sources, as we have already discussed, include senior managers, the employee himself or herself, a supervisor, subordinates, peers, team members, and internal or external customers. By shifting the responsibility for evaluation to more than one person, many of the common appraisal errors can be reduced or eliminated. Software is available to permit managers to give the ratings quickly and conveniently. Furthermore, including the perspective of multiple sources results in a more comprehensive and fair view of the employee's performance and minimizes biases resulting from limited views of performance.

Having multiple raters also makes the process more legally defensible. However, it is important for all parties to know the evaluation criteria, the methods for gathering and summarizing the feedback, and the use to which the feedback will be put. An appraisal system involving numerous evaluators will naturally take more time and, therefore, be more costly. Nevertheless, the way firms are being organized and managed may require innovative alternatives to traditional top-down appraisals.

In a survey of training participants, 84 percent said their 360-degree experience was useful.[5] However, some managers believe that the 360-degree feedback method has problems. General Electric's (GE's) former CEO Jack Welch maintains that the 360-degree system in his firm had been "gamed" and that people were saying nice things about one another, resulting in all good ratings.[6] Another critical view with an opposite twist is that input from peers, who may be competitors for raises and promotions, might intentionally distort the data and sabotage the colleague. Yet because so many firms use 360-degree feedback evaluation, it seems that many firms have found ways to avoid the pitfalls.

Significant risks with 360-degree feedback are confidentiality and possible legal ramifications. Many firms outsource the process to make participants feel comfortable that the information they share and receive is completely anonymous. Information is very sensitive, and in the wrong hands, could impact careers. In addition, Nesheba Kittling, an attorney at labor law firm Fisher & Phillips, states that "Employees' performance reviews are an employers' first line of defense against discrimination claims."[7] Detailed documentation of job performance "provides support for an employer's contention that it had legitimate, non-discriminatory reasons" for adverse action against an employee such as a demotion or termination.[8]

360-degree feedback evaluation method
Popular performance appraisal method that involves evaluation input from multiple levels within the firm as well as external sources.

As an important aside, the **360-degree feedback evaluation method** is based on the reliance of multiple sources to provide information about an employee's performance.

The 360-degree method is unlike traditional performance reviews, which provide employees with feedback only from supervisors. The 360-degree feedback provides an all-inclusive view of each employee. As many as 90 percent of *Fortune* 500 companies use some form of 360-degree feedback for either employee evaluation or development. Many companies use results from 360-degree programs not only for conventional applications but also for succession planning, training, and professional development.[9]

OBJECTIVE 7.7
Explain the performance appraisal period.

Performance Appraisal Period

Formal performance evaluations are usually prepared at specific intervals. Although there is nothing magical about the period for formal appraisal reviews, in most organizations they occur either annually or semiannually. Even more significant, however, is the continuous interaction (primarily informal), including coaching and other developmental activities, that continues throughout the appraisal period. Managers should be conditioned to understand that managing performance is a continuous process that is built into their job every day.

In the current business climate, firms may want to consider monitoring performance more often. Changes occur so fast that employees need to look at objectives and their own roles throughout the year to see whether changes are in order. Southwest Airlines has asked its managers to have monthly check-ins with staff rather than semiannual ones.[10] Employees with Royal Caribbean Cruises are evaluated approximately three weeks prior to the completion of their contract, which is typically six months. Some even consider these relatively shorter intervals to be too long: "Think of a sports team: A coach doesn't wait until the end of a season to give his players feedback."[11]

Some organizations use the employee's date of hire to determine the rating period. At times a subordinate's first appraisal may occur at the end of a probationary period, anywhere from 30 to 90 days after his or her start date. However, in the interest of consistency, it may be advisable to perform evaluations on a calendar basis rather than on anniversaries. If firms do not conduct all appraisals at the same time, it may be impossible to make needed comparisons between employees.

The frequency of providing employees with performance feedback is important. The following Watch It video describes The Weather Channel PA process in which appraisals are recommended to be done on an ongoing, continual basis so that an employee always knows where he or she stands as far as what is expected and how well he or she is doing. This way, the employee can look forward to performance reviews instead of dreading them; performance reviews will be an official confirmation of all of the progress that the employee has been making under the ongoing relationship of appraisal and feedback with the employee's manager.

Watch It 2
If your instructor has assigned this, go to MyManagementLab to watch a video titled Weather Channel: Performance Appraisal and respond to questions.

OBJECTIVE 7.8
Describe the various performance appraisal methods.

Choosing a Performance Appraisal Method

The various methods are next presented as if they are separate and distinct when in actuality each may be used in conjunction with another method. For instance, the 360-degree feedback method may incorporate portions of the ranking scale. There are multiple approaches to appraising employee performance. It is instructive to group them into categories according to what they are designed to measure. PA methods fall into four broad categories:

- Trait systems
- Comparison systems
- Behavioral systems
- Results-based systems

Trait Systems

trait systems
Type of performance-appraisal method, requiring raters (e.g., supervisors or customers) to evaluate each employee's traits or characteristics (e.g., quality of work and leadership).

Trait systems ask raters to evaluate each employee's traits or characteristics (e.g., quality of work, quantity of work, appearance, dependability, cooperation, initiative, judgment, leadership responsibility, decision-making ability, or creativity). Appraisals are typically scored using descriptors ranging from unsatisfactory to outstanding. Figure 7-2 contains an illustration of a trait method of performance appraisal.

The trait approach does have limitations. First, trait systems are highly subjective[12] because they are based on the assumption that every supervisor's perception of a given trait is the same. For example, the trait "quality of work" may be defined by one supervisor as "the extent to which an employee's performance is free of errors." To another supervisor, quality of work might mean "the extent to which an employee's performance is timely." Human resource professionals and supervisors can avoid this problem by working together in advance to specify the definition of traits clearly.

Another drawback is that systems rate individuals on subjective personality factors rather than on objective job performance data. Essentially, trait assessment focuses attention on employees rather than on job performance. Employees may simply become defensive rather than trying to understand the role that the particular trait plays in shaping their job performance and then taking corrective actions. Moreover, traits represent a predisposition to behave, think, or feel. Although traits do influence behavior, these do not fully account for behavior.[13] For example, highly conscientious individuals tend to be dutiful and complete assignments on a regular basis. However, other factors, including illness or ongoing distractions, could interfere with the productivty that one might expect to be associated with a particular trait.

comparison systems
A type of performance-appraisal method, require that raters (e.g., supervisors) evaluate a given employee's performance against other employees' performance attainments. Employees are ranked from the best performer to the poorest performer.

forced distribution method
Performance appraisal method in which the rater is required to assign individuals in a work group to a limited number of categories, similar to a normal frequency distribution.

Comparison Systems

Comparison systems evaluate a given employee's performance against that of other employees. Employees are ranked from the best performer to the poorest performer. In simplest form, supervisors rank each employee and establish a performance hierarchy such that the employee with the best performance receives the highest ranking. Employees may be ranked on overall performance or on various traits.

An alternative approach, called a **forced distribution method** PA and sometimes referred to as a stacked ranking system, assigns employees to groups that represent the entire range of performance. For example, three categories that might be used are best performers, moderate performers, and poor performers. A forced distribution approach, in which the rater must place a specific number of employees into each of the performance groups, can be used with this method. Figure 7-3 displays a forced distribution rating form for an animal keeper job with five performance categories.

Many companies use forced distribution approaches to minimize the tendency for supervisors to rate most employees as excellent performers. This tendency usually arises out of supervisors'

FIGURE 7-2
A Trait-Oriented Performance Appraisal Rating Form

Employee's Name: ***Employee's Position:***
Supervisor's Name: ***Review Period:***

Instructions: For each trait, circle the phrase that best represents the employee.

1. Diligence
   a. outstanding b. above average c. average d. below average e. poor
2. Cooperation with others
   a. outstanding b. above average c. average d. below average e. poor
3. Communication skills
   a. outstanding b. above average c. average d. below average e. poor
4. Leadership
   a. outstanding b. above average c. average d. below average e. poor
5. Decisiveness
   a. outstanding b. above average c. average d. below average e. poor

FIGURE 7-3

A Forced Distribution Performance Appraisal Rating Form

Instructions: You are required to rate the performance for the previous 3 months of the 15 workers employed as animal keepers to conform with the following performance distribution:

- *15 percent* of the animal keepers will be rated as having exhibited poor performance.
- *20 percent* of the animal keepers will be rated as having exhibited below-average performance.
- *35 percent* of the animal keepers will be rated as having exhibited average performance.
- *20 percent* of the animal keepers will be rated as having exhibited above-average performance.
- *10 percent* of the animal keepers will be rated as having exhibited superior performance.

Use the following guidelines for rating performance. On the basis of the five duties listed in the job description for animal keeper, the employee's performance is characterized as:

- *Poor* if the incumbent performs only one of the duties well.
- *Below average* if the incumbent performs only two of the duties well.
- *Average* if the incumbent performs only three of the duties well.
- *Above average* if the incumbent performs only four of the duties well.
- *Superior* if the incumbent performs all five of the duties well.

self-promotion motives. Supervisors often provide positive performance ratings to most of their employees because they do not want to alienate them. After all, their performance as supervisors depends largely on how well their employees perform their jobs.

The forced distribution systems tend to be based on as few as three levels. In GE's system, the best performers are placed in the top 20 percent, the next group in the middle 70 percent, and the poorest performing group winds up in the bottom 10 percent. The underperformers are, after being given a time to improve their performance, generally let go.

Although used by some prestigious firms, the forced distribution system appears to be unpopular with many managers.[14] Some believe it fosters cutthroat competition, paranoia, and general ill will, and destroys employee loyalty.[15] For example, David Auerback, a former Microsoft employee, stated that this type of appraisal system had employees feeling helpless and "encouraged people to backstab their co-workers."[16] Many believe that a "rank-and-yank" system such as forced distribution is not compatible when a company encourages teamwork. In addition, critics of forced distribution contend that they compel managers to penalize a good, although not a great, employee who is part of a superstar team. Another reason employees are opposed to forced ranking is that they suspect that the rankings are a way for companies to rationalize firings more easily.

Forced distribution approaches have drawbacks. The forced distribution approach can distort ratings because employee performance may not fall into these predetermined distributions. Let's assume that a supervisor must use the following forced distribution to rate her employees' performance:

- 15 percent well below average
- 25 percent below average
- 40 percent average
- 15 percent above average
- 5 percent well above average

This distribution is problematic to the extent that the actual distribution of employee performance is substantially different from this forced distribution. If 35 percent of the employees' performance were either above average or well above average, then the supervisor would be required to underrate the performance of 15 percent of the employees. Based on this forced distribution, the supervisor can rate only 20 percent of the employees as having demonstrated above-average or well-above-average job performance. Management–employee relationships ultimately suffer

FIGURE 7-4

A Paired Comparison Performance Appraisal Rating Form

Instructions: Please indicate by placing an X which employee of each pair has performed most effectively during the past year.

X	*Bob Brown*	X	*Mary Green*
	Mary Green		Jim Smith
X	*Bob Brown*		Mary Green
	Jim Smith	X	*Allen Jones*
	Bob Brown		Jim Smith
X	*Allen Jones*	X	*Allen Jones*

because workers feel that ratings are dictated by unreal models rather than by individual performance. Perhaps extensive training and development interventions enabled many more employees than anticipated to perform well above average (12 percent versus 5 percent). The "forced" nature of this system results in 7 percent of employees being placed in an undeservedly lower rating category. Also, under a pay-for-performance plan, those 7 percent would receive a lower than earned pay increase award.

paired comparisons
Supervisors compare each employee to every other employee, identifying the better performer in each pair.

Another comparative technique for ranking employees establishes **paired comparisons**. Supervisors compare each employee to every other employee, identifying the better performer in each pair. Figure 7-4 displays a paired comparison form. Following the comparison, the employees are ranked according to the number of times they were identified as being the better performer. In this example, Allen Jones is the best performer because he was identified most often as the better performer, followed by Bob Brown (identified twice as the better performer) and Mary Green (identified once as the better performer).

Comparative methods are best suited for small groups of employees who perform the same or similar jobs. They are cumbersome for large groups of employees or for employees who perform different jobs. For example, it would be difficult to judge whether a production worker's performance is better than a secretary's performance because the jobs are substantively different. The assessment of a production worker's performance is based on the number of units he or she produces during each work shift; a secretary's performance is based on the accuracy with which he or she types memos and letters.

As do trait systems, comparison approaches have limitations. They tend to encourage subjective judgments, which increase the chance for rater errors and biases. In addition, small differences in performance between employees may become exaggerated by using such a method if supervisors feel compelled to distinguish among levels of employee performance.

Behavioral Systems

behavioral systems
Performance appraisal methods that focus on distinguishing between successful and unsuccessful behaviors.

critical incident technique (CIT)
Performance appraisal method that requires keeping written records of highly favorable and unfavorable employee work actions.

Behavioral systems rate employees on the extent to which they display successful job performance behaviors. In contrast to trait and comparison methods, behavioral methods rate objective job behaviors. When correctly developed and applied, behavioral models provide results that are relatively free of rater errors and biases. The three main types of behavioral systems are the critical incident technique (CIT), behaviorally anchored rating scales (BARS), and behavioral observation scales (BOS).

The **critical incident technique (CIT)**[17] requires job incumbents and their supervisors to identify performance incidents (e.g., on-the-job behaviors and behavioral outcomes) that distinguish successful performances from unsuccessful ones. The supervisor then observes the employees and records their performance on these critical job aspects. Supervisors usually rate employees on how often they display the behaviors described in each critical incident. Figure 7-5 illustrates a CIT form for an animal keeper job. Two statements represent examples of ineffective job performance (numbers 2 and 3), and two statements represent examples of effective job performance (numbers 1 and 4).

The CIT tends to be useful because this procedure requires extensive documentation that identifies successful and unsuccessful job performance behaviors by both the employee and

FIGURE 7-5

A Critical Incidents Performance Appraisal Rating Form

Instructions: For each description of work behavior, circle the number that best describes how frequently the employee engages in that behavior.

1. The incumbent removes manure and unconsumed food from the animal enclosures.

1	2	3	4	5
Never	Almost never	Sometimes	Fairly often	Very often

2. The incumbent haphazardly measures the feed items when placing them in the animal enclosures.

1	2	3	4	5
Never	Almost never	Sometimes	Fairly often	Very often

3. The incumbent leaves refuse dropped by visitors on and around the public walkways.

1	2	3	4	5
Never	Almost never	Sometimes	Fairly often	Very often

4. The incumbent skillfully identifies instances of abnormal behavior among the animals, which represent signs of illness.

1	2	3	4	5
Never	Almost never	Sometimes	Fairly often	Very often

the supervisor. The CIT's strength, however, is also its weakness: Implementation of the CIT demands continuous and close observation of the employee. Supervisors may find the record keeping to be overly burdensome.

behaviorally anchored rating scale (BARS)
Performance appraisal method that combines elements of the traditional rating scale and critical incident methods; various performance levels are shown along a scale with each described in terms of an employee's specific job behavior.

Behaviorally anchored rating scales (BARS)[18] are based on the CIT, and these scales are developed in the same fashion with one exception. For the CIT, a critical incident would be written as "the incumbent completed the task in a timely fashion." For the BARS format, this incident would be written as "the incumbent is expected to complete the task in a timely fashion." The designers of BARS write the incidents as expectations to emphasize the fact that the employee does not have to demonstrate the exact behavior that is used as an anchor to be rated at that level. Because a complete array of behaviors that characterize a particular job would take many pages of description, it is not feasible to place examples of all job behaviors on the scale. Experts therefore list only those behaviors that they believe are most representative of the job the employee must perform. A typical job might have 8–10 dimensions under BARS, each with a separate rating scale.

Table 7-1 illustrates a portion of a BARS system that was developed to evaluate college recruiters. Suppose the factor chosen for evaluation is *Ability to Present Positive Company Image*. On the *very positive* end of this factor would be "Makes excellent impression on college recruits. Carefully explains positive aspects of the company. Listens to applicant and answers questions in a very positive manner." On the *very negative* end of this factor would be "Even with repeated instructions continues to make a poor impression. This interviewer could be expected to turn off college applicant from wanting to join the firm." As may be noted, there are several levels in between the very negative and the very positive. The rater is able to determine more objectively how frequently the employee performs in each defined level.



HR Web Wisdom

Appraisal News
http://www.performance-appraisal.com/home.htm

Performance appraisal news and general PA information is provided.

As with all PA techniques, BARS has its advantages and disadvantages.[19] Among the various PA techniques, BARS is the most defensible in court because it is based on actual observable job behaviors. In addition, BARS encourages all raters to make evaluations in the same way. Perhaps the main disadvantage of BARS is the difficulty of developing and maintaining the volume of data necessary to make it effective. The BARS method requires companies to maintain distinct appraisal documents for each job. As jobs change over time, the documentation must be updated for each job.

behavioral observation scale (BOS)
A specific kind of behavioral system for evaluating job performance by illustrating positive incidents (or behaviors) of job performance for various job dimensions.

Another kind of behavior system, a **behavioral observation scale (BOS)**,[20] displays illustrations of positive incidents (or behaviors) of job performance for various job dimensions. The evaluator rates the employee on each behavior according to the extent to which the employee performs in a manner consistent with each behavioral description. Scores from each job dimension are averaged to provide an overall rating of performance. BOS is developed in the same way as a BARS instrument, except that it incorporates only positive performance behaviors. The BOS method tends to

TABLE 7-1

BARS for Factor: Ability to Present Positive Company Image

Clearly Outstanding Performance:	Makes excellent impression on college recruits. Carefully explains positive aspects of the company. Listens to applicant and answers questions in a very positive manner.
Excellent Performance:	Makes good impression on college recruits. Answers all questions and explains positive aspects of the company. Answers questions in a positive manner.
Good Performance:	Makes a reasonable impression on college recruits. Listens to applicant and answers questions in knowledgeable manner.
Average Performance:	Makes a fair impression on college recruits. Listens to applicant and answers most questions in a knowledgeable manner.
Slightly Below Average Performance:	Attempts to make a good impression on college recruits. Listens to applicants but at times could be expected to have to go to other sources to get answers to questions.
Poor Performance:	At times makes poor impression on college recruits. Sometimes provides incorrect information to applicant or goes down blind avenues before realizing mistake.
Very Poor Performance:	Even with repeated instructions continues to make a poor impression. This interviewer could be expected to turn off college applicant from wanting to join the firm.

be difficult and time-consuming to develop and maintain. Moreover, to ensure accurate appraisal, raters must be able to observe employees closely and regularly. However, observing employees on a regular basis may not be feasible where supervisors are responsible for several people.

results-based performance appraisal
Performance appraisal method in which the manager and subordinate jointly agree on objectives for the next appraisal period; in the past a form of management by objectives.

Results-Based Systems

Results-based performance appraisal methods focus on measurable outcomes such as an individual's or team's sales, customer service ratings, productivity, reduced incidence of workplace injuries, and so forth. The selection of results largely depends on three factors. The first factor



HR BLOOPERS

Appraising Performance at Global Insurance

As Devin Franklin hung up from a call with yet another unhappy employee, he realized there was a problem with the new PA system. Devin, the HR Manager at Global Insurance, rolled out a new performance rating form about a month ago and has since heard from several frustrated employees. Devin met his goal to get the new system in place before the end of the year, but may have rushed the process too much. He created a basic form using rating scales that asked supervisors to rate all employees on the same common factors such as quality and quantity of work, customer service skills, and general attitude. The easy to use form allowed supervisors to just check the right boxes and give it to the employees. But there have been a variety of complaints suggesting the appraisals aren't effectively evaluating the employees' performance. Many complaints have argued different definitions of the factors being evaluated such as attitude. Some of the field insurance agents who work outside of the office on their own have even suggested that their direct supervisors shouldn't evaluate their customer service skills because the supervisors never actually observe their customer interactions. The supervisors have asked him a lot of questions about the form as well. Devin considered organizing a training program for the supervisors, but he decided there just wasn't enough time. Now he's not sure if a training program would even fix the problems.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

is the relevance of the results that may be used to judge a company's progress toward meeting its strategic goals. The second factor is the reliability with which results can be measured. The third factor is the extent to which the results measure is truly a measure of performance over which an employee has the resources and latitude to achieve the designated results.

Management by objectives (MBO) could possibly be the most effective PA technique because supervisors and employees determine objectives for employees to meet during the rating period and employees appraise how well they have achieved their objectives. MBO is used mainly for managerial and professional employees and typically evaluates employees' progress toward strategic planning objectives.

Employees and supervisors together determine particular objectives tied to corporate strategies. Employees are expected to attain these objectives during the rating period. The crucial phase of the MBO process requires that challenging but attainable objectives and standards be established through interaction between superiors and subordinates. Individuals jointly established objectives with their superiors, who then give them some latitude in how to achieve the objectives. Action plans require clear delineation of what specifically is to be accomplished and when it is to be completed. For example, if a sales manager has a performance objective of increasing sales in his or her area by 38 percent next year, the action plan might include the employment of three experienced salespersons, six calls a week by the sales manager on major customers, and assignment of appropriate sales quotas to all the salespeople.

At the end of the rating period, the employee writes a report explaining his or her progress toward accomplishing the objectives, and the employee's supervisor appraises the employee's performance based on accomplishment of the objectives. Despite the importance of managerial employees to company success, it is often difficult to establish appropriate performance goals because many companies simply do not fully describe the scope of these positions. MBO can promote effective communication between employees and their supervisors.

With MBO, performance is evaluated on the basis of progress toward objective attainment. Having specific performance objectives provides management with a basis for comparison. When objectives are agreed on by the manager and the subordinate, self-evaluation and controls become possible. In fact, with MBO, PA can be a joint effort, based on mutual agreement.

With MBO, it is left up to the managers to take corrective action when results are not as planned. Such action may take the form of changes in personnel, changes in the organization, or even changes in the objectives. Other forms of corrective action may include providing additional training and development of individual managers or employees to enable them to better achieve the desired results. Corrective action should not necessarily have negative connotations. Under MBO, objectives can be renegotiated downward without penalty or fear of job loss. Various segments of the MBO process can easily be integrated into an effective *goal-oriented system*. Goal-oriented systems are often a component of broader development programs that help employees achieve career goals.

On the downside, MBO is time-consuming and requires a constant flow of information between employees and employers. Moreover, its focus is only on the attainment of particular goals, often to the exclusion of other important outcomes. This drawback is known as a "results at any cost" mentality.[21] The role of automobile sales professionals historically was literally limited to making sales. Once these professionals and customers agreed on the price of a car, the sales professionals' work with customers was completed. Automobile salespeople today remain in contact with clients for as long as several months following the completion of the sale. The purpose is to ensure customer satisfaction and build loyalty to the product and dealership by addressing questions about the vehicle's features and reminding clients about scheduled service checks.

work standards method
Performance appraisal method that compares each employee's performance to a predetermined standard or expected level of output.

Another results-oriented practice is the work standards method. The **work standards method** is a PA method that compares each employee's performance to a predetermined standard or expected level of output. Standards reflect the normal output of an average worker operating at a normal pace. Firms may apply work standards to virtually all types of jobs, but production jobs generally receive the most attention. An obvious advantage of using work standards as appraisal criteria is objectivity. However, for employees to perceive that the standards are objective, they should understand clearly how the standards were set. Management must also explain the rationale for any changes to the standards.

FIGURE 7-6

Calculation of a Piecework Award for a Garment Worker

Piecework standard: 15 stitched garments per hour

Hourly base pay rate awarded to employees when the standard is not met: $4.50 per hour

That is, workers receive $4.50 per hour worked regardless of whether they meet the piecework standard of 15 stitched garments per hour.

Piecework incentive award: $0.75 per garment stitched per hour above the piecework standard

	Guaranteed Hourly Base Pay ($)	Piecework Award (No. of Garments Stitched above the Piecework Standard × Piecework Incentive Award)	Total Hourly Earnings ($)
First hour	4.50	10 garments × $0.75/garment = $7.50	12.00
Second hour	4.50	Fewer than 15 stitched garments, thus piecework award equals $0	4.50

The work standards method is often coupled with a particular incentive pay plan known as the piecework plan. *Piecework plans* typically found in manufacturing settings, rewards employees based on their individual hourly production against an objective output standard and is determined by the pace at which manufacturing equipment operates. For each hour, workers receive piecework incentives for every item produced over the designated production standard. Workers also receive a guaranteed hourly pay rate regardless of whether they meet the designated production standard. Companies use piecework plans when the time to produce a unit is relatively short, usually less than 15 minutes, and the cycle repeats continuously. Piecework plans are usually found in such manufacturing industries as textiles and apparel.

Figure 7-6 illustrates the calculation of a piecework incentive.

OBJECTIVE 7.9

List the problems that have been associated with performance appraisal.

Problems in Performance Appraisal

PA is constantly under a barrage of criticism. The rating scales method seems to be the most vulnerable target. Yet in all fairness, many of the problems commonly mentioned are not exclusive to this method but rather, reflect improper implementation. The following section highlights some of the more common problem areas.

Appraiser Discomfort

Conducting PAs is often a frustrating task for managers. If a PA system has a faulty design, or improper administration, employees will dread receiving appraisals and the managers will despise giving them. In fact, some managers have always loathed the time, paperwork, difficult choices, and discomfort that often accompanies the appraisal process. Going through the procedure cuts into a manager's high-priority workload and the experience can be especially unpleasant when the employee in question has not performed well.

Subjectivity of Performance Evaluations

rating errors
In performance appraisals, differences between human judgment processes versus objective, accurate assessments uncolored by bias, prejudice, or other subjective, extraneous influences.

A potential weakness of many PA methods is that they lack objectivity. For example, commonly used factors such as traits, behaviors, and competencies are virtually impossible to measure with objective measures. In addition, these factors may have little to do with an employee's job performance. Although subjectivity will always exist in appraisal methods, employee appraisal based primarily on personal characteristics may place the evaluator and the company in untenable positions with the employee and equal employment opportunity guidelines. The firm may be hard-pressed to show that some of these factors are job related.

Almost all people make **rating errors**. Rating errors reflect differences between human judgment processes versus objective, accurate assessments uncolored by bias, prejudice, or other

subjective, extraneous influences.[22] Human resource departments can help raters to minimize errors by carefully choosing rating systems and to recognize and avoid common errors. Major types of rater errors include:

- Bias errors
- Contrast errors
- Errors of central tendency
- Errors of leniency or strictness

bias errors
Evaluation errors that occur when the rater evaluates the employee based on a personal negative or positive opinion of the employee rather than on the employee's actual performance.

first-impression effect
An initial favorable or unfavorable judgment about an employee's which is ignored or distorted.

positive halo effect (or halo effect)
Evaluation error that occurs when a manager generalizes one positive performance feature or incident to all aspects of employee performance, resulting in a higher rating.

negative halo effect (or horn error)
Evaluation error that occurs when a manager generalizes one negative performance feature or incident to all aspects of employee performance, resulting in a lower rating.

illegal discriminatory bias
A bias error for which a supervisor rates members of his or her race, gender, nationality, or religion more favorably than members of other classes.

BIAS ERRORS **Bias errors** happen when the rater evaluates the employee based on a personal negative or positive opinion of the employee rather than on the employee's actual performance. Four ways supervisors may bias evaluation results are first-impression effects, positive and negative halo effects, similar-to-me effects, and illegal discriminatory biases.

A manager biased by a **first-impression effect** might make an initial favorable or unfavorable judgment about an employee and then ignore or distort the employee's actual performance based on this impression. For instance, a manager expects that a newly hired graduate of a prestigious university will be an exemplary performer. After one year on the job, this employee fails to meet many of the work objectives; nevertheless, the manager rates the job performance more highly because of the initial impression.

A **positive halo effect** (oftentimes, referred to simply as a **halo effect**) or **negative halo effect** (also known as a **horn error**) occurs when a rater generalizes an employee's good or bad behavior on one aspect of the job to all aspects of the job. For example, Rodney Pirkle, accounting supervisor, placed a high value on neatness, a factor used in the company's PA system. As Rodney was evaluating the performance of his senior accounting clerk, Jack Hicks, he noted that Jack was a very neat individual and gave him a high ranking on this factor. Also consciously or unconsciously, Rodney permitted the high ranking on neatness to carry over to other factors, giving Jack undeserved high ratings on some other performance criteria even though his actual performance was low. This phenomenon is known as the *positive halo effect*, an evaluation error that occurs when a manager generalizes one positive performance feature or incident to all aspects of employee performance, resulting in a lower rating. Of course, if Jack had not been neat, yet, performed well on every other dimension, the opposite, the *horn error* would have occurred.

A **similar-to-me effect** refers to the tendency on the part of raters to judge favorably employees whom they perceive as similar to themselves. Supervisors biased by this effect rate more favorably employees who have attitudes, values, backgrounds, or interests similar to theirs. For example, employees whose children attend the same elementary school as their manager's children receive higher PA ratings than do employees who do not have children. Similar-to-me errors or biases easily can lead to charges of **illegal discriminatory bias**, wherein a supervisor rates members of his or her race, gender, nationality, or religion more favorably than members of other classes.

This pitfall occurs when managers allow individual differences to affect the ratings they give. If there are factors to avoid such as gender, race, or age, not only is this problem detrimental to employee morale, but it is obviously illegal and can result in costly lawsuits. The effects of cultural bias, or stereotyping, can definitely influence appraisals.[23] Managers establish mental pictures of what are considered ideal typical workers, and employees who do not match this picture may be unfairly judged. Although all people have biases of some type that can affect the appraisal process, a successful evaluator will manage these biases.[24]

contrast errors
A rating error in which a rater (e.g., a supervisor) compares an employee to other employees rather than to specific explicit performance standards.

central tendency error
Evaluation appraisal error that occurs when employees are incorrectly rated near the average or middle of a scale.

CONTRAST ERRORS Supervisors make **contrast errors** when they compare an employee with other employees rather than to specific, explicit performance standards. Such comparisons qualify as errors because other employees are required to perform only at minimum acceptable standards. Employees performing at minimally acceptable levels should receive satisfactory ratings, even if every other employee doing the job is performing at outstanding or above-average levels.

ERRORS OF CENTRAL TENDENCY When supervisors rate all employees as average or close to average, they commit **errors of central tendency**. Such errors are most often committed when raters are forced to justify only extreme behavior (i.e., high or low ratings) with written explanations; therefore, HR professionals should require justification for ratings at every level of the scale and not just at the extremes. With such a system, the rater may avoid possible

controversy or criticism by giving only average ratings. However, because these ratings tend to cluster in the *fully satisfactory* range, employees do not often complain. Nevertheless, this error does exist and it influences the accuracy of evaluations. Typically, when pay raises are given, they will be based on an employee's rated performance. When a manager gives an underachiever or overachiever an average rating, it undermines the compensation system.[25]

leniency error
Giving an undeserved high performance appraisal rating to an employee.

ERRORS OF LENIENCY OR STRICTNESS Raters sometimes place every employee at the high or low end of the scale, regardless of actual performance. With a **leniency error**, managers tend to appraise employees' performance more highly than they really rate compared with objective criteria. This behavior is often motivated by a desire to avoid controversy over the appraisal. However, leniency provides a false sense of confidence to the employee and diminishes exceptional performance by other workers. It is most prevalent when highly subjective (and difficult to defend) performance criteria are used, and the rater is required to discuss evaluation results with employees. When managers know they are evaluating employees for administrative purposes, such as pay increases, they are likely to be more lenient than when evaluating performance to achieve employee development. Leniency, however, may result in failure to recognize correctable deficiencies. The practice may also deplete the merit budget and reduce the rewards available for superior employees. Rather than confronting employees whose performance is not acceptable, managers may avoid the situation by giving false-positive performance evaluations. An organization may find itself in a difficult situation when after firing a problem employee, the recent excellent performance evaluation shows up as part of a lawsuit.[26] Rating an employee as outstanding and then firing him or her because of poor performance will make a supervisor look foolish if taken to court. On the other hand, **strictness errors** occur when a supervisor rates an employee's performance lower than it would be if compared against objective criteria.

strictness errors
Being unduly critical of an employee's work performance.

Employee Anxiety

The evaluation process may also create anxiety for the appraised employee.[27] This may take the form of discontent, apathy, and turnover. In a worst-case scenario, a lawsuit is filed based on real or perceived unfairness. Opportunities for promotion, better work assignments, and increased compensation may hinge on the results. This could cause not only apprehension but also outright resistance. One opinion is that if you surveyed typical employees, they would tell you PA is management's way of highlighting all the bad things they did all year.

OBJECTIVE 7.10
Explain the characteristics of an effective appraisal system.

Characteristics of an Effective Appraisal System

The basic purpose of a PA system is to improve the performance of individuals, teams, and the entire organization. The system may also serve to assist in making administrative decisions concerning pay increases, promotions, transfers, or terminations. In addition, the appraisal system must be legally defensible. Although a perfect system does not exist, every system should possess certain characteristics. The following factors assist in accomplishing these purposes.

Job-Related Criteria

Job-relatedness is perhaps the most basic criterion needed in employee performance appraisals. The evaluation instrument should tie in closely to the accomplishment of organizational goals.[28] The *Uniform Guidelines on Employee Selection Procedures* and court decisions are quite clear on this point. More specifically, evaluation criteria should be determined through job analysis. Subjective factors, such as initiative, enthusiasm, loyalty, and cooperation may be important; however, unless clearly shown to be job related, they should not be used.

Performance Expectations

Employees must understand in advance what is expected of them. How can employees function effectively if they do not know what they are being measured against? On the other hand, if employees clearly understand the expectations, they can evaluate their own performance and make timely adjustments as they perform their jobs, without having to wait for the formal evaluation review. The establishment of highly objective work standards is relatively simple



ETHICAL DILEMMA

Abdication of Responsibility

You are the new vice-president for HR of a company that has not been performing well, and everyone, including yourself, has a mandate to deliver results. The pressure has never been greater. Shareholders are angry after 31 months of a tough market that has left their stock underwater. Many shareholders desperately need stock performance to pay for their retirement. Working for you is a 52-year-old manager with two kids in college. In previous evaluations, spineless executives told him he was doing fine, when he clearly was not, and his performance is still far below par.

If you are to show others in the company that you are willing to make tough decisions, you feel you must fire this individual. The question is who's going to suffer: the firm and ultimately shareholders whose retirements are in jeopardy, or a nice guy who's been lied to for 20 years?

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

in many areas, such as manufacturing, assembly, and sales. For numerous other types of jobs, however, this task is more difficult. Still, evaluation must take place based on clearly understood performance expectations.

Standardization

Firms should use the same evaluation instrument for all employees in the same job category who work for the same supervisor. Supervisors should also conduct appraisals covering similar periods for these employees. Regularly scheduled feedback sessions and appraisal interviews for all employees are essential. Most large companies require groups of supervisors to come together to standardize employee performance reviews. They hash out the rationale behind each employee's performance rating and adjust them to ensure that they reflect similar standards and expectations.[29]

Formal documentation of appraisal data serves several purposes, including protection against possible legal action. Employees should sign their evaluations. If the employee refuses to sign, the manager should document this behavior. Records should also include a description of employee responsibilities, expected performance results, and the role these data play in making appraisal decisions. Although PA is important for small firms, they are not expected to maintain PA systems that are as formal as those used by large organizations. Courts have reasoned that objective criteria are not as important in firms with only a few employees because in smaller firms top managers are more intimately acquainted with their employees' work.

Trained Appraisers

A common deficiency in appraisal systems is that the evaluators seldom receive training on how to conduct effective evaluations. Unless everyone evaluating performance receives training in the art of giving and receiving feedback, the process can lead to uncertainty and conflict. The training should be an ongoing process to ensure accuracy and consistency. It should cover how to rate employees and how to conduct appraisal interviews. Instructions should be rather detailed and the importance of making objective and unbiased ratings should be emphasized.

Continuous Open Communication

Most employees have a strong need to know how well they are performing. A good appraisal system provides highly desired feedback on a continuing basis. There should be few surprises in the performance review. However, in one survey, only 45 percent of individuals felt their managers consistently communicated their performance concerns throughout the year.[30] Managers should handle daily performance problems as they occur and not allow them to pile up for six months or a year and then address them during the PA interview. When something new surfaces during the appraisal interview, the manager probably did not do a good enough job communicating with

the employee throughout the appraisal period. Even though the interview presents an excellent opportunity for both parties to exchange ideas, it should never serve as a substitute for the day-to-day communication and coaching required by performance management.

Conduct Performance Reviews

In addition to the need for continuous communication between managers and their employees, a special time should be set for a formal discussion of an employee's performance. Because improved performance is a common goal of appraisal systems, withholding appraisal results is absurd. Employees are severely handicapped in their developmental efforts if denied access to this information. A performance review allows them to detect any errors or omissions in the appraisal, or an employee may disagree with the evaluation and want to challenge it.

Constant employee performance documentation is vitally important for accurate PAs. Although the task can be tedious and boring for managers, maintaining a continuous record of observed and reported incidents is essential in building a useful appraisal. The appraisal interview will be discussed in a later section.

Due Process

Ensuring due process is vital. If the company does not have a formal grievance procedure, it should develop one to provide employees an opportunity to appeal appraisal results that they consider inaccurate or unfair. They must have a procedure for pursuing their grievances and having them addressed objectively.

OBJECTIVE 7.11

Describe the legal considerations associated with performance appraisal.

Legal Considerations in Performance Appraisal

Employee lawsuits may result from negative evaluations. Employees often win these cases, thanks in part to the firm's own PA procedures. A review of court cases makes it clear that legally defensible PA systems should be in place. Perfect systems are not expected, and the law does not preclude supervisory discretion in the process. However, the courts normally require an absence of adverse impact on members of protected classes or validation of the process. It also expects a system that keeps one manager from directing or controlling a subordinate's career. There should also be a system whereby the appraisal is reviewed and approved by someone or some group in the organization. Another requirement is that the evaluator must have personal knowledge of the employee's job performance. In addition, the system uses predetermined norms that limit the manager's discretion.

Mistakes in appraising performance and decisions based on invalid results can have serious repercussions. For example, discriminatory merit pay increases have resulted in costly legal action. In settling cases, courts have held employers liable for back pay, court costs, and other costs related to training and promoting certain employees in protected classes. Further, giving higher-than-earned evaluations and then firing an employee may set the stage for a suit, especially if the individual is a member of a protected group. The apparent inconsistency may give the employee a basis for claiming discrimination.[31]

Legislation that prohibits illegal discrimination in employment practices (e.g., the Age Discrimination in Employment Act) certainly applies PA practices. In the case of *Mistretta v. Sandia Corporation* (a subsidiary of Western Electric Company, Inc.), a federal district court judge ruled against the company, stating, "There is sufficient circumstantial evidence to indicate that age bias and age based policies appear throughout the performance rating process to the detriment of the protected age group." The *Albemarle Paper v. Moody* case also supported validation requirements for PAs, as well as for selection tests. Organizations should avoid using any appraisal method that results in a disproportionately negative impact on a protected group.

An employer may also be vulnerable to a *negligent retention* claim if an employee who continually receives unsatisfactory ratings in safety practices, for example, is kept on the payroll and he or she causes injury to a third party. In these instances, firms might reduce their liability if they provide substandard performers with training designed to overcome the deficiencies.

It is unlikely that any appraisal system will be immune to legal challenge. However, systems that possess the characteristics discussed are more legally defensible. At the same time, they can provide a more effective means for achieving PM goals.

OBJECTIVE 7.12

Explain how the appraisal interview should be conducted.

Performance Appraisal Interview

The appraisal interview is the Achilles' heel of the entire evaluation process. In fact, appraisal review sessions often create hostility and can do more harm than good to the employee–manager relationship. To minimize the possibility of hard feelings, the face-to-face meeting and the written review must have performance improvement, not criticism, as their goal. The reviewing manager must use all the tact he or she can muster in discussing areas needing improvement. Managers should help employees understand that they are not the only ones under the gun. Rating managers should emphasize their own responsibility for the employee's development and commitment for support.

The appraisal interview definitely has the potential for confrontation and undermining the goal of motivating employees. The situation improves considerably when several sources provide input, including perhaps the employee's own self-appraisal. Regardless of the system used, employees will not trust a system they do not understand.

Scheduling the Interview

Supervisors usually conduct a formal appraisal interview at the end of an employee's appraisal period. It should be made clear to the employee as to what the meeting is about.[32] Employees typically know when their interview should take place, and their anxiety tends to increase if their supervisor delays the meeting. Interviews with top performers are often pleasant experiences for all concerned. However, supervisors may be reluctant to meet face-to-face with poor performers. They tend to postpone these anxiety-provoking interviews.

Interview Structure

A successful appraisal interview should be structured in a way that allows both the supervisor and the subordinate to view it as a problem-solving rather than a fault-finding session. The manager has several purposes when planning an appraisal interview. Certainly the employee's performance should be discussed, focusing on specific accomplishments.[33] Also, the employee should be assisted in setting goals and personal-development plans for the next appraisal period. The manager should suggest means for achieving established goals, including support from the manager and firm. For instance, a worker may receive an average rating on a factor such as *quality of production*. In the interview, both parties should agree to the specific improvement needed during the next appraisal period and specific actions that each should take.[34]

During performance reviews, managers might ask employees whether their current duties and roles are effective in achieving their goals. In addition to reviewing job-related performance, they might also discuss subjective topics, such as career ambitions. For example, in working on a project, perhaps an employee discovered an unrealized aptitude. This awareness could result in a new goal or serve as a springboard to an expanded role in the organization.

The amount of time devoted to an appraisal interview varies considerably with company policy and the position of the evaluated employee. Although costs are a consideration, there is merit in conducting separate interviews for discussing (1) employee performance and development and (2) pay. Many managers have learned that as soon as the topic of pay emerges in an interview, it tends to dominate the conversation, with performance improvement taking a back seat. For this reason, if pay increases or bonuses are involved in the appraisal, it might be advisable to defer those discussions for one to several weeks after the appraisal interview.

Use of Praise and Criticism

Some managers believe that they should focus only on negative items. However, focusing only on weaknesses has the potential to damage relationships with subordinates.[35] No one wants a lengthy interview where they are constantly bombarded with criticism. A person might reason that "If I am this bad, I had better find another job."

As suggested previously, conducting an appraisal interview requires tact and patience on the part of the evaluator. Praise is appropriate when warranted, but it can have limited value if not clearly deserved. If an employee must eventually be terminated because of poor performance, a manager's false praise could bring into question the "real" reason for being fired.

Criticism, even if warranted, is especially difficult to give. The employee may not perceive it as being constructive. It is important that discussions of these sensitive issues focus on the

deficiency, not the person. Effective managers minimize threats to the employee's self-esteem whenever possible. When giving criticism, managers should emphasize the positive aspects of performance; criticize actions, not the person; and ask the employee how he or she would change things to improve the situation. Also, the manager should avoid supplying all the answers and try to turn the interview into a win–win situation so that all concerned gain.

Employees' Role

From the employees' side, two weeks or so before the review, they should go through their diaries or files and make a note of all projects worked on, regardless of whether or not they were successful.[36] The best recourse for employees in preparing for an appraisal review is to prepare a list of creative ways they have solved problems with limited resources. They will look especially good if they can show how their work contributes to the value of the company. This information should be on the appraising manager's desk well before the review. Reminding managers of information they may have missed should help in developing a more objective and accurate appraisal.

Concluding the Interview

Ideally, employees will leave the interview with positive feelings about management, the company, the job, and themselves. If the meeting results in a deflated ego, the prospects for improved performance will be bleak. Although you cannot change past behavior, future performance is another matter. The interview should end with specific and mutually agreed-on plans for the employee's development. Managers should assure employees who require additional training that it will be forthcoming and that they will have the full support of their supervisor. When management does its part in employee development, it is up to the individual to perform in an acceptable manner.

Try It!
If your instructor has assigned this, go to MyManagementLab to complete the Individual Behavior simulation and test your application of these concepts when faced with real-world decisions.

OBJECTIVE 7.13
Discuss how performance appraisal is affected by a country's culture.

National Culture and Performance Appraisal

PA is an area of human resource management that has special problems when translated into different countries' cultural environments. The use of PA in the United States is relatively new compared to many older countries. Here, formal PA came into systematic use toward the beginning of the 20th century. However, PA in China has evolved over many centuries. As early as the third century A.D., Sin Yu, Chinese philosopher, criticized a biased rater employed by the Wei dynasty saying, "The Imperial Rater of Nine Grades seldom rates men according to their merits but always according to his likes and dislikes."[37]

Chinese managers often have a different idea about what performance is than do Western managers because Chinese companies tend to focus appraisals on different criteria. Chinese managers appear to define performance in terms of personal characteristics, such as loyalty and obedience, rather than outcome measurement. Chinese PAs place great emphasis on moral characteristics. On the other hand, Western PA seeks to help achieve organizational objectives, and this is best obtained by concentrating on individual outcomes and behaviors that are related to the attainment of those objectives.[38]

Culture also plays a significant role in the success and failure of PA systems in the Middle East. In the Middle East there is a view called *wasta*, which significantly affects how business is conducted. Wasta refers to using mutual favors instead of merit to get things done. Because wasta implies reciprocity, it remains entrenched in society, and it has a major effect on HR, especially PA. Wasta affects many aspects of HR such as selection and promotions because friendship and family connections is the criteria used instead of merit.[39]

Summary

1. ***Describe performance management.*** *Performance management (PM)* is a goal-oriented process that is directed toward ensuring that organizational processes are in place to maximize productivity of employees, teams, and ultimately, the organization. PM systems are one of the major focuses in business today. With PM, the effort of each and every worker should be directed toward achieving strategic goals.
2. ***Define performance appraisal and identify the uses of performance appraisal.*** *Performance appraisal (PA)* is a system of review and evaluation of individual or team task performance.

   PA data are potentially valuable for use in numerous human resource functional areas, including human resource planning, recruitment and selection, training and development, career planning and development, compensation programs, internal employee relations, and assessment of employee potential.
3. ***Discuss the performance appraisal process.*** The identification of specific goals is the starting point for the PA process and the beginning of a continuous cycle. Then job expectations are established with the help of job analysis. The next step involves examining the actual work performed. Performance is then appraised. The final step involves discussing the appraisal with the employee.
4. ***Identify the various performance criteria (standards) that can be established.*** The most common appraisal criteria are traits, behaviors, competencies, goal achievement, and improvement potential.
5. ***Identify who may be responsible for performance appraisal and explain the performance period.*** People who are usually responsible for PA include immediate supervisors, subordinates, peers and team members, self-appraisal, and customer appraisal.

   Formal performance evaluations are usually prepared at specific intervals. Although there is nothing magical about the period for formal appraisal reviews, in most organizations they occur either annually or semiannually.
6. ***Identify the various performance appraisal methods.*** PA methods include 360-degree feedback evaluation, rating scales, critical incidents, work standards, ranking, forced distribution, behaviorally anchored rating scales, and results-based approaches.
7. ***List the problems that have been associated with performance appraisal.*** The problems associated with PAs include appraiser discomfort, lack of objectivity, halo/horn errors, leniency/strictness, central tendency, recent behavior bias, personal bias (stereotyping), and employee anxiety.
8. ***Explain the characteristics of an effective appraisal system.*** Characteristics include job-related criteria, performance expectations, standardization, trained appraisers, continuous open communication, conduct performance reviews, and due process.
9. ***Describe the legal considerations associated with performance appraisal.*** A review of court cases makes it clear that legally defensible PA systems should be in place. Perfect systems are not expected, and the law does not preclude supervisory discretion in the process. However, systems that possess certain characteristics are more legally defensible.
10. ***Explain how the appraisal interview should be conducted and discuss how performance appraisal is affected by a country's culture.*** A successful appraisal interview should be structured in a way that allows both the supervisor and the subordinate to view it as a problem-solving rather than a fault-finding session.

    PA is an area of human resource management that has special problems when translated into different countries' cultural environments. The use of PA in the United States is relatively new compared to many older countries. Here, formal performance appraisal came into systematic use toward the beginning of the 20th century. However, PA in other countries has evolved over many centuries and is strongly affected by a country's culture.

Key Terms

performance management (PM) 187
performance appraisal (PA) 188
360-degree feedback evaluation method 193
trait systems 195
comparison systems 195
forced distribution method 195
paired comparison method 197
behavioral systems 197
critical incident technique 197
behaviorally anchored rating scale (BARS) 198
behavioral observation scales (BOS) 198
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MyManagementLab®

Go to **mymanagementlab.com** to complete the problems marked with this icon ✪.

Exercises

7-1. Pick your favorite job, and construct a BARS system for the ability to handle customer complaints. Follow a 5-point scale ranging from "very poor" to "outstanding."

✪ **7-2.** Your PA uses a rating form with the following characteristics: leadership, public acceptance, attitude toward people, appearance and grooming, personal conduct, outlook on life, ethical habits, resourcefulness, capacity for growth, mental alertness, and loyalty to organization. Could any of these characteristics pose a problem with regard to a legal challenge? Why? Discuss.

Questions for Review

7-3. Which HR functions contribute considerably to the performance management process?

7-4. What are the uses of performance appraisal?

✪ **7-5.** What are some reasons that people give for getting rid of performance appraisal?

7-6. What are the steps in the performance appraisal process?

7-7. What aspects of a person's performance might an organization evaluate?

7-8. List some of the major advantages and disadvantages of using peers to appraise performance.

7-9. What appraisal intervals are often used in appraisal reviews?

7-10. Briefly describe each of the following performance appraisal methods:
(a) Trait methods
(b) Ranking
(c) Forced distribution
(d) Paired comparison
(e) Critical incident technique
(f) Behaviorally anchored rating scales
(g) Behavioral observation scales
(h) Management by objectives
(i) Work standards

7-11. What are the various problems associated with performance appraisal? Briefly describe each.

✪ **7-12.** What are the legal considerations associated with performance appraisal?

✪ **7-13.** Explain why the following statement is often true: "The *Achilles' heel* of the entire evaluation process is the appraisal interview itself."

✪ **7-14.** How might different countries' cultures view performance appraisal?

INCIDENT 1 These Things Are a Pain

"There, at last it's finished," thought Rajiv Chaudhry, as he laid aside the last of 12 PA forms. It had been a busy week for Rajiv, who supervises a road maintenance crew for the Georgia Department of Highways.

In passing through Rajiv's district a few days previously, the governor had complained to the area superintendent that repairs were needed on several of the highways. Because of this, the superintendent assigned Rajiv's crew an unusually heavy workload. In addition, Rajiv received a call from the HR office that week reminding him that the PAs were late. Rajiv explained his predicament, but the HR specialist insisted that the forms be completed right away.

Looking over the appraisals again, Rajiv thought about several of the workers. The PA form had places for marking *quantity of work*, *quality of work*, and *cooperativeness*. For each characteristic, the worker could be graded *outstanding*, *good*, *average*, *below average*, or *unsatisfactory*. As Rajiv's crew had completed all of the extra work assigned for that week, he marked every worker *outstanding* in *quantity of work*. He marked Joe Blum *average* in *cooperativeness* because Joe had questioned one of his decisions that week. Rajiv had decided to patch a pothole in one of the roads, and Joe thought the small section of road surface ought to be broken out and replaced. Rajiv didn't include this in the remarks section of the form, though. As a matter of fact, he wrote no remarks on any of the forms.

Rajiv felt a twinge of guilt as he thought about Roger Short. He knew that Roger had been goofing off, and the other workers had been carrying him for quite some time. He also knew that Roger would be upset if he found that he had been marked lower than the other workers. Consequently, he marked Roger the same to avoid a confrontation. "Anyway," Rajiv thought, "these things are a pain, and I really shouldn't have to bother with them."

As Rajiv folded up the PAs and put them in the envelope for mailing, he smiled. He was glad he would not have to think about PAs for another six months.

Questions

7-15. What weaknesses do you see in Rajiv's performance appraisals?

7-16. Should HR have the ability to "insist that the forms be completed right away"? Discuss.

7-17. Many managers would agree with Rajiv in saying that "these things are a pain, and I really shouldn't have to bother with them." What are the disadvantages in doing away with performance appraisal?

INCIDENT 2 Performance Appraisal?

As the production supervisor for Sweeny Electronics, Nakeisha Joseph was generally well regarded by most of her subordinates. Nakeisha was an easygoing individual who tried to help her employees in any way she could. If a worker needed a small loan until payday, she would dig into her pocket with no questions asked. Should an employee need some time off to attend to a personal problem, Nakeisha would not dock the individual's pay; rather, she would take up the slack herself until the worker returned.

Everything had been going smoothly, at least until the last PA period. One of Nakeisha's workers, Bill Overstreet, had been experiencing a large number of personal problems for the past year. Bill's wife had been sick much of the time, and her medical expenses were high. Bill's son had a speech impediment, and the doctors had recommended a special clinic. Bill, who had already borrowed the limit the bank would loan, had become upset and despondent over his circumstances.

When it was time for Bill's annual PA, Nakeisha decided she was going to do as much as possible to help him. Although Bill could not be considered more than an average worker, Nakeisha rated him outstanding in virtually every category. Because the firm's compensation system was heavily tied to PA, Bill would be eligible for a merit increase of 10 percent in addition to a regular cost-of-living raise.

Nakeisha explained to Bill why she was giving him such high ratings, and Bill acknowledged that his performance had really been no better than average. Bill was very grateful and expressed this to Nakeisha. As Bill left the office, he was excitedly looking forward to telling his work buddies about what a wonderful boss he had. Seeing Bill smile as he left gave Nakeisha a warm feeling.

Questions

7-18. From Sweeny Electronics' standpoint, what difficulties might Nakeisha's PA practices create?

7-19. What can Nakeisha do now to diminish the negative impact of her evaluation of Bill?

7-20. Might a forced distribution performance appraisal system overcome the problem that Nakeisha has created? Discuss.

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7-21. Why are performance management and performance appraisal practices so important to a firm?

7-22. What are the characteristics of an effective appraisal system?

Endnotes

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8 Training and Development

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Summarize the training and development process.
2. Explain how to determine specific training and development needs and objectives.
3. Summarize various training methods.
4. Describe alternative training and development delivery systems.
5. Summarize training and development implementation issues.
6. Explain the metrics for evaluating training and development.
7. Describe factors that influence training and development.
8. Summarize some human resource management training initiatives.
9. Explain the concept of careers and career paths.
10. Identify career planning approaches.
11. Discuss career development and career development methods.
12. Describe management development.
13. Define organization development (OD) and describe various OD techniques.
14. Summarize the learning organization idea as a strategic mind-set.
15. Identify some training issues in the global context.

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training and development (T&D)
Heart of a continuous effort designed to improve employee competency and organizational performance.

No other human resources (HR) practice set is most squarely designed to develop a company's employees than training and development. **Training and development (T&D)** is the heart of a continuous effort designed to improve employee competency and organizational performance. There are many elements that fit within a T&D umbrella. The most common elements include training, career development, organizational development, and organizational learning. For the sake of organization, we can distinguish between these four elements based on two dimensions—focus on the individual employee or groups of employees and time frame, short and long term. Tim frames do not come with a set number of years. Short time frames are based on the specific learning objectives and expected time for employees to learn and apply those skills. Long time frames are based on the time frame a company sets to achieve its strategic objectives. Figure 8-1 shows the organization of T&D elements.

training
Activities designed to provide learners with the knowledge and skills needed for their present jobs.

development
Learning that goes beyond today's job and has a more long-term focus.

Training provides learners with the knowledge and skills needed for their present jobs. Showing a worker how to operate a lathe or a supervisor how to schedule daily production are examples of training. On the other hand, **development** involves learning that goes beyond today's job and has a more long-term focus. It prepares employees to keep pace with the organization as it changes and grows. We often associate development with the concept of careers and career development practices, which we discuss later in this chapter.

organization development (OD)
Planned and systematic attempts to change the organization, typically to a more behavioral environment.

T&D activities have the potential to align a firm's employees with its corporate strategies. Some possible strategic benefits of T&D include employee satisfaction, improved morale, higher retention, lower turnover, improved hiring, a better bottom line, and the fact that satisfied employees produce satisfied customers. Individuals and groups receive the bulk of T&D effort. However, some firms believe that to achieve needed change, they must move the entire organization in a different direction. Efforts to achieve this are the focus of **organization development (OD)**.



FIGURE 8-1
Organization of Training and Development Elements

	Short Term	*Long Term*
Groups / Organization	Organizational Development	Organizational Learning
Individuals	Training	Career Management

learning organization
Firm that recognizes the critical importance of continuous performance-related T&D and takes appropriate action.

Improved performance, the bottom-line purpose of T&D, is a strategic goal for organizations. Toward this end, many firms have become or are striving to become learning organizations. A **learning organization** is a firm that recognizes the critical importance of continuous performance-related T&D and takes appropriate action.

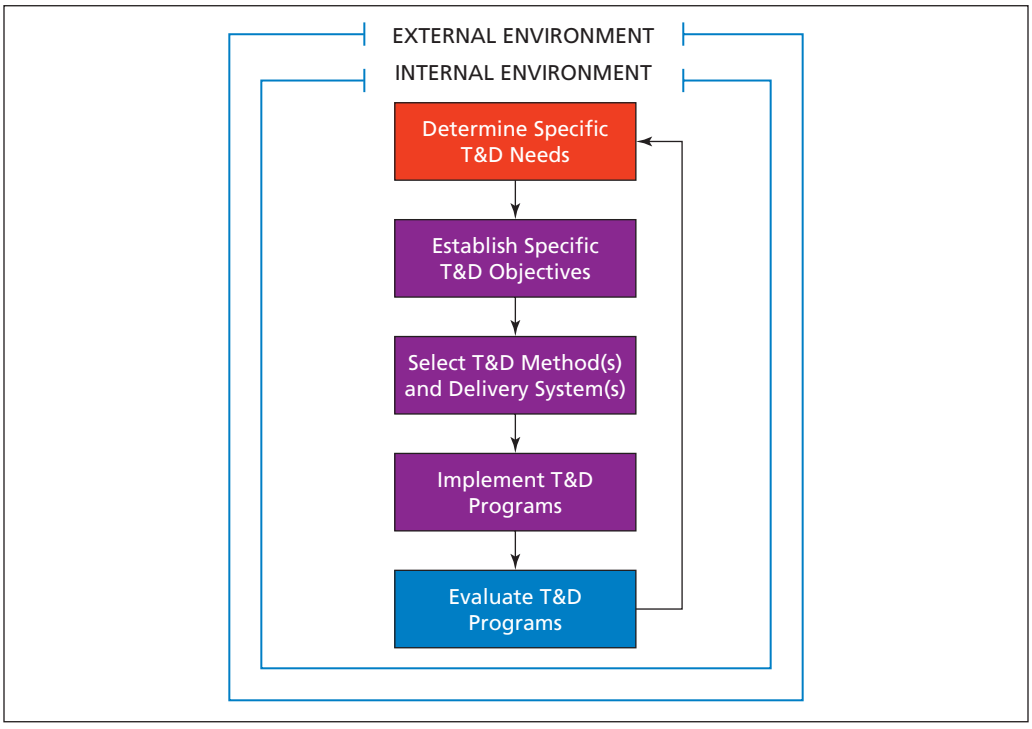
Our focus in this chapter is on training and development, careers, organizational development, and the learning organization.

OBJECTIVE **8.1**
Summarize the training and development process.

Training and Development Process

Major adjustments in the external and internal environments necessitate corporate change. The general T&D process that anticipates or responds to change may be seen in Figure 8-2. First, an organization must determine its specific needs for training. As we will see, needs are considered at the levels of the organization, task, and persons. From that information, HR professionals judge whether training is essential, and if so, what the training should be, why training should be conducted, who should be trained, and where training should occur. Then specific objectives need to be established. The objectives might be quite narrow if limited to the supervisory ability of a manager, or they might be broad enough to include improving the management skills of all first-line supervisors. In exemplary organizations, there is a close link between the firm's strategic mission and the objectives of the T&D program. Review and periodic updating of these objectives is necessary to ensure that they support the changing strategic needs of the organization. After setting the T&D objectives, management can determine the appropriate methods and the delivery system to be used. Naturally, management must continuously evaluate T&D to ensure its value in achieving organizational objectives.

FIGURE 8-2
Training and Development Process



OBJECTIVE 8.2

Explain how to determine specific training and development needs and objectives.

Determine Specific Training and Development Needs

The first step in the T&D process is to determine specific T&D needs. In today's highly competitive business environment, undertaking a program because other firms are doing it is asking for trouble. A systematic approach to addressing bona fide needs must be undertaken and must be done taking into consideration the mission of the organization.

training and development needs assessment
Heart of a continuous effort designed to improve employee competency and organizational performance.

A **training and development needs assessment** helps companies determine whether training is necessary. It may be determined by conducting analyses on three levels, which include organization, task, and person.

Organizational Analysis

organizational analysis
Training needs assessment activity, which focuses on the firm's strategic mission, goals, and corporate plans are studied, along with the results of strategic HR planning.

Organizational analysis focuses on the firm's strategic mission, goals and corporate plans are studied, along with the results of strategic human resource planning. Let's consider a brief example of T-Mobile to illustrate an organizational analysis. T-Mobile is a U.S.-based subsidiary of T-Mobile International AG and its headquarters are located in Bellevue, Washington. The company operates the fourth-largest wireless network in the United States behind Verizon Wireless, AT&T, and Sprint, and it provides wireless voice, messaging, and data services in the United States, Puerto Rico, and the U.S. Virgin Islands under the T-Mobile, MetroPCS, and GoSmart Mobile brands.

T-Mobile had a reputation of excellent customer service quality based on a variety of surveys, including JD Powers and Associates, but there was a dramatic drop in quality that was highly noticeable between 2010 and 2012 when talks of AT&T acquiring T-Mobile were public.[1] According to Sascha Segan, writer for *PC Magazine*, "T-Mobile's workforce was dejected and polishing their resumes…."[2] In addition, "The result was an apathetic, aimless carrier full of sad people who didn't think they'd have a job in a year." T-Mobile's CEO John Legere recognized the need to improve customer service quality to better address customer needs and to have consumers see the company differently.[3]

Task Analysis

task analysis
A training needs assessment activity, which focuses on the tasks required to achieve the firm's purposes.

Task analysis focuses on the *tasks* required to achieve the firm's purposes. In this case, improving customer service quality is one of T-Mobile's goals. Job descriptions are important data sources for this analysis level, and it is logical that customer service employees who serve in the role of sales and those who serve in post-sales service are most relevant to the CEO's objective because they not only specify the tasks of these jobs, but also indicate the knowledge, skills, and abilities (KSAs) required to perform these jobs adequately. The following are some of the Customer Service Representative job tasks that are specified in the Occupational Information Network (O*NET).[4]

- Confer with customers by telephone or in person to provide information about products or services, take or enter orders, cancel accounts, or obtain details of complaints.
- Check to ensure that appropriate changes were made to resolve customers' problems.
- Keep records of customer interactions or transactions, recording details of inquiries, complaints, or comments, as well as actions taken.
- Resolve customers' service or billing complaints by performing activities such as exchanging merchandise, refunding money, or adjusting bills.
- Refer unresolved customer grievances to designated departments for further investigation.
- Order tests that could determine the causes of product malfunctions.

These tasks can help HR professionals determine training content and how best to design training to impart knowledge and skills. In addition, specifying the tasks better enable HR professionals to select evaluation measures of training effectiveness, including learning of knowledge and skills to perform these jobs more effectively as well as indicators of job performance changes (hopefully, improvements) following the completion of training over time.

person analysis
A training needs assessment activity that focuses on finding answers to questions such as Who needs to be trained? What do they need to do differently from what they're doing today? What kind of knowledge, skills, and abilities (KSAs) do employees need?

Person Analysis

Person analysis focuses on obtaining answers to the questions: Who needs to be trained? What do they need to do differently from what they're doing today? and What kind of KSAs do employees need?

Specifying the KSAs necessary for task performance is essential information that will help in the selection of training methods. For example, a simple classroom lecture could be an effective vehicle for imparting basic knowledge about customer service principles and product knowledge. Role plays could be an effective approach to having trainees demonstrate whether they have learned basic knowledge and can effectively combine knowledge with skills to effectively complete customer service representative tasks. Among many, O*NET lists the following most important KSAs, respectively, to the customer service representative job:[5]

> *Customer and Personal Service*—Knowledge of principles and processes for providing customer and personal services. This includes customer needs assessment, meeting quality standards for services, and evaluation of customer satisfaction.
>
> *Active Listening*—Giving full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times.
>
> *Oral Comprehension*—The ability to listen to and understand information and ideas presented through spoken words and sentences.

Performance appraisals and interviews or surveys of supervisors and job incumbents are helpful at this level. Also industry surveys of customer service quality, as discussed previously about T-Mobile, are a useful source of information.

Establish Training and Development Program Objectives

T&D must have clear and concise objectives and be developed to achieve organizational goals. Without them, designing meaningful T&D programs would not be possible. Worthwhile evaluation of a program's effectiveness would also be difficult, at best. As we discussed in the previous section, T-Mobile might pursue customer service training to improve its standing in customer service quality among its major competitors. Consider these purposes and objectives for a training program involving employment compliance:

TRAINING AREA: EMPLOYMENT COMPLIANCE

Purpose: To provide the supervisor with

1. Knowledge and value of consistent human resource practices
2. The intent of Equal Employment Opportunity Commission (EEOC) legal requirements
3. The skills to apply them

Objectives: To be able to

1. Cite the supervisory areas affected by employment laws on discrimination
2. Identify acceptable and unacceptable actions
3. State how to get help on EEOC matters
4. Describe why we have disciplinary action and grievance procedures
5. Describe our disciplinary action and grievance procedures, including who is covered

As you see, the *purpose* is established first. The specific *learning objectives* that follow leave little doubt about what the training should accomplish. With these objectives, managers can determine whether training has been effective. For instance, in the example, a trainee either can or cannot state how to get help on equal employment opportunity matters.

OBJECTIVE 8.3
Summarize various training methods.

Training Methods

When a person is working in a garden, some tools are more helpful in performing certain tasks than others. The same logic applies when considering T&D methods, and these methods are changing continuously and improving. Regardless of whether programs are in-house or outsourced, firms use a number of methods for imparting knowledge and skills to the workforce

and usually more than one method, called *blended training*, is used to deliver T&D. As part of the blended training process, mobile learning is enhancing or replacing some traditional training methods. T&D methods are discussed next. Each of these training methods should be evaluated and selected for what it does best.

Classroom Method

The classroom method, in which the instructor physically stands in front of students, continues to be effective for many types of training. One advantage of instructor-led training is that the instructor may convey a great deal of information in a relatively short time. The effectiveness of instructor-led programs improves when groups are small enough to permit discussion, and when the instructor is able to capture the imagination of the class and use new technology to provide a better classroom learning experience. Also, the charisma or personality that the instructor brings to class may excite the students to want to learn. The classroom setting allows for real-time discussion that is not easily replicated, even with the most advanced technology.

E-Learning

e-learning
The T&D method for online instruction using technology-based methods such as the DVDs, company intranets, and the Internet.

The tradition of instructors physically lecturing in front of live corporate students has diminished somewhat in recent years. **E-learning** is the T&D method for online instruction using technology-based methods such as DVDs, company intranets, and the Internet.

The Internet offers many opportunities for learning. For example, companies such as Coursera, Udacity partner with universities to offer *massive open online courses* (*MOOCs*) that enable thousands of students who are located anywhere in the world at any time of the day to take university-level courses. Initially, the audience for MOOCs was mainly college-level students. Increasingly, companies are adopting MOOCs as an e-learning tool. Partnering with highly recognized universities that offer MOOCs could increase the value of training in a variety of ways, including through learning leading-edge information and techniques from world-famous professors and assessments by current and prospective clients that training is state-of-the art. "There's a lot of potential for how MOOCs can be used for corporate training and development," said Julia Stiglitz, head of business development and strategic partnerships for Coursera, which also partners with universities such as Stanford and UC Berkeley to offer online college courses.[6] "The companies are looking for new ways to train their employees and get them up to speed on skills that may not have been relevant five years ago."

The benefits of e-learning are numerous and include decreased costs, greater convenience and flexibility, improved retention rates, and a positive environmental impact.[7] It can be self-paced, can often be individualized, and can be done while at work or off-shift. A concept can be viewed as often as needed. Individuals using e-learning can be working on different parts of a program, at varying speeds, and in different languages.

Luxottica is an Italian eyewear and optical company whose chain stores include LensCrafters, Pearle Vision, and Sunglass Hut, with 38,000 employees worldwide. Angi Willis, Luxottica's learning technology project manager said, "We just didn't have the manpower, technology or budget to efficiently and effectively manage and execute our various training programs." Luxottica put training online so employees could have instant access to information they needed to do their jobs, including details on new products and regulations as well as continuing education.[8]

The advantages of using e-learning are numerous; however, the biggest advantage is cost savings. According to Gordon Johnson, vice-president of marketing for infrastructure provider Expertus, "Online meetings are one-third the cost of face-to-face meetings, so the question becomes not which is best, but whether face-to-face training is three times better. Usually not."[9]

For Union Pacific, the largest railroad company in North America, both distance and time have been hurdles to learning. About 19,000 of its 48,000 widely disbursed employees work on the railroad's locomotives and freight cars, many on different schedules. So the company uses a blend of traditional learning and e-learning that provides the kind of training far-flung employees require, at a time when they can use it.

Firms that consistently have a high turnover rate have turned to e-learning because classroom learning is not cost-effective. Nike faced a challenge that a number of retailers today are confronting. Nike designed an online training program that the company could offer to employees in its own stores as well as at other retailers that sell Nike products. The program conveys a

lot of information quickly, but it is also easy to learn. This is important because the training is directed at 16- to 22-year-olds.[10]

A takeoff on e-learning is the *live virtual classroom*, often referred to as *virtual instructor led*, that uses a Web-based platform to deliver live, instructor-led training to geographically dispersed learners. Organizations can bring together entire teams for just an hour or two per week. They can also bring content specialists into the classroom for only the necessary time required from two minutes to two hours. Virtual instructor led training is ideal for organizations that have many technicians needing frequent training while they continue to do their job in the field.[11] The need to have large blocks of time that takes workers away from their jobs is thus eliminated. Training can now be provided in blocks of time as opposed to several days. For example, a two-day live training session might be provided in five 75-minute modules delivered over time. These provide both cost savings and convenience.[12]

Case Study

case study
T&D method in which trainees are expected to study the information provided in the case and make decisions based on it.

The **case study** is a T&D method in which trainees study the information provided in the case and make decisions based on it. The goal of the case study method is to provide trainees with the opportunity to sharpen critical thinking skills. Often, the case study method occurs with an instructor who serves as a facilitator. It is also quite common for trainees to analyze the case in teams because problem solving typically involves consultation with others.

If an actual company is involved, the student would be expected to research the firm to gain a better appreciation of its financial condition and environment. Research on companies has been significantly enhanced through the availability of case studies of a variety of business functions. There are many sources of business case studies, including Harvard Business School Publishing.

Behavior Modeling and Tweeting

behavior modeling
T&D method that permits a person to learn by copying or replicating behaviors of others to show managers how to handle various situations.

Behavior modeling is a T&D method that permits a person to learn by copying or replicating behaviors of others. Behavior modeling has been used to train supervisors in such tasks as conducting performance reviews, correcting unacceptable performance, delegating work, improving safety habits, handling discrimination complaints, overcoming resistance to change, orienting new employees, and mediating individuals or groups in conflict.

Social networking, such as Twitter, has been used as a learning tool involving behavior modeling. "In a corporation, micro-blogging can be a way to augment behavior modeling," says Sarah Millstein, author of the *O'Reilly Radar Report*. This works by having a person who excels at a task send out frequent updates about what he or she is doing. The company might even formalize the process to the extent that it would select exemplary performers to post on a regular basis and determine those employees who should follow their posts.[13]

Role-Playing

role-playing
T&D method in which participants are required to respond to specific problems they may encounter in their jobs by acting out real-world situations.

Role-playing is a T&D method in which participants are required to respond to specific problems they may encounter in their jobs by acting out real-world situations. Rather than hearing an instructor talk about how to handle a problem or by discussing it, they learn by doing. Role-playing is often used to teach such skills as administering disciplinary action, interviewing, grievance handling, conducting performance appraisal reviews, team problem solving, effective communication, and leadership-style analysis. A successful role-playing activity occurs if the activity actually mirrors real-life situations. It has also been used successfully to teach workers how to deal with individuals who are angry, irate, or out of control. Some restaurant chains use role-playing to train servers how to deal with difficult situations such as a couple having an argument at the dinner table. The classic case of using role-playing is when a manager must take disciplinary against a worker for something they did improperly. Managers never know how an employee will react when being reprimanded. When acting out the role of the worker, he or she may randomly choose from a variety of roles such as being stoic, starting to cry, promising never to do it again, or take this job and shove it.

Training Games

Games can be quite useful learning tools to aid in the group dynamic process. Games are a cost-effective means to encourage learner involvement and stimulate interest in the topic, thereby enhancing employees' knowledge and performance.[14] According to Elizabeth Treher, founder,

president, and CEO of The Learning Key Inc., "Team-based business games result in better knowledge retention, provide focused, memorable learning and a more enjoyable learning atmosphere than traditional methods."[15] A major benefit of games is that learners retain 75 percent of the knowledge they acquire when playing games, according to research by the National Training Laboratories. McDonald's in Japan estimates new employee training time to prepare burgers has been cut in half as a result of a video game created in conjunction with Nintendo.[16] Microsoft Xbox support agents use the Xbox Customer Care Framework (CCF) Assessment simulator training game. The game simulates real-life circumstances caused by generating the stress and anxiety of receiving difficult customer relations calls.[17] Even the U.S. Marine Corps uses a game-based training program called Mission Impact, which places learners in a simulated battalion to improve their environmental performance.

business games
T&D method that permits participants to assume roles such as president, controller, or marketing vice-president of two or more similar hypothetical organizations and compete against each other by manipulating selected factors in a particular business situation.

Business games are a T&D method that permits participants to assume roles such as president, controller, or marketing vice president of two or more similar hypothetical organizations and compete against each other by manipulating selected factors in a particular business situation. Participants make decisions affecting such factors as price levels, production volumes, and inventory levels. Typically, a computer program manipulates their decisions, with the results simulating those of an actual business situation. Participants are able to see how their decisions affect other groups and vice versa. The best thing about this type of learning is that if a poor decision costs the company $1 million, no one gets fired, yet the business lesson is learned.

In-Basket Training

in-basket training
T&D method in which the participant is asked to establish priorities for and then handle a number of business papers, e-mail messages, memoranda, reports, and telephone messages that would typically cross a manager's desk.

In-basket training is a T&D method in which the participant is asked to establish priorities for and then handle a number of business papers, e-mails, texts, memoranda, reports, and telephone messages that would typically cross a manager's desk. The messages, presented in no particular order, call for anything from urgent action to routine handling. The participant is required to act on the information contained in these messages. In this method, the trainee assigns a priority to each particular situation before making any decisions. This form of training has been quite beneficial to help predict performance success in management jobs. Assessment centers commonly make use of this method in the selection process.

On-the-Job Training

on-the-job training (OJT)
An informal T&D method that permits an employee to learn job tasks by actually performing them.

On-the-job-training (OJT) is an informal T&D method that permits an employee to learn job tasks by actually performing them. Often OJT will also have a significant impact on personal development. The key to this training is to transfer knowledge from a highly skilled and experienced worker to a new employee, while maintaining the productivity of both workers. OJT is used to pass on critical "how to" information to the trainee. Individuals may also be more highly motivated to learn because it is clear to them that they are acquiring the knowledge needed to perform the job. At times, however, the trainee may feel so much pressure to produce that learning is negatively affected. Firms should be selective about who provides OJT. Regardless of who does the training, that person must have a good work ethic and correctly model the desired behavior.

Apprenticeship Training

apprenticeship training
Training method that combines classroom instruction with on-the-job training.

Apprenticeship training is a training method that combines classroom instruction with OJT. While in training, the employee earns less than the master craftsperson, who is the instructor. The National Association of Manufacturers projects that by 2020 some 10 million skilled workers will be needed and apprenticeships remain one of the most vital sources for securing skilled labor.[18] Such training is common with craft jobs, such as those of plumber, carpenter, machinist, welder, fabricator, laser operator, electrician, and press brake operator. As baby boomers continue to leave the workforce, they must be replaced by competent operators, and apprenticeship programs provide an effective way of accomplishing this. Many organizations are partnering with high schools, vocational schools, and universities as they search for new skilled workers. Organizations often donate look-alike equipment to the schools so students can be trained on the system.

The U.S. Department of Labor has implemented new regulations governing apprenticeships. Historically apprenticeships were defined by the amount of instruction time—typically 10,000 hours over four years. The new regulations offer provisions for competency-based apprenticeships, electronic and distance training, and the issuance of interim credentials. These credentials

can be used toward college credits. "It's nice because a person isn't waiting until the end of the program to get some kind of reward," says Steve Mandes, executive director at National Institute for Metalworking Skills (NIMS).[19]

Team Training

team training
Training focused on teaching knowledge and skills to individuals who are expected to work collectively toward meeting a common objective.

Team training focuses on imparting knowledge and skills on individuals who are expected to work collectively toward meeting a common objective. For example, many automobile manufacturers organize teams to focus on the completion of car assembly. One such team installs the interior components, including dashboard, seats, carpeting, headliner, and trim. Many individuals work together to complete these tasks in an ordered sequence within a designated period of time to ensure that the factory meets its daily production quota. Other examples include teams of sales representatives and post-sales representatives to ensure that the customer receives a product configuration that meets its business needs and has subsequent support to ensure that employees of the client firm are able to properly use the product, such as inventory software.

team coordination training
Team training focused on educating team members how to orchestrate the individual work that they do to complete the task.

The nature of the work and business needs determines whether coordination training or cross-training is necessary. **Team coordination training** educates team members how to orchestrate the work that they do to complete the task such as in the previous examples. All team training initiatives involve information sharing and procedures for ensuring that the work is conducted in proper order. For example, in the automobile assembly example, team members must ensure that all of the electrical wires that run across the floor are properly connected to their appropriate components (such as power window motors) before door trim is installed.

The success of team coordination training can mean the difference between life and death. The U.S. Coast Guard (USCG) regularly conducts a program for its rescue and recovery mission teams, which it calls Team Coordination Training (TCT).

> *Team Coordination Training (TCT) is a program that focuses on reducing the probability for human error by increasing individual and team effectiveness. Safety has long been the Commanding Officer's responsibility and, until recently, was assumed to be the logical result of finely tuned technical skills. USCG mishap data suggests that while technical skills are an essential component of any job, they alone will not ensure safety.*[20]

cross-training
Type of training for educating team members about the other members' jobs so that they may perform them when a team member is absent, is assigned to another job in the company, or has left the company altogether.

Cross-training educates team members about the other members' jobs so that they may perform them when a team member is absent, is assigned to another job in the company, or has left the company altogether. Ideally, effective cross-training initiatives will raise flexibility, communication, morale, and interdepartmental relations. Cross-training is also prevalent in a variety of employment settings because pressures to manage labor costs have often led to fewer employees who are hired to perform the same job. Restaurants are a common setting where cross-training is important. For example, it may be necessary for a server to step in to assist the kitchen staff prepare meals when one or more kitchen staff members is absent.

OBJECTIVE 8.4
Describe alternative training and development delivery systems.

Training and Development Delivery Systems

The previous section focused on the various T&D methods available to organizations, and the list is constantly changing. In this section, our attention is devoted to how training may be delivered to participants.

Corporate Universities

corporate university
T&D delivery system provided under the umbrella of the organization.

A T&D delivery system provided under the umbrella of the organization is referred to as a **corporate university**. The corporate T&D institution's focus is on creating organizational change that involves areas such as company training, employee development, and adult learning. It aims to achieve its goals by conducting activities that foster individual and organizational learning and knowledge. It is proactive and strategic rather than reactive and tactical and can be closely aligned to corporate goals. Even though they are called universities, they are not so in the straightest sense because degrees in specific subjects are not granted. General Electric (GE0 has its Crotonville campus and McDonald's has its Hamburger University. Intel University in Arizona administers programs developed by training groups located worldwide. The university also teaches nontechnical skills such as dealing with conflict and harassment avoidance.

Recent years have seen the decline of corporate universities as companies such as Xerox, Andersen, Ford, Pfizer, Aetna, and Merrill Lynch moved away from them largely because of the significant overhead costs associated with maintaining learning facilities and dedicated staff. However, in New York City, North Shore-Long Island Jewish Health System's corporate university serves 42,000 employees across 15 hospitals.[21] Deloitte LLP has recently built a $300 million corporate university in Westlake, Texas. Its 750,000 square feet will house state-of-the-art learning technology, 800 sleeping rooms, and even a ballroom. Marc Rosenberg, a learning consultant, says, "There's only so much you can do with social networking on the Internet, especially in services firms where you rely so much on your colleagues for help."[22] Also, firms are better able to control the quality of training and to ensure that all employees receive the same messages.

Colleges and Universities

For decades, colleges and universities have been the primary delivery system for training professional, technical, and management employees. Many public and private colleges and universities are taking similar approaches to training and education as have the corporate universities. Corporate T&D programs often partner with colleges and universities or other organizations, such as the American Management Association, to deliver both training and development. As we discussed, the advent of MOOCs has created greater opportunities for partnerships between educational institutions and companies.

Community Colleges

Community colleges are publicly funded higher education establishments that deliver vocational training and associate degree programs. Also, labor unions partner with some community colleges to sponsor formal courses as part of apprenticeship programs in the skilled trades such as carpentry and plumbing. For example, a course on electrical wiring principles and practices would be found in the curriculum for apprentices preparing to become master electricians. Some employers have discovered that community colleges can provide certain types of training better and more cost effectively than the company can. Rapid technological changes and corporate restructuring have created a new demand by industry for community college training resources.

Online Higher Education

online higher education
Educational opportunities including degree and training programs that are delivered, either entirely or partially, via the Internet.

A form of online e-learning that has increased substantially in recent years is the use of online higher education. **Online higher education** is defined as formal educational opportunities including degree and training programs that are delivered, either entirely or partially, via the Internet. One reason for the growth of online higher education is that it allows employees to attend class at lunchtime, during the day, or in the evening. It also saves employees time because it reduces their need to commute to school. It increases the range of learning opportunities for employees and increases employee satisfaction. Another point that needs to be made is that skepticism regarding the quality of online degrees appears to be fading. John Challenger, chief executive of outplacement firm Challenger, Gray & Christmas, agrees. "We did once have a clear line between online and brick-and-mortar degrees, but that's changing," he says. "Hiring managers are catching up."[23]

Enrollment in online universities continues to grow. The University of Phoenix has the largest student body in North America. The university has more than 200 campuses worldwide and confers degrees in more than 100 degree programs at the bachelor's, master's, and doctoral levels. Clemson University's Master of Human Resource Development is a fully online course designed for in-career practitioners. The 36-credit program follows a cohort structure, with approximately 40 students in each unit. Class sessions are offered several times a week, to allow for an average of 10 students in each class. Students are assigned a "home group" within the cohort, but can choose another class to attend when work–life demands such as schedule conflicts or travel arise.[24]

In recent years, programs have been introduced that provide students with more and more autonomy and control of their programs of study. There are basically three categories of online higher education programs available: hybrid, synchronous, and asynchronous. *Hybrid programs* permit students to take some classes online and some in a traditional university setting. *Online synchronized study* offers students the choice of studying through an online portal system; however,

the student is expected to appear for most classes on a real-time schedule. With this approach, students interact with a real professor and obtain real-time support for the learning material. With *asynchronous learning*, students have a series of assignments that need to be completed in a certain time frame. A system is available that allows students to communicate with the professor and classmates. Marianne Mondy, a legislative auditor for Louisiana, received her MBA through the University of Phoenix. She was given the option of totally completing her MBA online or to do a portion of her work on campus. She chose the online option because of her work schedule. All courses were six weeks in length and each assignment had to be completed in a fixed time frame. Online higher education is not for everyone and the key to success is discipline. Jeff Seaman of Babson Survey Research Group, which studies online education, said, "You need discipline. Otherwise, the 'anytime, anywhere' aspect frees you to put off the work."[25]

Vestibule System

vestibule system
T&D delivery system that takes place away from the production area on equipment that closely resembles equipment actually used on the job.

Vestibule system is a T&D delivery system that takes place away from the production area on equipment that closely resembles equipment actually used on the job. For example, a group of lathes may be located in a training center where the trainees receive instruction in their use. A primary advantage of the vestibule system is that it removes the employee from the pressure of having to produce while learning. The emphasis is focused on learning the skills required by the job.

Video Media

The use of video media such as DVDs continues to be a popular T&D delivery system. These media are especially appealing to small businesses that cannot afford more expensive training methods and are often incorporated in e-learning and instructor-led instruction. In addition, they provide the flexibility desired by any firm. Behavior modeling, previously mentioned, has long been a successful training method that uses video media.

Simulators

simulators
T&D delivery system comprised of devices or programs that replicate actual job demands.

Simulators are a T&D delivery system comprised of devices or programs that replicate actual job demands. The devices range from simple paper mock-ups of mechanical devices to computerized simulations of total environments. T&D specialists may use simulated sales counters, automobiles, and airplanes. A prime example is the use of simulators to train pilots. Simulated crashes do not cost lives or deplete the firm's fleet of jets. John Deere uses an Excavator Training Simulator to train new operators in a risk-free environment. The simulator provides specific realistic lessons on proper operator techniques, machine controls, and safe operation at a virtual job site.[26] Crane operator trainees use a software simulator based on actual crane functions. Trainees sit in an authentic crane cab, with real control options while the simulation offers a realistic experience.[27]

Social Networking

Today's employees interact, learn, and work in much different ways and styles than in the not-so-distant past. Increasingly mobile and geographically dispersed workforces are becoming the norm. At the same time, dwindling or stagnant travel budgets are creating a need for different training methods. As a result, some organizations are using social networking and collaborative tools to enable informal learning. In a recent study, 55 percent of respondents also expect an increase in informal learning usage, which includes social media, blogs, wikis, and discussion groups.[28] Informal learning often takes place outside the corporate training departments. It does not necessarily follow a specified curriculum and often begins accidentally. It is experienced directly in the course of everyday life or work. By embracing informal learning, learners may be more motivated to gain knowledge. Thus, informal learning has surfaced as an important part of employee development.

The premise behind the educational success of social networking is the learning approach referred to as *constructivism*. A constructivist learning environment differs from the traditional model. In this setting, the teacher guides the learner toward multiple learning sources, rather than acting as the sole source of knowledge.[29] With more workers around the world using social media, they are getting and trusting information from their peer group more than in the past.[30] Often organizations are using communication meetings called huddles, which are usually called daily for a short period of time such as seven minutes, as informal learning opportunities.[31] Many believe that using shared, social learning solutions will grow.

OBJECTIVE 8.5

Summarize training and development implementation issues.

Implementing Training and Development Programs

A perfectly conceived training program will fail if management cannot convince the participants of its merits. Participants must believe that the program has value and will help them achieve their personal and professional goals. A long string of successful programs certainly enhances the credibility of T&D.

Implementing T&D programs is often difficult. One reason is that managers are typically action-oriented and feel that they are too busy for T&D. According to one management development executive, "Most busy executives are too involved chopping down the proverbial tree to stop for the purpose of sharpening their axes." Another difficulty in program implementation is that qualified trainers must be available. In addition to possessing communication skills, the trainers must know the company's philosophy, its objectives, its formal and informal organization, and the goals of the training program. T&D requires more creativity than perhaps any other human resource function.

Implementing training programs presents unique problems. Training implies change, which employees may vigorously resist. It may also be difficult to schedule the training around present work requirements. Unless the employee is new to the firm, he or she undoubtedly has specific full-time duties to perform. Another difficulty in implementing T&D programs is record keeping. It is important to maintain training records, including how well employees perform during training and later on the job. This information helps measure program effectiveness and chart the employees' progress in the company.

OBJECTIVE 8.6

Explain the metrics for evaluating training and development.

Metrics for Evaluating Training and Development

Managers should strive to develop and use T&D metrics because such information can smooth the way to budget approval and executive buy-in. Most managers agree that training does not cost, it pays, and that training is an investment, not an expense. However, the actual value of the training must be determined if top management will be ready to invest in it.

The traditional framework for evaluation of training is based on four criteria.[32] Although this framework was developed decades ago, HR professionals often rely on it to organize evaluation efforts.

Reactions

reactions
Training evaluation criterion focused on the extent to which trainees liked the training program related to its usefulness, and quality of conduct.

The first criterion, trainee **reactions**, refers to the extent to which trainees liked the training program related to its usefulness, and quality of conduct. Trainee reactions, when assessed, are measured on completion of the training session by survey. The survey questions can be specific or general ("how satisfied were you with the presentation of sales skill strategies?" versus "how satisfied were you with the overall training program?"). This information may help training designers pinpoint potential problem aspects of the training as well as possible reasons for the shortcomings.

Evaluating a T&D program by asking the participants' opinions of it is an approach that provides a response and suggestions for improvements, essentially a level of customer satisfaction. You cannot always rely on such responses, however. The training may have taken place in an exotic location with time for golfing and other fun activities, and the overall experience may bias some reports. Nevertheless, this approach is a good way to obtain feedback and to get it quickly and inexpensively.

Learning

learning
The extent to which an employee understands and retains principles, facts, and techniques.

The second criterion, **learning**, refers to the extent to which principles, facts, and techniques were understood and retained in memory by the employee. As with trainee reactions, learning is often assessed on completion of the training program (and sometimes, throughout the training course) by the appropriate tests (typing speed or recall of concepts from memory). Both evaluation criteria are important because positive trainee reactions and learning are expected to lead to more job-related and concrete ways of assessing training.

Some organizations administer tests to determine what the participants in a T&D program have learned. The pretest–posttest control group design is one evaluation procedure that may be used. In this procedure, both groups receive the same test before and after training. The

experimental group receives the training but the control group does not. Each group receives randomly assigned trainees. Differences in pretest and posttest results between the groups are attributed to the training provided. A potential problem with this approach is controlling for variables other than training that might affect the outcome.

Behavior

behavior change
Change in job-related behaviors or performance that can be attributed to training.

transfer of training
Training evaluation method focusing on the extent to which an employee generalizes knowledge and skill learned in training to the work place, as well as maintains the level of skill proficiency or knowledge learned in training.

The third criterion, **behavior change**, refers to the changes in job-related behaviors or performance that can be attributed to training. Specifically, this criterion assesses transfer of training. **Transfer of training** refers to the extent to which an employee generalizes knowledge and skill learned in training to the work place, as well as maintains the level of skill proficiency or knowledge learned in training. An example of generalization may be the application of principles for dealing effectively with "difficult" individuals in a training setting to dealing diplomatically with irate customers, or managing a highly competitive coworker in the work place. An example of skill maintenance is whether a typing speed of 90 words per minute demonstrated during training is sustained over time when the employee is back on the job.

Tests may accurately indicate what trainees learn, but they give little insight into whether the training leads participants to change their behavior. For example, it is one thing for a manager to learn about motivational techniques but quite another matter for this person to apply the new knowledge. A manager may sit in the front row of a training session dealing with empowerment of subordinates, absorb every bit of the message, understand it totally, make a grade of 100 on a test on the material, and then return the next week to the workplace and continue behaving in the same old autocratic way. The best demonstration of value occurs when learning translates into lasting behavioral change. Michael Allen, winner of the Distinguished Contribution to Workplace Learning and Performance Award, said, "We don't care about what people know. We care about what they can do … with what they know. Our challenge, as effective instructional designers, is to get people to make the leap from knowing to doing and that's where we often fail."[33]

Organizational Results

organizational results
Typically, training outcomes such as enhanced productivity, lower costs, and higher product or service quality.

The fourth criterion, results, refers to the extent to which tangible outcomes that can be attributed to training are realized by the organization. **Organizational results** refer to such outcomes as enhanced productivity, lower costs, and higher product or service quality. Results in the context of training indicate whether (and how well or poorly) an organization has attained competitive advantage. Likewise, assessment of results over time can inform whether (and how well or poorly) competitive advantage has been sustained over time. Whereas much research on trainee reactions, learning, and behavior has amassed over the last several decades, relatively few gains have been made for results.

Here metrics address the business's bottom line, such as productivity data, rather than numbers of training sessions completed or the satisfaction employees gained from a training session. For instance, if the objective of an accident-prevention program is to reduce the number and severity of accidents by 15 percent, comparing accident rates before and after training provides a useful metric of success. Leslie Joyce, vice-president of global talent management at Novelis and former CLO at Home Depot, said, "If there is change in behavior or improvement in performance, most CEOs I've worked with will agree that training has had an impact."[34]



HR Web Wisdom

Benchmarking

http://www.benchnet.com

The Benchmarking Exchange and Best Practices homepage is provided

benchmarking
Process of monitoring and measuring a firm's internal processes, such as operations, and then comparing the data with information from companies that excel in those areas.

Return on investment (ROI) is an important results criterion. CEOs want to see training in terms that they can appreciate such as business impact, business alignment, and ROI, that is, the extent to which benefits of training outweigh the costs to provide it. However, a recent study from the ROI Institute showed that although 96 percent of executives want to see the business effects of learning, only 8 percent receive it.[35] Nevertheless, in today's global competitive environment, training will not be rewarded with continued investment unless training results in improved performance that impacts the bottom line. Today, organizations can only justify investing in training that is clearly essential to business success and that actually delivers results that enable the company to compete effectively.

Benchmarking is the process of monitoring and measuring a firm's internal processes, such as operations, and then comparing the data with information from companies that excel in those areas. Because training programs for different firms are unique, the training measures are necessarily broad. Common benchmarking questions focus on metrics such as training costs, the ratio of training staff to employees, and whether new or more traditional delivery systems are used. Information

derived from these questions probably lacks the detail to permit specific improvements of the training curricula. However, a firm may recognize, for example, that another organization is able to deliver a lot of training for relatively little cost. This information could then trigger the firm to follow up with interviews or site visits to determine whether that phenomenon represents a "best practice."

Quality standards are another important results measure. A well-recognized standard is the ISO 9001 quality assurance standard, which states: "Employees should receive the training and have the knowledge necessary to do their jobs." To comply with the standard, companies must maintain written records of their employee training to show that employees have been properly trained. Think of possible questions that a compliance auditor might ask when auditing a firm. Some might be "How does your firm assess the need for the types and amounts of training and education received by all categories of employees? What percentage of employees receives training annually? What is the average number of hours of training and education per employee?" Under ISO 9001, monitoring the quality of training is important.

We have considered a variety of training methods, delivery systems, and training evaluation criteria. Careful planning and orchestration of these methods and systems is essential to achieving effective training. The Watch It video describes Wilson Learning's approach and philosophy.

Watch It 1
If your professor has assigned this, sign into mymangementlab.com to watch a video titled Wilson Learning: Training and to respond to questions.

OBJECTIVE 8.7
Describe factors that influence training and development.

Factors Influencing Training and Development

There are numerous factors that both impact and are impacted by T&D.

Top Management Support

For T&D programs to be successful, top management support is required; without it, a T&D program will not succeed. The most effective way to achieve success is for executives to provide the needed resources to support the T&D effort. The comments by Carol Freeland, principal/owner of ACTS+ in Hot Springs Village, Arizona, best described the importance of support from the CEO when she said, "If the CEO does not believe in the inherent value of training, any training effort on the part of the company will be fruitless and languish."[36]

The recession saw many training budgets suffer as executives looked for ways to reduce costs. By 2011 firms had started to boost the size of their training staffs.[37] However, even as the economy improved, training professionals were having to do more with less. As Karen O'Lonard, principal analyst of Bersin & Associates, said, "Companies aren't rolling out more training, but are trying to get better results from existing programs."[38]



HR Web Wisdom

American Society for Training and Development
http://www.astd.org

The homepage for the American Society for Training and Development is presented.

Shortage of Skilled Workers

Shortage of future skilled workers was first projected in the 1980s but has recently received additional attention. Mark Tomlinson, executive director and general manager of the Society of Manufacturing Engineers, compares the shortage of skilled workers to viewing an iceberg in stormy seas. "We're just approaching it; we haven't hit it yet but we know it's there. People are starting to see it. They just don't know how to deal with it."[39] There will likely be major shortages of future skilled workers; for example, 240,000 jobs for skilled workers go unfilled annually, even in a recession. It took Cianbro Corporation, a heavy construction company in the Northeast, 18 months to hire 80 experienced welders.[40] As another example, the number-one problem facing surface finishers today is finding qualified employees.[41]

Unemployment figures are misleading because they do not show employers who are begging for skilled workers. Worldwide many companies are struggling to find skilled workers. Baby boomers—the best-educated and most-skilled workforce in U.S. history—are preparing to retire. Labor experts are concerned that workers in the United States lack the critical skills needed to replace baby boomers. Silicon Valley companies are having difficulty finding software engineers; Union Health Service and the Harvard hospital system find it hard to find nurses and

technicians; and manufacturers such as Caterpillar and Westinghouse cannot hire enough welders and machinists to operate their state-of-the-art lathes.[42]

Part of the problem in finding qualified people for manufacturing jobs is that there is a generation of young people for which manufacturing has not been an attractive job prospect because they have seen many jobs outsourced and they question the long-term future in these jobs. In addition, training needs are changing and the old skill requirements of reading, writing, and arithmetic have been expanded. Executives are increasingly demanding additional skills of their new hires such as critical thinking and problem solving, communication, collaboration, and creativity.[43]

Technological Advances

Change is occurring at an amazing speed, with knowledge doubling every year. Perhaps no factor has influenced T&D more than technology. As technology becomes capable of handling more and more tasks, employers combine jobs and confer broader responsibilities on remaining workers. For example, the technology of advanced automated manufacturing, such as that in the automobile industry, is today doing the jobs of other employees, including the laborer, the materials handler, the operator-assembler, and the maintenance person. In fact, it is now commonplace for a single employee to perform all of those tasks in a position called "manufacturing technician." The expanding range of tasks and responsibilities in almost all jobs demand higher levels of reading, writing, and problem-solving skills. Employees must possess higher levels of reading skills than before because they must now be able to read the operating and troubleshooting manuals (when problems arise) of automated manufacturing equipment that is based on computer technology. Previously, the design of manufacturing equipment was relatively simple and easy to operate, based on simple mechanical principles such as pulleys.

Technological innovation also has fostered increased autonomy and team-oriented work places, which also demand different job-related skills than employees once needed. For example, the manufacturing technician's job mentioned previously, is generally more autonomous than its predecessor. Thus, technicians must be able to manage themselves and their time. Employers now rely on working teams' technical and interpersonal skills to drive efficiency and to improve quality. Today's consumers often expect customized products and applications, which require that employees possess sufficient technical skill to tailor products and services to customers' needs, as well as the interpersonal skills necessary to determine client needs and customer service.

Global Complexity

The world is simply getting more complex, and this has had an impact on how an organization operates. No longer does a firm just compete against other firms in the United States. Now more than ever, to sustain competitive advantage companies must provide their employees with leading-edge skills, and encourage employees to apply their skills proficiently. Increasing customer expectations also mean the standards for success are constantly rising. To compete in the more complex global environment, companies must be able to simultaneously integrate global operations, respond to diverse local/national needs within subsidiary operations, and implement innovation rapidly around the world.

There is reason to suspect that many U.S. firms are already behind in this regard. Employers in both the European Common Market and some Pacific Rim economies have long emphasized learning as a proactive tool for responding to strategic change. For example, in Ireland, the private sector offers graduate employment programs to employees in particular skill areas such as science, marketing, and technology. In short, global competition necessitates that companies in the United States become more productive and there is growing consensus that training must be at the forefront of their attempts to do so.

Learning Styles

Although much remains unknown about the learning process, what is known affects the way firms conduct training. It is known that adults retain approximately 20 percent of what they read and hear, 40 percent of what they see, 50 percent of what they say, 60 percent of what they do, and 90 percent of what they see, hear, say, and do.[44] Because of these differences, it is important to use a wide range of T&D methods. Learning style supports the concept that people have a natural preference, based on their dominant sense, in how they choose to learn and process information. It may be visual, hearing, or touching.[45] Some learn best from working in a group whereas others prefer studying on an



ETHICAL DILEMMA

The Tough Side of Technology

You are the HR director for a large manufacturing firm that is undergoing major changes. Your firm is in the process of building two technologically advanced plants. When these are completed, the company will close four of its five old plants. It is your job to determine who will stay with the old plant and who will be retrained for the newer plants.

One old-plant employee is a 56-year-old production worker who has been with your firm for 10 years. He seems to be a close personal friend of your boss, as they are often seen together socially. However, in your opinion, he is not capable of handling the high-tech work required at the new plants, even with additional training. He is not old enough to receive any retirement benefits and there are other qualified workers with more seniority who want to remain at the old plant.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

individual basis. Still others absorb best by seeing how the material provides a practical application, and others want to know the theoretical basis. Some learners can readily absorb information by reading written words whereas others learn best through hearing the words spoken.

In studying the information in this text, the different learning styles will become apparent. There are exercises at the end of each chapter to provide hands-on application of the material. Being able to read the words in the text will appeal to some whereas others will learn best through hearing the instructor's lecture. Each chapter's PowerPoint slides provide a visual representation of the material. The incidents at the end of each chapter require extending your newfound knowledge in a practical manner.

blended training
The use of multiple training methods to deliver T&D.

To cope with the different learning styles, firms use multiple methods, called **blended training** (also referred to as blended learning), to deliver T&D. This involves using a combination of training methods that are strategically combined to best achieve a training program's objectives.[46] John Leutner, head of global learning services for Xerox corporate HR, said, "The new blended learning is about creating a richer, more meaningful development experience that relates to a person's work and performance."[47]

Another learning principle is that learners progress in an area of learning only as far as they need to achieve their purposes. Professors have long known that telling students which concepts are important motivates them to study the material, especially if the information is prime test material. Research indicates that unless there is relevance, meaning, and emotion attached to the material taught, trainees will not learn.

just-in-time training (on-demand training)
Training provided anytime, anywhere in the world when it is needed.

Another learning principle is that the best time to learn is when the learning can be useful. One way this impacts T&D is the need for training on a timely basis. **Just-in-time training (on-demand training)** is training provided anytime, anywhere in the world when it is needed. Computer technology, the Internet, intranets, smartphones, and similar devices have made these approaches economically feasible to a degree never before possible. The ability to deliver knowledge to employees on an as-needed basis, anywhere on the globe, and at a pace consistent with their learning styles greatly enhances the value of T&D.

Other Human Resource Functions

Successful accomplishment of other human resource functions can also have a crucial impact on T&D. For instance, if recruitment-and-selection efforts or its compensation package attract only marginally qualified workers, a firm will need extensive T&D programs. Hiring marginally qualified workers will likely have a significant impact on the firm's safety and health programs. Therefore, additional training will be required.

OBJECTIVE 8.8

Summarize some human resource management training initiatives.

Human Resource Management Training Initiatives

HR is responsible for many company-wide training initiatives on HR-related matters. Among these initiatives are orientation (onboarding), ethics, compliance (equal employment opportunity, Occupational Safety and Health), and diversity. We will limit our discussion to orientation

(onboarding). We already discussed ethics training and diversity training in Chapters 2 and 3. Safety training is discussed in Chapter 13. Resources for other types of compliance training are available online on the government agency responsible for the compliance issue. For example, the Office of Federal Contract Compliance Programs Web site addresses affirmative action requirements, and the U.S. Department of Labor provides learning resources for determining whether jobs are exempt from the overtime pay provision of the Fair Labor Standards Act.

orientation
Initial T&D effort for new employees that informs them about the company, the job, and the work group.

Orientation is the initial T&D effort to inform new employees about the company, the job, and the work group. It becomes a way to engage new employees and reinforce the fact that they made the proper career choice. It also familiarizes them with the corporate culture and helps them to quickly become productive. A good orientation program is quite important because first impressions are often the most lasting and need to start the minute an applicant accepts an offer of employment. One of the orientation goals at Booz Allen is to make a positive first impression and create excitement before the new hire's first day on the job, using their online new-hire portal.[48]

New employees usually decide whether or not to stay at a company within their first six months of employment, and orientation programs give organizations an opportunity to get the relationship off to a good start. Therefore, new-hire orientation programs are particularly crucial for the rapid transition from new hires to contributing members of the organization. Orientation formats are unique to each firm. However, some basic purposes are listed here.

- *The Employment Situation.* At an early point in time, it is helpful for the new employee to know how his or her job fits into the firm's organizational structure and goals.
- *Company Policies and Rules.* Every job within an organization must be performed within the guidelines and constraints provided by policies and rules. Employees must understand these to ensure a smooth transition into the workplace.
- *Compensation.* Employees have a special interest in obtaining information about the reward system. Management normally provides this information during the recruitment-and-selection process and often reviews it during orientation.
- *Corporate Culture.* The firm's culture reflects, in effect, "How we do things around here." This relates to everything from the way employees dress to the way they talk.
- *Team Membership.* A new employee's ability and willingness to work in teams was likely determined before he or she was hired. In orientation, the program may again emphasize the importance of becoming a valued member of the company team.
- *Employee Development.* An individual's employment security is increasingly becoming dependent on his or her ability to acquire needed knowledge and skills that are constantly changing. Thus, firms should keep employees aware not only of company-sponsored developmental programs, but also of those available externally.
- *Socialization.* To reduce the anxiety that new employees may experience, the firm should take steps to integrate them into the informal organization. Some organizations have found that employees subjected to socialization programs, including the topics of politics and career management, perform better than those who have not undergone such training.

To this list, add the fact that there are numerous forms and documents a new employee must complete or read and acknowledge.

Supervisors represent the front line of orientation. Roger Chevalier, California-based management consultant and author of *A Manager's Guide to Improving Workplace Performance,* said, "If employees are selected properly, 85 percent of whether or not they will succeed is based on the environment created by a supervisor."[49] Peers also often serve as excellent information agents. There are several reasons for using peers in performing this function. For one thing, they are accessible to newcomers, often more so than the boss. Peers also tend to have a high degree of empathy for new people. In addition, they have the organizational experience and technical expertise to which new employees need access. Some organizations assign a mentor or "buddy" to new hires to work with them until they are settled in.

Although orientation can occupy a new employee's first few days on the job, some firms believe that learning is more effective if spread out over time. For example, a company may deliver a program in a system of 20 one-hour sessions over a period of several weeks. Some firms are sensitive to information overload and make information available to employees on an as-needed basis. For example, a new supervisor may eventually have the responsibility for

evaluating his or her subordinates. But knowledge of how to do this may not be needed for six months. A training segment on performance evaluation may be placed on the Internet or a firm's intranet and be available when the need arises. This approach is consistent with *just-in-time training*, mentioned previously.

OBJECTIVE 8.9

Explain the concept of careers and career paths.

Careers and Career Paths

career
General course that a person chooses to pursue throughout his or her working life.

career path
A flexible line of movement through which a person may travel during his or her work life.

In the sections that follow, we will address a series of interrelated topics—careers, career paths, and career planning. A **career** is a general course that a person chooses to pursue throughout his or her working life. Historically, a *career* was a sequence of work-related positions an individual occupied during a lifetime, although not always with the same company. However, today there are few relatively static jobs. A **career path** is a flexible line of movement through which a person may travel during his or her work life. Following an established career path, the employee can undertake career development with the firm's assistance. From a worker's perspective, following a career path may involve weaving from company to company and from position to position as he or she obtains greater knowledge and experience. Career paths have historically focused on upward mobility within a particular occupation, which was a choice not nearly as available as in the past. The days of the cradle to the grave job have largely disappeared. Other career paths include the network, lateral skill, dual-career paths, adding value to your career, demotion, and being your own boss as a free agent. Most careers are no longer a straight ascent up the corporate ladder. By selecting an alternative career path, a person may transfer current skills into a new career, one that was only dreamed about in the past. Typically, these career paths are used in combination and may be more popular at various stages of a person's career.

In the Watch It video, you will learn that Verizon provides employees with the opportunity to develop a career path that fits their interests and the company's needs. Verizon also provides a variety of training programs to help facilitate the attainment of career goals.

Watch It 2
If your professor has assigned this, sign into mymangementlab.com to watch a video titled Verizon: Career Planning and to respond to questions.

Traditional Career Path

traditional career path
Employee progresses vertically upward in the organization from one specific job to the next.

Although the traditional career path is not as viable a career path option as it previously was, understanding it furthers one's comprehension of the other career path alternatives. The **traditional career path** is one in which an employee progresses vertically upward in the organization from one specific job to the next. The assumption is that each preceding job is essential preparation for the next-higher-level job. Therefore, an employee must move, step-by-step, from one job to the next to gain needed experience and preparation. One of the biggest advantages of the traditional career path is that it was straightforward and very predictable.[50] The path was clearly laid out, and the employee knew the specific sequence of jobs through which he or she must progress.

Today, the old model of a career in which an employee worked his or her way up the ladder in a single company is becoming somewhat rare. The up-or-out approach, in which employees have to keep getting promoted quickly or get lost, is becoming outmoded. The certainties of yesterday's business methods and growth have disappeared in most industries. However, the one certainty that still remains is that there will always be top-level managers and individuals who strive to achieve these positions. The manner in which these positions are obtained may be different.

Network Career Path

network career path
Method of career progression that contains both a vertical sequence of jobs and a series of horizontal opportunities.

The **network career path** contains both a vertical sequence of jobs and a series of horizontal opportunities. The network career path recognizes the interchangeability of experience at certain levels and the need to broaden experience at one level before promotion to a higher level. Often,

this approach provides more realistic opportunities for employee development in an organization than does the traditional career path. For instance, a person may work as an inventory manager for a few years and then move to a lateral position of shift manager before being considered for a promotion. The vertical and horizontal options lessen the probability of blockage in one job. Royal Caribbean crew members are often given several different work assignments prior to a promotion. One major disadvantage of this type of career path is that it is more difficult to explain to employees the specific route their careers may take for a given line of work.

Lateral Skill Path

lateral skill path
Career path that allows for lateral moves within the firm, taken to permit an employee to become revitalized and find new challenges.

The **lateral skill path** allows for lateral moves within the firm, taken to permit an employee to become revitalized and find new challenges. Neither pay nor promotion may be involved, but by learning a different job, an employee can increase his or her value to the organization and also become rejuvenated and reenergized. Firms that want to encourage lateral movement may choose to use a skill-based pay system that rewards individuals for the type and number of skills they possess. Another approach is job enrichment. This approach rewards (without promotion) an employee by increasing the challenge of the job, giving the job more meaning, and giving the employee a greater sense of accomplishment.

Dual-Career Path

dual-career path
Career path that recognizes that technical specialists can and should be allowed to contribute their expertise to a company without having to become managers.

The dual-career path was originally developed to deal with the problem of technically trained employees who had no desire to move into management through the normal upward mobility procedure. The **dual-career path** recognizes that technical specialists can and should be allowed to contribute their expertise to a company without having to become managers. A dual-career approach is often established to encourage and motivate professionals in fields such as engineering, sales, marketing, finance, and HR. Individuals in these fields can increase their specialized knowledge, make contributions to their firms, and be rewarded without entering management. Whether on the management or technical path, compensation would be comparable at each level. The dual system has been a trademark in higher education, where individuals can move through the ranks of instructor, assistant professor, associate professor, and professor without having to go into administration.

Adding Value to Your Career

Adding value to your career may appear to be totally self-serving, but nevertheless, it is a logical and realistic career path. In the rapidly changing world today, professional obsolescence can creep up on a person. What makes a person valuable in today's work environment is the knowledge and experience he or she brings to a job. An individual's knowledge must be ever expanding, and continual personal development is a necessity. The better an employee's qualifications, the greater the opportunities he or she has with the present firm and in the job market. A person must discover what companies need, then develop the skills necessary to meet these needs as defined by the marketplace. Individuals should always be doing something that contributes significant, positive change to the organization. If any vestige of job security exists, this is it. Basically, the primary tie that binds a worker to the company, and vice versa, is mutual success resulting in performance that adds value to the organization.

Demotion

demotion
Process of moving a worker to a lower level of duties and responsibilities, which typically involves a reduction in pay.

Demotion is the process of moving a worker to a lower level of duties and responsibilities, which typically involves a reduction in pay. Demotions have long been associated with failure, but limited promotional opportunities in the future and the fast pace of technological change may make demotion a legitimate career option. If the stigma of demotion can be removed, more employees, especially older workers, might choose to make such a move. Some people get into a position only to find their skills were better suited to their old job. Sometimes they decide they do not want to have as much responsibility because of things going on in their personal lives. Working long hours for limited promotional opportunity loses its appeal to some after a while, especially if the worker can financially afford the demotion. In certain instances, this approach might open up a clogged promotional path and at the same time permit a senior employee to escape unwanted stress without being viewed as a failure.

Free Agents (Being Your Own Boss)

free agents
People who take charge of all or part of their careers by being their own bosses or by working for others in ways that fit their particular needs or wants.

Free agents are people who take charge of all or part of their careers by being their own bosses or by working for others in ways that fit their particular needs or wants. Many became free agents because of company downsizing and have no desire or would have difficulty reentering the corporate world.[51] Some free agents work full-time; others work part-time. Others work full-time and run a small business in the hope of converting it into their primary work. Free agents come in many shapes and sizes, but what distinguishes them is a commitment to controlling part or all of their careers. They have a variety of talents and are used to dealing with a wide range of audiences and changing their approach on the spot in response to new information or reactions. They also tend to love challenges and spontaneity.[52]

OBJECTIVE **8.10**
Identify career planning approaches.

Career Planning Approaches

career planning
Ongoing process whereby an individual sets career goals and identifies the means to achieve them.

Career planning is an ongoing process whereby *an individual* sets career goals and identifies the means to achieve them. Individuals in today's job market must truly manage their careers. Career planning should not concentrate only on advancement opportunities because the present work environment has reduced many of these opportunities. At some point, career planning should focus on achieving successes that do not necessarily entail promotions.

"If you don't know where you're going, any road will get you there" is certainly true in career planning. Career planning must now accommodate a number of objectives and enable us to prepare for each on a contingency basis. It will need updating to accommodate changes in our own interests as well as in the work environment. Historically, it was thought that career planning was logical, linear, and indeed, planned. Today, a new job assignment often is thought of as being paid to learn a new task and increase your experience level in case you must leave your job. Because of the many changes that are occurring, career planning is essential for survival for individuals and organizations. Individuals should have a strategy or plan for unexpected career events that begins while they are still employed.

Self-Assessment

self-assessment
Process of learning about oneself.

Self-assessment is the process of learning about oneself. Anything that could affect one's performance in a future job should be considered. It is one of the first things that a person should do in planning a career. A self-assessment can help a person target career choices and goals. Conducting a realistic self-assessment may help a person avoid mistakes that could affect his or her entire career progression. A person should take time to analyze his or her past successes and failures. A thorough self-assessment will go a long way toward helping match an individual's specific qualities and goals with the right job or profession. Remember, you cannot get what you want until you know what you want. The self-assessment is not something that is done once and forgotten. It is something that spans a career and into retirement. The self-assessment may show that you do not want to retire at 65. Some enjoy working well past what traditionally has been thought of as the retirement age. As a 95-year-old former mentor said, "work is what keeps me alive and going. Everyone I know who retired died young, and certainly much younger than me."[53]

Some useful tools include a strength/weakness balance sheet and a likes and dislikes survey. However, any reasonable approach that assists self-understanding is helpful, which include a strength/weakness balance sheet and a likes/dislikes survey.

strength/weakness balance sheet
A self-evaluation procedure, developed originally by Benjamin Franklin, that assists people in becoming aware of their strengths and weaknesses.

A self-evaluation procedure, developed originally by Benjamin Franklin, that assists people in becoming aware of their strengths and weaknesses is the **strength/weakness balance sheet**. Employees who understand their strengths can use them to maximum advantage. By recognizing their weaknesses, they are in a better position to overcome them. This statement sums up that attitude: "If you have a weakness, understand it and make it work for you as a strength; if you have a strength, do not abuse it to the point at which it becomes a weakness."

To use a strength/weakness balance sheet, the individual lists strengths and weaknesses as he or she perceives them. This is quite important, because believing, for example, that a weakness exists even when it does not can equate to a real weakness. Thus, if you believe that you make a poor first impression when meeting someone, you will probably make a poor impression. The perception of a weakness often becomes a self-fulfilling prophecy.

TABLE 8-1

Strength/Weakness Balance Sheet

Strengths	Weaknesses
Work well with people.	Do not like constant supervision.
Good manager of people.	Often say things without realizing consequences.
Hard worker.	Cannot stand to sit at a desk all the time.
Lead by example.	Basically a rebel at heart but have portrayed myself as just the opposite. My conservatism has gotten me jobs that I emotionally did not want.
People respect me as being fair and impartial.	Am sometimes nervous in an unfamiliar environment.
Tremendous amount of energy.	Interest level hits peaks and valleys.
Get the job done when it is defined.	Many people look on me as being unstable.
Excellent at organizing other people's time.	Not a tremendous planner for short range.
Can get the most out of people who are working for me.	Exclusively better at long-range planning.
Have a great amount of empathy.	Impatient—want to have things happen fast.
	Do not like details.

Table 8-1 shows an example of a strength/weakness balance sheet. Typically, a person's weaknesses will outnumber strengths after the first few attempts. However, as the individual repeats the process, some items that first appeared to be weaknesses may eventually be seen as strengths and should then be moved from one column to the other. A person should devote sufficient time to the project to obtain a fairly clear understanding of his or her strengths and weaknesses. Typically, the process should take at least several days during which the list is drafted and subsequently modified. People change, and every few years the process should again be undertaken again.

likes and dislikes survey
Procedure that helps individuals in recognizing restrictions they place on themselves.

A **likes and dislikes survey** assists individuals in recognizing restrictions they place on themselves. Connecticut-based career counselor Julie Jansen said, "It's important in identifying what you want to do, what your skills are, and what you don't—and do—like about your current occupation."[54] You are looking for qualities you want in a job and attributes of a job you do not want. For instance, some people are not willing to live in certain parts of the country, and such feelings should be noted as a constraint. Some positions require a person to spend considerable amount of time traveling. Thus, an estimate of the amount of time a person is willing to travel would also be helpful. Recognition of such self-imposed restrictions may reduce future career problems.

The size of the firm might also be important. Some like a major organization whose products or services are well known; others prefer a smaller organization, believing that the opportunities for advancement may be greater or that the environment is better suited to their tastes. All factors that could affect an individual's work performance should be listed in the likes and dislikes survey. An example of this type of survey is shown in Table 8-2.

Formal Assessment

formal assessment
The use of established external approaches to facilitate evaluation of an issue at hand.

Combining self-assessment with formal assessment tools designed to inform career planning considerations provides a more comprehensive approach. **Formal assessment** refers to the use of established external approaches to facilitate evaluation of an issue at hand. There are many tools, including the use of performance appraisal, which we already addressed in Chapter 7. An example is the 360-degree feedback method. In this chapter, we will focus on another approach. In the career planning domain, testing tools to identify career interests based on values and personality represent one approach. Although individuals may complete

TABLE 8-2

Likes and Dislikes Survey

Likes	Dislikes
Enjoy traveling	Do not want to work for a large firm
Would like to live in the Southeast United States	Would not want to work in a large city
Enjoy being my own boss	Would not like to work behind a desk all day
Would like to live in a medium-sized city	Would not like to wear suits all the time
Enjoy watching football and baseball	
Enjoy playing racquetball	

these tests on their own and read the report that is generated based on their responses, it often makes sense to work with a career counselor who can answer questions and make further recommendations.

Perhaps the most well-known example is the Myers-Briggs Type Indicator. This assessment tool contains dozens of questions that elicit an individual's preferences for how they would behave in different situations. The MBTI describes the following four preferences: *Energy* measures an individuals' degree of extraversion or introversion to determine whether a person gains energy through interpersonal relationships (extraversion) or through self-reflection (introversion). *Information-Gathering* measures a preference for gathering information about facts to consider before making a decision (Sensing) or a preference for gathering information about possibilities before making a decision. *Decision making* measures a preference for the amount of consideration a person gives to their own or others' feelings and values relative to facts and details. Preferences to consider the effect of a decision on personal feelings as well as on others (Feeling) stand in contrast to a preference to make objective decisions (Thinking). *Lifestyle* refers to an individual's inclination to be either flexible or structured. A preference to establish goals, strategies for goal attainment, and deadlines for meeting them (Judging) stands in contrast to a preference for embracing the unexpected, modifying decisions, and working without definitive timelines and deadlines (Perceiving).

An example of a formal test is the Career Key, which is based on Holland's Theory of Career Choice. This theory is premised on the idea that people are more likely to thrive in situations that match their personalities. It specifies six personality and corresponding situational types. For example, according to Holland's theory:[55]

> *Persons having an Investigative personality type "dominate" this environment. There are more of them than there are people of other personality types. For example, in a scientific laboratory there will be more persons having an "Investigative" personality than there will be people who have an Enterprising type. "Investigative" people create an "Investigative" environment. For example, they particularly value people who are precise, scientific, and intellectual—who are good at understanding and solving science and math problems.*

Examples of jobs that fit this description include architects and physicians.

Try It!

If your professor has assigned this, sign onto mymanagementlab.com to complete the Managing Your Career simulation and test your application of these concepts when faced with real-world decisions.

OBJECTIVE 8.11

Discuss career development and career development methods.

career development
Formal approach used by the organization to ensure that people with the proper qualifications and experiences are available when needed.

Career Development and Career Development Methods

Career development is a formal approach used by the organization to ensure that people with the proper qualifications and experiences are available when needed. Beverly Kaye, coauthor of *Love 'Em or Lose 'Em: Getting Good People to Stay*, studied the top 20 reasons employees remain with their company and discovered that career development opportunities was number one on the list. It was even more important than receiving greater pay.[56] With career development, the organization identifies paths and activities for individual employees as they develop.

Career planning rests with the employee. However, career development must closely parallel individual career planning if a firm is to retain its best and brightest workers. Employees must see that the firm's career development effort is directed toward furthering their specific career objectives. Companies must therefore help their employees obtain their career objectives and most notably, career security. They must provide them with opportunities to learn and do different things. Performing the same or a similar task over and over provides little development. Through effective career development, a pool of men and women can be developed who can thrive in any number of organizational structures in the future.

Properly designed and implemented career development programs can aid in recruiting and hiring and ensure that the best employees are in the pipeline for future leadership positions. Formal career development is important to maintain a motivated and committed workforce. In fact, Gen Y workers tend to favor personalized career guidance as opposed to big salaries and retirement packages. Further, high-potential employees are more likely to remain with organizations that are willing to invest in their development.

Career development should begin with a person's job placement and initial orientation. Management then observes the employee's job performance and compares it to job standards. At this stage, strengths and weaknesses will be noted, enabling management to assist the employee in making a tentative career decision. Naturally, this decision can be altered later as the process continues. This tentative career decision is based on a number of factors, including personal needs, abilities, and aspirations, and the organization's needs. Management can then schedule development programs that relate to the employee's specific needs.

Career development programs are expected to achieve one or more of the following objectives:

- *Effective development of available talent.* Individuals are more likely to be committed to career development that is part of a specific career plan. This way, they can better understand the purpose of development. Career development consistently ranks high on employees' *want lists*, and they can often be a less expensive option than pay raises and bonuses.
- *Self-appraisal opportunities for employees considering new or nontraditional career paths.* Some excellent workers do not view traditional upward mobility as a career option because firms today have fewer promotion options available. Other workers see themselves in dead-end jobs and seek relief. Rather than lose these workers, a firm can offer career planning to help them identify new and different career paths.
- *Development of career paths that cut across divisions and geographic locations.* The development should not be limited to a narrow spectrum of one part of a company.
- *A demonstration of a tangible commitment to developing a diverse work environment.* Individuals who recognize a company as desiring a diverse environment often have greater recruiting and retention opportunities.
- *Satisfaction of employees' specific development needs.* Individuals who see their personal development needs being met tend to be more satisfied with their jobs and the organization. They tend to remain with the organization.
- *Improvement of performance.* The job itself is the most important influence on career development. Each job can provide different challenges and experiences.
- *Increased employee loyalty and motivation, leading to decreased turnover.* Individuals who believe that the firm is interested in their career planning are more likely to remain with the organization.

- *A method of determining training and development needs.* If a person desires a certain career path and does not currently have the proper qualifications, this identifies a training and development need.

There are numerous methods for career development. Some currently used methods, most of which are used in various combinations, are discussed next.

Manager/Employee Self-Service

Manager and employee self-service have proven to be useful in career development. Many companies are providing managers with the online ability to assist employees in planning their career paths and developing required competencies. Through employee self-service, employees are provided with the ability to update performance goals online and to enroll in training courses.

Discussions with Knowledgeable Individuals

In a formal discussion, the superior and subordinate employees may jointly agree on what career development activities are best. The resources made available to achieve these objectives may also include developmental programs. In some organizations, human resource professionals are the focal point for providing assistance on the topic. In other instances, psychologists and guidance counselors provide this service. In an academic setting, colleges and universities often provide career planning and development information to students. Students often go to their professors for career advice.

Company Material

Some firms provide material specifically developed to assist in career development. Such material is tailored to the firm's special needs. In addition, job descriptions provide valuable insight for individuals to personally determine whether a match exists between their strengths and weaknesses and specific positions.

Performance Appraisal System

The firm's performance appraisal system can also be a valuable tool in career development. Discussing an employee's strengths and weaknesses with his or her supervisor can uncover developmental needs. If overcoming a particular weakness seems difficult or even impossible, an alternative career path may be the solution.

Workshops

Some organizations conduct workshops lasting two or three days for the purpose of helping workers develop careers within the company. Employees define and match their specific career objectives with the needs of the company. At other times, the company may send workers to workshops available in the community or workers may initiate the visit themselves. Consider just two of the developmental activities available for HR professionals:

- *Society for Human Resource Management Seminar Series.* Many HR seminars are available to SHRM members.
- *American Management Association, Human Resource Seminars.* There are numerous human resource seminars offered through the AMA.

OBJECTIVE **8.12**

Describe management development.

management development
Consists of all learning experiences provided by an organization resulting in upgrading skills and knowledge required in current and future managerial positions.

Management Development

Management development consists of all learning experiences provided by an organization resulting in upgrading skills and knowledge required in current and future managers. Although leadership is often depicted as an exciting and glamorous endeavor, there is another side; failure can quickly result in losing one's position. The risks are especially high because of today's rapid changes. This situation magnifies the importance of providing development opportunities for a firm's management group. Even in the recent recession, the demand for management development continued to be strong. Although budgets were being slashed, managers and executives were asking for more help. A recent study found that almost 70 percent of companies believe that senior executives need to improve their leadership skills. More than half of companies reported

that their top leaders needed to also improve their strategic planning skills. Several other skills that leaders need are encouraging teamwork, motivating people, and creativity.[57] The DDI's *Global Leadership Forecast 2011* found that organizations with the highest-quality leaders were 13 times more likely to outperform their competition in metrics such as financial accomplishment, product quality and services, employee engagement, and customer approval.[58]

A firm's future lies largely in the hands of its managers. This group performs certain functions essential to the organization's survival and prosperity. Managers must make the right choices in most of their decisions; otherwise, the firm will not grow and may even fail. Therefore, it is imperative that managers keep up with the latest developments in their respective fields and, at the same time, manage an ever-changing workforce operating in a dynamic environment. Also note that as managers reach higher levels in the organization, it is not so much their technical skills that they need, but their interpersonal skills and their business knowledge.

First-line supervisors, middle managers, and executives may all participate in management development programs. These programs are available in-house, by professional organizations, and at colleges and universities. T&D specialists often plan and present in-house programs, at times using line managers. Organizations such as the SHRM and AMA conduct conferences and seminars in a number of specialties. Numerous colleges and universities also provide management development programs. Colleges and universities may possess expertise not available within business organizations. In these cases, academicians and management practitioners can advantageously present T&D programs jointly.

Mentoring and Coaching

Mentoring and coaching have become important means of management development. Because the purposes of mentoring and coaching are similar in concept and the terms are often used interchangeably in the literature, they are discussed together. Coaching and mentoring activities, which may occur either formally or informally, are primarily development approaches emphasizing one-on-one learning.

mentoring
Approach to advising, coaching, and nurturing for creating a practical relationship to enhance individual career, personal, and professional growth and development.

Mentoring is an approach to advising, coaching, and nurturing for creating a practical relationship to enhance individual career, personal, and professional growth and development. The concept of a mentor is believed to have its origins in Greek mythology when Odysseus set out for the Trojan War and placed the running of his palace in the hands of his trusted friend, Mentor.[59] Mentors may be anywhere in the organization or even in another firm. For years, mentoring has repeatedly been shown to be the most important factor influencing careers. In a study done by Gartner Research, having a mentor helps a person get promoted five times more often than his or her peers who do not have mentors. They are also promoted six times more than the competition.[60]

Most *Fortune 500* companies have a mentoring program. Mentors equip protégés to learn for themselves by sharing experiences, asking demanding questions, challenging decision making, and expanding problem-solving skills. It focuses on skills to develop protégés to perform to their highest potential, leading to career advancement. Mentors have the potential to help mentees discover their strengths and weaknesses, formulate a career path, set goals, manage stress, and balance work and personal obligations. Organizations are using mentoring to prepare a successor and also to transition knowledge and skills within the organization. Technology can be used to match up mentors and mentees. These relationships may be quite fluid and form and dissolve around specific issues, such as helping younger people to build their professional networks.

E-mentoring, or open mentoring, is being used more and more today as opposed to face-to-face interaction with positive results. Many keep in touch with their mentors via e-mail, Facebook, and Twitter, but they may get together for lunch if they happen to be in the same location.

Most believe that women can truly benefit from a female mentor who has knowledge and experience and can show them "the ropes." For various reasons, mentors tend to seek out their mirror images. Because women and minorities are not equally represented at the firm's top levels, they sometimes are left without a female mentor. Women who are mentored, particularly by other women, are more likely to enhance and expand career skills, advance in their careers, receive higher salaries, and enjoy their work more. Women want and need to have advice provided by mentors to effectively use their talents and realize their potential, not only for their personal benefit but to assist their firms.[61]



HR BLOOPERS

Management Development at Trends Apparel

As the HR Director at Trends Apparel, Laura Kent finds it challenging to support management development for the retail chain's local store managers. Turnover of the managers is high and exit interviews indicate lack of training as a concern. After reading an article about other organizations using a new e-learning training program on management skills, she thinks she has found a solution to the dilemma. She contacted the company that developed the training program and learned that the training helps managers develop skills in inventory management and marketing products. Laura thought it sounded perfect for Trends Apparel managers and immediately purchased the training. However, after a month, only 2 of the 40 managers have enrolled in the training, and those two did not finish the training. In frustration, Laura organized a conference call with a group of managers to discuss the problem. She is surprised to learn that the managers don't see the training as relevant. They said what they really need is training in managing employees. For example, they need to learn how to better deal with employee problems and how to motivate employees. In addition, the managers told Laura that the e-learning program was just hard to work into their schedules. They felt coaching from other managers would be more helpful to them. Laura now realizes that even though the e-learning training program is already paid for, it is likely not going to be used.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

coaching
Often considered a responsibility of the immediate boss, who provides assistance, much like a mentor.



HR Web Wisdom

CareerOneStop
http://www.careeronestop.org/

Career One Stop Pathways to Career Success.

reverse mentoring
A process in which older employees learn from younger ones.

OBJECTIVE **8.13**
Define organization development (OD) and describe various OD techniques.

Coaching is often considered a responsibility of the immediate boss, who provides assistance, much like a mentor, but the primary focus is about performance. Coaching involves helping workers see why they have been selected to perform the task or why they have been selected for the team. The coach has greater experience or expertise than the protégé and is in the position to offer wise advice. It is employee development that is customized to each individual and is therefore immediately applicable and does not require stepping away from work for extended periods of time.

Reverse Mentoring

Reverse mentoring is a process in which older employees learn from younger ones. There are people in organizations who are approaching retirement who do not want to retire and who have tremendous knowledge that should not go to waste. There are young people who know things others do not know and who are anxious to expand their horizons. The existence of these two diverse, but potentially mutually helpful, populations has led to reverse mentoring. At Procter & Gamble, the reverse mentoring program allows senior management to be mentored in areas such as biotechnology. It pairs scientists and top managers to explore the potential impact of biotechnology on P&G's customers, suppliers, and overall business. Time Warner has a Digital Reverse Mentoring Program between their executives and technology savvy college students.[62] Phil McKinney, a vice-president at Hewlett-Packard, uses reverse mentoring by spending time with his company's college interns to understand what motivates them and how they work.[63]

Organization Development: A Strategic Human Resources Tool

Individuals and groups receive the bulk of T&D effort. However, some firms believe that to achieve needed change, they must move the entire organization in a different direction. Efforts to achieve this are the focus of OD—planned and systematic attempts to change the organization, typically to a more behavioral environment. OD education and training strategies are designed to develop a more open, productive, and compatible workplace despite differences in personalities, culture, or technologies. The OD movement has been strongly advocated by researchers such as Chris Argyris and Warren Bennis.[64] OD applies to an entire system, such as a company or a plant, and is a major means of achieving change in the corporate culture. Various factors in the firm's corporate culture affect employees' behavior on the job. To bring about desired changes in these factors and behavior, organizations must be transformed into market-driven, innovative,

and adaptive systems if they are to survive and prosper in today's highly competitive global environment. This type of development is increasingly important as both work and the workforce diversify and change.

Numerous OD interventions are available to the practitioner. Interventions covered in the following sections include survey feedback, a technique often combined with other interventions such as quality circles and team building.

Survey Feedback

survey feedback
Organization development method of basing change efforts on the systematic collection and measurement of subordinate's attitudes through anonymous questionnaires.

The organization development method of basing change efforts on the systematic collection and measurement of subordinate's attitudes through anonymous questionnaires is **survey feedback**. It enables management teams to help organizations create working environments that lead to better working relationships, greater productivity, and increased profitability. Survey feedback generally involves the following steps:

1. Members of the organization, including top management, are involved in planning the survey.
2. All members of the organizational unit participate in the survey.
3. The OD consultant usually analyzes the data, tabulates results, suggests approaches to diagnosis, and trains participants in the feedback process.
4. Data feedback usually begins at the top level of the organization and flows downward to groups reporting at successively lower levels.
5. Feedback meetings provide an opportunity to discuss and interpret data, diagnose problem areas, and develop action plans.

Quality Circles

quality circles
Groups of employees who voluntarily meet regularly with their supervisors to discuss problems, investigate causes, recommend solutions, and take corrective action when authorized to do so.

The United States received the concept of quality circles from Japan several decades ago. This version of employee involvement is still in use today, improving quality, increasing motivation, boosting productivity, and adding to the bottom line. **Quality circles** are groups of employees who voluntarily meet regularly with their supervisors to discuss their problems, investigate causes, recommend solutions, and take corrective action when authorized to do so. The team's recommendations are presented to higher-level management for review, and the approved actions are implemented with employee participation.

Toyota North America Inc. uses quality circles to develop a competitive workforce spirit. Approximately 37 percent of the automaker's assemblers participate in Toyota's global "Quality Circles" competition that pits worker against worker in a friendly competition to develop more efficient manufacturing methods. The ultimate target is 100 percent. Quality circles are one way that Toyota sees as providing an edge over the competition. Toyota holds competitions twice a year to identify the best ideas.[65]

Team Building

team building
Conscious effort to develop effective work groups and cooperative skills throughout the organization.

Team building is a conscious effort to develop effective work groups and cooperative skills throughout the organization. It helps members diagnose group processes and devise solutions to problems. Effective team building can be the most efficient way to boost morale, employee retention, and company profitability. Whether it's a lieutenant leading troops into battle or executives working with their managers, the same principles apply. An important by-product of team building is that it is one of the most effective interventions for improving employee satisfaction and work-related attitudes. Individualism has deep roots in U.S. culture. This trait has been a virtue and will continue to be an asset in our society. However, there are work situations that make it imperative to subordinate individual autonomy in favor of cooperation with a group. It seems apparent that teams are clearly superior in performing many of the tasks required by organizations. The building of effective teams, therefore, has become a business necessity.

Team building uses self-directed teams, each composed of a small group of employees responsible for an entire work process or segment. Team members work together to improve their operation or product, to plan and control their work, and to handle day-to-day problems. They may even become involved in broader, company-wide issues, such as vendor quality, safety, and business planning. There are basically two types of team-building exercises. In the

first, there is an attempt to break down barriers to understanding that workers have built. In the second, participants "place their lives" in the hand of others such as falling backward, believing that the team will catch you.[66] Team-building exercises run the spectrum from a paint-ball battle[67] to the raw egg exercise that Southwest Airlines creates. At Southwest Airlines, the firm divides new employees into teams and gives them a raw egg in the shell, a handful of straws, and some masking tape. Their task is, in a limited amount of time, to protect that delicate cargo from an eight-foot drop. The exercise prepares teams of employees for creative problem solving in a fast-paced environment.[68]

In one team-building exercise, participants were instructed to untangle a 60-foot yellow rope. At first participants tried to untangle the rope on an individual basis, which resulted in failure. Ultimately, they began to share their ideas on how to untangle the rope, and within minutes it was untangled.[69] A classic team-building exercise is called "blind man's bluff" where a blindfolded person who is "it" has to chase others with only the verbal assistance of team members to guide him or her.[70]

Pump It Up sells inflatable playgrounds throughout the United States and uses the playgrounds and childlike activities to create team-building exercises. The head office worked with team-building experts to devise a handbook of business-related team-building activities, including "Leading the Crowd Playfully" (to break the ice) and "Tag Team Climbing" (to improve cooperation). However, just bouncing around—in socks, in full view of the boss—may improve team morale.[71]

A classic team-building exercise is called "Team Banquets," where workers with different knowledge, skills, and experience are brought together to accomplish a single goal: create a banquet. The Team Banquet brings together 25 to 30 employees and challenges them to prepare a gourmet banquet within two hours. Only the raw ingredients and equipment are provided.[72] Through team building, management and participants discover that the exercises provide an excellent analogy to the workplace and provide an outstanding means for developing teamwork.

OBJECTIVE 8.14

Summarize the learning organization idea as a strategic mind-set.

Learning Organization as a Strategic Mindset

A learning organization needs to provide a supportive learning environment and it provides specific learning processes and practices. Also, it is vital that management supports and reinforces learning. A learning organization moves beyond delivering tactical training projects to initiating learning programs aligned with strategic corporate goals. Once undervalued in the corporate world, training programs are now credited with strengthening customer satisfaction, contributing to partnership development, enhancing research and development activities, and finally, reinforcing the bottom line. Being recognized as a company that encourages its employees to continue to grow and learn can be a major asset in recruiting. Learning organizations view learning and development opportunities in all facets of their business and try to constantly look ahead and ensure that all employees are taking full advantage of their learning opportunities.[73] In a learning organization employees are rewarded for learning and are provided enriched jobs, promotions, and compensation. Organizations with a reputation for having a culture of being a learning leader tend to attract more and better-qualified employees.

In the competition to become listed in the "100 Best Companies to Work for in America," learning and growth opportunities were a high priority. On nearly every survey, T&D ranks in the top three benefits that employees want from their employers, and they search for firms that will give them the tools to advance in their profession. It is clear that T&D is not merely a nice thing to provide. It is a strategic resource; one that firms must tap to energize their organizations in the 21st century.

OBJECTIVE 8.15

Identify some training issues in the global context.

Training in the Global Context

The focus on this chapter has been training from a U.S. perspective. It is important to recognize that broadening training practice to the world stage presents additional issues. For instance, some countries distinguish themselves from others through the widespread use of specific training models. For example, the apprenticeship training model is prevalent in some European countries such as Germany, and it is successful there for a number of reasons because of the collaborative efforts between schools and industry. According to Wilfried Porth who is in charge of HR and

labor relations at Daimler, "You need a school system which supports it. We have this tradition in Germany of being loyal to the company. We also have a technology focus here in Germany. For that, you need very skilled people."[74] In addition, Professor Hagen Kramer of Karlsruhe University of Applied Sciences states "The apprentices must be given structure training by their employer, alongside the general and vocational education they receive. It all ensures Germany has enough labour to do the jobs."

Language and cultural differences play an important role in whether training initiatives are successful. For example, we have learned from our students that there isn't always a direct translation of concepts between the English and Chinese languages, which makes field specific training challenging. In terms of learning, some researchers maintain that the Chinese believe in constant change and the importance of the relationships between things whereas Westerners embrace a more deterministic world that is rule-based.[75] For effective training, HR professionals must take the time to learn about the cultural differences and to consult experts who can help create training programs that will enable trainees to learn what the company requires them to learn.

Summary

1. ***Summarize the training and development process.*** *Training* is designed to permit learners to acquire knowledge and skills needed for their present jobs. *Development* involves learning that goes beyond today's job. The process begins with the organization's determination of its specific training needs. Then specific objectives need to be established. After setting the T&D objectives, management can determine the appropriate methods and the delivery system to be used. Management must continuously evaluate T&D to ensure its value in achieving organizational objectives.
2. ***Explain how to determine specific training and development needs and objectives.*** Training professionals rely on three analytic approaches to determine training needs – organizational analysis, task analysis, and person analysis.
3. ***Summarize various training methods.*** Training methods include instructor-led training, e-learning, case study, behavior modeling, role-playing, training games, in-basket training, on-the-job training, and apprenticeship training.
4. ***Describe alternative training and development delivery systems.*** Delivery systems include corporate universities, colleges and universities, community colleges, online higher education, vestibule system, video media, and simulators.
5. ***Summarize training and development implementation issues.*** Implementing T&D programs is often difficult. One reason is that managers are typically action-oriented and feel that they are too busy for T&D. Training and development requires more creativity than perhaps any other human resource function.
6. ***Explain the metrics for evaluating training and development.*** Some possible metrics for evaluating training and development include participants' opinion, extent of learning, behavioral change, accomplishment of T&D objectives, return on investment from training, and benchmarking.
7. ***Explain factors influencing training and development.*** There are numerous factors that both impact and are impacted by T&D, including top management support, shortage of skilled workers, technological advances, world complexity, lifetime learning, learning styles, and other human resource functions.
8. ***Summarize some human resource management training initiatives.*** *Orientation* is the guided adjustment of new employees to the company, the job, and the work group. HR typically takes the lead on a variety of other training programs including ethics, compliance (for example, safety and health), and diversity training.
9. ***Explain the concept of a careers and career paths.*** A *career* is the general course that a person chooses to pursue throughout his or her working life. A *career path* is a flexible line of movement through which a person may travel during his or her work life. Career paths include traditional career path, network career path, lateral skill path, dual-career path, adding value to your career, demotion, and free agents.
10. ***Identify career planning approaches.*** *Career planning* is an ongoing process whereby an individual sets career goals and identifies the means to achieve them. Self-assessment (for example, a likes and dislikes survey) and formal assessment approaches (for example, surveys that measure how an individual would behave in particular situations) help organizations and employees with career planning.

11. ***Discuss career development and career development methods.*** *Career development* is a formal approach used by the organization to ensure that people with the proper qualifications and experiences are available when needed. Career development methods include manager/employee self-service, discussions with knowledgeable individuals, company material, performance appraisal system, and workshops.
12. ***Describe management development.*** *Management development* consists of all learning experiences provided by an organization for the purpose of providing and upgrading skills and knowledge required in current and future managers.
13. ***Define organization development (OD) and describe various OD techniques.*** *Organization development* is planned and systematic attempts to change the organization, typically to a more behavioral environment. OD techniques include survey feedback, a technique often combined with other interventions such as quality circles and team building.
14. ***Summarize the learning organization idea as a strategic mind-set.*** A *learning organization* is a firm that recognizes the critical importance of continuous performance-related T&D and takes appropriate action. Learning organizations view learning and development opportunities in all facets of their business and try to constantly look ahead and ensure that all employees are taking full advantage of their learning opportunities.
15. ***Identify some training issues in the global context.*** Countries differ by training models. For example, some countries such as Germany offer apprenticeship training programs which combine extensive on-the-job and traditional classroom learning over long periods. Language and cultural barriers represent an important challenge to training multicultural workforces.

Key Terms

training and development (T&D) 213
training 213
development 213
organization development (OD) 213
learning organization 214
training and development needs assessment 215
organizational analysis 215
task analysis 215
person analysis 215
e-learning 217
case study 218
behavior modeling 218
role-playing 218
business games 219
in-basket training 219
on-the-job training (OJT) 219
apprenticeship training 219
team training 220
team coordination training 220
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corporate university 220
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benchmarking 224
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just-in-time training (on-demand training) 227
orientation 228
career 229
career path 229
traditional career path 229
network career path 229
lateral skill path 230
dual-career path 230
demotion 230
free agents 231
career planning 231
self-assessment 231
strength/weakness balance sheet 231
likes and dislikes survey 232
formal assessment 232
career development 234
management development 235
mentoring 236
coaching 237
reverse mentoring 237
survey feedback 238
quality circles 238
team building 238

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Exercises

8-1. What do you believe would be the best methods of training for the following jobs? Discuss.
a. Electrician
b. Entry-level bank teller
c. Hotel Receptionist

8-2. What do you believe would be the best delivery system(s) for the aforementioned jobs?

✪ **8-3.** E-learning creates a situation in which training may be quite different from that which existed in the past. What might be some pros and cons for using e-learning in training and development practice?

Questions for Review

8-4. Define *training* and *development.*
8-5. What is a learning organization?
8-6. What are the steps in the T&D process?
8-7. What are the main benefits of classroom training?
8-8. What are the various training and development delivery systems? Briefly describe each.
8-9. How is social networking used in informal training?
8-10. Define *orientation*, and explain the purposes of orientation.
8-11. What are some metrics for evaluating training and development?
8-12. Name some good career planning approaches that individuals can use.
8-13. What is the process of developing a strength/weakness balance sheet?
8-14. Why is it important for a firm to conduct career development?
8-15. What are some career development methods?
8-16. Distinguish between the traditional career path and the network career path.
8-17. What does research cited in this chapter say about management development?
8-18. Distinguish between mentoring and coaching. What is reverse mentoring?
8-19. Define each of the following:
(a) organization development
(b) survey feedback
(c) quality circles
(d) team building
8-20. How is the focus on training and development in the United States different than in other countries?

INCIDENT 1 Training at Keller-Globe

Lou McGowen was worried as she approached the training director's office. She supervises six punch press operators at Keller-Globe, a maker of sheet metal parts for the industrial refrigeration industry. She had just learned that her punch presses would soon be replaced with a continuous-feed system that would double the speed of operations. She was thinking about how the workers might feel about the new system when the training director, Bill Taylor, opened the door and said, "Come on in, Lou. I've been looking forward to seeing you."

After a few pleasantries, Lou told Bill of her concerns. "The operators really know their jobs now. But this continuous-feed system is a whole new ball game. I'm concerned, too, about how the workers will feel about it. The new presses are going to run faster. They may think that their job is going to be harder."

Bill replied, "After talking with the plant engineer and the production manager, I made a tentative training schedule that might make you feel a little better. I think we first have to let the workers know why this change is necessary. You know that both of our competitors changed to this new system last year. After that, we will teach your people to operate the new presses."

"Who's going to do the teaching?" Lou asked. "I haven't even seen the new system."

"Well, Lou," said Bill, "the manufacturer has arranged for you to visit a plant with a similar system. They'll also ship one of the punch presses in early so you and your workers can learn to operate it."

"Will the factory give us any other training help?" Lou asked.

"Yes, I have asked them to send a trainer down as soon as the first press is set up. He will conduct some classroom sessions and then work with your people on the new machine."

After further discussion about details, Lou thanked Bill and headed back to the production department. She was confident that the new presses would be a real benefit to her section and that her workers could easily learn the skills required.

Questions

8-21. Evaluate Keller-Globe's approach to training.
8-22. How might the use of social media assist Lou in training her employees?

INCIDENT 2 There's No Future Here!

"Could you come to my office for a minute, Bob?" asked Terry Geech, the plant manager.

"Sure, be right there," said Bob Glemson. Bob was the plant's quality control director. He had been with the company for four years. After completing his degree in mechanical engineering, he worked as a production supervisor and then as a maintenance supervisor prior to moving to his present job. Bob thought he knew what the call was about.

"Your letter of resignation catches me by surprise," began Terry. "I know that Wilson Products will be getting a good person, but we sure need you here, too."

"I thought about it a lot," said Bob, "but there just doesn't seem to be a future for me here."

"Why do you say that?" asked Terry.

"Well," replied Bob, "the next position above mine is yours. Since you're only 39, I don't think it's likely that you'll be leaving soon."

"The fact is that I *am* leaving soon," said Terry. "That's why it's even more of a shock to learn that you're resigning. I think I'll be moving to the corporate office in June of next year. Besides, the company has several plants that are larger than this one, and we need good people in those plants from time to time, both in quality control and in general management."

"Well, I heard about an opening in the Cincinnati plant last year," said Bob, "but by the time I checked, the job had already been filled. We never know about opportunities in the other plants until we read about the incumbent in the company paper."

"All this is beside the point now. What would it take to get you to change your mind?" asked Terry.

"I don't think I will change my mind now," replied Bob, "because I've given Wilson Products my word that I'm going to join them."

Questions

8-23. Evaluate the career planning and development program at this company.

8-24. What actions might have prevented Bob's resignation?

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Go to **mymanagementlab.**com for the following Assisted-graded writing questions:

8-25. Why is executive onboarding for external hires so difficult?

8-26. What are some factors that influence T&D?

Endnotes

Scan for Endnotes or go to www.pearsonglobaleditions.com/Mondy

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Part Four
Compensation

Chapter 9
Direct Financial Compensation
(Core Compensation)

Chapter 10
Indirect Financial Compensation
(Employee Benefits)



9 Direct Financial Compensation (Core Compensation)

CHAPTER OBJECTIVES After completing this chapter, you should be able to:

1. Describe direct financial compensation (core compensation), indirect financial compensation (employee benefits), and nonfinancial compensation.
2. Identify and discuss the components of direct financial compensation.
3. Review the determinants of direct financial compensation.
4. Describe contextual influences on direct financial compensation.
5. Discuss how to use job evaluation to build job structures.
6. Describe various competitive compensation policies.
7. Explain the use of compensation surveys for job pricing and determining market competitive pay structures.
8. Discuss compensation for sales representatives.
9. Discuss compensation for contingent workers.
10. Explain executive compensation and the various features of executive compensation packages.

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A Society of Human Resource Management (SHRM) survey of human resources (HR) executives identified "retaining and rewarding the best employees as their number one challenge."[1] We've discussed several practices in this book, thus far, that HR professionals rely on to facilitate the attainment of this goal. Compensation also is an important tool toward meeting this objective. For instance, highly successful companies, such as software developer and manufacturer Adobe, provide highly competitive compensation packages that consist of lucrative pay amounts and employee benefits (for example, health insurance). In fact, Adobe is among the top 25 companies that offers extremely generous compensation amounts.[2]

OBJECTIVE **9.1**

Describe direct financial compensation (core compensation), indirect financial compensation (employee benefits), and nonfinancial compensation.

Compensation: An Overview

Compensation is the total of all rewards provided employees in return for their work. The components of a total compensation program are shown in Figure 9-1.

The overall purpose of compensation is to attract, retain, and motivate employees. There are at least three mechanisms by which compensation contributes to this purpose. First, pay helps define a person's standard of living. All else equal, higher pay enables people to meet their most basic needs such as food and shelter more easily than those who earn less. Also, higher pay enables people to enjoy the finer things in life such as frequenting gourmet restaurants, driving a luxury car, and taking exotic vacations. Second, pay level influences an employee's attitudes such as job satisfaction, which, in turn, should contribute to better job performance. Third, the type of payment such as incentive pay aligns the interests of employees with a company's mission. Employees and companies alike strive to maximize their earnings. Incentive compensation serves this common interest. For instance, sales employees have the potential to earn greater amounts of incentive pay for the attainment of progressively higher sales goals. From the company's perspective, higher sales contribute to increased earnings.

compensation
Total of all rewards provided employees in return for their services.

direct financial compensation (core compensation)
Pay that a person receives in the form of wages, salary, commissions, and bonuses.

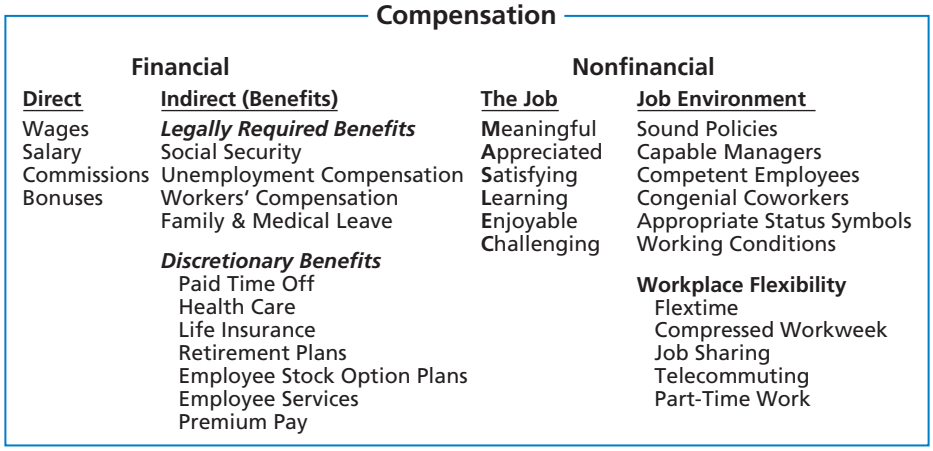
indirect financial compensation (employee benefits)
All financial rewards that are not included in direct financial compensation.

nonfinancial compensation
Satisfaction that a person receives from the job itself or from the psychological and/or physical environment in which the person works.

Direct financial compensation (core compensation) consists of the pay that a person receives in the form of wages, salaries, commissions, and bonuses. **Indirect financial compensation (employee benefits)** consists of all financial rewards that are not included in direct financial compensation. This form of compensation includes a wide variety of rewards normally received indirectly by the employee such as paid vacation and medical care. **Nonfinancial compensation** consists of the satisfaction that a person receives from the job itself or from the psychological or physical environment in which the person works. Although our focus will not be on nonfinancial compensation, it is worth giving brief consideration through an illustration to better describe the total compensation concept.



FIGURE 9-1
Components of a Total Compensation Program



Employers may choose to award nonfinancial compensation to complement an employee's paycheck, especially when economic conditions make it difficult to provide higher pay. Examples of nonfinancial compensation practices include training for employees who value professional development and flexible work scheduling for those who give high priority to work–life balance. As you will learn in the following Watch It video, the effectiveness of nonfinancial compensation practices significantly depends on knowing each employee as an individual to provide options of interest and value to them.

Watch It 1
If your professor has assigned this, sign into mymanagementlab.com to watch a video titled Motivation (TWZ Role Play) and to respond to questions.

Managers tend to view financial compensation as both an expense and an asset. It is an expense in the sense that it reflects the cost of labor. For example, on average, companies spent $31.57 per hour worked per employee in December 2013. Of this total, companies spent $21.77 on wages and $9.80 on all employee benefits.[3] The costs of labor continually rise. For example, the cost of wages rose, on average, 1.9 percent between December 2012 and December 2013. The increase in the cost of benefits was greater, equaling 2.2 percent.[4]

Financial compensation is instrumental in recruiting and hiring good people and in encouraging them to put forth their best efforts and remain in their jobs. A firm that pays well attracts many applicants, enabling management to pick and choose the skills and traits it values. It holds on to these quality hires by equitably sharing the fruits of its financial success, not only among the management team but also with the rank and file. Compensation programs have top management's attention because they have the potential to influence employee work attitudes and behavior that lead to improved organizational performance and achieving the firm's strategic plan. We can find evidence for top management's interest in many of the "About Careers" sections of company Web sites. For example, the U.S. Office of Personnel Management (OPM) describes the role and importance of careers in its various U.S. federal government agencies, including the OPM:

> *OPM helps the President manage the civil service of the Federal government. While our work has a direct impact on employees and Departments/agencies throughout the Federal government, don't forget that we are an employer of choice in our own right. We are looking for candidates like you to help OPM implement crucial initiatives like the Affordable Care Act and develop policies, products and services for the Federal workforce! We offer employees the rewarding experience of guiding and advising on myriad human resource challenges as well as contributing to an effective and efficient merit system of employment in Government.*[5]

OBJECTIVE 9.2

Identify and discuss the components of direct financial compensation.

Components of Direct Financial Compensation

There are five types of direct financial compensation. These include employee base pay, cost-of-living adjustments, seniority pay, pay-for-performance, and person-focused pay. An employee's direct financial compensation rarely consists of all five components. Most employees receive base pay, and companies choose which of the remaining four types of financial compensation to include. Companies choose one additional or combination of direct financial compensation components for employee groups based on how best to direct employee job performance (for example, sales employees versus clerical employees). Also, factors such as labor unions influence how direct employee compensation is structured.

Employee Base Pay

Most employees receive base pay, which we describe momentarily. Over time, HR professionals work with managers and supervisors to make adjustments to base pay. There are a variety of methods for making these adjustments. HR professionals work with managers and supervisors to adjust employee base pay based on one or more of the remaining four types of direct financial compensation.

Base Pay

base pay
The monetary compensation employees earn on a regular basis for performing their jobs. Hourly pay and salary are the main forms of base pay.

hourly pay
One type of base pay. Employees earn hourly pay for each hour worked.

salary
One type of base pay. Employees earn salaries for performing their jobs, regardless of the actual number of hours worked. Companies generally measure salary on an annual basis.

Employees receive **base pay**, or money, for performing their jobs. Base pay is recurring; that is, employees continue to receive base pay as long as they remain in their jobs. Companies disburse base pay to employees in one of two forms: **hourly pay** or **wage** or as **salary**. Employees earn hourly pay for each hour worked. They earn salaries for performing their jobs, regardless of the actual number of hours worked. Companies measure salary on an annual basis. The Fair Labor Standards Act established criteria for determining whether employees should be paid hourly or by salary. In July 2013, the average weekly rate for workers was approximately $824.[6] On an annual basis, this figure translates to $42,848 (based on a 40-hour work week over 52 calendar weeks).

Cost-of-Living Adjustments

cost-of-living adjustment (COLA)
Escalator clause in a labor agreement that automatically increases wages as the U.S. Bureau of Labor Statistics' cost-of-living index rises.

real hourly compensation
Measure of the purchasing power of a dollar.

nominal hourly compensation
The face value of a dollar.

Cost-of-living adjustments (COLAs) represent periodic base pay increases that are founded on changes in prices as recorded by the consumer price index (CPI). In recent years, the typical COLA equaled approximately 2–3 percent annually. COLAs enable workers to maintain their purchasing power and standard of living by adjusting base pay for inflation. **Real hourly compensation** measures the purchasing power of a dollar, whereas **nominal hourly compensation** is the face value of a dollar. Increases in the costs of goods and services cause nominal pay to be less than real pay. For example, let's assume that an employee accepted a job at $10 per hour. This figure—$10 per hour—represents nominal pay. At the same time, $10 also represents real pay. However, over 1 year, let's assume that the price of goods and services increased, on average, 5 percent. At the end of the year, nominal hourly pay remains at $10. Hourly real pay, on the other hand, declined by 5 percent, or $0.50. In other words, $10 purchases only $9.50 worth of goods and services. In this example, $9.50 represents hourly real pay.

COLAs are most common among workers represented by unions because one of the main goals of unionization is to protect the standard of living of its membership. When a union emphasizes cost of living, it may try to pressure management into including a COLA, which rarely is found outside unionized employment settings. Provisions for COLAs are contained in an escalator clause in the labor agreement that automatically increases wages as the U.S. Bureau of Labor Statistics' cost-of-living index (*Consumer Price Index*) rises. The average hourly union wage remains substantially higher than nonunion wages ($24.18 versus $20.10).[7] Some of the differential can be attributed to the use of COLA in union settings.

Seniority Pay

seniority
Length of time an employee has been associated with the company, division, department, or job.

seniority pay
Pay program in which pay increases are based on length of service.

human capital theory
A theory premised on the idea that employees' knowledge and skills generate productive capital known as human capital. Employees can develop knowledge and skills from formal education or on-the-job experiences.

Seniority is the length of time an employee has been associated with the company, division, department, or job. **Seniority pay** systems reward employees with periodic additions to base pay according to employees' length of service in performing their jobs. These pay plans assume that employees become more valuable to companies with time and that valued employees will leave if they do not have a clear idea that their salaries will progress over time.[8] This rationale comes from **human capital theory**,[9] which, as we discussed in earlier chapters, states that employees'

human capital
As defined by economists, refers to sets of collective skills, knowledge, and ability that employees can apply to create economic value for their employers.

knowledge and skills generate productive capital known as **human capital**. Employees can develop such knowledge and skills from formal education and training, including on-the-job experience. Over time, employees presumably refine existing skills or acquire new ones that enable them to work more productively. Thus, seniority pay rewards employees for acquiring and refining their skills as indexed by seniority.

Historically, seniority pay programs were common methods for rewarding employee performance. However, most companies set aside the use of seniority plans in favor of pay-for-performance methods that explicitly measure performance such as merit pay and incentive pay methods. Increased competitive and economic pressures make it important that companies reward employees commensurately with their measurable contributions.

General Schedule (GS)
Classification of federal government jobs into 15 classifications (GS-1 through GS-15), based on such factors as skill, education, and experience levels. In addition, jobs that require high levels of specialized education (e.g., a physicist), significantly influence public policy (e.g., law judges), or require executive decision making are classified in three additional categories: Senior Level (SL), Scientific & Professional (SP) positions, and the Senior Executive Service (SES).

Still, we do find seniority pay programs commonly in use within government agencies and in a variety of other employment settings in which labor unions represent the interests of workers. We can look to the U.S. federal government for an example of a comprehensive seniority pay program that is known as the **General Schedule**. Figure 9-2 displays this arrangement. The General Schedule classifies federal government jobs into 15 classifications (GS-1 through GS-15) based on such factors as skill, education, and experience levels. Employees are eligible for 10 within-grade step pay increases. At present, it takes employees 18 years to progress from Step 1 to Step 10. Employees spend one year each in Steps 1 through 3, two years each in Steps 4–6, and three years each in Steps 7–9. In addition, jobs that require high levels of specialized education (e.g., a physicist), influence public policy significantly (e.g., law judges), or require executive decision making are classified in separate categories: Senior Level (SL), Scientific and Professional (SP) positions, and the Senior Executive Service (SES). The government typically increases all pay amounts annually to adjust for inflation; however, President Barack Obama instituted a pay freeze for most federal employees in 2013 because of poor economic conditions.

Annual Rates by Grade and Step

Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10	WITHIN GRADE AMOUNTS
1	$ 17,981	$ 18,582	$ 19,180	$ 19,775	$ 20,373	$ 20,724	$ 21,315	$ 21,911	$ 21,934	$ 22,494	VARIES
2	20,217	20,698	21,367	21,934	22,179	22,831	23,483	24,135	24,787	25,439	VARIES
3	22,058	22,793	23,528	24,263	24,998	25,733	26,468	27,203	27,938	28,673	735
4	24,763	25,588	26,413	27,238	28,063	28,888	29,713	30,538	31,363	32,188	825
5	27,705	28,629	29,553	30,477	31,401	32,325	33,249	34,173	35,097	36,021	924
6	30,883	31,912	32,941	33,970	34,999	36,028	37,057	38,086	39,115	40,144	1,029
7	34,319	35,463	36,607	37,751	38,895	40,039	41,183	42,327	43,471	44,615	1,144
8	38,007	39,274	40,541	41,808	43,075	44,342	45,609	46,876	48,143	49,410	1,267
9	41,979	43,378	44,777	46,176	47,575	48,974	50,373	51,772	53,171	54,570	1,399
10	46,229	47,770	49,311	50,852	52,393	53,934	55,475	57,016	58,557	60,098	1,541
11	50,790	52,483	54,176	55,869	57,562	59,255	60,948	62,641	64,334	66,027	1,693
12	60,877	62,906	64,935	66,964	68,993	71,022	73,051	75,080	77,109	79,138	2,029
13	72,391	74,804	77,217	79,630	82,043	84,456	86,869	89,282	91,695	94,108	2,413
14	85,544	88,395	91,246	94,097	96,948	99,799	102,650	105,501	108,352	111,203	2,851
15	100,624	103,978	107,332	110,686	114,040	117,394	120,748	124,102	127,456	130,810	3,354

Source: U.S. Office of Personnel Management. http://www.opm.gov. Accessed March 17, 2014.

FIGURE 9-2
Salary Table: 2014 General Schedule

Performance-Based Pay

Performance-based pay is governed by how well one performs the job. To maximize company objectives of the firm, it is important to link employee compensation to performance. This basic rule applies to all within the organization, ranging from the company president to hourly employee. It recognizes that some workers are just better than other workers in performing the same job.

The objective of performance-based pay is to improve productivity by rewarding those who best assist in achieving this goal. It is based on the assumption that given the proper incentives, most employees will work harder and smarter. In a recent survey, companies that reported the best results from their pay-for-performance programs used multiple rewards to recognize and reward performance, including base pay increases (91 percent), short-term incentives (71 percent), spot bonuses (49 percent), equity awards (33 percent), other long-term incentives (18 percent), and profit sharing (7 percent).[10] An effective performance appraisal program is a prerequisite for any pay system tied to performance. Using this approach, workers would need to first have a clear understanding of what goals the organization wanted them to achieve. Then, based on the result of performance appraisal, rewards would be forthcoming.

When Sprint's CEO Dan Hesse took over the wireless provider, he wanted employees to clearly understand what he thought was important and what they should focus on to achieve maximum rewards. He wanted compensation to be based on improving the customer experience, strengthening the brand, and generating cash to increase profits. The amount paid for performance extended from 5 percent for entry-level employees to 50 percent and higher at the vice-president level.[11] As another example, if it is important to improve safety in the workplace, this goal must be communicated to employees and included in their performance review. If worker behavior leads to fewer accidents, workers should be rewarded.[12] Rewards might be as simple as a pat on the back or additional money in their paychecks. Appraisal data provide input for such approaches as merit pay and incentive pay bonuses. Each of these approaches to compensation management will be discussed in the following sections. These include merit pay, merit bonuses, and incentive pay, of which there are three categories: individual incentive pay, group incentive pay, and company-wide incentive pay.

merit pay
Pay increase added to employees' base pay based on their level of performance.

MERIT PAY **Merit pay** is a pay increase added to employees' base pay based on their level of performance. It assumes that employees' compensation over time should be determined, at least in part, by differences in job performance.[13] Employees earn permanent merit increases based on their performance. The increases reward excellent effort or results, motivate future performance, and help employers retain valued employees. Merit increases are usually expressed as a percentage of hourly wages for nonexempt employees and as a percentage of annual salaries for exempt employees. In 2013, employees earned average merit increases of 2.8 percent. The rate varied according to the level of employee performance. The highest performers earned 4.6 percent to base pay, average performers earned 2.6 percent, and the lowest performers earned 0.2 percent.[14]

In practice, however, it historically has been merely a cost-of-living increase in disguise.[15] This is the case because most companies do not offer cost-of-living increases as well as merit pay increases. For example, a 4 percent merit pay increase is misleading from the standpoint of recognizing employee performance when cost-of-living has increased by 3 percent. The pay increase amount attributed to performance is a mere 1 percent.

At times, companies provide automatic pay increases under the guise of merit pay, which defeats the purpose. As John Rubino, president of Rubino Consulting Services, an international HR consulting firm, said, "Companies with base-salary programs and automatic annual pay increases offer little to motivate employees."[16] Past studies by compensation professionals have determined that merit pay is *marginally successful* in influencing pay satisfaction and performance. From the employer's viewpoint, a distinct disadvantage to the typical merit pay increase is that it increases the employee's base pay. Therefore, employees receive the added amount each year they are on the payroll regardless of later performance levels.

The recent recession may have created a compensation revolution with regard to merit pay. Pay increases in which everyone is treated essentially the same with only small differences between the best performer and mediocre ones are a thing of the past for some firms.

Craig E. Schneier, the HR boss at biotechnology giant Biogen Idec, does not believe that all employees and positions are equal. At Biogen, one vice-president might get double what another vice-president in the next office will get.[17] Certainly this philosophy bodes well for many Generation Y employees because they want to be rewarded based on their individual performance and do not believe the time a person devotes to the job should be a primary consideration.[18]

It has become increasingly difficult to justify merit pay increases based on a previous employment period but added perpetually to base pay. There are many long-term employees who are poor performers who have high salaries because of past automatic cost-of-living increases. Although numerous companies continue with traditional merit pay plans, some companies are starting to quietly freeze or cut pay for some so as to be able to reward others. According to Myrna Hellerman, senior vice-president at Sibson Consulting, "much can be learned from best-practices companies where base pay increases must be earned, based on demonstrated individual achievement. Pay raises are not an entitlement; the entitlement era is over."[19]

merit bonus
One-time annual financial award, based on productivity that is not added to base pay.

MERIT BONUSES Companies are increasingly placing a higher percentage of their compensation budget in **merit bonuses**, which is a one-time annual financial award, based on productivity that is not added to base pay. This approach better enables companies to control the cost of direct compensation by not adding pay increases to base pay on a permanent basis, which is the case for seniority and merit pay. Figure 9-3 shows the differences in cost between the use of merit pay and merit bonuses.

More and more companies embrace the concept of *pay for performance*. Recently when the economy was slowing down and employers were holding down across-the-board pay raises, companies still put a large percentage of salary budgets toward bonuses.[20] A recent survey found that 70 percent of employers offer bonuses as a reward to employees.[21] The use of bonuses helps managers control their cash outlay in a tough business environment while laying the foundation to share success with top producers.[22] Managers commonly contend that the use of bonuses is a win–win situation because it boosts production and efficiency and gives employees some control over their earning power. A positive side effect of using bonuses to reward high performance is that it may encourage coworkers to increase their productivity so that they can also receive the bonuses.

FIGURE 9-3
Permanent Annual Merit Increases versus Bonus Awards: A Comparison

(At the end of 2014, John Smith earned an annual salary of $35,000.)

	Cost of Increase (Total Current Salary—2014 Annual Salary)			Total Salary under	
Year	Increase Amount (%)	Permanent Merit Increase ($)	Bonus Award ($)	Permanent Merit Increase (Percent Increase × Previous Annual Salary) ($)	Bonus Award Annual (Percent Increase × 2014 Salary) ($)
2015	3	1,050	1,050	36,050	36,050
2016	5	2,853	1,750	37,853	36,750
2017	4	4,367	1,400	39,367	36,400
2018	7	7,122	2,450	42,122	37,450
2019	6	9,649	2,100	44,649	37,100
2020	5	11,881	1,750	46,881	36,750
2021	3	13,287	1,050	48,287	36,050
2022	6	16,185	2,100	51,185	37,100
2023	8	20,279	2,800	55,279	37,800
2024	7	24,148	2,450	59,148	37,450

spot bonus
Relatively small monetary gifts provided to employees for outstanding work or effort during a reasonably short period of time.

Many organizations today are providing *spot bonuses* for critical areas and talents. **Spot bonuses** are relatively small monetary gifts provided to employees for outstanding work or effort during a reasonably short period of time. If an employee's performance has been exceptional, the employer may reward the worker with a one-time bonus of as low as $50 and $100 or $500. For certain professional jobs, it is not unheard of for a highly productive worker to receive $5,000 shortly after a noteworthy achievement.

incentive pay
Compensation, other than base wages or salaries, that fluctuates according to employees' attainment of some standard (e.g., a pre-established formula, individual or group goals, or company earnings).

INCENTIVE PAY **Incentive pay** rewards employees for partially or completely attaining a predetermined work objective. Incentive or variable pay is defined as compensation—other than base wages or salaries—that fluctuates according to employees' attainment of some standard, such as a pre-established formula, individual or group goals, or company earnings.[23] Much like seniority and merit pay approaches, incentive pay augments employees' base pay, but incentive pay appears as one-time payments. Employees usually receive a combination of recurring base pay and incentive pay, with base pay representing the greater portion of direct financial compensation. More employees are presently eligible for incentive pay than ever before, as companies seek to control costs and motivate personnel continually to strive for exemplary performance. Companies increasingly recognize the importance of applying incentive pay programs to various kinds of employees as well, including production workers, technical employees, and service workers.

Companies generally institute incentive pay programs to control payroll costs or to motivate employee productivity. Companies can control costs by replacing annual merit or seniority increases or fixed salaries with incentive plans that award pay raises only when the company enjoys an offsetting rise in productivity, profits, or some other measure of business success. Well-developed incentive programs base pay on performance, so employees control their own compensation levels. Companies can choose incentives to further business objectives.

There are many kinds of incentive pay plan options. Companies use incentive pay to reward individual employees, groups of employees, or whole companies based on their performance. Management typically relies on business objectives to determine incentive pay levels.

INDIVIDUAL INCENTIVE PLANS In this section, we will review the four commonly used individual incentive pay plans: piecework, management incentives, behavioral encouragement plans, and referral plans. Then, we will briefly address the pros and cons of individual incentive plans.

piecework
Incentive pay plan in which employees are paid for each unit they produce.

Piecework is an incentive pay plan in which employees are paid for each unit they produce. For example, if a worker is paid $8 a unit and produces 10 units a day, the worker earns $80. Sometimes a guaranteed base is included in a piece-rate plan, meaning that a worker would receive this base amount no matter what the output. Historically, piecework is especially prevalent in the production/operations area. Requirements for the plan include developing output standards for the job and being able to measure the output of a single employee. Piecework pay plans have declined in use somewhat because the plan requires constant monitoring. For instance, if on day one the worker produced 8 units and on day two the worker produced 12 units, each day must be counted separately. Also, professionals such as industrial engineers are needed to maintain the system. Obviously, a piecework plan would not be feasible for many jobs.

management incentive plans
Bonuses to managers who meet or exceed objectives based on sales, profit, production, or other measures for their division, department, or unit.

Management incentive plans award bonuses to managers when they meet or exceed objectives based on sales, profit, production, or other measures for their division, department, or unit. Management incentive plans differ from piecework plans in that piecework plans base rewards on the attainment of one specific objective, and management incentive plans often require multiple complex objectives. For example, management incentive plans reward managers for increasing market share or reducing their budgets without compromising the quality and quantity of output. The best-known management incentive plan is management by objectives (MBO).[24] When used as part of incentive programs, superiors communicate the amount of incentive pay managers will receive based on the attainment of specific goals. As an aside, when MBO is used as part of merit pay systems, superiors make subjective assessments of managers' performance, and they use these assessments to determine permanent merit pay increases.

behavioral encouragement plans
Individual incentive pay plans that reward employees for specific such behavioral accomplishments as good attendance.

Under **behavioral encouragement plans**, employees receive payments for specific behavioral accomplishments (e.g., good attendance or safety records). For example, companies usually

award monetary bonuses to employees who have exemplary attendance records for a specified period. When behavioral encouragement plans are applied to safety records, workers earn awards for lower personal injury or accident rates associated with the improper use of heavy equipment or hazardous chemicals. Behavioral encouragement plans have the potential to save companies substantially more money than the cost of these awards. For example, frequent absenteeism in a company's workforce could disrupt production goals and quality. Customers may respond by choosing to make purchases for better quality products from other companies. Loss of customer bases will have a negative impact on profitability and reputation that prompts prospective customers to choose alternate sources to purchase products.

referral plans
Individual incentive pay plans for rewarding the referral of new customers or recruiting successful job applicants.

Companies commonly rely on **referral plans** to enhance recruitment of highly qualified employees. Employees may receive monetary bonuses for referring new customers or recruiting successful job applicants. In the case of recruitment, employees can earn bonuses for making successful referrals for job openings. For example, there has been a tremendous shortage of nurses for the past several years. Because of the shortage, hospitals commonly offer sign-on bonuses of up to $15,000 to recruit nurses and referral bonuses of up to $5,000. A successful referral usually means that companies award bonuses only if hired referrals remain employed with the company in good standing beyond a designated period, often at least 30 days. Referral plans rely on the idea that current employees' familiarity with company culture should enable them to identify viable candidates for job openings more efficiently than employment agencies could because agents are probably less familiar with client companies' cultures. Employees are likely to make only those referrals they truly believe are worthwhile because their personal reputations are at stake.

Individual incentive plans have advantages and disadvantages. On the positive side, individual incentive plans promote an equitable distribution of compensation within companies (i.e., the amount employees earn depends on their job performance). The better employees perform, the more they earn. Equitable pay ultimately enables companies to retain the best performers. Paying better performers more money sends a signal that the company appropriately values positive job performance. Another advantage of individual incentive plans is their compatibility with such individualistic cultures as the United States. Because U.S. employees are socialized to make individual contributions and be recognized for them, the national culture of the United States probably enhances the motivational value of individual incentive programs.

A downside of individual incentive plans is that they may encourage undesirable workplace behavior when these plans reward only one or a subset of dimensions that constitute employees' total job performance. Let's assume that an incentive plan rewards employees for quantity of output. If employees' jobs address such various dimensions as quantity of output, quality, and customer satisfaction, employees may focus on the one dimension—in this case, quantity of output—that leads to incentive pay and thereby neglect the other dimensions.

GROUP INCENTIVE PLANS In baseball, as with other team sports, you do not judge the team based on its ace pitcher or great outfielder. The criterion for success is overall team performance, its win–loss record. In business, companywide plans offer a possible alternative to the incentive plans previously discussed. *Team-based incentives* are determined by how well the team performs in the accomplishment of the job. Because team performance consists of individual efforts, individual employees should be recognized and rewarded for their contributions. However, if a team is to function effectively, firms should also provide a reward based on the overall team performance as well. Changing a firm's compensation structure from an individual-based system to one that involves team-based pay can have powerful results. By so doing, a firm can improve efficiency, productivity, and profitability.

There are many kinds of team incentive programs. Most companies define these programs based on the type of team:[25] Work (process) teams refer to organizational units that perform the work of the organization on an ongoing basis. Membership is relatively permanent, and members work full time on the team. Customer service teams and assembly teams on production lines represent excellent examples of work teams. Work teams are effective when individuals are cross-trained to perform team members' work when they are absent. The goal is to maintain consistency in performance quality (e.g., addressing customer concerns promptly even when

one or more team members are absent) and output (e.g., in the case of assembly teams). Team members ultimately engage in performance sharing rather than focusing exclusively on one set of tasks.

Project teams consist of a group of people assigned to complete a one-time project. Members usually have well-defined roles and may work on specific phases of the project, either full time or in addition to other work responsibilities of the team. Project teams usually work across such functions as engineering, product development, and marketing to ensure that the final product meets company specifications in terms of cost, quality, and responsiveness to market demands (e.g., Toyota's hybrid vehicles). Many individuals collaborated to ensure the production of cars that rely less on fossil fuels, demonstrate excellent gas mileage, and offer the same driving experience that people have come to expect of gasoline-powered automobiles.

Parallel teams, or task forces, include employees assigned to work on a specific task in addition to normal work duties. The modifier *parallel* indicates that an employee works on the team task while continuing to work on normal duties. Also, parallel teams or task forces operate on a temporary basis until their work culminates in a recommendation to top management. Task forces are used to evaluate existing systems and processes, to select new technology, and to improve existing products. People often serve on a voluntary basis or are appointed; in many cases, they are not compensated specifically for extra work or outcome of extra work.

Teams or groups may ultimately receive incentive pay based on such criteria as customer satisfaction (i.e., customer service quality), safety records, quality, and production records. Although these criteria apply to other categories of incentive programs as well (individual, companywide, and group plans), companies allocate awards to each worker based on the group's attainment of predetermined performance standards.

Team incentives have both advantages and disadvantages. On the positive side, firms find it easier to develop performance standards for groups than for individuals. For one thing, there are fewer standards to determine. Also, the output of a team is more likely to reflect a complete product or service. Another advantage is that employees may be more inclined to assist others and work collaboratively if the organization bases rewards on the team's output. When teams perform highly, it is the interaction among team members, not the members themselves, that creates the high performance. If a team member is asked who was responsible for the high performance of the team, he or she would likely say "We were" and mean it. A potential disadvantage for team incentives relates to exemplary performers. If individuals in this category perceive that they contribute more than other employees in the group, they may become disgruntled and leave. Christopher Avery, a Texas-based speaker and consultant who specializes in issues concerning individual and shared responsibility in the workplace and the author of *Teamwork Is an Individual Skill: Getting Your Work Done When Sharing Responsibility,* said, "If management wants to reward a high-performing team member, give that person a raise."[26]

gain sharing
Plans designed to bind employees to the firm's productivity and provide an incentive payment based on improved company performance.

Gain sharing plans are designed to bind employees to the firm's productivity and provide an incentive payment based on improved company performance. Gain sharing programs, such as the Scanlon, Rucker, and Improshare plans, are the most popular companywide plans that have been adopted by U.S. corporations. The goal of gain sharing is to focus on improving cost-efficiency, reducing costs, improving throughput, and improving profitability. Gain sharing helps align an organization's people strategy with its business strategy. Gain sharing plans (also known as *productivity incentives*, *team incentives*, and *performance sharing incentives*) generally refer to incentive plans that involve many or all employees in a common effort to achieve a firm's performance objectives.

Scanlon plan
Gain sharing plan that provides a financial reward to employees for savings in labor costs resulting from their suggestions.

Joseph Scanlon, after whom the Scanlon plan was named, developed the first gain sharing plan during the Great Depression, and it continues to be a successful approach to group incentive. The **Scanlon plan** provides a financial reward to employees for savings in labor costs resulting from their suggestions. Employee-management committees evaluate these suggestions. Participants in these plans calculate savings as a ratio of payroll costs to the sales value of what that payroll produces. If the company is able to reduce payroll costs through increased operating efficiency, it shares the savings with its employees. Scanlon plans are not only financial incentive systems, but



HR BLOOPERS

Motivating Software Development Teams

As she gets ready to start her presentation, Jennifer Senders is excited about her new plan to improve performance of the software development teams at Creators Software. As a Senior Compensation Analyst, she was charged with creating a new team-based pay plan to replace the company's current individual bonus system. All of the software developers at Creators work in teams to design and deliver software solutions for a wide variety of clients. The workforce at Creators is very talented, but many of the developers would prefer to work alone. As a result, many of the teams were having problems meeting deadlines and other expected team outcomes. Jennifer knows that for the team to work well together, the incentives should focus on team goals instead of individual goals. However, a glance at her audience as she explains the new bonus structure suggests they may not share her enthusiasm. She gets a hint about their concerns as soon as she asks for questions. Several hands go up and the employees begin to ask about individual rewards. One developer states that he knows he works harder than others on his team and he doesn't want them affecting his pay. As Jennifer starts to respond, she is thinking fast about what she might need to change.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.



HR Web Wisdom

Scanlon Leadership Network
http://www.scanlon.org/

A promoter of the Scanlon principles to advance their applications among organizations.

also systems for participative management. The Scanlon plan embodies management–labor cooperation, collaborative problem solving, teamwork, trust, gain sharing, open-book management, and servant leadership.

COMPANYWIDE INCENTIVE PLANS The use of companywide incentive plans can be traced to the nineteenth century. Companies instituted profit sharing programs to ease workers' dissatisfaction with low pay and to change their beliefs that company management paid workers substandard wages while earning substantial profits. Quite simply, management believed that workers would be less likely to challenge managerial practices if they received a share of company profits. Organizations normally base companywide plans on the firm's profitability or market value. Companywide plans include profit sharing and employee stock option plans.

profit sharing
Compensation plans that result in the distribution of a predetermined percentage of the firm's profits to employees.

Profit sharing is a compensation plan that results in the distribution of a predetermined percentage of the firm's profits to employees. Many firms use this type of plan to integrate the employees' interests with those of the company. Profit-sharing plans can aid in recruiting, motivating, and retaining employees, which usually enhances productivity.

There are several variations of profit-sharing plans, but three basic kinds of plans used today are current profit sharing, deferred profit sharing, and combination plans.

- *Current plans* provide payment to employees in cash or stock as soon as profits have been determined.
- *Deferred plans* involve placing company contributions in an irrevocable trust, credited to individual employees' accounts. The funds are normally invested in securities and become available to the employee (or his or her survivors) at retirement, termination, or death.
- *Combination plans* permit employees to receive payment of part of their share of profits on a current basis, while deferring payment of part of their share.

vesting
An employee's acquired nonforfeitable rights to pension benefits.

Normally, most full-time employees are included in a company's profit-sharing plan after a specified waiting period. **Vesting** determines the amount of company profit an employee owns in his or her account. Firms often determine this sum on a graduated basis. For example, an employee may become 25 percent vested after being in the plan for two years; 50 percent vested after three years; 75 percent vested after four years; and 100 percent vested after five years. This gradual approach to vesting encourages employees to remain with the firm, thereby reducing turnover.

The results of profit sharing include increased efficiency and lower costs. However, variations in profits may present a special problem. When employees have become accustomed to receiving added compensation from profit sharing, and then there is no profit to share, they may become disgruntled.

employee stock plans
The right to purchase shares of company stock.

company stock
The total equity or worth of the company.

company stock shares
Equity segments of equal value, which increase with the number of stock shares held.

stock option plan
Incentive plan in which employees can buy a specified amount of stock in their company in the future at or below the current market price.

employee stock option plan (ESOP)
Plan in which a firm contributes stock shares to a trust, which then allocates the stock to participating employee accounts according to employee earnings.

stock compensation plans
Companywide incentive plans that grant employees the right to purchase shares of company stock.

deferred compensation
An agreement between an employee and a company to render payments to an employee at a future date.

job-based pay
Employee compensation for jobs employees currently perform.

person-focused pay
Compensation for developing the flexibility, knowledge, and skills to perform a number of jobs effectively.

skill-based pay
System that compensates employees for their job-related skills and knowledge, not for their job titles.

A basic problem with a profit-sharing plan stems from the recipients' seldom knowing precisely how they helped generate the profits, beyond just doing their jobs. HR professionals refer to this as a line-of-sight problem. And, if employees continue to receive a payment, they will come to expect it and depend on it. If they do not know what they have done to deserve it, they may view it as an entitlement program and the intended ownership attitude may not materialize.

Under **employee stock plans**, companies grant employees the right to purchase shares of company stock. **Company stock** represents total equity of a company. **Company stock shares** represent equity segments of equal value. Equity interest increases positively with the number of stock shares. **Stock options** describe an employee's right to purchase company stock. Employees do not actually own stock until they exercise the stock option rights. This is done by purchasing stock at a designated price after a company-chosen time period lapses, usually no more than 5 years. Employee stock options provide an incentive to work productively, with the expectation that collective employee productivity will increase the value of company stock over time. Employees earn monetary compensation when they sell the stock at a higher price than they originally paid for it.

Employee stock option plans represent just one type of general stock compensation plan. Two other basic kinds of stock plans are widely used today. First, **employee stock ownership plans (ESOPs)** place company stock in trust accounts for employees. The purpose of ESOPs is similar to deferred profit sharing because these trusts are set aside on employees' behalf as a source of retirement income and these awards provide favorable treatment to employees. Second, **stock compensation plans** represent an important type of deferred compensation for executives. **Deferred compensation** is supposed to create a sense of ownership, aligning the interests of the executive with those of the owners or shareholders of the company over the long term.

Person-Focused Pay

Thus far, we have studied job-based pay practices. **Job-based pay** compensates employees for jobs they currently perform. HR professionals establish a minimum and maximum acceptable amount of pay for each job. In the case of merit pay, managers evaluate employees based on how well they fulfilled their designated roles as specified by their job descriptions and periodic objectives. Managers then award a permanent merit addition to base pay, based on employee performance. With incentive pay, managers award one-time additions to base pay. Pay raise amounts are based on the attainment of work goals, which managers communicate to employees in advance.

In contrast, **person-focused pay** compensates employees for developing the flexibility, knowledge, and skills to perform a number of jobs effectively. Moreover, these programs reward employees on their *potential* to make positive contributions to the workplace based on their successful acquisition of work-related skills or knowledge. Job-based pay plans reward employees for the work they have done as specified in their job descriptions or periodic goals (i.e., how well they have fulfilled their potential to make positive contributions in the workplace).

Skill-based pay is a system that compensates employees for their job-related *skills* and *knowledge*, rather than how well he or she performs on the present job. Skill-based pay is a method of recruiting and retaining highly skilled employees that enables employers to offer compensation based on the knowledge, skills, and abilities that employees bring to the company and that they develop over the course of their employment, rather than based solely on the duties associated with a position.[27] Essentially, job descriptions, job evaluation plans, and job-based salary surveys are replaced by skill profiles, skill evaluation plans, and *skill-based* salary surveys. The system assumes that employees who know more are more valuable to the firm and, therefore, they deserve a reward for their efforts in acquiring new skills. When employees obtain additional job-relevant skills, both individuals and the departments they serve benefit. For example, a department may have six different types of machines, each requiring different skills to operate. Under a skill-based pay system, the worker would increase his or her pay as additional machines are learned.

Although skill-based pay appears to have advantages for both employer and employee, there are some challenges for management. The firm must provide adequate training opportunities or else the system can become a demotivator. Also, because it takes an average of only three years

for a worker to reach a maximum level in a skill-based pay system, what will keep employees motivated? Notwithstanding these concerns, there is evidence to suggest that companies with skill-based plans were more likely than other plans to have greater levels of workforce flexibility. That greater flexibility, in turn, led to greater productivity. [28]

competency-based pay
Compensation plan that rewards employees for the capabilities they attain.

Competency-based pay plans generally reward employees for acquiring job-related competencies, knowledge, or skills rather than for demonstrating successful job performance. Competency-based pay often refers to two basic types of person-focused pay programs: pay-for-knowledge and skill-based pay. These programs sometimes incorporate a combination of both types of person-focused pay systems, which reward employees for successfully acquiring new job-related knowledge or skills. There are other times when companies combine competency-based pay programs with traditional merit pay programs by awarding pay raises to employees according to how well they demonstrate competencies.

OBJECTIVE 9.3

Review the determinants of direct financial compensation.

Determinants of Direct Financial Compensation

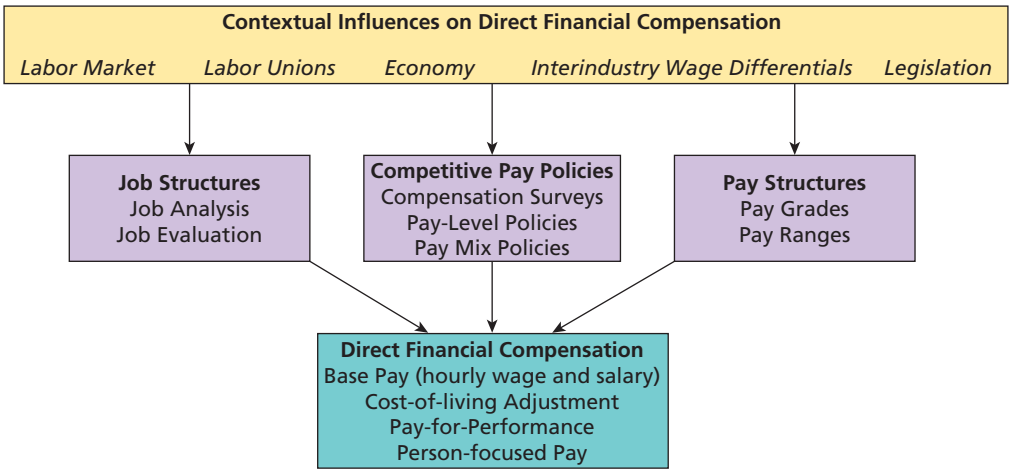
Now that we have defined the components of direct financial compensation, it is important to consider how companies determine what its direct financial compensation should be. There are many factors to consider, which are shown in Figure 9-4, starting with consideration of contextual factors. But, first, we briefly summarize the key points illustrated in Figure 9-4.

Management techniques used for determining a job's relative worth include job analysis, job descriptions, and job evaluation, and together, these lead to the creation of *job structures*. An organization must first define and describe job content. HR professionals use job analysis for this purpose. The primary by-product of job analysis is the job description. Job descriptions serve many different purposes, including data for evaluating jobs. With job descriptions, HR professionals can use job evaluation to judge the relative worth of all jobs. The primary basis for making value judgments is consideration of skill, knowledge, ability, and working conditions.

After companies have clearly written job descriptions and they have specified job structures that show the relative worth of jobs, they move on to the next step, which is to decide on *competitive compensation policies*. HR professionals must give careful consideration to the compensation policies that it will pursue, and these focus on pay level (for example, paying higher, on average, than the market for similar jobs) and pay mix (percentage of direct financial compensation that goes toward salary, employee benefits [Chapter 10], and adjustments such as incentive pay).

Coupled closely with these choices is job pricing, which leads to the construction *of pay structures*. HR professionals conduct compensation surveys to identify what and how the competition is paying its employees. Once armed with information about market pay rates, HR professionals develop pay structures features that facilitate administration of pay policies. These include pay range and pay grades.

FIGURE 9-4
Determinants of Direct Financial Compensation



OBJECTIVE 9.4

Describe contextual influences on direct financial compensation.

Contextual Influences on Direct Financial Compensation

HR professionals do not build the compensation system in a vacuum. There are many contextual influences that must be taken into account. Among the most prominent considerations are labor market, labor unions, the economy, interindustry wage differentials, and legislation.

Labor Market

labor market
Potential employees located within the geographic area from which employees are recruited.

Potential employees located within the geographic area from which employees are recruited constitute the **labor market**. Labor markets for some jobs extend far beyond the location of a firm's operations. An aerospace firm in St. Louis, for example, may be concerned about the labor market for engineers in Fort Worth or Orlando, where competitive firms are located. Managerial and professional employees are often recruited from a wide geographic area. As global economics increasingly sets the cost of labor, the global labor market grows in importance as a determinant of financial compensation for individuals.

Pay for the same jobs in different labor markets may vary considerably. Administrative assistant jobs, for example, may carry an average salary of more than $50,000 or higher per year in a large, urban community but only $25,000 or less in a smaller town. Oftentimes, the cost-of-living is higher in large, urban communities and the competition for the best employees is higher in large, urban areas where there are more companies competing for the best. Compensation managers must be aware of these differences to compete successfully for employees. The market rate is an important guide in determining pay. Many employees view it as the standard for judging the fairness of their firm's compensation practices.



HR Web Wisdom

Calculate Salary Differences from City to City

http://www.salary.com

Web site to determine numerous costs of a move to another city.

Labor Unions

The National Labor Relations Act declared legislative support, on a broad scale, for the right of employees to organize and engage in collective bargaining. Unions normally prefer to determine compensation through the process of collective bargaining, which describes the negotiations between the labor union that represents employee interests and company management. An excerpt from the National Labor Relations Act prescribes the areas of mandatory collective bargaining between management and unions as "wages, hours, and other terms and conditions of employment." These broad bargaining areas obviously have great potential to impact compensation decisions. When a union uses comparable pay as a standard in making compensation demands, the employer needs accurate labor market data. For example, as we previously discussed, unions often rely on the CPI data as the criterion for awarding COLA.

Unions' gains also influenced nonunion companies' compensation practices. Many nonunion companies offered similar compensation to their employees. This phenomenon is known as a **spillover effect** because management of nonunion firms generally offered somewhat higher wages and benefits to reduce the chance that employees would seek union representation.[29]

spillover effect
Nonunion companies' offer of similar compensation unionized companies with the goal of reducing the likelihood that nonunion workforces will seek union representation.

Economy

The economy definitely affects financial compensation decisions. For example, a depressed economy generally increases the labor supply, and this serves to lower the market rate. In addition, companies often choose not to award pay raises to contribute to cost containment objectives in a slow economic environment where business activity is likely to suffer. A booming economy, on the other hand, results in greater competition for workers and the price of labor is driven upward.

Interindustry Wage Differentials

interindustry wage or compensation differentials
Pattern of pay and benefits associated with characteristics of industries.

In competitive labor markets, companies attempt to attract and retain the best individuals for employment partly by offering lucrative wage and benefits packages. Some companies unfortunately were unable to compete on the basis of wage and benefits. Indeed, there are differences in wages across industries. These differences are known as **interindustry wage or compensation differentials**.

Interindustry differentials can be attributed to a number of factors, including the industry's product market, the degree of capital intensity, the profitability of the industry, unionization, and gender mix of the workforce.[30] Companies that operate in product markets in which there is relatively little competition from other companies tend to pay higher wages because these companies exhibit substantial profits. This phenomenon can be attributed to such factors as higher barriers to entry into the product market and an insignificant influence of foreign competition. Government regulation and extremely expensive equipment represent entry barriers in such industries as mining. The U.S. defense industry and the public utilities industry have high entry barriers and no threats from foreign competitors.

Capital intensity also explains pay differentials between industries. The amount of average pay varies with the degree of capital intensity. On average, capital-intensive industries such as construction pay more than industries that are less capital intensive such as retail. Capital-intensive businesses require highly capable employees who have the aptitude to learn how to use complex technology. Service such as retail industries are not capital intensive, and most have the reputation of paying low wages. The operation of service industries depends almost exclusively on employees with relatively common skills rather than on employees with specialized skills to operate such physical equipment as casting machines or robotics.

Legislation

Federal and state laws can also affect the amount of compensation a person receives and how that amount is determined. For example, prevailing wage laws specify how pay rates should be calculated. The Equal Pay Act prohibits an employer from paying an employee of one gender less money than an employee of the opposite gender, if both employees do work that is substantially the same. Equal employment legislation, including the Civil Rights Act, the Age Discrimination in Employment Act, and the Americans with Disabilities Act, prohibits discrimination against specified groups in employment matters, including compensation. The same is true for federal government contractors or subcontractors covered by Executive Order 11246 and the Rehabilitation Act. States and municipal governments also have laws that affect compensation practices. Our focus in the next section, however, is on the federal legislation that provides broad coverage and specifically deals with compensation issues. These laws appear in chronological order of their passage.

DAVIS–BACON ACT OF 1931 The Davis–Bacon Act of 1931 was the first national law to deal with minimum wages. It mandates a *prevailing wage* for all federally financed or assisted construction projects exceeding $2,000. Contractors must pay wages at least equal to the prevailing wage in the local area. The U.S. Secretary of Labor determines prevailing wage rates based on compensation surveys of different areas. In this context, "local" area refers to the general location where work is performed. Cities and counties represent local areas. The "prevailing wage" is the typical hourly wage paid to more than 50 percent of all laborers and mechanics employed in the local area. The act also requires that contractors offer fringe benefits that are equal in scope and value to fringe compensation that prevails in the local area.

WALSH–HEALY ACT OF 1936 The Walsh–Healy Act covers contractors and manufacturers who sell supplies, materials, and equipment to the federal government. Its coverage is more extensive than the Davis–Bacon Act. This act applies to both construction and nonconstruction activities. In addition, this act covers all of the contractors' employees except office, supervisory, custodial, and maintenance workers who do any work in preparation for the performance of the contract. The minimum contract amount that qualifies for coverage is $10,000 rather than the $2,000 amount under the Davis–Bacon Act of 1931.This legislation also requires one-and-a-half times the regular pay rate for hours more than 8 per day or 40 per week.

FAIR LABOR STANDARDS ACT OF 1938, AS AMENDED The most significant law affecting compensation is the Fair Labor Standards Act (FLSA) of 1938. The purpose of the FLSA is to establish minimum labor standards on a national basis and to eliminate low wages and long working hours. The FLSA attempts to eliminate low wages by setting a minimum wage and to make long hours expensive by requiring a higher overtime pay rate for excessive hours. It also requires record keeping and provides standards for child labor. The Wage and Hour Division of

the U.S. Department of Labor (DOL) administers this act. The amount of the minimum wage has changed several times since it was first introduced in 1938 and continues to do so; it rose from $6.55 to $7.25 per hour in 2009.

Even though the federal and some state governments raise the minimum wage from time to time, most workers who earn the minimum wage argue that it is insufficient to afford the basic necessities. In the summer of 2013, fast food workers across the United States walked off their jobs to protest against what they believe is insufficient pay. The following Watch It video captures workers' concerns about the minimum wage level and the collective response of restaurant owners to their concerns.

Watch It 2
If your professor has assigned this, sign into mymanagementlab.com to watch a video titled Fast Food Workers Walk Out, Demanding Higher Pay and to respond to questions.

Tipped workers, on the other hand, may receive an hourly minimum wage of $2.13.[31] However, if hourly wage plus tips do not add up to the minimum wage ($7.25 per hour), the company must make up the difference. It is here that minimum-wage violations often occur.[32] In 2014, the Internal Revenue Service (IRS), which is the government agency that creates and enforces tax regulations, instituted a change in the taxation of tips that are automatically added to the bill by the restaurant. Until then, companies paid the entire amount to its servers and the IRS expected that servers would report tips as income for taxation purposes. We simply do not know whether servers routinely report all, some, or none of their tips to the IRS for taxation. Now, companies are required to withhold taxes from tips before distributing them to employees. This policy change will substantially increase restaurants' paperwork and likely reduce servers' income.[33]

The act distinguishes between exempt and nonexempt employees for the purposes of determining which employees are required to be paid an overtime rate of one-and-one-half times the employee's regular rate after 40 hours of work in a 168-hour period. Companies are not required to pay overtime to exempt employees, but they are required to do so for nonexempt employees. **Exempt employees** are categorized as executive, administrative, professional, or outside salespersons. All others are **nonexempt employees**. Aggressive action is being taken against companies that fail to pay the overtime requirement.[34] Although the act covers most organizations and employees, certain classes of employees are specifically exempt from overtime provisions.

exempt employees
Employees categorized as executive, administrative, professional, or outside salespersons, and not required to be paid at an overtime rate for work beyond the completion of standard work hours.

nonexempt employees
Employees not categorized as executive, administrative, professional, or outside salespersons, and required to receive overtime pay for work beyond the completion of standard work hours.

An executive employee is essentially a manager (such as a production manager) with broad authority over subordinates. An administrative employee, although not a manager, occupies an important staff position in an organization and might have a title such as account executive or market researcher. A professional employee performs work requiring advanced knowledge in a field of learning, normally acquired through a prolonged course of specialized instruction.[35] This type of employee might have a title such as company physician, legal counsel, or senior statistician. Outside salespeople sell tangible or intangible items away from the employer's place of business.

EQUAL PAY ACT OF 1963 Congress enacted the Equal Pay Act of 1963 to remedy a serious problem of employment discrimination in private industry: "Many segments of American industry [have] been based on an ancient but outmoded belief that a man, because of his role in society, should be paid more than a woman even though his duties are the same."[36] The Equal Pay Act of 1963 is based on a simple principle: Men and women should receive equal pay for performing equal work.

The Equal Pay Act of 1963 pertains explicitly to jobs of equal worth. Companies assign pay rates to jobs according to the skill, effort, responsibility, and working conditions required.

Pay differentials for equal work are not always illegal. Pay differentials between men and women who are performing equal work are acceptable only when made on a seniority system, merit system, incentive system, or on any factor other than sex.

It is essential that sound performance appraisal practices be in place for the many reasons we discussed in Chapter 7, performance appraisal practices are essential to determine whether pay differentials between men and women performing equal work are illegal.

WALL STREET REFORM AND CONSUMER PROTECTION ACT (DODD–FRANK ACT) The Dodd–Frank Act was signed into law in 2010 and has provisions relating to executive compensation and corporate governance that impact the executives, directors, and shareholders of publicly traded companies. We will cover specific provisions of the act in the discussion about executive compensation, which follows later in this chapter.

OBJECTIVE 9.5

Describe how to use job evaluation to build job structures.

Build Job Structures Using Job Evaluation

job structure
An ordered set of similar jobs based on worth.

job evaluation
Process that determines the relative value of one job in relation to another.

A **job structure** is an ordered set of jobs that represents the job structure or hierarchy. That is, jobs that require higher qualifications, more responsibilities, and more complex job duties should be paid more than jobs that require lower qualifications, fewer responsibilities, and less-complex job duties. Internally consistent job structures formally recognize differences in job characteristics that enable compensation managers to set pay accordingly. HR professionals use **job evaluation** systematically to recognize differences in the relative worth among a set of jobs and to establish pay differentials accordingly.

When done properly, job evaluation helps to eliminate internal pay inequities that exist because of illogical pay structures. For example, pay inequity probably exists if the mailroom supervisor earns more than the chief accountant. For obvious reasons, organizations prefer internal pay equity. However, when a job's pay rate is ultimately determined to conflict with the market rate, the latter is almost sure to take precedence. Job evaluation measures job worth in an administrative rather than an economic sense. The latter can be determined only by the marketplace and made known through compensation surveys.[37] We will discus compensation surveys later in this chapter.

The HR department may be responsible for administering job evaluation programs. However, committees made up of individuals familiar with the specific jobs to be evaluated often perform the actual evaluations. A typical committee might include the HR executive and representatives from other functional areas such as finance, production, information technology, and marketing. The composition of the committee usually depends on the type and level of the jobs being evaluated. In all instances, it is important for the committee to keep personalities out of the evaluation process and to remember that it is evaluating the job, not the person(s) performing the job. Some people have difficulty making this distinction. This is understandable because some job evaluation systems are similar to some performance appraisal methods. In addition, the duties of a job may, on an informal basis, expand, contract, or change depending on the person holding the job.

The four traditional job evaluation methods are the *ranking*, *classification*, *factor comparison*, and *point*. There are innumerable versions of these methods, and a firm may choose one and modify it to fit its particular purposes. Another option is to purchase a proprietary method such as the Hay Plan. The ranking and classification methods are nonquantitative, whereas the factor comparison and point methods are quantitative approaches.

Ranking Method

job evaluation ranking method
Job evaluation method in which the raters examine the description of each job being evaluated and arrange the jobs in order according to their value to the company.

The ranking method is the simplest of the four job evaluation methods. In the **job evaluation ranking method**, the raters examine the description of each job being evaluated and arrange the jobs in order according to their value to the company. The procedure is essentially the same as the ranking method for evaluating employee performance. The only difference is that you evaluate jobs, not people.

Classification Method

classification method
Job evaluation method in which classes or grades are defined to describe a group of jobs.

The **classification method** involves defining a number of classes or grades to describe a group of jobs. In evaluating jobs by this method, the raters compare the job description with the class description. Class descriptions reflect the differences between groups of jobs at various difficulty

levels. The class description that most closely agrees with the job description determines the classification for that job. For example, in evaluating the job of receptionist, the description might include these duties:

- Greet and announce visitors.
- Answer phone and route calls.
- Receive and route mail.

Assuming that the remainder of the job description includes similar routine work, this job would probably be placed in the lowest job class.

Each class is described in such a way that it captures sufficient work detail, yet is general enough to cause little difficulty in slotting a job description into its appropriate class.



HR Web Wisdom

The Hay Group Guide Chart-Profile Method

http://www.haygroup.com

Homepage of the Hay Plan, the most widely used job measurement system in the world, is provided.

factor comparison method
Job evaluation method that assumes there are five universal factors consisting of mental requirements, skills, physical requirements, responsibilities, and working conditions; the evaluator makes decisions on these factors independently.

point method
Job evaluation method in which the raters assign numerical values to specific job factors, such as knowledge required, and the sum of these values provides a quantitative assessment of a job's relative worth.

compensation policy
Policies that provide general guidelines for making compensation decisions.

pay level compensation policies
Determine whether the company will be a pay leader (market lead), a pay follower (market lag), or assume an average position (market match) in the labor market.

pay mix compensation policies
Combination of direct (core compensation) and indirect financial compensation (employee benefits) components that make up an employee's total compensation package.

Factor Comparison Method

The factor comparison method is somewhat more involved than the two previously discussed qualitative methods. The **factor comparison method** of job evaluation assumes that there are five universal factors consisting of mental requirements, skills, physical requirements, responsibilities, and working conditions; the evaluator makes decisions on these factors independently.

The five universal job factors are:

- *Mental requirements,* which reflect mental traits such as intelligence, reasoning, and imagination.
- *Skills,* which pertain to facility in muscular coordination and training in the interpretation of sensory impressions.
- *Physical requirements,* which involve sitting, standing, walking, lifting, and so on.
- *Responsibilities,* which cover areas such as raw materials, money, records, and supervision.
- *Working conditions,* which reflect the environmental influences of noise, illumination, ventilation, hazards, and hours.

In this method, the evaluation committee creates a monetary scale, containing each of the five universal factors, and ranks jobs according to their value for each factor. Unlike most other job evaluation methods, which produce relative job worth only, the factor comparison method determines the absolute value as well.

Point Method

In the **point method**, raters assign numerical values to specific job factors, such as knowledge required, and the sum of these values provides a quantitative assessment of a job's relative worth. Historically, some variation of the point plan has been the most popular option.

Point plans require time and effort to design. A redeeming feature of the method has been that, once developed, the plan was useful over a long time. In today's environment, the shelf life may be considerably less. In any event, as new jobs are created and old jobs substantially changed, job analysis must be conducted and job descriptions rewritten on an ongoing basis. The job evaluation committee then evaluates the jobs. Only when job factors change, or for some reason the weights assigned become inappropriate, does the plan become obsolete.

Competitive Compensation Policies

OBJECTIVE 9.6

Describe various competititve compensation policies.

A **compensation policy** refers to choices that compensation professionals make to promote competitive advantage. Broadly, policy choices are made about pay level and pay mix. **Pay level compensation policies** determine whether the company will be a pay leader, be a pay follower, or strive for an average position in the labor market. Pay level policies have the greatest impact on attracting and retaining employees. **Pay mix compensation policies** refer to the combination of direct and indirect financial compensation and employee benefits components (see Figure 9-1) that make up an employee's compensation package. Pay mix policies have the greatest impact on motivating employees. The components of the compensation package help focus an employee's performance on what the employer expects, such as excellent customer service, sales, innovative use of technology, and so forth.

Pay Level Compensation Policies

We will review the three pay level policies followed by pay mix. Figure 9-5 illustrates the market lead, market match, and market lag pay level policies.

market lead policies
Pay policy that distinguishes companies from the competition by compensating employees more highly than most competitors. Leading the market denotes market levels above the market pay line.

MARKET LEAD Companies that pursue a **market lead policy** are organizations that pay higher wages and salaries than competing firms. Using this strategy, they feel that they will be able to attract high-quality, productive employees and thus achieve lower per-unit labor costs. Higher-paying firms usually attract more highly qualified applicants than lower-paying companies in the same labor market. The Mayo Clinic, headquartered in Rochester, Minnesota, is a pay leader.[38] The Mayo Clinic is known for its leading research and medical care, which requires it to hire and retain bright and talented researchers and medical practitioners.

market match policy
Average pay that most employers provide for a similar job in a particular area or industry.

MARKET MATCH The **market match policy** is the average pay that most employers provide for a similar job in a particular area or industry. Many organizations have a policy that calls for paying the market rate. In such firms, management believes that it can still employ qualified people and remain competitive.

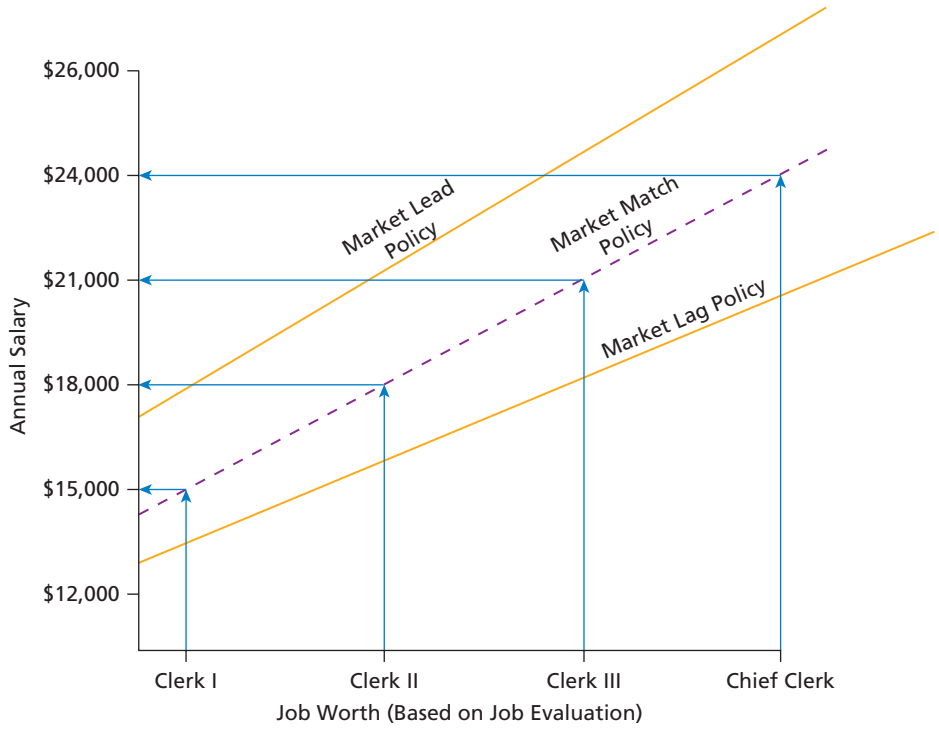
market lag policies
Pay policy that distinguishes companies from the competition by compensating employees less than most competitors. Lagging the market indicates that market levels fall below the market pay line.

MARKET LAG Companies may choose to pay below the market rate (**market lag policy**) because of poor financial conditions or because they are hiring employees whose skills and expected impact on the company's success are relatively lower than employees whose skills and expected impact are much greater. For example, in pharmaceutical companies that rely heavily on research and development, janitorial services workers might receive below-market pay rates compared to research scientists who are directly responsible for the firm's success through innovative product development.

Besides the considerations already discussed, two additional issues bear mention. First, most companies do not pursue a single pay level policy. As emphasized in the market lag discussion, the relative importance of jobs to the company and the level of knowledge and skills required to perform the jobs influence pay policy level choices. Second, the principle of labor supply and demand factor into companies' decisions about which pay policy levels to choose. For example, companies will likely choose the pay leader policy for jobs that are in high demand by companies, but for which jobs are in relatively low supply. Consider the case of biomedical engineers.

Employment of biomedical engineers is projected to grow by 62 percent from 2010 to 2020, much faster than the average for all occupations. However, because it is a small occupation, the fast growth will result in only about 9,700 new jobs over the 10-year period.

FIGURE 9-5
Pay Level Policy



The aging baby-boom generation is expected to increase demand for biomedical devices and procedures, such as hip and knee replacements, because this generation seeks to maintain its healthy and active lifestyle. Additionally, as the public has become aware of medical advances, increasing numbers of people are seeking biomedical advances for themselves from their physicians.

Biomedical engineers will likely experience more demand for their services because of the breadth of activities they engage in, made possible by the diverse nature of their training.

Biomedical engineers work with medical scientists, other medical researchers, and manufacturers to address a wide range of injuries and physical disabilities. Their ability to work in different activities with other professionals is enlarging the range of applications for biomedical engineering products and services, particularly in healthcare.[39]

Pay Mix

As noted earlier, pay mix compensation policies refer to the combination of direct and indirect financial compensation and employee benefits components (see Figure 9-1) that make up an employee's compensation package. Pay policy mix may be expressed in dollars (or other currency as relevant) or as a percentage of total dollars allocated for an employee's total compensation. Figure 9-6 illustrates an example of a pay policy mix.

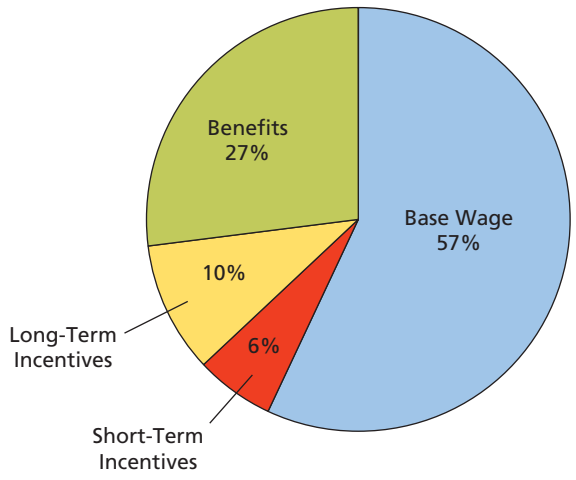
This example indicates that base pay accounts for 57 percent of the money allocated to an employee's total compensation. Let's assume that the company spends $200,000 annually to fund a particular employee's total compensation package. Of the total, an employee receives base pay in the amount of $114,000 (that is, $200,000 × 57 percent).

What is an appropriate pay mix? For policy purposes, it makes sense to consider guidelines for jobs within a particular structure (for example, managerial, administrative, or sales) because of the common job content and worker requirements of jobs within a particular structure. For example, in a technology company, a greater portion of incentive compensation might be allocated to engineers than to administrative staff. Engineers possess crucial skills relating to the company's ability to find innovative applications of technology, and bonus incentives throughout the year may promote innovation initiatives. On the other hand, the administrative staff, though important to the company, may not play as important a role in determining the company's profitability or objectives. Therefore, less of their total compensation would likely be devoted to incentive awards. Also, some employees, such as sales, may receive the majority of their compensation in the form of incentive pay. To motivate a sales force to continually exceed quarterly targets, quarterly bonuses equal to or exceeding their annual base salaries might be used.

Ability to Pay

An organization's assessment of its ability to pay is also an important factor in determining pay levels. Financially successful firms tend to provide higher-than-average compensation. However, an organization's financial strength establishes only the upper limit of what it will pay. To arrive at a specific pay level, management must consider other factors.

FIGURE 9-6
Pay Mix Policy



OBJECTIVE 9.7

Explain the use of compensation surveys for job pricing and determining market competitive pay structures.

pay structures
Pay rate differences for jobs of unequal worth and the framework for recognizing differences in employee contributions.

compensation survey
A means of obtaining data regarding what other firms are paying for specific jobs or job classes within a given labor market.

pay grade
Grouping of similar jobs to simplify pricing jobs.

Market Competitive Pay Structures: Job Pricing Using Compensation Surveys

Pay structures represent pay rate differences for jobs of unequal worth and the framework for recognizing differences in employee contributions. These structures result from an analysis based on compensation survey work. **Compensation surveys** involve the collection and subsequent analysis of competitors' compensation data. Compensation surveys traditionally focused on competitors' wage and salary practices. Employee benefits have more recently also become a target of surveys because benefits are a key element of market-competitive pay systems. Compensation surveys are important because they enable compensation professionals to obtain realistic views of competitors' pay practices. Companies recognize these differences by paying individuals according to their credentials, knowledge, or job performance. When completed, pay structures should define the boundaries for recognizing employee contributions. Well-designed structures should promote the retention of valued employees. Pay grades and pay ranges are structural features of pay structures.

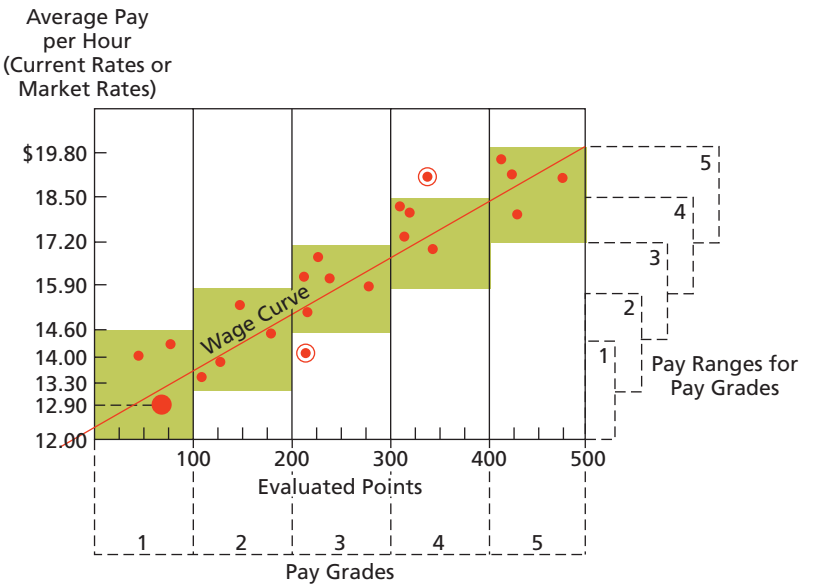
Pay Grades

A **pay grade** is the grouping of similar jobs to simplify pricing jobs. For example, it is much more convenient for organizations to price 15 pay grades than 200 separate jobs. The simplicity of this approach is similar to a college or university's practice of grouping grades of 90–100 into an *A* category, grades of 80–89 into a *B*, and so on. In following this approach, you also avoid a false suggestion of preciseness. Although job evaluation plans may be systematic, none are scientific.

Plotting jobs on a scatter diagram is often useful to managers in determining the appropriate number of pay grades for a company. Looking at Figure 9-7, notice that each dot on the scatter diagram represents one job. The location of the dot reflects the job's relationship to pay and evaluated points, which reflects its worth. When this procedure is used, a certain point spread determines the width of the pay grade (100 points in this illustration). Although each dot represents one job, it may involve dozens of individuals who have positions in that one job. The large

FIGURE 9-7

Scatter Diagram of Evaluated Jobs Illustrating the Wage Curve, Pay Grades, and Pay Ranges



Summary Evaluated Points	Pay Grade	Minimum	Pay Range Midpoint	Maximum
0–99	1	$12.00	$13.30	$14.60
100–199	2	13.30	14.60	15.90
200–299	3	14.60	15.90	17.20
300–399	4	15.90	17.20	18.50
400–500	5	17.20	18.50	19.80

dot at the lower left represents the job of receptionist, evaluated at 75 points. The receptionist's hourly rate of $12.90 represents either the average wage currently paid for the job or its market rate. This decision depends on how management wants to price its jobs.

wage curve
Fitting of plotted points to create a smooth progression between pay grades (also known as the pay curve).

A **wage curve** (or pay curve) is the fitting of plotted points to create a smooth progression between pay grades. The curve often equates to the market match policy. The line drawn minimizes the distance between all dots and the line; a line of best fit may be straight or curved. However, when the point system is used, a straight line is often the result, as in Figure 9-7. The use of statistical methods to determine the line is essential given the sheer number of data points (pay rates) collected during the compensation survey process.

Pay Ranges

pay range
Minimum and maximum pay rate with enough variance between the two to allow for a significant pay difference.

After pay grades have been determined, the next decision is whether all individuals performing the same job will receive equal pay or whether pay ranges should be used. A **pay range** includes a minimum and maximum pay rate with enough variance between the two to allow for a significant pay difference. Pay ranges are generally preferred over single pay rates because they allow a firm to compensate employees according to performance and length of service. Pay then serves as a positive incentive. When pay ranges are used, a firm must develop a method to advance individuals through the range. Companies typically use different range spreads for jobs that are more valuable to the company.

POINTS ALONG THE RANGE Referring again to Figure 9-6, note that anyone can readily determine the minimum, midpoint, and maximum pay rates per hour for each of the five pay grades. For example, for pay grade 5, the minimum rate is $17.20, the midpoint is $18.50, and the maximum is $19.80. The minimum rate may be the *hiring-in* rate that a person receives when joining the firm, although in practice, new employees often receive pay that starts above this level. The maximum pay rate represents the maximum that an employee can receive for that job regardless of how well he or she performs the job.

PROBLEM OF TOPPING OUT A person at the top of a pay grade will have to be promoted to a job in a higher pay grade to receive a pay increase unless (1) an across-the-board adjustment is made or (2) the job is re-evaluated and placed in a higher pay grade. This situation has caused numerous managers some anguish as they attempt to explain the pay system to an employee who is doing a tremendous job but is at the top of a pay grade. Consider this situation:

> *Everyone in the department realized that Beth Smithers was the best administrative assistant in the company. At times, she appeared to do the job of three people. Bob Marshall, Beth's supervisor, was especially impressed. Recently, he had a discussion with the human resource manager to see what he could do to get a raise for Beth. After Bob described the situation, the human resource manager's only reply was, "Sorry, Bob. Beth is already at the top of her pay grade. There is nothing you can do except have her job upgraded or promote her to another position.*

Situations like Beth's present managers with a perplexing problem. Many would be inclined to make an exception to the system and give Beth a salary increase. However, this action would violate a traditional principle, which holds that every job in the organization has a maximum value, regardless of how well an employee performs the job. The rationale is that making exceptions to the compensation plan would result in widespread pay inequities. Having stated this, today many organizations are challenging traditional concepts as they strive to retain top-performing employees.

RATE RANGES AT HIGHER LEVELS The rate ranges established should be large enough to provide an incentive to do a better job. At higher levels, pay differentials may need to be greater to be meaningful. There may be logic in having the rate range become increasingly wide at each consecutive level. Consider, for example, what a $200-per-month salary increase would mean to a file clerk earning $2,000 per month (a 10 percent increase) and to a senior cost accountant earning $5,000 per month (a 4 percent increase). Assuming an inflation rate of 4 percent, the accountant's *real pay* would remain unchanged.

Broadbanding

broadbanding
Compensation technique that collapses many pay grades (salary grades) into a few wide bands to improve organizational effectiveness.

Broadbanding is a technique that collapses many pay grades (salary grades) into a few wide bands to improve organizational effectiveness. Employees today perform more diverse tasks than they previously did. Broadbanding creates the basis for a simpler compensation system that de-emphasizes structure and control and places greater importance on judgment and flexible decision making. Bands may also promote lateral development of employees and direct attention away from vertical promotional opportunities. The decreased emphasis on job levels should encourage employees to make cross-functional moves to jobs that are on the same or an even lower level because their pay rate would remain unchanged. Broadbanding allows for more flexibility within ranges, allows more movement of employees within the ranges, and can reduce the need for promotions.[40]

The use of broadbanding has declined in recent years. Although broadbanding is successful in some organizations, the practice is not without pitfalls. Because each band consists of a broad range of jobs, the market value of these jobs may also vary considerably. Unless carefully monitored, employees in jobs at the lower end of the band could progress to the top of the range and become overpaid.[41]

Two-Tier Wage System

two-tier wage system
A wage structure where newly hired workers are paid less than current employees for performing the same or similar jobs.

Two-tier wage systems reward newly hired employees less than established employees. Under the temporary basis, employees have the opportunity to progress from lower entry-level pay rates to the higher rates enjoyed by more senior employees. Permanent two-tier systems reinforce the pay-rate distinction by retaining separate pay scales: Lower-paying scales apply to newly hired employees, and current employees enjoy higher-paying scales. Although pay progresses within each scale, the maximum rates to which newly hired employees can progress are always lower than more senior employees' pay scales.

Two-tier wage systems are more prevalent in unionized companies. For example, at Ford Motor Company, a two-tier wage structure will compensate new hires substantially less than other employees, including an hourly base rate that is $10 below the previous one.[42] However, labor representatives have reluctantly agreed to two-tier wage plans as a cost-control measure. In exchange for reduced compensation costs, companies have promised to limit layoffs. These plans represent a departure from unions' traditional stance of single base-pay rates for all employees within job classifications.

Two-tier pay structures also enable companies to reward long-service employees while keeping costs down by paying lower rates to newly hired employees who do not have an established performance record within the company. As senior employees terminate their employment (i.e., taking jobs elsewhere or retiring), they are usually replaced by workers who are compensated according to the lower-paying scale.

Adjusting Pay Rates

When pay ranges have been determined and jobs assigned to pay grades, it may become obvious that some jobs are overpaid and others underpaid. Underpaid jobs are normally brought up to the minimum of the pay range as soon as possible. Referring again to Figure 9-6, you can see that a job evaluated at about 225 points and having a rate of $14.00 per hour is represented by a circled dot immediately below pay grade 3. The job was determined to be difficult enough to fall in pay grade 3 (200–299 points). However, employees working in the job are being paid 60 cents per hour less than the minimum for the pay grade ($14.60 per hour). If one or more female employees should be in this circled job, the employer might soon learn more than desired about the Equal Pay Act and the Fair Pay Act. Good management practice would be to correct this inequity as rapidly as possible by placing the job in the proper pay grade and increasing the pay of those in that job.

Overpaid jobs present a different problem. Figure 9-6 illustrates an overpaid job for pay grade 4 (note the circled dot above pay grade 4). Employees in this job earn $19.00 per hour, or 50 cents more than the maximum for the pay grade. An ideal solution to the problem of an overpaid job is to promote the employee to a job in a higher pay grade. This is a great idea if the employee is qualified for a higher-rated job and a job opening is available. Another possibility would be to bring the job rate and employee pay into line through a pay cut. Although this decision may appear logical, it is

generally not a good management practice because this action would punish employees for a situation they did not create. Somewhere in between these two possible solutions is a third: to freeze the rate until across-the-board pay increases bring the job into line.

Pricing jobs is not an easy task. It requires effort that never ends. It is one of those tasks that managers may dislike but must do anyway.

Salary Compression

salary compression
Situation that occurs when less experienced employees are paid as much as or more than employees who have been with the organization a long time due to a gradual increase in starting salaries and limited salary adjustments for long-term employees.

Salary compression occurs when less experienced employees are paid as much as or more than employees who have been with the organization a long time as a result of a gradual increase in starting salaries and limited salary adjustments for long-term employees. Salary compression continues to be a major challenge for compensation managers even in a recession when pay cuts and freezes were the focus of the daily news.

Salary compression typically occurs when there is only a minimum pay differential with various skills and responsibility levels. Salary compression can cause people in jobs of less responsibility to make more than workers in jobs that have more responsibility. For example, salary compression occurs when a worker earns as much or more than their supervisor. Reasons for this imbalance may be caused by the employee being paid overtime or a premium for the job whereas the supervisor cannot earn these benefits.

As workers discover inequities in their pay, resentment and lower productivity may follow with the employees ultimately leaving the company when the economy improves. Further, from a risk management perspective, companies need to make sure that salary compression is not causing problems with such laws as the Equal Pay Act. Unfortunately, no easy solution is available, and it is projected that the gap between current and new employees is getting wider and will continue to do so.

The solution to salary compression is simple; unfortunately the solution usually requires money, which is limited for most organizations. A company can build in compression funding to any annual budget increases. Still yet another way to remedy salary compression is to focus a primary portion of raises to your best employees and not waste compensation on across-the-board adjustments.



ETHICAL DILEMMA

But He's a Friend

You have worked for your company for more than 30 years, and you have been the CEO much of this time. The company has grown to be one of the most successful firms in the world and your reputation is viewed as impeccable. The company was basically nothing when you arrived.

You have a close friend who joined the firm shortly after you did. You went to the same university and were friends in the same fraternity. As you built the company, your friend prospered with you. In fact, many believe that if something happened to you, he would be offered your position. As your CFO, you have given your friend tremendous power. But you believe that he has earned it because he has developed the most productive and well-respected unit in the company. In fact, many of the rising stars in the country want to work for him. Seemingly, he can do no wrong.

But a shocking tale is related to you one morning by a young CPA, and a friend of the family who works in the department overseen by your friend. He tells you of a plot he believes your friend has devised that can significantly improve the financial picture for the firm in the short run. The plan involves delaying reporting of certain expenses that could result in a significant stock price increase and a bonanza for your friend if he chooses to exercise his stock options. You are aware that he has recently gone through a bitter divorce that has had a devastating effect on his financial well-being. You think, "He is not a bad guy, just in a bad situation."

Your young friend is obviously fearful of the repercussions of reporting what he has discovered. If what he said is true and your friend exercises his stock options, it could result in the Securities and Exchange Commission (SEC) getting involved and a public relations disaster for you. Because everyone is aware of your friendship, both reputations could be severely damaged. There would also likely be financial penalties for the firm. You believe the young man will keep quiet about what he believes is occurring if you ask him to, but you are left with a dilemma. The CFO is your closest friend and you both have survived many business encounters in the past.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

OBJECTIVE 9.8
Discuss compensation for sales professionals.

Sales Representative Compensation

Designing compensation programs for sales employees involves unique considerations. Bob Cartwright, SPHR, president and CEO of Texas-based Intelligent Compensation LLC, advises companies on sales strategies saying, "Understanding what the business needs are, where the gaps exist and what needs to be driven to get business from point A to point B—that's the key."[43] Proper ratio of base pay, commissions, and bonuses must be established. For this reason, this task may belong to the sales staff rather than to HR. Nevertheless, many general compensation practices apply to sales jobs. For example, job content, relative job worth, and job market value are all relevant factors.

The *straight salary* approach is one extreme in sales compensation. In this method, salespersons receive a fixed salary regardless of their sales levels. Organizations use straight salary primarily to emphasize product support after the sale. For instance, sales representatives who deal largely with the federal government on a continuous basis often receive this form of compensation.

At the other extreme is *straight commission*, in which the person's pay is totally determined as a percentage of sales. If the salesperson makes no sales, the individual receives no pay. On the other hand, highly productive sales representatives can earn a great deal of money under this plan.

Between these extremes are the endless varieties of *part-salary, part-commission* combinations. The possibilities increase when a firm adds various types of *bonuses* to the basic compensation package. The emphasis given to either commission or salary depends on several factors, including the organization's philosophy toward service, the nature of the product, and the amount of time required to close a sale.

Try It!
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OBJECTIVE 9.9
Discuss compensation for contingent workers.

Contingent Worker Compensation

As we discussed in Chapter 5, contingent workers are those who do not have an implicit or explicit contract for ongoing employment. Contingent workers are employed through an employment agency or on an on-call basis and often earn less than traditional employees. Flexibility and lower costs for the employer are key reasons for the growth in the use of contingent workers. An inherent compensation problem relates to internal equity. You may have two employees working side by side, one a contingent worker and the other a regular employee, performing the same or near identical tasks, and one makes more money than the other. In most cases, contingents earn less pay and are far less likely to receive health or retirement benefits than their permanent counterparts.[44] In March 2013, 74 percent of full-time workers were offered participation in a health insurance plan whereas only 24 percent of part-time workers were offered the same.[45] Similarly, 74 percent of full-time workers had access to retirement plans whereas this was the case for only 37 percent of part-time workers.

OBJECTIVE 9.10
Explain executive compensation and the various features of executive compensation packages.

Executive Compensation

Although there has been considerable discussion regarding what some say are excessive salaries by executives, one should remember that the skills possessed by company executives largely determine whether a firm will prosper, survive, or fail. A company's executive compensation program is a critical factor in attracting and retaining the best available talent. Thus, compensation programs need to be developed that motivate these executives to strive to achieve long-term success for the firm. The five main components of executive compensation packages include: base salary, bonuses and performance-based pay, stock option plans, perquisites (perks), and severance packages.

Base Salary

Although it may not represent the largest portion of the executive's compensation package, base salary is obviously important. It is a factor in determining the executive's standard of living. Salary also provides the basis for other forms of compensation; for example, it may determine the amount of bonuses and certain benefits. The U.S. tax law does not allow companies to deduct more than $1 million of an executive's salary unless it is performance based and meets specified criteria.[46]

Bonuses and Performance-Based Pay

As shareholders become increasingly disenchanted with the high levels of executive compensation for less-than-stellar accomplishments, performance-based pay is gaining in popularity. Although the Dodd–Frank Act has influenced executive pay, it appears that the greater influence has been the initiative to link pay to performance.[47] If pay for performance is appropriate for lower-level employees, should top executives be exempt from the same practice? The true superstars can still have huge earnings if their targets are met.

Payment of bonuses reflects a managerial belief in their incentive value. Cash bonuses, paid periodically based on performance goals, often provide real incentives. In the past, bonuses could be quite large and often were not tied to "real" performance goals. Hopefully, million-dollar pay packages not tied to performance are a thing of the past.

The Dodd–Frank Act requires the Securities and Exchange Commission (SEC) and other agencies to regulate incentive pay at financial institutions. The SEC requires that institutions with $1 billion or more in assets (about 380 firms) be required to discourage "inappropriate risk" and disclose bonus details. Firms with $50 billion in assets (about 30 firms) would have to defer at least half of the top executives' bonuses for three years. These mechanisms are designed to discourage short-term thinking.

Stock Option Plans

Stock option plans give the executive the option to buy a specified amount of stock in the future at or below the current market price. The stock option is a long-term incentive designed to integrate the interests of management with those of the organization. To ensure this integration, some boards of directors require their top executives to hold some of the firm's stock. Stock options have lost some of their appeal because of accounting rule changes that require companies to value and book an appropriate expense for options as they are granted. Nevertheless, there are several bona fide reasons for including stock ownership in executive compensation plans. In addition to potentially aligning employees' interests with those of shareholders, retaining top executives is also a factor.

Perquisites (Perks)

perquisites (perks)
Special benefits provided by a firm to a small group of key executives and designed to give the executives something extra.

Perquisites (perks) are any special benefits provided by a firm to a small group of key executives and designed to give the executives "something extra." Possible executive's perks include a company-provided car, limousine service, and use of the company plane and yacht. The SEC has lowered the threshold for disclosure of executive perks from $50,000 to $10,000. Once-hidden information regarding perks must now be disclosed. Compensation committees are now focusing more on core incentives such as salaries, bonuses, and long-term incentives and cutting perks and severance pay. Perks such as having a corporate jet or yacht are things that upset the public and legislators. David E. Gordon of Frederic W. Cook & Co., a compensation consultancy, said, "These kinds of perks just aren't worth it. They are a small fraction of overall compensation but have the ability to get 50 percent of the attention."[48]

A decrease in executive perquisites is a key prediction of the Dodd–Frank Act. In 2008, 60 percent of companies granted more than three perks to the top brass, whereas just 6 percent offered their senior managers zero perks. Five years later, just 33 percent offer three or more such extras, whereas a full 15 percent offer none at all.[49]

Severance Packages

What most people may not understand is that massive severance payments are not set up by a board of directors after a CEO has quit or been fired. These payments were negotiated prior to being hired. Not only should CEO pay be considered but CEO pay contracts should also be examined. But hopefully the environment is changing.

The SEC has adopted far-reaching executive compensation disclosure rules that apply to publicly traded companies. The new rules require companies to list all the agreements for each executive, to disclose the payment triggers, and, most importantly, to give an estimated dollar value of potential payments and benefits and the specific factors used to determine them. For the first time, investors will see the estimated total dollar value of the exit packages. No longer will these agreements become exposed only at the time of a merger and acquisition deal or when the board removes a CEO.

Executive Compensation Issues in the United States

For some time now, executive pay for the nation's highest-paid chief executives, including salary, bonuses, perks, and stock options, has been a lightning rod for criticism and debate.[50] In fact, every day there seems to be another story related to highly lucrative executive pay. The AFL-CIO, which is a federation of labor unions, has even set up an Executive PayWatch Web site. According to the site, CEOs of the top 299 companies in the Standard & Poor's 500 Index received, on average, $12.3 million in total compensation in 2012. That is 354 times the average worker's median pay of $34,645.[51] Other studies have estimated the pay difference as even higher. No matter what figure is chosen, it is evident that the pay gap between the most affluent executives and the average worker has become enormous. It is difficult for workers who make $12 to $18 an hour to appreciate why these executives merit such large salaries. This obvious disparity has caused considerable discussion regarding the proper ratio of CEO compensation to that of the average worker.[52]

Examples of lucrative executive compensation practices abound. For example, James J. Mulva, who stepped down as CEO of ConocoPhillips after 10 years, received an exit package worth $157 million, which is the largest award in 2012. Much of the payout came from the market value of stock gains he received as well as payouts from a cash severance, a bonus, and additional retirement distributions.[53] Occidental Petroleum chief Ray Irani received a five-year total compensation of $127,447,000. In 2006, thanks to a rise in oil prices and the company's payment scheme, Irani took home a total of $460 million. In 2010, he took home nearly $59 million in salary, perks, bonuses, and other stock awards.[54] Some CEOs, like Richard Fuld of Lehman Brothers, took home more pay, despite the fact that Lehman Brothers set a record as the largest bankruptcy.[55] The question of what is excessive compensation has emerged as the number one concern of shareholders.

There continues to be attempts to hold down executive salaries. However, sometimes it appears as though as soon as one compensation loophole is filled, another one emerges. IRS rules, for instance, state that performance-based compensation does not count toward the $1 million maximum deduction that companies can take on compensation paid to top executives. Thus, there was an explosion in bonuses and deferred compensation. Once that loophole was defused, another one was found. IRS restrictions are relaxed once an executive has left the firm, so there was an increase in generous postretirement perks.[56]

Many believe the Dodd–Frank Act will have a significant impact on executive compensation practices.[57] A recent sample survey suggests that the Dodd–Frank Act may already have an impact on CEO pay relative to company performance. This survey showed that more than half of the compensation awarded to CEOs in 2012 was tied to performance.[58] And some CEOs still receive compensation packages that most would perceive as excessive. Larry Ellison, CEO of Oracle, has accepted more than $60 million in stock options every year since 2008. Apple's new CEO Tim Cook got a package worth $378 million for his first year.[59]

Air Products & Chemicals, Inc., maker of industrial gases, instituted a 65 percent cut in CEO John McGlade annual bonus in 2012 because company performance fell substantially below its growth target. In addition, a cut in stock options resulted in a reduction in total direct compensation by 19 percent.[60] Now if Air Products & Chemicals, Inc., does well in the long run, both McGlade and the company benefit.

say on pay
Provision that gives shareholders in all but the smallest companies an advisory vote on executive pay.

Three provisions in the Dodd–Frank Act relate to say on pay, golden parachute contracts, and clawback policies.[61] The provision for **say on pay** gives shareholders in all but the smallest companies an advisory vote on executive pay. This is something that governance advocates have long wanted. Those who support the concept of say on pay believe that the vote will cause greater accountability on executive pay decisions.[62] The Dodd–Frank Act requires 5,000 companies to hold nonbinding shareholder say-on-pay votes at least every three years. Companies must also hold shareholder votes on the frequency of say on pay with the option of one, two, or three years, or to abstain. Frequency votes are required to be held every three years. Thus far,

shareholder votes appear to be highly favorable in support of company pay plans. A survey by Semler Brossy revealed that 76 percent of companies have passed say on pay with more than 90 percent shareholder approval.[63] A recent study found that boards that give CEOs higher pay opportunities are more likely to receive lower levels of support in shareholder say-on-pay votes than those with lower CEO pay.[64] Also, shareholders appear to want their say on pay on an annual basis as opposed to every two or three years.[65] Institutional Shareholder Services (ISS), which recommends mutual funds and other large shareholders on how to vote in corporate elections, has recommended "no" votes on executive pay in about 13 percent of the proposals it has reviewed this proxy season.[66] All of the companies with a failed say-on-pay vote in 2012 had a negative recommendation from the proxy advisory firm ISS.[67] One major company to receive a negative vote on say on pay was Spectrum Pharmaceuticals. The negative vote may have been influenced by the high pay relative to shareholder return.[68]

golden parachute contract
Perquisite that protects executives in the event that another company acquires their firm or the executive is forced to leave the firm for other reasons.

A **golden parachute contract** is a perquisite that protects executives in the event that another company acquires their firm or if the executive is forced to leave the firm for other reasons. To hire and retain talented individuals, some corporations negotiate employment agreements that include golden parachutes.[69] At times, golden parachute contracts have been abused. As an extreme example, CEO Robert Nardelli left Home Depot with a golden parachute worth $210 million even though Home Depot's stock performed poorly.[70]

The Dodd–Frank Act has disclosure requirements for golden parachute arrangements between the companies and their executive officers. It requires a shareholder advisory vote on certain parachute arrangements where shareholder approval of the business combination itself is sought. Legally, a "no" vote has little effect because the vote is advisory, and the vote cannot bind a company or its board to overrule any company or board decision or change or add to the company's or board's duties. But from a shareholder relations viewpoint, the answer is more problematic. A "no" vote may indicate future shareholder involvement.[71] Largely as a result of the Dodd–Frank Act, although golden parachutes continue to exist, many companies have scaled back the change-in-control severance payments to ward off shareholders' concerns and line up with evolving best practices.[72] Although golden parachutes are commonly used, mounting examples of shareholders' rejections of these proposals is evident. For example, H. J. Heinz Company was sold to 3G Capital and Berkshire Hathaway. Heinz's shareholders rejected a proposed golden parachute arrangement including $56 million for chairman, president, and CEO Bill Johnson that included stock awards accelerated by the planned sale.[73]

clawback policy
Allows the company to recover compensation if subsequent review indicates that payments were not calculated accurately or performance goals were not met.

A **clawback policy** allows the company to recover compensation if a later review indicates that payments were not calculated accurately or performance goals were not met. The Dodd–Frank Act requires companies to develop clawback policies to recover compensation later deemed excessive.[74] The clawback is a procedure included in an executive's employment contract that allows the company to recover payments made through performance-based incentives under certain circumstances.[75] It requires executives to return incentive pay if the results on which it was granted are later adjusted downward for any reason. The CEO of Atlanta-based homebuilder Beazer Homes paid back $6.5 million in bonus pay and stock profits to settle an SEC complaint. According to the complaint, CEO Ian McCarthy failed to reimburse the company for cash bonuses, incentive and equity-based compensation, and profits from Beazer stock sales that he received in the year after the company filed fraudulent financial statements.[76]

Executive Compensation in the Global Environment

The pay gap between the most affluent executives and the average worker in the United States remains wide. It has been reported that the ratio between CEO and the average worker is 354 to 1 in the United States. By contrast, the ratio is 50 in Venezuela, 22 in Britain, 20 in Canada, and 11 in Japan.[77] Whereas people in the United States derive great status from high pay, nations in large parts of Europe and Asia shun conspicuous wealth.

Governance of executive pay varies from country to country, but there is a definite increase in shareholder influence on executive pay issues from Europe to North America to Asia Pacific and beyond. This trend will likely continue. Shareholders in Europe have been the leaders of the push. Executives at French firms face binding shareholder votes on certain aspects of their pay packages, including share options and retirement packages. Another proposal in France requires that severance payments be conditional on performance—a practice essentially unheard of in the past. Also, European governments are trying to exert more direct influence over executive pay as well. Legislators in the Netherlands want to limit nonperformance-based compensation by

imposing an additional tax on salary and severance payments.[78] Starting in 2003, public companies in the United Kingdom were required to give shareholders an advisory up-or-down vote on executive pay packages. Although the say-on-pay vote is nonbinding, advocates believe that it has increased the discussion between companies and large investors, which resulted in an improved alignment between pay and performance. As an example, share option plans, which were criticized for rewarding short-term share price volatility over long-term value creation, have been largely replaced with performance-contingent stock.[79]

Investors in the Netherlands, Sweden, Norway, and Switzerland can cast a binding vote on executive pay. In addition, Switzerland's law, passed in 2013, prohibits awarding signing bonuses or termination bonuses. Severe fines will be levied on companies that violate the new rules.[80] Across Europe, companies are making efforts to improve executive pay disclosure. It is quite likely these trends will continue in the wake of the recent recession. The United States has been slow to react to compensation governance, but there is evidence that this may be changing. As part of the Dodd–Frank Wall Street Reform and Consumer Protection Act, shareholders get a nonbinding vote on executive pay and generous packages set up for executives who part ways with the company.

Summary

1. ***Describe direct financial compensation (core compensation), indirect financial compensation (employee benefits), and nonfinancial compensation.*** *Compensation (core compensation)* is the total of all rewards provided employees in return for their services. *Direct financial compensation* consists of the pay that a person receives in the form of wages, salaries, commissions, and bonuses. *Indirect financial compensation (employee benefits)* consists of all financial rewards that are not included in direct financial compensation. *Nonfinancial compensation* consists of the satisfaction that a person receives from the job itself or from the psychological or physical environment in which the person works.
2. ***Idenify and discuss the components of direct financial compensation.*** The components include base pay (hourly wage and salary) and various adjustments to base pay over time. The categories are cost-of-living adjustments, seniority pay, performance-based pay (merit pay and various types of incentive pay practices), and person-focused pay (including competency-based pay).
3. ***Review the determinants of direct financial compensation.*** HR professionals engage in a variety of activities to establish job structures, compensation policies, and pay structures. Each of these structures is based on a variety of practices. For example, job structures are the outcome of the implementation of both job analaysis and job evaluation techniques.
4. ***Describe contextual influences on direct financial compensation.*** There are many factors that HR professionals must take into account when building compensation programs. The most prominent considerations are labor unions, the economy, interindustry wage differentials, and a variety of legislation.
5. ***Discuss how to use job evaluation to build job structures***. Job evaluation is a process that determines the relative value of one job in relation to another. In the job evaluation ranking method, the raters examine the description of each job being evaluated and arrange the jobs in order according to their value to the company. The *classification* method involves defining a number of classes or grades to describe a group of jobs. In the *factor comparison* method, raters need not keep the entire job in mind as they evaluate; instead, they make decisions on separate aspects or factors of the job. In the *point method*, raters assign numerical values to specific job factors, such as knowledge required, and the sum of these values provides a quantitative assessment of a job's relative worth.
6. ***Describe various competitive compensation policies.*** Broadly, competitive pay policies refer to pay level and pay mix. *Pay level* choices include whether to lag, match, or lead the market pay rates, on average. *Pay mix* refers to the composition of an employee's direct (core compensation) and indirect (employee benefits) financial compensation. Choices about how to structure pay (for example, base pay, short-term incentives, and employee benefits versus incentives and employee benefits) must be made.
7. ***Explain the use of compensation surveys for job pricing and determining market competitive pay structures.***

Compensation surveys enable HR professionals to know the pay level and pay mixes of its competitors. Assigning dollar values to the company's jobs is considered to be *job pricing*.

8. ***Discuss compensation for sales representatives.*** Designing compensation programs for sales employees involves unique considerations such as the formula for determining incentive payments.
9. ***Discuss compensation for contingent workers.*** Contingent workers are employed on the expectation of a defined term of employment. Most often, contingent workers receive less pay and employee benefits than workers who do not have an expectation of a defined term of employment.
10. ***Explain executive compensation and the various features of executive compensation packages.*** In determining executive compensation, firms typically prefer to relate salary growth for the highest-level managers to overall corporate performance. Executive compensation often has five basic elements: (1) base salary, (2) bonuses and performance-based pay, (3) stock option plans, (4) executive performance-based pay, (5) perquisites, and (6) severance packages.

Key Terms

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direct financial compensation (core compensation) 247
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nonfinancial compensation 247
base pay 249
hourly pay (wage) 249
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Exercises

9-1. What form of incentive compensation might be used for the following jobs to increase productivity?
a. machine operator
b. automobile salesperson
c. group of five people cooperating to get the job done

✪ **9-2.** The section on Executive Compensation provided statistics that suggest that some executives today may be paid excessively high salaries. What might be some pros and cons for paying large salaries to top executives?

9-3. What form of equity is involved if you hear one of your employees say the following?
a. "It is not fair that I as an administrator get paid half of what the manager is paid."
b. "My colleague and I have worked in the same job in this company for more than ten years and I get paid less than him."
c. "I heard that other workers get more for the same job in the other company than I get here."

Questions for Review

9-4. Define each of the following terms:
(a) Salary
(b) COLA (cost of-living adjustment)
(c) Seniority pay
(d) Human capital theory

9-5. What are the contextual influences on direct financial compensation?

9-6. Discuss the determinants of direct financial compensation.

9-7. Discuss the difference between base pay and pay-for-performance.

9-8. What are the differences between pay level and pay mix compensation policies?

9-9. Define the *spillover effect*.

9-10. What is the difference between an exempt and a nonexempt employee?

9-11. Why is it important for the committee responsible for the job evaluation process to keep personality out of the evaluation process?

9-12. Distinguish between the following job evaluation methods:
(a) ranking
(b) classification
(c) factor comparison
(d) point method

9-13. Define *job pricing*. What is the purpose of job pricing?

9-14. Define *pay grades*. State the basic procedure for determining pay grades.

9-15. Define *pay ranges*. What is the purpose of establishing pay ranges?

9-16. Explain the difference in the Two-Tier Wage system for newly hired workers and current employees.

9-17. Distinguish between merit pay, bonus, spot bonuses, and piecework.

9-18. Discuss the main issues that are associated with compensating contingent workers.

9-19. What is the purpose of an employee stock ownership plan (ESOP)?

9-20. How is the compensation for sales representatives determined?

9-21. Describe each of the following:
(a) say on pay
(b) golden parachute contract
(c) clawback policies

9-22. What are the various types of executive compensation?

9-23. Discuss the pay gap between the most affluent executives and the average worker.

INCIDENT 1 A Motivated Worker

Bob Rosen could hardly wait to get back to work Monday morning. He was excited about his chance of getting a large bonus. Bob is a machine operator with Ram Manufacturing Company, a producer of electric motors in Wichita, Kansas. He operates an armature-winding machine. The machine winds copper wire onto metal cores to make the rotating elements for electric motors.

Ram pays machine operators on a graduated piece-rate basis. Operators are paid a certain amount for each part made, plus a bonus. A worker who produces 10 percent above standard for a certain month receives a 10 percent additional bonus. For 20 percent above standard, the bonus is 20 percent. Bob realized that he had a good chance of earning a 20 percent bonus that month. That would be $1,787.

Bob had a special use for the extra money. His wife's birthday was just three weeks away. He was hoping to get her a car. He had already saved $4,000, but the down payment on the car was $5,500. The bonus would enable him to buy the car.

Bob arrived at work at seven o'clock that morning, although his shift did not begin until eight. He went to his workstation and checked the supply of blank cores and copper wire. Finding that only one spool of wire was on hand, he asked the forklift truck driver to bring another. Then, he asked the operator who was working the graveyard shift, "Sam, do you mind if I grease the machine while you work?"

"No," Sam said, "that won't bother me a bit."

After greasing the machine, Bob stood and watched Sam work. He thought of ways to simplify the motions involved in loading, winding, and unloading the armatures. As Bob took over the machine after the eight o'clock whistle, he thought, "I hope I can pull this off. I know the car will make Kathy happy. She won't be stuck at home while I'm at work."

Questions

9-24. Explain the advantages of a piecework pay system such as that at Ram.

9-25. What might be problems associated with the piecework pay system?

INCIDENT 2 The Controversial Job

David Rhine, compensation manager for Farrington Lingerie Company, was generally relaxed and good-natured. Although he was a no-nonsense, competent executive, David was one of the most popular managers in the company. This Friday morning, however, David was not his usual self. As chairperson of the company's job evaluation committee, he had called a late-morning meeting at which several jobs were to be considered for re-evaluation. The jobs had already been rated and assigned to pay grade 3. But the office manager, Ben Butler, was upset that one was not rated higher. To press the issue, Ben had taken his case to two executives who were also members of the job evaluation committee. The two executives (production manager Bill Nelson and general marketing manager Betty Anderson) then requested that the job ratings be reviewed. Bill and Betty supported Ben's side of the dispute, and David was not looking forward to the confrontation that was almost certain to occur.

The controversial job was that of receptionist. Only one receptionist position existed in the company, and Marianne Sanders held it. Marianne had been with the firm 12 years, longer than any of the committee members. She was extremely efficient, and virtually all the executives in the company, including the president, had noticed and commented on her outstanding work. Bill Nelson and Betty Anderson were particularly pleased with Marianne because of the cordial manner in which she greeted and accommodated Farrington's customers and vendors, who frequently visited the plant. They felt that Marianne projected a positive image of the company.

When the meeting began, David said, "Good morning. I know that you're busy, so let's get the show on the road. We have several jobs to evaluate this morning and I suggest we begin…" Before he could finish his sentence, Bill interrupted, "I suggest we start with Marianne." Betty nodded in agreement. When David regained his composure, he quietly but firmly asserted, "Bill, we are not here today to evaluate Marianne. Her supervisor does that at performance appraisal time. We're meeting to evaluate jobs based on job content. To do this fairly, with regard to other jobs in the company, we must leave personalities out of our evaluation." David then proceeded to pass out copies of the receptionist job description to Bill and Betty, who were obviously very irritated.

Questions

9-26. Do you feel that David was justified in insisting that the job, not the person, be evaluated? Discuss.

9-27. Do you believe that there is a maximum rate of pay for every job in an organization, regardless of how well the job is being performed? Justify your position.

9-28. Assume that Marianne is earning the maximum of the range for her pay grade. In what ways could she obtain a salary increase?

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9-29. Why is it important for HR professionals to understand legislation, labor unions, and interindustry wage differentials when establishing compensation programs?

9-30. Why might a firm want to be a pay leader as opposed to paying market rate?

Endnotes

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10

Indirect Financial Compensation (Employee Benefits)

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Define *indirect financial compensation* (employee benefits).
2. Describe legally required benefits.
3. Define *discretionary benefits* and explain the various types of discretionary benefits.
4. Discuss the alternative types of health care plans.
5. Explain the various kinds of retirement plans.
6. Summarize life insurance and disability insurance.
7. Describe alternative paid time off policies.
8. Identify employee service benefits.
9. Describe the premium pay benefit practice.
10. Discuss voluntary benefits.
11. Explain the various employee benefit laws.
12. Describe customized benefit plans.
13. Discuss global issues in employee benefits.
14. Summarize the issues of communicating information about benefit plans.
15. Explain workplace flexibility (work-life balance).

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OBJECTIVE **10.1**

Define *indirect financial compensation* (employee benefits).

Indirect Financial Compensation (Employee Benefits)

indirect financial compensation (employee benefits)
All financial rewards that are not included in direct financial compensation.

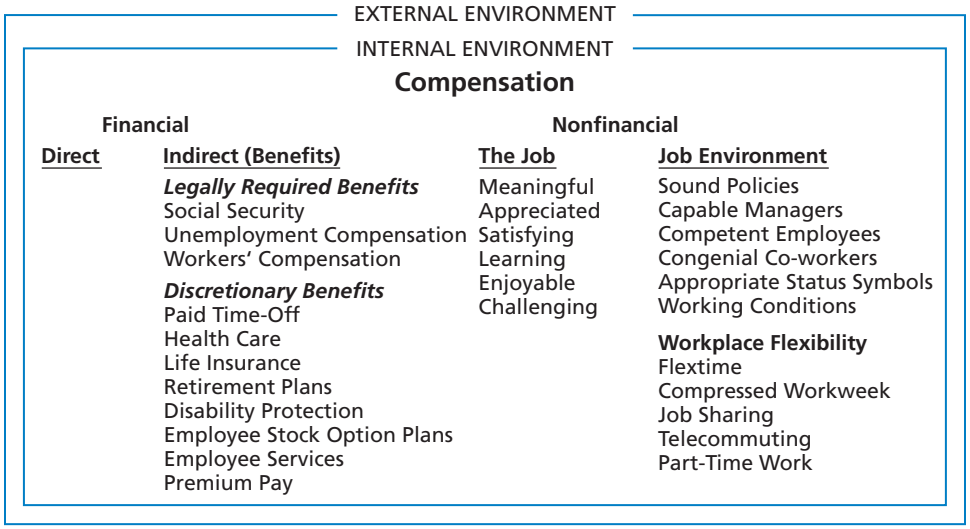
Most organizations recognize that they have a responsibility to their employees to provide certain benefits such as insurance and other programs for their health, safety, security, and general welfare (see Figure 10-1). **Indirect financial compensation (employee benefits)** consists of all financial rewards not included in direct financial compensation. They typically account for about 30 percent of a firm's financial compensation costs. In December 2013, employers spent, on average, $9.80 per hour worked for each employee to provide benefits. The most expensive benefit was health insurance, which cost $2.70 per hour worked for each employee.[1] Despite the rising costs of benefits, firms continue to offer them to attract and retain highly qualified employees.[2] In addition, according to a recent SHRM survey, benefits are the second most important driver of job satisfaction, coming in just behind job security.[3] Although benefits cost the firm money, employees usually receive them indirectly. For example, an organization may spend thousands of dollars a year contributing to health insurance premiums for each employee. The employee does not receive the money but does obtain the health insurance coverage benefit such as regular visits to their physicians.

As a rule, employees receive benefits because of their membership in the organization. Benefits are typically unrelated to employee productivity; therefore, although they may be valuable in recruiting and retaining employees, they do not generally serve as motivation for improved performance.[4] As the name indicates, *legally required benefits* are mandated by law. Legislation mandates some benefits, and employers provide other discretionary and voluntary benefits. *Discretionary benefits* are benefit payments made as a result of unilateral management decisions in nonunion firms and from labor–management negotiations in unionized firms. *Voluntary benefits*, on the other hand, are usually100 percent paid by the employee, but the employer typically pays the administrative cost. Voluntary benefits have two distinct advantages: (1) they are generally nontaxable to the employee and (2) the cost may be much less for large groups of employees than for individuals. Often a hybrid situation exists in which



FIGURE 10-1

Indirect Financial Compensation (Employee Benefits) in a Total Compensation Program





HR Web Wisdom

Total Rewards

http://www.worldatwork.org/aboutus/html/aboutus-waw.html

Total rewards include everything the employee perceives to be of value resulting from the employment relationship.

nonfinancial compensation
Satisfaction that a person receives from the job itself or from the psychological and/or physical environment in which the person works.

employers pay a portion of the benefit and the employee pays the remainder. For example, both firms and employees contribute to the cost of health insurance coverage. In 2013, employers paid approximately 80 percent of the cost to provide health insurance coverage whereas the employee paid the remainder. Employers paid a lower share of the cost (about 70 percent) for employees whose health insurance coverage includes family members.[5]

Historically, compensation departments have not dealt with nonfinancial factors. However, the new compensation model suggests that this is changing. **Nonfinancial compensation** consists of the satisfaction that a person receives from the job itself or from the psychological or physical environment in which the person works. The components of nonfinancial compensation consist of the job itself and the job environment are also listed in Figure 10-1. Our focus in this chapter will be on indirect financial compensation.

OBJECTIVE **10.2**

Describe legally required benefits.

Legally Required Benefits

The U.S. government established programs to protect individuals from catastrophic events such as disability and unemployment. Legally required benefits are protection programs that attempt to promote worker safety and health, maintain family income streams, and assist families in crisis. The cost of legally required benefits to employers is quite high. As of September 2012, U.S. companies spent an average of $5,000 per employee annually to provide legally required benefits.[6] Human resources (HR) staffs and compensation professionals in particular must follow a variety of laws as they develop and implement programs.

Legally required benefits historically provided a form of social insurance. Prompted largely by the rapid growth of industrialization in the United States in the early 19th and 20th centuries and the Great Depression of the 1930s, initial social insurance programs were designed to minimize the possibility that individuals who became unemployed or severely injured while working would become destitute. In addition, social insurance programs aimed to stabilize the well-being of dependent family members of injured or unemployed individuals. Furthermore, early social insurance programs were designed to enable retirees to maintain subsistence income levels. These intents of legally required benefits remain intact today.

The most substantial legally required benefits include various kinds of Social Security benefits, unemployment insurance, and workers' compensation.

Social Security

The Social Security Act of 1935 created a retirement benefits program. It also established the Social Security Administration. Subsequent amendments to the act added other forms of protection, such as disability insurance (1965) and survivors' benefits (1939). The acronym—OASDI—stands for the Old-Age (that is, retirement), Survivor, and Disability Insurance programs. Medicare was established in 1965.

Disability insurance protects employees against loss of earnings resulting from total incapacity. *Survivors' benefits* are provided to certain members of an employee's family when the employee dies. These benefits are paid to the widow or widower and unmarried children. Unmarried children may be eligible for survivors' benefits until they are 18 years old. In some cases, students retain eligibility until they are 19. *Medicare* provides hospital and medical insurance protection for individuals 65 years of age and older and for those who have become disabled at an earlier age.

The Federal Insurance Contribution Act (FICA) requires that employees and employers pay a portion of the cost of OASDI and Medicare coverage. Both the employer and employee each pay 6.2 percent of an employee's pay for the Social Security portion and 1.45 percent for Medicare. These amounts are deducted from an employee's paycheck and usually appear as FICA and Medicare (or HI for hospital insurance). Self-employed individuals pay the entire amount (15.3 percent). The Social Security rate is applied to a maximum taxable wage of $113,700, which is subject to increase each year. That is, annual pay above this amount is not subject to FICA tax. The rate for Medicare applies to all earnings. Approximately 95 percent of the workers in this country pay into and may draw Social Security benefits. In 2013, approximately 57 million people were receiving at least one type of Social Security benefits.[7] The Social Security program currently is running a deficit, which is expected to increase, and the retirement of the 77-million-member baby-boom generation has begun, which will hasten the deficit increase. Unless Congress makes changes by 2033, the program will no longer be able to pay full benefits.[8]

The age for receiving full Social Security benefits (that is, retirement age) has been increased slowly until it reaches 67 in 2022. These changes will not affect Medicare, with full eligibility under this program holding at age 65.

Unemployment Insurance

unemployment insurance
Provides workers whose jobs have been terminated through no fault of their own monetary payments for up to 26 weeks or until they find a new job.

Unemployment insurance provides workers whose jobs have been terminated through no fault of their own monetary payments for up to 26 weeks or until they find a new job. The basic program is state-run with oversight from the U.S. Department of Labor. States pay the benefits; the federal government pays the states for administrative costs. Employers pay the Federal Unemployment Tax at a rate of 6.2 percent on the first $7,000 each employee earns. If they pay it on time, the percent is offset by 5.8 percent so the actual rate is 0.8 percent. The permanent Extended Benefits Program provides an additional 13 or 20 weeks of compensation to workers who exhaust basic benefits in states where unemployment has worsened.

The intent of unemployment payments is to provide an unemployed worker time to find a new job equivalent to the one lost without suffering financial distress. Without this benefit, workers might have to take jobs for which they are overqualified or end up on welfare. Unemployment compensation also serves to sustain consumer spending during periods of economic adjustment. In the United States, unemployment insurance is based on both federal and state statutes, and although the federal government provides guidelines, the programs are administered by the states and therefore benefits vary by state. A payroll tax paid solely by employers funds the unemployment compensation program. Unemployment rates range from 3.0 percent in North Dakota to 9.5 percent in Nevada.[9]



ETHICAL DILEMMA

A Poor Bid

You are vice-president of HR for a large construction company, and your company is bidding on an estimated $2.5 million public housing project. A local electrical subcontractor submitted a bid that you realize is 20 percent too low because labor costs have been incorrectly calculated. It is obvious to you that benefits amounting to more than 30 percent of labor costs have not been included. In fact, the bid was some $30,000 below those of the other four subcontractors. But accepting it will improve your chance of winning the contract for the big housing project.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

Workers' Compensation

workers' compensation
Provides a degree of financial protection for employees who incur expenses resulting from job-related accidents or illnesses.

Workers' compensation provides a degree of financial protection for employees who incur expenses resulting from job-related accidents or illnesses in the form of coverage of rehabilitation costs and temporary or permanent partial income replacement based on severity. As with unemployment compensation, the various states administer individual programs, which are subject to federal regulations. Employers pay the entire cost of workers' compensation insurance, and their past experience with job-related accidents and illnesses largely determines their premium expense. These circumstances should provide further encouragement to employers to be proactive with health and safety programs.

Discretionary Benefits

OBJECTIVE 10.3

Define *discretionary benefits* and explain the various types of discretionary benefits.

discretionary benefits
Benefit payments made as a result of unilateral management decisions in nonunion firms and from labor–management negotiations in unionized firms.

Discretionary benefits are benefit payments made as a result of unilateral management decisions in nonunion firms and from labor–management negotiations in unionized firms. An employee's desire for a specific benefit may change, requiring organizations to continuously check the pulse of its workforce to determine the most sought after benefits. Discretionary benefits fall into three broad categories: protection programs (health insurance and retirement plans), paid time off, and services. Protection programs provide family benefits, promote health, and guard against income loss caused by such catastrophic factors as unemployment, disability, or serious illnesses. Paid time off provides employees time off with pay for such events as vacation. Services provide such enhancements as tuition reimbursement and day-care assistance to employees and their families.

As we noted, social maladies prompted some federal and state legislation that created particular employee benefits. Quite different from these reasons are other factors that have contributed to the rise in discretionary benefits.

Most discretionary benefits originated in the 1940s and 1950s. During both World War II and the Korean War, the federal government mandated that companies not increase employees' wages or salaries, but it did not place restrictions on companies' employee benefits expenditures. Companies invested in expanding their offerings of discretionary benefits as an alternative to pay hikes as a motivational tool to enhance worker productivity.

Separate from the benevolence of employers, employee unions *directly* contributed to the increase in employee welfare practices through the National Labor Relations Act (NLRA) of 1935, which legitimized bargaining for employee benefits. Union workers tend to participate more in benefits plans than do nonunion employees (92 percent versus 72 percent). Unions also *indirectly* contributed to the rise in benefits offerings because nonunion companies often fashion their employment practices after union companies as an approach to minimize the chance that their employees will seek union representation and may offer their employees benefits that are comparable to the benefits received by employees in union settings.

Health Care

OBJECTIVE 10.4

Discuss the alternative types of health care plans.

Health care represents the most expensive item in the employee benefits package. In fact, according to research from the Kaiser Family Foundation, the United States spends more per capita on health care than any other country.[10] These costs threaten to go even higher.[11] The Office of Management and Budget estimates that the United States spends more than $900 billion per year in health care costs and annual expenditures are expected to exceed $1 trillion as soon as 2014.[12] An additional $360 billion per year is spent in the administration of the system.[13] Some companies have reduced or eliminated salary increases or bonuses, or both, to provide increasingly expensive medical benefits for employees.

A number of factors have combined to create the high cost of health care:

- An aging population
- A growing demand for medical care
- Increasingly expensive medical technology
- Inefficient administrative processes

Two long-standing forms of health insurance programs include fee-for-service plans and managed care plans. Larger employers commonly offer employees one or more types of health insurance programs. An emerging class of health insurance programs is based on *consumer-driven health care*, in which employees play a greater role in decisions on their health care, have better access to information to make informed decisions, and share more in the costs. We discuss each one in turn.

Fee-for-Service Plans

fee-for-service plans
Insurance protection for three types of medical expenses: hospital expenses, surgical expenses, and physician's charges.

Fee-for-service plans provide protection against health care expenses in the form of a cash benefit paid to the insured or directly to the health care provider after the employee has received health care services. These plans pay benefits on a reimbursement basis. Three types of eligible health expenses are hospital expenses, surgical expenses, and physician charges. Under fee-for-service plans, policyholders (employees) may generally select any licensed physician, surgeon, or medical facility for treatment, and the insurer reimburses the policyholders after medical services are rendered.

Fee-for-service plans provide three types of medical benefits under a specified policy: hospital expense benefits, surgical expense benefits, and physician expense benefits. Companies sometimes select major medical plans to provide comprehensive medical coverage instead of limiting coverage to the three specific kinds just noted or to supplement these specific benefits.

Fee-for-service plans contain a variety of stipulations designed to control costs and to limit a covered individual's financial liability. Some of the common fee-for-service stipulations include deductibles, coinsurance, out-of-pocket maximums, and maximum benefits limits. Over a designated period, employees must pay for services (i.e., meet a deductible) that before insurance benefits become active. The deductible amount is modest, usually a fixed amount ranging anywhere between $100 and $500 depending on the plan. Deductible amounts may also depend on annual earnings, expressed either as a fixed amount for a range of earnings or as a percentage of income.

coinsurance
The percentage of covered expenses paid by the insured. Most fee-for-service plans stipulate 20 percent coinsurance. This means that the insured will pay 20 percent of covered expenses, whereas the insurance company pays the remaining 80 percent.

Insurance plans feature coinsurance, which becomes relevant after the insured pays the annual deductible. **Coinsurance** refers to the percentage of covered expenses paid by the insured. Most fee-for-service plans stipulate 20 percent coinsurance. This means that the plan will pay 80 percent of covered expenses, whereas the policyholder is responsible for the difference, in this case 20 percent. Coinsurance amounts vary according to the type of expense. Insurance plans most commonly apply no coinsurance for diagnostic testing and 20 percent for other medical services. Many insurance plans provide benefits for mental health services. Coinsurance rates for these services tend to be the highest, usually 50 percent.

out-of-pocket maximum
The maximum amount an employee pays for health care during a calendar or plan year.

As discussed previously, health care costs are on the rise. Despite generous coinsurance rates, the expense amounts for which individuals are responsible can be staggering. These amounts are often beyond the financial means of most individuals. Thus, most plans specify the maximum amount a policyholder must pay per calendar year or plan year, known as the **out-of-pocket maximum** provision.

Managed Care Plans

managed care plans
Health care delivery that emphasizes cost control by limiting an employee's choice of doctors and hospitals. These plans also provide protection against health care expenses in the form of prepayment to health care providers.

Managed care plans emphasize cost control by limiting an employee's choice of doctors and hospitals. Two common forms of managed care are *health maintenance organizations* (HMOs) and *preferred provider organizations* (PPOs).

prepaid medical services
HMOs are sometimes described as providing prepaid medical services because fixed periodic enrollment fees cover HMO members for all medically necessary services only if the services are delivered or approved by the HMO.

HMOs are sometimes described as providing **prepaid medical services** because fixed periodic enrollment fees cover HMO members for all medically necessary services only if the services are delivered or approved by the HMO. HMOs generally provide inpatient and outpatient care as well as services from physicians, surgeons, and other health care professionals.

HMO plans share several features in common with fee-for-service plans, including out-of-pocket maximums, pre-existing condition clauses, preadmission certification, second surgical opinions, and maximum benefits limits. HMOs differ from fee-for-service plans in three important ways. First, HMOs offer prepaid services, whereas fee-for-service plans operate on a reimbursement basis. Second, HMOs include the use of primary care physicians as a cost-control measure. Third, coinsurance rates are generally lower in HMO plans than in fee-for-service plans.

primary care physicians
Designated by HMOs to determine whether patients require the care of a medical specialist. This functions to control costs by reducing the number of medically unnecessary visits to expensive specialists.

HMOs designate some of their physicians, usually general or family practitioners, as primary care physicians. HMOs assign each member to a primary care physician or require each member to choose one. **Primary care physicians** determine when patients need the care of specialists. HMOs use primary care physicians to control costs by significantly reducing the number of unnecessary visits to specialists. As primary care physicians, doctors perform several duties. The most important duty is perhaps to diagnose the nature and seriousness of an illness promptly and accurately, after which the primary care physician refers the patient to the appropriate specialist.

The most common HMO copayments apply to physician office visits, hospital admissions, prescription drugs, and emergency department services. Office visits are nominal amounts, usually $15–$50 per visit. Hospital admissions and emergency department services are higher, ranging between $50 and $250 for each occurrence. Mental health services and substance abuse treatment require copayments as well. Inpatient services require copayments that are similar in amount to those for hospital admissions for medical treatment; however, copayments for outpatient services such as psychotherapy are generally expressed as a fixed percentage of the fee for each visit or treatment. HMOs usually charge a copayment ranging between 15 and 25 percent.

preferred provider organization (PPO)
Managed-care health organization in which incentives are provided to members to use services within the system; out-of-network providers may be used at greater cost.

Under a **preferred provider organization (PPO)**, a select group of care providers agrees to furnish health care services to a given population at a higher level of reimbursement than under fee-for-service plans. Physicians qualify as preferred providers by meeting quality standards, agreeing to follow cost-containment procedures implemented by the PPO, and accepting the PPO's reimbursement structure. In return, the employer, insurance company, or third-party administrator helps guarantee provider physicians' minimum patient loads by furnishing employees with financial incentives to use the preferred providers.

PPO plans include features that resemble fee-for-service plans or HMO plans. Features most similar to fee-for-service plans are out-of-pocket maximums and coinsurance, and those most similar to HMOs include the use of nominal copayments. Pre-existing condition clauses, preadmission certification, second surgical opinions, and maximum benefits limits are similar to those in fee-for-service and HMO plans. PPOs contain deductible and coinsurance provisions that differ somewhat from other plans.

Specialized Insurance Plans

Employers often use separate insurance plans to provide specific kinds of benefits and are often referred to as specialized insurance plans. We will focus on dental plans, vision plans, prescription drug plans, and mental health and substance abuse plans because of the rampant inflation in prescription drug costs and the increased recognition that mental health disorders may hinder worker productivity. Dental and vision care are popular benefits in the health care area.

Dental and vision care plans usually operate on a fee-for-service or managed care basis. Employers typically pay the entire costs for both types of plans except for a deductible, which may amount to $50 or more per year. Dental plans may cover, for example, 70 to 100 percent of the cost of preventive procedures and 50 to 80 percent of restorative procedures. Most health care plans offer dental coverage. Some plans also include orthodontic care.

The American Academy of Ophthalmology estimates that vision-related diseases cost the United States $139 billion per year and rank as the fourth most costly chronic disease category, surpassing the direct costs of hypertension, diabetes and stroke.[14] Vision care plans may cover all or part of the cost of eye examinations and eyewear.

prescription drug plans
Coverage of the costs of drugs that state or federal laws require be dispensed by licensed pharmacists.

Prescription drug plans cover the costs of drugs. These plans apply exclusively to drugs that state or federal laws require to be dispensed by licensed pharmacists. Prescription drugs dispensed to individuals during hospitalization or treatment in long-term care facilities are not covered by prescription drug plans. Insurers prepare formulary lists, which specify which prescription drugs are covered, how much they will pay, and the basis for paying for drugs.

mental and substance abuse plans
Mental health and substance abuse benefits are designed to cover treatment of mental illness and chemical dependence on alcohol and legal and illegal drugs.

Approximately 20 percent of Americans experience some form of mental illness or substance abuse at least once during their lifetimes.[15] **Mental and substance abuse plans** provide mental health and substance abuse benefits designed to cover treatment of mental illness and chemical dependence on alcohol and legal and illegal drugs. Mental health and substance abuse plans cover the costs of a variety of treatments, including prescription psychiatric drugs (e.g., antidepressant medication), psychological testing, inpatient hospital care, and outpatient care (e.g., individual or group therapy). Mental health benefits amounts vary by the type of disorder. Psychiatrists and psychologists rely on the *Diagnostic and Statistical Manual of Mental*

Disorders V (DSM-V) to diagnose mental disorders based on symptoms, and both fee-for-service and managed care plans rely on the *DSM-V* to authorize payment of benefits. As discussed previously, HMOs usually charge a copayment ranging between 15 and 25 percent.

Consumer-Driven Health Care Plans

Managed care plans became popular alternatives to fee-for-service plans mainly to help employers and insurance companies more effectively manage the costs of health care. As discussed, managed care plans by design imposed substantial restrictions on an employee's ability to make choices about from whom they could receive medical treatment—the gatekeeper role of primary care physicians—and the level of benefits they could receive based on designated in- and nonnetwork providers.

consumer-driven health care
Refers to the objective of helping companies maintain control over costs while also enabling employees to make greater choices about health care.

Despite the cost control objectives of managed care, health care costs have continued to rise dramatically over the years while also restricting employee choice. **Consumer-driven health care** refers to the objective of helping companies maintain control over costs while also enabling employees to make greater choices about health care. This approach may enable employers to lower the cost of insurance premiums by selecting plans with higher employee deductibles. Membership in these plans has increased steadily since 2009 from 7 percent to 22 percent in 2014.[16] They are a good way for employers to provide the same caliber of benefits to their employees while also reducing premiums and involving employees in the cost of coverage. Patients who pay for health care services using pre-tax funds are not subject to the same lengthy, burdensome payments cycle. General Electric requires its salaried U.S. employees and retirees under the age of 65 to choose a consumer-driven health plan, which includes deductibles that run as high as $4,000 a year.[17] Consumer-driven plans are more popular with large employers with 1,000 or more workers, and about one-third of these sponsor such plans. According to America's Health Insurance Plans, the average premiums for consumer-driven plans are approximately 15 to 20 percent lower than average premiums in the overall market.[18] A recent McKinsey & Company study found that with these plans, patients are twice as likely to ask about costs and three times as likely to choose less-expensive treatment options. Thirty percent are more likely to get an annual check-up. Chronic patients are 20 percent more likely to carefully follow physicians' orders.[19]

The most popular consumer-driven approaches are health savings accounts, health reimbursement accounts, and flexible spending accounts. These accounts provide employees with resources to pay for medical and related expenses not covered by higher deductible insurance plans at substantially lower costs to employers.

health savings account (HSA)
Tax-free health spending and savings accounts available to individuals and families who have qualified high-deductible health insurance policies as determined by IRS regulation.

A **health savings account (HSA)** is a tax-free health spending and savings account available to individuals and families who have qualified high-deductible health insurance policies as determined by IRS regulations. HSAs are an important tool in the search to change consumers' health care spending behaviors and better manage health costs. It gives individuals a stake in managing their own health care dollars. Individuals and their employers deposit up to $6,550 a year in a pretax account that can be used for deductibles for doctor visits, prescriptions, and other health expenses, as well as saving for future and long-term medical expenses. HSA-eligible health plans typically have lower premiums than other plans because of their higher deductibles. Another advantage is that even if a worker takes another job, the HSA stays with that individual.[20]

health reimbursement accounts (HRAs)
Allows an employer to set aside funds to reimburse medical expenses paid by participating employees.

Health reimbursement accounts (HRAs) allow an employer to set aside funds to reimburse medical expenses paid by participating employees. Although HRA plans are flexible, the primary requirement for an HRA is that the plan must be funded solely by the employer. There is no limit on the employer's contributions, and a credit balance in the employee's account can be rolled over from year to year like a savings account.

flexible spending account (FSA)
Benefit plan established by employers that allows employees to deposit a certain portion of their salary into an account (before paying income taxes) to be used for eligible expenses.

A **flexible spending account (FSA)** is a health benefit plan established by employers that allows employees to deposit a certain portion of their salary into an account to be used for eligible health care and prescription drug expenses. Payroll contributions made to an FSA are exempt from federal income tax, Social Security taxes and, in most cases, state income tax. As a result, employees who use an FSA can essentially shield a portion of their income from taxes to pay for approved medical and dependent care expenses. A major disadvantage of an FSA is that generally employees forfeit any amounts left unspent in the accounts at year end. Currently, employees may contribute up to a maximum of $2,500 annually to an FSA.

OBJECTIVE 10.5

Explain the various kinds of retirement plans.

Retirement Plans

Retirement income security is a major concern to individuals of all ages, but particularly to the members of the baby boom generation who are entering retirement in unprecedented numbers. Individuals rely on three sources for retirement income. Employer-sponsored retirement plans provide employees with income after they have met a minimum retirement age and have left the company. Second, as we discussed previously in this chapter, the Social Security OASDI program provides government-mandated retirement income to employees who have made sufficient contributions through payroll taxes. Third, individuals may use their initiative to take advantage of tax regulations that have created such retirement programs as individual retirement accounts (IRAs) and Roth IRAs. Our focus will be on employer-sponsored retirement plans.

Tax incentives encourage companies to offer pension programs. Some of the Employee Retirement Income Security Act (ERISA) of 1974 provisions set the minimum standards required to "qualify" pension plans for favorable tax treatment. Failure to meet any of the minimum standard provisions "disqualifies" pension plans for favorable tax treatment. Pension plans that meet these minimum standards are known as **qualified plans**. **Nonqualified plans** refer to pension plans that do not meet at least one of the minimum standard provisions; typically, highly paid employees benefit from participation in nonqualified plans.

qualified plans
Welfare and pension plans that meet various requirements set forth by the Employee Retirement Income Security Act of 1974; these plans entitle employees and employers to favorable tax treatment by deducting the contributions from taxable income. Qualified plans do not disproportionately favor highly compensated employees.

nonqualified plans
Welfare and pension plans that do not meet various requirements set forth by the Employee Retirement Income Security Act of 1974 (ERISA), disallowing favorable tax treatment for employee and employer contributions.

The current tax treatment of qualified plans continues to provide incentives both for employers to establish plans and for employees to participate in them. In general, a contribution to a qualified plan is deductible in computing the employer's or employee's taxes based on who made the contribution. Employees pay taxes only on the amount they withdraw from the plan each year.

Companies establish retirement or pension plans following one of three design configurations: a defined benefit plan, a defined contribution plan, or hybrid plans that combine features of traditional defined benefit and defined contribution plans. Defined benefit plans guarantee retirement benefits specified in the plan document. This benefit usually is expressed in terms of a monthly sum equal to a percentage of a participant's preretirement pay multiplied by the number of years he or she has worked for the employer. Defined contribution plans require that employers and employees make annual contributions to retirement fund accounts established for each participating employee, based on a formula contained in the plan document.

Defined Benefit Plans

Retirement plans are generally either *defined benefit* or *defined contribution*. A **defined benefit plan** is a formal retirement plan that provides the participant with a fixed benefit on retirement. Although defined benefit formulas vary, they are typically based on the participant's final years' average salary and years of service. Plans that are considered generous provide pensions equivalent to 50 to 80 percent of an employee's final earnings. Use of defined benefit plans has declined in recent years. However, many workers lost considerable money in their 401(k)s during the recent recession, causing them to have more faith in defined benefit plans.

defined benefit plan
Retirement plan that provides the participant with a fixed benefit on retirement.

defined contribution plan
Retirement plan that requires specific contributions by an employee or an employer to a retirement or savings fund established for the employee.

In today's job markets, younger workers are more interested in defined benefits plans but are often unable to obtain them. In a Towers Watson study, nearly two-thirds of workers younger than age 40 said defined benefit plans are a key factor in their decision to stay with their companies compared with only a quarter of those with defined contribution plans. As firms begin to hire again, retirement benefits are becoming a factor for employees. David Speier, senior retirement consultant in Towers Watson's Arlington, Virginia, office, said, "I think younger individuals are looking at their parents and seeing the struggles they are going through—having to delay retirement—and are reacting."[21]



HR Web Wisdom

Types of Retirement Plans
http://www.dol.gov/dol/topic/retirement/

Retirement information from the U.S. Department of Labor.

Defined Contribution Plans

A **defined contribution plan** is a retirement plan that requires specific contributions by an employer to a retirement or savings fund established for the employee. One of the most significant changes in the composition of individual retirement savings over the past 10 years has been the shift from defined *benefits* to defined *contribution* pension plans such as 401(k). Only as far back as 1996, most companies with retirement plans had defined benefit plans. However, today a majority of *Fortune 100* companies offer employees only a defined contribution plan. Employees know in advance how much employers will contribute to a defined benefit plan; the amount of retirement income from a defined contribution plan will depend on the investment success of the investment fund.

401(k) plan
Defined contribution plan in which employees may defer income up to a maximum amount allowed.

A **401(k) plan** is a defined contribution plan in which employees may defer income up to a maximum amount allowed. Some employers match employee contributions 50 cents for each dollar deferred. Although employers typically pay the expenses for their defined benefit pension plans, there is a wide variety of payment arrangements for 401(k) plans. Some plan sponsors pay for everything, including investment fees and costs. Others pay for virtually nothing, with the result that nearly all fees are paid out of the plan's assets. In the middle are those plans in which the sponsor and participants share the expenses.

The recent recession was not kind to 401(k) accounts. As a result, some firms reduced or eliminated their matches to accounts. As the economy improved, employers began reinstating their matching contributions, usually at the same level, but sometimes higher or lower than the original match.[22]

Cash Balance Plans

cash balance plan
Retirement plan with elements of both defined benefit and defined contribution plans.

For some organizations, a hybrid arrangement may be the desired approach to retirement plans. A **cash balance plan** is a plan with elements of both defined benefit and defined contribution plans. During the recent recession, many 401(k) accounts took a beating. As a result, many employers felt having employees assume 100 percent of the risks was too much. A middle ground was found using a cash balance plan in connection with a defined contribution plan. When used as a stand-alone plan, a cash balance plan provides all of the benefits that would otherwise be available under a standard defined benefit plan. It resembles a defined contribution plan because it uses an account balance to communicate the benefit amount. However, it is closer to being a defined benefit plan because the employer normally bears the responsibility for and the risks of managing the assets.[23]

Coca-Cola has a cash balance plan for all employees. Kevin Wagner, a senior retirement consultant in the Atlanta office of Watson Wyatt Worldwide, which worked with Coca-Cola in designing the cash balance plan, said, "It is refreshing to see a company understand the value of its defined benefit plan, which, at least in Coca-Cola's situation, brings great value to both the company and its employees."[24] Other companies that have converted to cash balance plans include FedEx, IBM, MeadWestvaco, SunTrust Banks, and Dow Chemical.

Life Insurance and Disability Insurance

OBJECTIVE **10.6**
Summarize life insurance and disability insurance.

term life insurance
Protection for providing monetary payments to an employee's beneficiaries upon the employee's death and offered only during a limited period based on a specified number of years or maximum age.

whole life insurance
A type of life insurance that provides protection to employees' beneficiaries during employees' employment and into the retirement years.

Employer-sponsored life insurance protects employees' families by paying a specified amount upon the employee's death. These plans often include accidental death and dismemberment claims, which pay additional benefits if death was the result of an accident or if the employee incurs accidental loss of a limb. The cost of group life insurance is relatively low, costing employers about $100 annually.[25] Perhaps because of the low cost, approximately 95 percent of employers pay the entire life insurance premium.[26] Two of the more common life insurance plans are term life and whole life. **Term life insurance** provides protection to employees' beneficiaries only during a limited period based on a specified number of years subject to a maximum age. After that, the insurance automatically expires. **Whole life insurance** pays an amount to the designated beneficiaries of the deceased employee, but unlike term life policies, whole life plans do not terminate until payment is made to the beneficiaries.

Workers' compensation protects employees from job-related accidents and illnesses. Some firms, however, provide additional protection that is more comprehensive. When the short-term plan runs out, a firm's long-term plan may become active; such a plan may provide 50 to 70 percent of an employee's pretax pay. Long-term disability provides a monthly benefit to employees who as a result of illness or injury are unable to work for an extended period.

Paid Time-Off

OBJECTIVE **10.7**
Describe alternative paid time off policies.

In providing payment for time not worked, employers recognize that employees need time away from the job for many purposes. Discussed in the following sections are paid vacations, sick pay and paid time off, sabbaticals, and other forms of paid time off.

Vacation

Vacation time serves important compensation goals. For instance, paid vacations help workers to be more creative and productive, reduce stress, brings families and friends closer, and improves job performance.[27] They may also encourage employees to remain with the firm.[28] Paid vacation

time typically increases with seniority. For example, employees with 1 year of service might receive two weeks; 10 years' service, three weeks; and 15 years' service, four weeks.

In a climate of increased outsourcing and job insecurity, it is not surprising that many Americans do not take full advantage of their vacation benefits. In a Right Management survey, 70 percent of employees said they were not using all their annual leave in 2012, which is consistent with activity in 2011.[29] Some employees believe their employers do not want them to take vacations or are afraid to ask for time off. As compared with other countries, the average 13 days Americans take annually is small. According to the Center for Economic and Policy Research, many countries, excluding the United States, have laws that provide for annual paid vacation. For example, the French take 30 days, British take 28 days, Italians take 20 days, the Japanese take 10 days, and Canadians take 10 days.[30] In the absence of a paid vacation law in the United States, companies choose whether to offer paid vacation. Typically, U.S. companies offer 10 paid vacation days per year.[31] In one survey, 63 percent of Americans work more than 40 hours a week and lose more than $21 billion in unused vacation each year.[32]

A standout example of paid vacation policy can be found in the Internet company FullContact. Not only do employees receive their pay while on vacation, which is standard, but the founder of this company also provides each employee with $7,500 cash to spend on their vacation. The following Watch It video describes this unique approach to paid vacations and the company's rationale for offering it.

Watch It 1

If your instructor has assigned this, go to MyManagementLab to watch a video titled Best Boss Ever Pays Employees to Go on Vacation and respond to questions.

Sick Pay and Paid Time Off Banks

Each year, many firms allocate to each employee a certain number of days of sick pay they may use when ill. Employees who are too sick to report to work continue to receive their pay up to the maximum number of days accumulated. As with vacation pay, the number of sick pay days often depends on seniority.

Some managers are critical of sick pay programs. At times, individuals have abused the system by calling in sick when all they really wanted was an additional day of paid vacation. One approach in dealing with the problem of unscheduled absences is *paid time off banks*.[33] In lieu of sick leave, vacation time, and a personal day or two, a growing number of companies are providing **paid time off (PTO) banks**, a certain number of days off provided each year that employees can use for any purpose. With a PTO bank, all categories of time off such as sick leave, vacation, and personal days are grouped together. Possible benefits from PTOs include simpler administration, fewer carryover issues, high employee satisfaction, fewer creative excuses for time off, earlier advance notice of time-off needs, fewer last-minute absences, and fewer conflicts about time-off usage.

paid time off (PTO) banks
Means of dealing with the problem of unscheduled absences by providing a certain number of days each year that employees can use for any purpose.

Some companies are experimenting with different forms of PTO plans. A few companies are using what is referred to as a *results-only work environment* (ROWE). This plan allows employees to work wherever and whenever they wish as long as they complete projects on time. It often provides the "perfect blend" to the younger generation or those who are young at heart where both work life and personal life can be enjoyed.[34] The attitude of many workers today is that if I can get it done, and get it done well, why does it matter where or when I work?[35] Employers Resource Council, a HR services company based in Mayfield Village, Ohio, gives employees all the time off that they want. There is no schedule and no limit for earned vacation and leave time. The firm's 30 employees just have to get their work done on time.[36]

Sabbaticals

Sabbaticals are temporary leaves of absence from an organization, usually at reduced pay. Although sabbaticals have been used for years in the academic community, they are now entering the private sector. In fact, more than 20 percent of companies on *Fortune* magazine's list of the Top 100 Best Companies to Work For provide sabbaticals.[37] Often sabbaticals help to

sabbaticals
Temporary leaves of absence from an organization, usually at reduced pay.

reduce turnover and keep workers from burning out, hopefully returning revitalized and more committed to their work. At Clif Bar and Company, which manufactures organic food products (for example, protein bars), workers who complete seven years with the company are eligible to take an eight-week sabbatical with full pay.[38] Stonyfield Farm instituted a two-month paid sabbatical for anyone who has worked at least five years with the firm. Xerox has a Social Service Leave program where selected employees are given six-month paid leaves to provide service to the community.[39]

Other Types of Paid Time Off

Although paid vacations, sick pay and PTO banks, and sabbaticals constitute the largest portion of paid time off,[40] there are numerous other types that companies use. It is common for organizations to pay workers for their time in performing civic duties. For example, companies often give employees time off to work with the United Way. At times, an executive may be on loan to work virtually full-time on such an endeavor.

Some companies routinely permit employees to take off during work hours to handle personal affairs without taking vacation time. When a worker is called for jury duty, some organizations continue to pay their salary; others pay the difference between jury pay and their salary. When the National Guard or military reserve are called to duty, as has been the case in Afghanistan and Iraq, some companies pay their employees a portion of their salary while on active duty. Further, during an election, many companies permit employees voting time. Still other firms permit bereavement time for the death of a close relative. Finally, there is the payment for time not worked while at the company such as rest periods, coffee breaks, lunch periods, cleanup time, and travel time. The Fair Labor Standards Act does not require employers to give workers a rest break, and only nine states require it to be given. In these states, usually the break mandated is 10 minutes for every four hours worked.

OBJECTIVE 10.8
Identify employee service benefits.

Employee Services

Organizations offer a variety of benefits that can be termed "employee services." These benefits encompass a number of areas, including child care, educational assistance, food services/subsidized cafeterias, scholarships for dependents, relocation benefits, and benefits for domestic partner and individuals in same-sex marriages.

Child Care

A benefit offered by some firms is subsidized child care. According to the National Conference of State Legislatures, an estimated 80 percent of employees miss work because of unexpected child-care coverage issues. It is estimated that every $1 invested in backup child care yields $3 to $4 in returned productivity and benefit. At the Abbott Laboratories headquarters campus 30 miles north of Chicago, the company has built a $10 million state-of-the-art child-care center for more than 400 preschool children of Abbott workers. For parents who prefer a different arrangement, if their babysitter is sick, Abbott provides emergency backup service. Company child-care arrangements tend to reduce absenteeism, protect employee productivity, enhance retention and recruiting, promote the advancement of women, and make the firm an employer of choice.

Educational Assistance

Educational assistance plans can go a long way in improving employee retention. In a recent survey of HR professionals, 58 percent said their organizations offered educational assistance for undergraduate education, and 54 percent offered graduate assistance.[41] Some companies reimburse employees after they have completed a course with a grade of "C" or above, whereas others provide for advance payment of these expenses. Other employers provide half the reimbursement up front and the rest on satisfactory completion of the course. United Technologies Corporation pays for an employee's entire tuition and books up front. It also offers paid time off—as much as three hours a week, depending on the course load—to study. IBM has a unique form of tuition reimbursement; employees could contribute up to $1,000 a year to an interest-bearing education account supplemented by company-paid matches. The funds do not have to be used for education related to the employees' present job. Mutual of Omaha provides 100 percent

repayment up to $150 per credit hour at the employee's school of choice, with an annual maximum of $3,600 for employees working 30 or more hours per week. Employees can select any course pertinent to their job or that would be helpful in helping them advance professionally and become accomplished employees.[42] Internal Revenue Service regulations allow for educational assistance benefits to be nontaxable up to $5,250 per year.

Food Services/Subsidized Cafeterias

There is generally no such thing as a free lunch. However, firms that supply food services or subsidized cafeterias provide an exception to this rule. What they hope to gain in return is increased productivity, less wasted time, enhanced employee morale, and in some instances, a healthier workforce. Most firms that offer free or subsidized lunches feel that they get a high payback in terms of employee relations. Northwestern Mutual is one such company. Free lunches are available in its cafeterias, where the menus list calories instead of prices. Keeping the lunch hour to a minimum is an obvious advantage, but employees also appreciate the opportunity to meet and mix with people they work with. Making one entree a heart-healthy choice and listing the calories, fat, cholesterol, and sodium content in food is also appealing to a large number of employees.

Scholarships for Dependents

Often companies provide scholarships for dependents of employees. Scholarship programs can help boost employee recruitment and retention. Franciscan Health Systems, a nonprofit health care provider in Tacoma, Washington, targets its awards primarily to employees' children who are interested in entering the health care field, although it also awards scholarships for study in other areas.

Relocation

relocation benefits
Company-paid shipments of household goods and temporary living expenses, covering all or a portion of the real estate costs associated with buying a new home and selling the previously occupied home.

Relocation benefits are company-paid shipments of household goods and temporary living expenses, covering all or a portion of the real estate costs associated with buying a new home and selling the previously occupied home. Relocation packages vary but most companies will pay for household moving and packing expenses and temporary living expenses for up to six months until the home sells. Companies may also pay for weekly or bimonthly trips back home over the weekends. It has been estimated that approximately $9.3 billion was spent in 2012 on corporate relocation within the United States.[43]

Although relocating can be a hassle, it can also produce many benefits. Employees typically feel an investment has been made by their employer if they are asked to relocate and the firm pays all relocation expenses. Some companies have programs that help trailing spouses or partners secure employment. Some firms also provide outplacement help to spouses.

Often employees who once viewed a transfer as a step up are now taking a closer look at not only the economic impact of the move, but also what it does to quality of life. Recently, the primary reasons for declining a relocation were housing and mortgage concerns, followed by family issues/ties and spouses' or partners' jobs. John A. Challenger, CEO of the outplacement firm Challenger, Gray & Christmas Inc., said, "Continued weakness in the housing market is undoubtedly a leading factor behind the decline in relocation."[44] Losing money on the sale of their house is certainly not an enticement to relocate.

Domestic Partner Benefits and Same-Sex Marriage

A challenge facing managers and HR professionals is deciding whether to offer domestic partner benefits. Unmarried domestic partners are more often being included as qualified for coverage under employee benefit plans with larger companies. Of *Fortune 500* companies, about 57 percent offer same-sex partner benefits. Among the *Fortune* magazine list of best companies to work for, 89 offer gay-friendly benefits.[45] A number of companies are reimbursing gay and lesbian employees for the additional taxes they incur for their same-sex domestic partnership health care benefits. For example, New York–based Ernst & Young recently announced it would reimburse eligible employees for the tax, which averaged $1,100 per employee annually.[46]

There are also a growing number of counties, states, and municipalities that offer domestic partner benefits and provide a basis for comparison of policies, legal hurdles, coverage, and costs. Many states, such as California, Connecticut, New Jersey, Illinois, Iowa, New York, and

Vermont, have joined this trend, as have hundreds of cities and counties. Recently, Blue Cross & Blue Shield of Rhode Island began covering domestic partners. Domestic partners must be of the same sex, have resided together for a year or more prior to application, and be financially interdependent. In addition, supporting documentation, including a Declaration of Domestic Partnership, is required; but once the domestic partner is added, dependent children are also eligible for coverage.[47]

Some states have legalized such marriages. Thus far, the District of Columbia and 19 states—California, Connecticut, Delaware, Hawaii, Illinois, Iowa, Maine, Maryland, Massachusetts, Minnesota, New Hampshire, New Jersey, New Mexico (eight counties), New York, Oregon, Pennsylvania, Vermont, Rhode Island, and Washington—had laws permitting same-sex marriage. In June 2013, the U.S. Supreme Court ruled that Section 3 of the Defense of Marriage Act is unconstitutional. Specifically, the Court's ruling applies to the part of the law which had previously denied federal benefits to gay and lesbian couples in states where such unions are permitted. The ruling means that same-sex couples lawfully married in their state can receive the same federal benefits as heterosexual couples, such as possible tax advantages by filing jointly, benefits for veterans' spouses, and inheritance-tax exemptions. The U.S. Supreme Court maintained that Section 3 violates the U.S. Constitution's guarantee of equal protection under the law and treated marriage between same-sex individuals as less worthy than marriage between heterosexual couples.

OBJECTIVE **10.9**

Describe the premium pay benefit practice.

Premium Pay

premium pay
Compensation paid to employees for working long periods of time or working under dangerous or undesirable conditions.

hazard pay
Additional pay provided to employees who work under extremely dangerous conditions.

shift differential
Additional money paid to employees for the inconvenience of working less-desirable hours.

Premium pay is compensation paid to employees for working long periods of time or working under dangerous or undesirable conditions. Payment for overtime is legally required for nonexempt employees who work more than 40 hours in a given week. However, some firms voluntarily pay overtime for hours worked beyond 8 in a given day and pay double time, or even more, for work on Sundays and holidays.

Additional pay provided to employees who work under extremely dangerous conditions is called **hazard pay**. A window washer for skyscrapers in New York City might receive extra compensation because of the precarious working conditions. Military pilots collect extra money in the form of *flight pay* and *combat pay* because of the risks involved in the job. When the U.S. State Department was having difficulty enticing members of the Foreign Service to be assigned to the U.S. Embassy in Baghdad, Iraq, it offered a form of hazard pay. It enticed workers to take jobs in unstable regions with a 70 percent boost in base salary, premium pay for overtime, and 10 weeks off.

Some employees receive **shift differential** pay for the inconvenience of working less-desirable hours. This type of pay may be provided as additional compensation per hour and is used extensively in the health care and technical occupations. For example, employees who work the second shift (swing shift), from 4:00 P.M. until midnight, might receive $2.00 per hour above the base rate for that job. The third shift (graveyard shift) often warrants an even greater differential; for example, an extra $3.00 per hour may be paid for the same job. Shift differentials are sometimes based on a percentage of the employee's base rate.

OBJECTIVE **10.10**

Discuss voluntary benefits.

Voluntary Benefits

voluntary benefits
Benefits that are 100 percent paid by the employee but the employer typically pays the administrative cost.

Many firms are moving away from discretionary benefits where the cost is shouldered totally or partially by the company to voluntary benefits. **Voluntary benefits** are 100 percent paid by the employee but the employer typically pays the administrative cost. Employees gain because their premiums typically reflect group discounts and thus are lower than the employees could obtain on their own. Elana D'Arciprete, southeast vice-president at Colonial Life, said, "Voluntary benefits set employers apart by allowing them to offer a more expansive benefits package at any or little direct cost to them."[48] Some of the discretionary benefits in this chapter have been converted either partially or fully to voluntary benefits. Voluntary benefits can be grouped into four categories: health, wealth accumulation, security, and unique personal interests or requirements.[49] The most common voluntary products provided include term life insurance, vision insurance, long-term care insurance, long-term disability insurance, accident insurance, and dental insurance. Other voluntary benefits include automobile insurance, homeowners'/renters' insurance, debt

counseling and financial planning, identity theft coverage, college savings plans, and pet insurance. Of recent, many firms are offering discount programs. A recent survey of HR managers found that 58 percent of their employers had employee discount programs. Possible discounts provide a range of options, including Sprint or AT&T cell phones and discounted tickets, such as for amusement parks.[50]

OBJECTIVE 10.11

Explain various employee benefit laws.

Employee Benefits Legislation

Seven pieces of important federal legislation related to employee benefits are discussed in the next sections.

Employee Retirement Income Security Act

In 1974, ERISA was established to regulate the implementation of various employee benefits programs, including medical, life, and disability programs, as well as pension programs. The essence of ERISA is protection of employee benefits rights.

ERISA addresses matters of employers' reporting and disclosure duties, funding of benefits, the fiduciary responsibilities for these plans, and vesting rights. Companies must provide their employees with straightforward descriptions of their employee benefit plans, updates when substantive changes to the plan are implemented, annual synopses on the financing and operation of the plans, and advance notification if the company intends to terminate the benefits plan. The funding requirement mandates that companies meet strict guidelines to ensure having sufficient funds when employees reach retirement. Similarly, the fiduciary responsibilities require that companies not engage in transactions with parties having interests adverse to those of the recipients of the plan and not deal with the income or assets of the employee benefits plan in the company's own interests.

Consolidated Omnibus Budget Reconciliation Act

With the high cost of medical care, an individual without health care insurance is vulnerable. The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 was enacted to give employees the opportunity to temporarily continue their coverage, which they would otherwise lose because of termination, layoff, or other changes in employment status. The act applies to employers with 20 or more employees. Under COBRA, individuals may keep their coverage, as well as coverage for their spouses and dependents, for up to 18 months after their employment ceases. Certain qualifying events can extend this coverage for up to 36 months. The individual, however, must pay for this health insurance.

Companies are permitted to charge COBRA beneficiaries a premium for continuation coverage of up to 102 percent of the cost of the coverage to the plan. The 2 percent markup reflects a charge for administering COBRA.

Older Workers Benefit Protection Act

The Older Workers Benefit Protection Act (OWBPA), the 1990 amendment to the Age Discrimination in Employment Act, placed additional restrictions on employer benefits practices. When employers require employee contributions toward their benefits, under particular circumstances, employers can require older employees to pay more for health care, disability, or life insurance than younger employees because these benefits generally become more costly with age; older workers may be more likely to incur serious illnesses, thus, insurance companies may charge employers higher rates to provide coverage to older workers than younger ones.

In addition, employers can legally reduce the coverage of older workers for benefits that may become more costly as they further age. Benefits that may meet this criterion include disability insurance, health insurance, and life insurance. The employer may reduce the coverage of these benefits *only if* the costs for providing insurance to them are significantly greater than the cost for younger workers and not simply assumed to be more expensive.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act (HIPAA) of 1996 provides protection for Americans who move from one job to another, who are self-employed, or who have preexisting medical conditions. The prime objective of this legislation is to make health insurance

portable and continuous for employees and to eliminate the ability of insurance companies to reject coverage for individuals because of a pre-existing condition. As an element of HIPAA, there is now a regulation designed to protect the privacy of personal health information.

Family and Medical Leave Act

The Family and Medical Leave Act (FMLA) of 1993 applies to private employers with 50 or more employees and to all governmental employers. The FMLA provides employees up to 12 weeks a year of unpaid leave in specified situations. The overall intent of the act is to help employees balance work demands without hindering their ability to attend to personal and family needs. FMLA rights apply only to employees who have worked for the employer for at least 12 months and who have at least 1,250 hours of service during the 12 months immediately preceding the start of the leave. FMLA guarantees that health insurance coverage is maintained during the leave and also that the employee has the right to return to the same or an equivalent position after a leave.

The first major revisions to the FMLA were instituted in January 2009. The changes created leave opportunities for the military and required employees to adhere to stricter guidelines for taking leave. Relatives of seriously injured members of the military may take up to 26 weeks off to care for their injured military family members. In addition, relatives of members of the National Guard or reserves who are called to activity duty may receive up to 12 weeks of leave to attend military programs (official send-off of the family member's troop), arrange child care, or make financial arrangements. Nonmilitary workers who claim to have chronic health conditions (e.g., ongoing back pain) must see their doctor at least twice per year for documentation.

Pension Protection Act

The Pension Protection Act is designed to strengthen protections for employees' company-sponsored retirement plans in at least two ways. First, this law should strengthen the financial condition of the Pension Benefit Guaranty Corporation (PBGC) by requiring that private sector companies that underfund their defined benefit plans pay substantially higher premiums to ensure retirement benefits. The PBGC is a government agency that ensures that employees owed benefits under private-sector employer defined benefit pensions receive those benefits in the event that a company terminates its plan.

Second, the Pension Protection Act makes it easier for employees to participate in such employer-sponsored defined contribution plans such as 401(k) plans. Millions of workers who are eligible to participate in their employers' defined contribution plans do not contribute to them. There are a variety of reasons why employees choose not to participate; however, a prominent reason is that most individuals feel they do not have sufficient knowledge about how to choose investment options (e.g., a high-risk mutual fund versus a fixed-rate annuity) that will help them earn sufficient money for retirement. In addition, once employees make the decision to participate in these plans and have been making regular contributions, they are not likely to stop. With these issues in mind, the Pension Protection Act enables companies to enroll their employees automatically in defined contribution plans and provides greater access to professional advice about investing for retirement. In addition, this act requires that companies give multiple investment options to allow employees to select how much risk they are willing to bear. As an aside, risky investments usually have the potential for substantial gains or losses in value. Less risky investments usually have the potential for lower gains or losses. Some companies previously limited investment opportunities to company stock, which exposes employees to substantial investment risk.

Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act of 2010, often called the "Health Care Reform Bill" or "Obama Care," created considerable political debate because it effectively reshaped major portions of the health care industry in the United States.[51] The act is based on the idea that when more people have health insurance—young, healthy people in addition to older, sicker people—risk will be spread out and costs will come down. Following are some of the major features of the bill:

1. All individuals are required to have health insurance coverage if they do not receive health coverage through their employer. Those who choose not to have insurance will pay a penalty.
2. Employers are required to offer employees affordable health insurance or pay a penalty. Coverage is considered excessive if an employee premium contribution is above

9.5 percent of family income. To handle this situation, some companies are considering offering wage-based premiums where lower-wage earners pay less than those who are more highly paid.[52]

3. Children can stay on their parents' policy until they are 26.
4. Insurance companies cannot cancel a policy if the insured gets sick.
5. A person cannot be denied insurance simply because of a pre-existing condition.
6. There is no maximum limit on insurance coverage.
7. There is no waiting time with regard to coverage for pre-existing conditions.

The law does not require an individual to drop the health coverage he or she had on the date of enactment. Existing employer plans are "grandfathered" under the new law and can continue to renew current employees and enroll new employees.

It may appear odd to have a topic regarding smoke-free workplaces in the chapter on benefits, but the Patient Protection and Affordable Care Act justifies the placement. The cost gap for health care between smokers and nonsmokers likely will widen beginning in 2018 when, under a provision of the act, companies with health plans that spend much more than average will have to pay an additional federal tax. It is well documented that smokers increase health care costs. Therefore, employers have two choices: cut benefits or cut the trend of rising medical costs to avoid the levy. Many firms are taking the second choice. The following paragraphs highlight the cost of smoking to organizations.

Ann Skye, wellness manager at Quintiles Transnational Corporation, said, "Smoking is the number one culprit in poor health, and its negative effects are indisputable. We feel it would be irresponsible for any employee wellness program not to aggressively address tobacco use."[53] Smoking is the biggest factor in controllable health care costs. According to the Centers for Disease Control and Prevention, cigarette smoking is the leading cause of preventable death in this country, accounting for roughly 443,000 deaths, or one out of every five deaths. Numerous studies have concluded that workplace smoking is not only hazardous to employees' health, but also detrimental to the firm's financial health. Statistics show that cigarette smoking costs $92 billion in productivity losses in the workplace annually.[54] Employees who smoke consume more health care resources, experience greater absenteeism, and tend to be less productive while at work.

Employers have grown increasingly intolerant of smokers and many workplaces are smoke-free, although about 21 percent of adult Americans continue to smoke.[55] Even though some smokers remain adamant that passive cigarette smoke is not harmful, the Surgeon General has concluded that there is no safe level of secondhand smoke exposure. The evidence that secondhand tobacco smoke causes serious harm becomes more concrete every day and may be an under-recognized cause of heart attack deaths. Having smoke-free workplace policies helps to fulfill an employer's legal obligation to provide a safe workplace under the Occupational Safety and Health Act's general duty clause, which requires organizations to furnish a workplace free from recognized hazards that are causing or are likely to cause death or serious physical harm. The policy also reduces the risk of litigation, potentially reduces workers' compensation premiums, and protects employees from harm.

According to the American Lung Association, 50,000 people die from exposure to secondhand smoke each year.[56] A study released by the University of Minnesota Cancer Center revealed that nonsmoking employees had up to 25 times more nicotine in their bodies on days when they worked in restaurants and bars than on days they were not at work.[57]

Recently companies are also using penalties against workers for unhealthy behaviors. The most common penalty is higher premium benefits and increased deductibles. At PepsiCo, smokers pay an annual $600 insurance surcharge, and Gannett Publishing charges an additional $60 a month. Some business owners have taken a personal stand against smoking in general, not just smoking in the workplace. Alaska Airlines, Union Pacific, and Turner Broadcasting have refused to hire smokers for more than 20 years.[58] Four employees from Weyco, a firm that manages benefit plans for workers on behalf of other companies, were fired after refusing to take a nicotine test to determine whether they had smoked. President Howard Weyers said, "Some call this a violation of privacy, pointing to the principle that what you do in your own home is your

own business. But they forget the part about so long as it doesn't harm anyone else."[59] There potentially may be a problem with such a policy because 30 states and the District of Columbia have "lifestyle" statutes that limit an employer's ability to make adverse employment decisions based on what employees or applicants do while off duty. Some of those statutes may prevent an employer from terminating an employee or refusing to hire an applicant who smokes.[60]

OBJECTIVE 10.12

Describe customized benefit plans.

customized benefit plan
Benefit plan that permits employees to make yearly selections to largely determine their benefit package by choosing between taxable cash and numerous benefits.

Customized Benefit Plans

Customized benefit plans permit employees to make yearly selections to largely determine their benefit package by choosing between taxable cash and numerous benefits.

Not long ago, firms offered a uniform package that generally reflected a typical employee based on tradition, budgets, and management choices. Today, the workforce has become considerably more heterogeneous, and this prototype is no longer representative. Different interests must be served in this new workforce today.[61] With four generations of workers now in the workplace, customization and flexibility become important in developing a benefits package that meets the needs of everyone. Workers have considerable latitude in determining how much they will take in the form of salary, life insurance, pension contributions, and other benefits. Customized cafeteria plans permit flexibility in allowing each employee to determine the compensation components that best satisfy their needs.[62]

Obviously, organizations cannot permit employees to select all their benefits. For one thing, firms must provide the benefits required by law. In addition, it is probably wise to require that each employee have core benefits, especially in areas such as retirement and medical insurance. However, the freedom to select highly desired benefits would seem to maximize the value of an individual's compensation. Employees' involvement in designing their own benefit plans would also effectively communicate to them the cost of their benefits. In keeping the program current, management depends on an upward flow of information from employees to determine when benefit changes are needed.

The downside to customized benefit plans is that they are costly. Development and administrative costs for these plans exceed those for traditional plans. Even though customized benefit plans add to the organization's administrative burden, some firms apparently find that the advantages outweigh shortcomings.

OBJECTIVE 10.13

Discuss global issues in employee benefits.

Global Customized Benefits

The trend in the United States is to customize benefit plans and not offer a uniform package that generally reflects a typical employee. That approach also applies to the global environment and often provides a major challenge for organizations. Global companies must recognize that a standardized benefits program for all employees may be impractical and unsuccessful in achieving key benefits objectives. Employers must understand the culture of each country because the culture will have a major impact on the benefits workers desire.[63]

There are three basic groups of global benefits: government-provided, government-mandated, and voluntarily provided by the company. Government-provided benefits are administered and provided directly by the government. Typically they consist of health care and retirement benefits, but may include life insurance, disability insurance, or unemployment insurance. Government-mandated benefits are those provided by employers because the law requires them to do so. Voluntary benefits are provided at the discretion of the employer.[64]

The first thing that a firm must do when considering a benefit package in the global environment is to establish a global corporate benefits strategy and determine what the company identity should be. For example, Helsinki-based Tieto Corporation, an information technology services company with 17,000 employees, wants to present an image that it provides the best benefits in the marketplace. On the other hand, the benefit approach for Nalco Company, a Naperville, Illinois–based water treatment company with more than 11,500 employees operating in 130 countries, just wants to be at the 50th percentile among companies for benefits.[65] These two philosophies will likely have a significant impact on the benefit package offered.

A company operating in India will likely offer an assortment of child incentives, home incentives, and health plans that include grandparents. They also expect a "dearness allowance" that helps to offset inflation as part of the compensation plan.[66] For India's Informa employees, private health insurance, flexible benefits, and dependent coverage are top commodities. But in the United Kingdom, the wellness programs such as gym memberships and health screenings are highly valued benefits.[67]

U.S. multinationals have discovered that U.S. insurance plan designs were not universally acceptable in other countries. This is caused by labor and tax regulations, which strongly influence employee expectations. For instance, U.S. group life insurance plans deliver lump-sum death benefits, but such benefits are not tax-favored in the Netherlands, where employees expect survivorship annuities to spouses and children in the event of death in service. U.S. firms also place a high priority on health care benefits, whereas many European countries have government-sponsored health care arrangements that differ in design in each country. Additionally, in some countries, employer-paid private medical plans are considered taxable income to the employee.[68]

Going global has its challenges with regards to total rewards. An employer not only has to ensure that its strategy fits with the benefits available in each country as well as its culture, but also has to consider issues of communication including language, media, and currency. Elliott Webster, flexible benefits director at consultants PIFC, says, "Different cultures can also be a challenge. For example, in the UK life insurance is seen as a benefit provided by a company but in Norway it is seen as a right."[69]

The United States ranks ninth in terms of the percentage of companies offering flexible work arrangements to their employees according to a survey released by Grant Thornton International. The top two countries in the survey were Finland (92 percent) and Sweden (86 percent), with Australia and Thailand (85 percent) tied at third. The three worst countries, in terms of companies offering flexible work arrangements, were Japan, Greece, and Armenia.[70]

OBJECTIVE **10.14**

Summarize the issues of communicating information about benefit plans.

Communicating Information about the Benefits Package

Employee benefits can help a firm recruit and retain a top-quality workforce. Organizations spend millions of dollars each year for benefits. Yet, many do not do a good job of communicating the value of this investment to the employees. Often organizations do not have to improve benefits to keep their best employees; rather, workers need to fully understand the benefits that are provided them.

The HR Director of Elm City Market discusses a variety of HR issues, including educating employees about their employee benefits options. The following Watch It video describes some of the benefit package components.

Watch It 2

If your instructor has assigned this, sign into **mymanagementlab.com** to watch a video titled Elm City Market: Designing and Administering Benefits and respond to questions.

ERISA provides still another reason for communicating information about a firm's benefits program. This act requires organizations with a pension or profit-sharing plan to provide employees with specific data at specified times. The act further mandates that the information be presented in a manner that is easy to understand. Also, under the Patient Protection and Affordable Care Act, employers must provide a benefits summary and coverage explanation to all applicants and enrollees at the time of initial enrollment and at the annual enrollment, in addition to the summary plan description required by ERISA.

OBJECTIVE **10.15**

Explain workplace flexibility (work–life balance).

Workplace Flexibility (Work–Life Balance)

Effective work–life balance programs focus on solving any personal issues that can detract from an employee's work. For employers, creating a balanced work–life environment can be a key strategic factor in attracting and retaining the most talented employees. As Tina Tchen, executive

director of the White House Council on Women and Girls, said, "Flexible work policies are an economic imperative for American families and companies."[71] Workplace flexibility is high on employees' lists of company benefits desired and continues to grow. It has moved from being a great benefit that a company can offer to a business necessity. By providing such an environment, employees are better able to fit family, community, and social commitments into their schedule. The homogeneous workforce that the United States once had is quite different now. Consider the following statistics and envision how the workplace profile has changed: 27 percent of single parents are men, 40 percent of the workforce is unmarried, one in five workers is 50 or older, and four million households are multigenerational. Also, nearly 25 percent of Americans are caring for elders.[72]

For men and women seeking to balance their work and personal lives, time is nearly as important as money and may even be more important for some.[73] According to a Baylor University study, new mothers who return to work are more likely to stay on the job if they have greater control over their work schedules.[74] More employees are requesting workplace flexible benefits to achieve a better work and life balance. Marcee Harris Schwartz, the New York–based director of BDO USA's Flex program, said, "We do not think of flexibility as a set of options, or an employee benefit, or even a program. We really see it as a business strategy—a strategy that can help employees manage their own working life."[75] Some companies offer many of the factors typically associated with workplace flexibility. State Street Corporation, a multinational financial services provider with more than 29,000 employees in 26 countries, provides five options that give employees flexibility on when, how, and where they work.[76] These include flextime, compressed workweek, job sharing, two-in-a-box, telecommuting, and part-time work.

Flextime

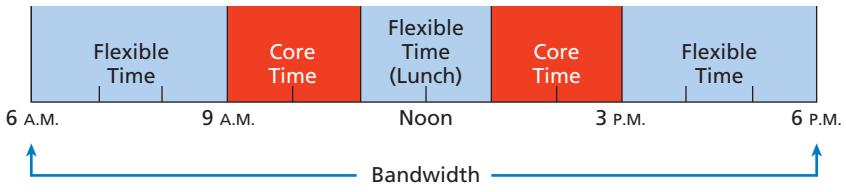
flextime
Practice of permitting employees to choose their own working hours, within certain limitations.

Flextime is the practice of permitting employees to choose their own working hours, within certain limitations. Even when the economy was depressed, flexible work hours remained high on the priority list of what companies could offer in lieu of a salary increase, although guaranteed job security ranked number one. For many old-economy managers who think they must see their employees every minute to make sure they are working, this may be difficult. Another benefit of flextime is that it can bring better health to employees by reducing employee stress levels.

In a flextime system, employees typically work the same number of hours per day as they would on a standard schedule. However, they work these hours within what is called a bandwidth, which is the maximum length of the workday (see Figure 10-2). Core time is that part of the day when all employees must be present. *Flexible time* is the period within which employees may vary their schedules. A typical schedule permits employees to begin work between 6:00 A.M. and 9:00 A.M. and to complete their workday between 3:00 P.M. and 6:00 P.M. Marianne Mondy, a legislative auditor for the State of Louisiana goes to work at 6:30 and is off at 3:00, a schedule she very much enjoys. This permits her to miss much of Baton Rouge's horrible traffic congestion.

Because flexible hours are highly valued in today's society, providing a flexible work schedule gives employers an edge in recruiting new employees and retaining highly qualified ones.[77] Also, flextime allows employees to expand their opportunities. For example, it may be easier for them to continue their education than if they were on a traditional work schedule. The public also seems to reap benefits from flextime. Transportation services, recreational facilities, medical clinics, and other services can be better used by reducing competition for service at conventional peak times. Yet, flextime is not suitable for all types of organizations. For example, its use may be severely limited in assembly-line operations and companies using multiple shifts.

FIGURE 10-2
Illustration of Flextime



Compressed Workweek

compressed workweek
Any arrangement of work hours that permits employees to fulfill their work obligation in fewer days than the typical five-day workweek.

The **compressed workweek** is an arrangement of work hours that permits employees to fulfill their work obligation in fewer days than the typical five-day, 8-hour-a-day workweek. A common compressed workweek is four 10-hour days. Another form of the compressed workweek is four 9-hour days and a half day on Friday. Some hospitals permit their registered nurses to work three 12-hour days during a workweek. Still other firms are allowing employees to work longer but fewer days in the summer in exchange for a day off each week. There are endless different combinations of compressed workweeks.

Working under this arrangement, employees have reported greater job satisfaction. In addition, the compressed workweek offers the potential for better use of leisure time for family life, personal business, and recreation. Employers in some instances have cited advantages such as increased productivity and reduced turnover and absenteeism. Other firms, however, have encountered difficulty in scheduling workers' hours and at times employees become fatigued from working longer hours. In some cases, these problems have resulted in lower product quality and reduced customer service.

Job Sharing

job sharing
Two part-time people split the duties of one job in some agreed-on manner and are paid according to their contributions.

In **job sharing**, two part-time people split the duties of one job in some agreed-on manner and are paid according to their contributions. It is an attractive option to people who want to work fewer than 40 hours per week.

Some have equated the benefits job sharing provides to that of running a marathon. Given equal athletic ability, two athletes running half a marathon back to back will invariably run faster than one runner going the entire distance alone. Although the arrangements vary, the outcome is the same: Job sharing provides the flexibility to enjoy life. It provides an option to retain workers, particularly women who often opt out of the workforce to raise families. Often job sharers work as hard in, say, three days, as those working full-time and are pleased to have the opportunity to combine work and motherhood or other interests.

There appears to be a growing trend as more companies offer job sharing. Two Ford Motor Company engineers used job sharing as a means of advancing their careers and still have time with their newborns. Julie Levine and Julie Rocco were joint program manager for the 2011 Explorer Crossover and each earned 80 percent of their full-time salaries and benefits. Rocco and Levine supervise 10 people. Rocco worked Monday, Wednesday, and Thursday, and Levine worked Tuesday, Wednesday, and Friday. Both worked about 40 hours a week each, which is considered part-time in the automobile industry.[78]

Job sharing also provides a means of encouraging older workers to remain on the job past retirement age. Sharing jobs has potential benefits that include the broader range of skills the partners bring to the job. For job sharing to work, however, the partners must be compatible, have good communication skills, and have a bond of trust with their manager. Job sharing also can pose challenges, including the need for additional oversight—such as conducting administrative tasks and performance reviews for two employees rather than one. However, if the option is the loss of two valued employees, the additional effort is certainly worth it.

Two-in-a-Box

Some companies are giving two executives the same responsibilities and the same title and letting them decide how the work is to be divided (Two-in-a-Box). Unlike job sharing, it is a full-time job for both executives. It certainly has some risk, as in the case of the 1998 DaimlerChrysler Corporation disaster of an attempt at Two-in-a-Box when one executive was unwilling to share authority, resulting in the resignation of the other executive. Problems certainly can occur as the egos of two executives meet, but it has proven successful in certain instances. A major advantage of this approach is that it can ease transition, permitting a newer manager to learn from a more experienced manager. It is also useful as managers confront the requirement of global traveling. One manager could be at the home office taking care of regular business while the other is traveling. For two-and-a-half years, two executives shared a job as heads of Cisco's routing group. The two had complementary skills and each gained experience from the other. Cisco typically combines a technically oriented manager with a business-oriented one.[79] The Two-in-a-Box approach requires work and constant communication, but for the right two executives, the benefits derived are worth it.



HR BLOOPERS

The Job-Sharing Problem at SunTrust Bank

As the HR Manager at SunTrust Bank, Jerry James manages the company's generous benefit program that includes flexible work options. Many employees telecommute or take advantage of the company flextime policy. Generally employees appreciate the flexible work options, but right now Jerry has a problem in the Loan Processing department. Two different employees from Loan Processing approached him several months ago about their desire for a flexible work option. Both employees had recently started families and both wanted part-time work, so Jerry suggested job sharing. No workers have requested this option before, but because these two employees did the same job for the company, Jerry thought it was a great idea. The two could share one job, and he could easily hire a new employee to take on the other job. But after finishing another stressful call from one of the employees and reading a frustrated e-mail message from the other, Jerry knows they need some help working together. Jerry first recommended that they talk to their manager, but both of the employees told Jerry that they really didn't trust their manager to help them. The employees now don't seem to be even talking to each other at all and Jerry's discussion with their manager about their problems was not very helpful. The manager told Jerry he was surprised when these two employees requested the job sharing arrangement to begin with because they did not get along with each other very well. Now Jerry isn't sure what to do.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

There are other examples of Two-in-a-Box. Aon Consulting is chaired by co-CEOs Kathryn Hayley and Baljit Dail.[80] In 2010, German business software provider SAP AG appointed Bill McDermott and Jim Hagemann Snabe as co-CEOs.[81] Other companies that use co-CEOs include BlackBerry maker Research in Motion and restaurant chain P. F. Chang's China Bistro.

Telecommuting

telecommuting
Work arrangement whereby employees, called "teleworkers" or "telecommuters," are able to remain at home (or otherwise away from the office) and perform their work using computers and other electronic devices that connect them with their offices.

Telecommuting is a work arrangement whereby employees, called "teleworkers" or "telecommuters," are able to remain at home (or otherwise away from the office) and perform their work using computers and other electronic devices that connect them with their offices.

Telecommuting has become more popular in recent years, and it is estimated that by 2020 up to 30 percent of the workforce will be telecommuting because of traffic congestion and frustration with commuting and high gas prices. According to a WorldatWork survey of 566 North American companies, 34 percent provided full-time positions away from the office.[82] For self-motivated workers, telecommuting can increase worker productivity and improve job satisfaction and loyalty. Modern communications and information technologies permit people to work just about anywhere. Today, physical location is largely immaterial when it comes to working. Telecommuting is significantly changing not just the way people work but also where they do it. One study indicates that employees who telecommute for the majority of the time are more satisfied with their jobs than those working primarily in an office.[83] Workers like telecommuting because there are fewer interruptions, less company politics, and less face-to-face communication. These benefits improve their work–life balance.



HR Web Wisdom

Telecommuting
http://www.telework.gov/

Governmental Web site for employees who think they might like to telecommute (or are already doing so), for managers and supervisors who supervise teleworkers, and for agency telework coordinators.

Telecommuters generally are information workers. They accomplish jobs that require, for example, analysis, research, writing, budgeting, data entry, or computer programming. Teleworkers also include illustrators, loan executives, architects, attorneys, and publishers. Employees can accomplish both training and job duties without losing either efficiency or quality by using the Internet. Thanks largely to telecommuting, when the New York City transit union went on strike, knowledge workers were able to work from home, which greatly lessened the effect of the strike.

Another advantage of telecommuting is that it eliminates the need for office space. The expense of employees is not just their salaries and benefits, but also the overhead associated with their office space. Deloitte LLP offers most of its 45,000 employees nationwide the option to telecommute as many as five days a week and have been doing this for 15 years. As leases come up for renewal, the firm is able to reduce office space and energy costs by 30 percent. The facilities are then reconfigured to accommodate mobile workers who do not need permanent offices.[84]

Also, commuting distances are not a factor for teleworkers. The average time it takes to get to work continues to increase, which often contributes to tardiness and lost work hours. With telecommuting, firms may hire the best available employees located virtually anywhere in the world for many jobs. The ability to employ disabled workers and workers with young children further broadens the labor market. Finally, telecommuting is being used as an alternative for executives who are unwilling to relocate. If the company is willing to permit the executive to not work out of headquarters, telecommuting may be the answer.

Part-Time Work

Historically, part-time employees have been viewed as basically second-class citizens. These were the workers who reluctantly accepted a low-paying job until a full-time career break occurred. Today, increasing highly educated professionals are choosing part-time opportunities in their fields to address both job and personal needs. Alison Doyle, an About.com job search and employment expert, said, "Professional moms would be thrilled to lower their hours to spend more time with their children, and they don't mind giving up benefits to achieve that work/life balance."[85]

At Deloitte, each employee's performance is discussed during twice-a-year evaluations focused not just on career targets but also on larger life goals. Employees can request to do more or less travel or client service. The employee can also request to move laterally into a new role—that may or may not come with a pay cut. About 10 percent of employees choose to "dial up" or "dial down" at any given time. The program is in response to Millennials demanding a better work–life balance and boomers looking to ease into retirement.[86]

Just described were the positive aspects of part-time. The recent recession caused many workers to take part-time jobs because they could not find full-time ones. In August 2013, the underemployed rate was 13.7 percent.[87]

Summary

1. ***Define* indirect financial compensation (employee benefits)**. Some companies are experimenting with what some might call unique benefits as they attempt to brand their organization as a good place to work. They want to stand out from the pack. For example, one company gives employees a six-month sabbatical (extended paid time off) to engage in community service.

   Indirect financial compensation (employee benefits) includes all financial rewards that generally are not paid directly to the employee in the form of a wage, salary, or performance-based pay.
2. ***Describe legally required benefits.*** Legally required benefits currently account for about 10 percent of total compensation costs. These include Social Security, unemployment insurance, and workers' compensation. Legally required benefits were often prompted by poor social or economic conditions.
3. ***Define discretionary benefits and explain the various types of discretionary benefits.*** *Discretionary benefits* are benefit payments made as a result of unilateral management decisions in nonunion firms and from labor–management negotiations in unionized firms.

   Categories of discretionary benefits include paid time off, health care (prior to requirements imposed by health reform), life insurance, retirement plans, disability protection, employee stock option plans (ESOPs), and employee services.
4. ***Discuss the alternative types of health care plans.*** Companies can choose from a variety of health insurance set-ups based on its objectives. There are two long-standing approaches—fee-for-service plans and managed care plans. Some give employees a vast amount of choice over health care providers (*fee-for-service plans*), whereas others are more restrictive such as is the case for *managed care plans*. Health maintenance organizations and preferred provider organizations are examples of managed care plans that provide higher reimbursement rates for health care providers who operate within the insurance

plan's network. Specialized insurance provides for dental, vision, and mental health care and may be established as fee-for-service plans or managed care plans. An emerging approach, *consumer-driven health care*, is the least costly to employers, but employees bear greater costs for health care services, often because these plans have high deductible features. This approach requires that individuals be more well-educated about their health and health care choices.

5. ***Explain the various kinds of retirement plans.*** Two standard designs are *defined benefit plans* and *defined contribution plans*. The former pays a monthly benefit throughout retirement. The latter is a tax-preferred savings account from which money may be drawn during retirement. *Hybrid plans* combine the features of both.
6. ***Summarize life and disability insurance.*** *Life insurance* provides a payment to a designated beneficiary in the event that the policy holder passes away. There are a variety of life insurance plan options. *Disability insurance* provides partial income replacement after an employee becomes unable to work. There are short- and long-term disability plan options.
7. ***Describe alternative paid time off policies.*** There are a variety of paid time off benefits such as vacation, sick leave, and sabbatical leave as examples.
8. ***Identify employee service benefit options.*** Employers may choose to offer one or more benefits such as child care, educational assistance, subsidized meals, and scholarships for dependents.
9. ***Describe the premium pay benefit practice.*** *Premium pay* is compensation paid to employees for working long periods of time or working under dangerous or undesirable conditions.
10. ***Discuss voluntary benefits***. Many organizations are moving to *voluntary benefits*, which are essentially 100 percent paid by the employee. However, the employer typically pays the administrative cost for employees to have these benefits. Employees gain because their premiums typically reflect group discounting and thus are lower than the employees could obtain on their own.
11. ***Explain the various employee benefit laws.*** Several laws regulate the practice of employee benefits, such as the Employee Retirement Income Security Act, the Consolidated Omnibus Budget Reconciliation Act, the Older Workers Benefit Protection Act, the Health Insurance Portability and Accountability Act, the Family and Medical Leave Act, the Pension Protection Act, and the Patient Protection and Affordable Care Act. These laws define the obligation of employers and the rights of employees.
12. ***Describe customized benefit plans.*** *Customized benefit plans* permit employees to make yearly selections to largely determine their benefit package by choosing between taxable cash and numerous benefits.
13. ***Discuss global issues in employee benefits.*** When dealing with benefits on the global stage, employers must recognize that a standardized benefits program for all employees across the globe may be impractical and unsuccessful in achieving key benefits objectives.
14. ***Describe the importance of communicating information about the benefits package.*** Organizations spend millions of dollars each year for benefits. Yet, many do not do a good job of communicating the value of this investment to the employees. Often organizations do not have to improve benefits to keep their best employees; rather, workers need to fully understand the benefits that are provided them.
15. ***Explain workplace flexibility (work–life balance).*** Workplace flexibility factors include flextime, the compressed workweek, job sharing, Two-in-a-Box, telecommuting, and part-time work.

Key Terms

indirect financial compensation (employee benefits) 279
nonfinancial compensation 280
unemployment insurance 281
workers' compensation 282
discretionary benefits 282
fee-for-service plans 283
coinsurance 283
out-of-pocket maximum 283
managed care plans 283
prepaid medical services 283
primary care physician 284
preferred provider organization (PPO) 284
prescription drug plans 284
mental and substance abuse plans 284
consumer-driven health care 285
health savings account (HSA) 285
health reimbursement accounts (HRAs) 285
flexible spending account (FSA) 285
qualified plans 286
nonqualified plans 286
defined benefit plan 286
defined contribution plan 286
401(k) plan 287
cash balance plan 287
term life insurance 287
whole life insurance 287
paid time off (PTO) banks 288
sabbaticals 288
relocation benefits 290
premium pay 291
hazard pay 291
shift differential 291
voluntary benefits 291
customized benefit plan 295
flextime 297
compressed workweek 298
job sharing 298
telecommuting 299

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Go to **mymanagementlab.com** to complete the problems marked with this icon ✪.

Exercises

10-1. Think of a job you have worked in the past or a job that your parents held. What discretionary and voluntary benefits were provided? In order of importance to you or your parents, rank the value of each benefit. How valuable was the total benefit package?

✪**10-2.** Customized benefit plans permit employees to make yearly selections to largely determine their benefit package by choosing between taxable cash and numerous benefits. What do you believe would be the most valuable benefits for the following employees?

a. single person who recently graduated from college
b. forty-year-old married man with two children in college
c. single mother with two young children

Questions for Review

10-3. Define *indirect financial compensation (employee benefits).* Distinguish between discretionary and voluntary benefits.

10-4. What is *nonfinancial compensation*?

10-5. What are the basic categories of discretionary benefits? Describe each.

10-6. What items are included in the discretionary benefit of paid time off?

10-7. Define each of the following:
(a) fee-for-service plan
(b) health maintenance organization (HMO)
(c) preferred provider organization (PPO)
(d) consumer-driven health care plan
(e) health savings account (HSA)
(f) health reimbursement account (HRA)
(g) flexible spending account (FSA)

10-8. There are numerous forms of retirement plans. Describe each of the following:
(a) defined benefit plan
(b) defined contribution plan
(c) 401(k) plan
(d) cash balance plan

10-9. Define the term *sabbatical*.

10-10. Distinguish among premium pay, hazard pay, and shift differential pay.

✪**10-11.** What is the purpose of a customized benefit plan?

10-12. Define each of the following benefit laws:
(a) Employee Retirement Income Security Act
(b) Consolidated Omnibus Budget Reconciliation Act
(c) Health Insurance Portability and Accountability Act
(d) Family and Medical Leave Act
(e) Older Workers Benefit Protection Act
(f) Pension Protection Act
(g) Patient Protection and Affordable Care Act

10-13. What is a customized benefit plan and why it is important for employees? What can they choose?

10-14. Define each of the following workplace flexibility factors:
(a) flextime
(b) compressed workweek
(c) job sharing
(d) telecommuting

10-15. What is the purpose of the staffing practice called Two-in-a-Box?

✪**10-16.** Why is it important to customize benefits in the global environment?

INCIDENT 1 Is Flextime the Way Forward?

When the management of ToKu, a Malaysian timber manufacturing company, decided to implement flextime for its production staff, Ann, the shift supervisor, pondered on that decision. Her boss, Mr. Tan, had hinted that he was willing to invest in moving the company forward and was particularly interested in increasing the morale of all its employees. For a time, she saw a boost in the employee morale, but productivity did not show much improvement.

"Sales are down and there are problems meeting customer orders. Call for a meeting immediately!" Mr. Tan exclaimed. His reaction was due to customer complaints about important delivery dates being missed. "All right, I'll set the meeting for tomorrow afternoon," said Ann. She made phone calls and sent e-mails but didn't get many responses.

On the following day only one employee, David, out of 20 was available for the meeting. Another employee, Susan, mentioned that she had some errands, other employees were out of town, and some

employees did not respond. Mr. Tan was furious. "That's it! I'm getting rid of flextime and restoring the old schedules! Ann, please inform all the employees to report back to work as usual next week at 9 a.m. I don't see how flextime can work here, because the employees are taking advantage of it. Please send warning letters to those absent from today's meeting," said Mr. Tan, as he stormed out of the meeting room.

Questions

10-17. Why was the implementation of flextime a negative experience for the management at ToKu?

10-18. What are the advantages and disadvantages of flextime?

10-19. How would you propose that flextime should have been implemented at ToKu?

INCIDENT 2 A Benefits Package Designed for Whom?

Wayne McGraw greeted Robert Peters, his next interviewee, warmly. Robert had an excellent academic record and appeared to be just the kind of person Wayne's company, Beco Electric, was seeking. Wayne is the university recruiter for Beco and had already interviewed six graduating seniors at Centenary College.

Based on the application form, Robert appeared to be the most promising candidate to be interviewed that day. He was 22 years old and had a 3.6 grade point average with a 4.0 in his major field, industrial management. Robert was not only the vice-president of the Student Government Association, but also activities chairman for Kappa Alpha Psi, a social fraternity. The reference letters in Robert's file reveal that he was both active socially and a rather intense and serious student. One of the letters from Robert's employer during the previous summer expressed satisfaction with Robert's work habits.

Wayne knew that discussion of benefits could be an important part of the recruiting interview. But he did not know which aspects of Beco's benefits program would appeal most to Robert. The company has an excellent profit-sharing plan, although 80 percent of profit distributions are deferred and included in each employee's retirement account. Health benefits are also good. It also has long-term care insurance. The company's medical and dental plan pays a significant portion of costs. A company lunchroom provides meals at about 70 percent of outside prices, although few managers take advantage of this. Employees get one week of paid vacation after the first year and two weeks after two years with the company. Two weeks are provided each year for sick leave. In addition, there are 12 paid holidays each year. Finally, the company encourages advanced education, paying for tuition and books in full, and under certain circumstances, allowing time off to attend classes during the day. It also provides scholarships for dependents.

Questions

10-20. What aspects of Beco's benefits program are likely to appeal to Robert? Explain.

10-21. In today's work environment, what additional benefits might be more attractive to Robert? Explain.

10-22. What aspects of Beco's benefits program would likely be the least appealing to Robert? Discuss.

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Go to **mymanagementlab.com** for the following Assisted-graded writing questions:

10-23. Why have some firms gone to voluntary benefits as opposed to discretionary benefits?

10-24. Why is it important to communicate information about the benefits package?

Endnotes

Scan for Endnotes or go to www.pearsonglobaleditions.com/Mondy

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Part Five

Labor Relations, Employee Relations, Safety and Health

Chapter 11
Labor Unions and Collective Bargaining

Chapter 12
Internal Employee Relations

Chapter 13
Employee Safety, Health, and Wellness



11

Labor Unions and Collective Bargaining

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Discuss why unions exist.
2. Explain why employees join unions.
3. Describe the basic structure of a union.
4. Summarize the prevalence of unions.
5. Describe organized labor's strategies for a stronger movement.
6. Discuss laws affecting collective bargaining.
7. Identify the steps that lead to forming a bargaining unit.
8. Describe the collective bargaining process and explain collective bargaining issues.
9. Describe preparation for negotiations and negotiating the agreement.
10. Discuss breakdowns in the negotiations process.
11. Describe what is involved in reaching, ratifying, and administering the labor–management agreement.
12. Describe the grievance procedure in a union environment.
13. Explain union decertification.
14. Describe collective bargaining in the public sector.
15. Discuss labor unrest in China.

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labor unions
Organizations that exist to represent the interests of employees in the workplace and to ensure fair treatment when conflicts arise between one or more employee and management.

collective bargaining
The process in which labor union leadership enters into good faith negotiations with management representatives over terms of employment such as work hours, pay, and job security.

collective bargaining agreements
Written documents that describe the terms of employment reached between management and unions.

Learn It

If your professor has chosen to assign this, go to **mymanagementlab.com** to see what you should particularly focus on and to take the Chapter 11 Warm-Up.

Labor unions and the process of collective bargaining are important considerations in the human resources (HR) field, which, as we described in Chapter 1, is the business function of managing people. **Labor unions** refer to organizations that exist to represent the interests of employees in the workplace and to ensure fair treatment when conflicts arise between one or more employee and management. Labor union leadership enters into good faith negotiations with management representatives over terms of employment such as work hours, pay, and job security. This process of negotiation is referred to as **collective bargaining**. The results of a successful collective bargaining process is the **collective bargaining agreement** or contract, in which the negotiated terms of employment are written.

In this chapter, we will explore a variety of important issues pertaining to labor unions, such as why labor unions exist and why employees join unions, the organizational structure of unions, laws affecting the relationship between unions and management, the collective bargaining process, and how unions can be decertified if members do not feel that their bests interests are being served.

OBJECTIVE **11.1**
Discuss why unions exist.

Why Do Unions Exist?

Labor unions in the United States came about out of necessity. Family agricultural farms and small family craft businesses were the bases for the U.S. economy before the early part of the twentieth century. The turn of the twentieth century marked the beginning of the Industrial Revolution in the United States. During the Industrial Revolution, the economy's transition from agrarian and craft businesses to large-scale manufacturing, or factory systems, began. Increasingly, individuals were becoming employees of large factories instead of self-employed farmers or small business owners. Factory owners, also referred to as *capitalists*, sought profits; profits refer to the money that capitalists enjoy after deducting the costs of doing business (for example, raw materials, employee wages). Highly efficient workforces were therefore an essential part of the capitalist's profit motive.

The profit motive and the sheer size of factory employment gave rise to divisions of labor based on differences in worker skill, effort, and responsibilities. In other words, many people held



positions performing the same job (for example, multiple employees perform the work specified in the job description for assembler) and the job types were diverse (for example, management, production, and clerical). The growth in the size of the workplace necessitated practices to guide such activities as hiring, training, setting wages, handling grievances, and terminating employment for work rule violations or poor job performance. Factory owners sought out the expertise of mechanical engineers to promote efficient production systems and productive workers. The work of these engineers defined the scientific management movement. Ultimately, scientific management practices contributed to labor cost reductions by replacing inefficient production methods with efficient production methods.

Although a variety of unions had existed for decades, management was not obligated to recognize them. The industrialization of the U.S. economy when business owners sought out efficiency while sacrificing the welfare of workers and the economic devastation during the Great Depression placed workers at a disadvantage. Workers were subject to poor pay, unsafe working conditions, and virtually no job security. During the Great Depression, scores of businesses failed and most workers became chronically unemployed, giving management even greater power because many workers would accept substandard employment terms as an alternative to unemployment. Some workers banded together to negotiate better terms of employment, but employers were not willing to listen because collective action could jeopardize employers' control over the terms of employment. Still, employees experienced poor working conditions, substandard wage rates, and excessive work hours. As we discuss shortly, Congress enacted the National Labor Relations Act (NLRA) of 1935 to remove barriers to free commerce and to restore equality of bargaining power between employees and employers.

Throughout the years that followed, unions successfully negotiated favorable terms of employment for its members as well as job security provisions in collective bargaining agreements, particularly during economic recessions. However, as we discuss shortly, unionization has declined dramatically over the past several decades along with the need for greater compromise.

OBJECTIVE 11.2

Explain why employees join unions.

Why Employees Join Unions

Individuals join unions for many different reasons, which tend to change over time, and may involve job, personal, social, or political considerations. It would be impossible to discuss them all, but the following are some of the major reasons. From an HR professional's standpoint, the issues associated with employees' dissatisfaction with management are most relevant.

Every job holds the potential for real dissatisfaction. Each individual has a boiling point that can cause him or her to consider a union as a solution to actual or perceived problems. Union organizers look for arbitrary or unfair management decisions and then emphasize the advantages of union membership as a means of solving these problems. Some of the other common reasons for employee dissatisfaction are described next.

Compensation and Employee Benefits

Employees want their compensation to be fair and equitable. Wages are important because they provide both the necessities and standard of living. If employees are dissatisfied with their wages, they may look to a union for assistance in improving their standard of living. An important psychological aspect of compensation involves the amount of pay an individual receives in relation to that of other workers performing similar work (employee equity). If an employee perceives that management has shown favoritism by paying someone else more to perform the same or a lower-level job, the employee will likely become dissatisfied. Union members know precisely the basis of their pay and how it compares with that of others.

Employees who are covered under a collective bargaining agreement enjoy higher wages and are more likely to participate in a variety of employee benefit programs. In 2013, private sector employers whose employees were covered by a union contract spent an average $41.54 per employee per hour worked for wages and benefits.[1] This compares to $28.48 for nonunion employees. Of this amount, the average hourly wage rate was $24.83 and $20.37 in union and nonunion settings, respectively. Figure 11-1 shows the percentage of workers in private industry who had access to various employee benefits in 2013. In every case, union workers were more likely to have benefits than nonunion employees.

FIGURE 11-1

Percentage of Employees Who Have Access to Employee Benefits in Union and Nonunion Settings

Employee Benefits	*Union (%)*	*Nonunion (%)*
Retirement	94	61
Medical Care	95	67
Medical Care (share of Premiums)		
Employer pays	87	78
Employee pays	13	22
Life Insurance	86	54
Paid Leave		
Paid sick leave	71	60
Paid vacation	91	75
Paid holidays	92	76

Source: U.S. Bureau of Labor Statistics, *Employee Benefits in the United States – March 2013* (USDL 13-1344). Accessed April 5, 2014, at http://www.bls.gov.

Job Security

Historically, young employees have been less concerned with job security than older workers. Young employees seem to think, "If I lose this job, I can always get another." But if they witness management consistently terminating older workers to make room for younger, lower paid employees, they may begin to think differently about job security. If the firm does not provide its employees with a sense of job security, workers may turn to a union.

Attitude of Management

People like to feel that they are important. They do not like to be considered a commodity that can be bought and sold. Employees do not like to be subjected to arbitrary actions by management. In some firms, management is insensitive to the needs of its employees. In such situations, employees may perceive that they have little or no influence in job-related matters. Workers who feel that they are not really part of the organization are prime targets for unionization. About 100 hourly workers at North Tonawanda's Smurfit-Stone Container Corporation's corrugated box plant voted to join the United Steelworkers union, claiming the company's disciplinary and promotional policies reflected favoritism.[2] Organizations that treat people with dignity and respect are typically difficult to organize.

Management's attitude may be reflected in even small actions. Employees may begin to feel they are being treated more as machines than as people. Supervisors may fail to give reasons for unusual assignments and may expect employees to dedicate their lives to the firm without providing adequate rewards. The prevailing philosophy may be: "If you don't like it here, leave." A management philosophy that does not consider the needs of employees as individuals makes the firm ripe for unionization. Management must keep in mind that unions will be less likely to gain a foothold if management is not abusive of its power. Companies that are pro-employees are not likely to be unionized.

OBJECTIVE **11.3**

Describe the basic structure of a union.

Union Structure

The labor movement has developed a multilevel organizational structure. This complex of organizations ranges from local unions to the two principal federations—the AFL-CIO and the Change to Win Coalition.

Local Union

local union
Basic element in the structure of the U.S. labor movement.

The basic element in the structure of the U.S. labor movement is the **local union** (or, the *local*). To the individual union member, the local is the most important level in the structure of organized labor. Through the local, individuals deal with the employer on a day-to-day basis. A local union may fill a social role in the lives of its members, sponsoring dances, festivals, and other functions. It may be the focal point of the political organization and activity of its members.

craft union
Bargaining unit, such as the Carpenters and Joiners Union, which is typically composed of members of a particular trade or skill in a specific locality.

industrial union
Bargaining unit that generally consists of all the workers in a particular plant or group of plants.

There are two basic kinds of local unions: craft and industrial. A **craft union**, such as the Carpenters and Joiners Union, is typically composed of members of a particular trade or skill in a specific locality. Members usually acquire their job skills through an apprenticeship-training program. An **industrial union** generally consists of all the workers in a particular plant or group of plants. The type of work they do and the level of skill they possess are not a condition for membership in the union. An example of an industrial union is the United Auto Workers.

The local union's functions are many and varied. Administering the collective bargaining agreement and representing workers in handling grievances are two very important activities. Other functions include keeping the membership informed about labor issues, promoting increased membership, maintaining effective contact with the national union, and when appropriate, negotiating with management at the local level.

National Union

national union
Organization composed of local unions, which it charters.

The most powerful level in the union structure is the national union. As stated previously, most locals are affiliated with national unions. A **national union** is composed of local unions, which it charters. As such, it is the parent organization to local unions. The local union, not the individual worker, holds membership in the national union. Each local union provides financial support to the national union based on its membership size. The Service Employees International Union (SEIU) is the largest and fastest-growing national union in North America, with 2.1 million members in the United States, Canada, and Puerto Rico. According to the SEIU Web site, the SEIU has more than 1.1 million members in the health care field, including nurses, LPNs, doctors, lab technicians, nursing home workers, and home care workers. The International Brotherhood of Teamsters indicates that it has about 1.4 million members.

The national union is governed by a national constitution and a national convention of local unions, which usually meets every two to five years. Elected officers, aided by an administrative staff, conduct the day-to-day operations of the national union. The national union is active in organizing workers within its jurisdiction, engaging in collective bargaining at the national level, and assisting its locals in their negotiations. In addition, the national union may provide numerous educational and research services for its locals, dispense strike funds, publish the union newspaper, provide legal counsel, and actively lobby at national and state levels.

American Federation of Labor and Congress of Industrial Organizations

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)
Central trade union federation in the United States.



HR Web Wisdom

Change to Win Coalition
http://www.changetowin.org

Topics related to "What they say they stand for, campaigns, strategic organizing, key facts, and who we are" are included on the Web site.

The **American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)** is the central trade union federation in the United States. It is a loosely knit organization of national unions that has little formal power or control. The member national unions remain completely autonomous and decide their own policies and programs.

The AFL-CIO is a voluntary federation of 56 national and international labor unions representing 12.5 million members according to its Web site, including about 3 million members in Working America, its community affiliate. It represents the interests of labor and its member national unions at the highest level. The federation does not engage in collective bargaining; however, it provides the means by which member unions can cooperate to pursue common objectives and attempt to resolve internal problems faced by organized labor. The federation is financed by its member national unions and is governed by a national convention, which meets every two years.

The structure of the AFL-CIO is complex. National unions can affiliate with one or more of the trade and industrial departments. These departments seek to promote the interests of specific groups of workers who are in different unions but have common interests. The federation's major activities focus on improving the image of organized labor and lobbying on behalf of labor interests. Also, politically educating constituencies is crucial, as is resolving disputes between national unions and policing internal affairs of member unions.

Change to Win Coalition

Change to Win Coalition
Union federation consisting of seven unions that broke from the AFL-CIO and formally launched a rival labor federation representing about 6 million workers from seven labor unions.

The **Change to Win Coalition** is a union federation consisting of unions that broke from the AFL-CIO and formally launched a rival labor federation representing 6 million workers from seven labor unions. The mission of the Change to Win Coalition is "to unite the 50 million American workers who work in industries that cannot be outsourced or shipped overseas into strong unions that can win them a place in the American middle class—where their jobs provide good wages, decent working conditions and a voice on the job."[3]

The coalition, led by the SEIU, focuses its energies on new membership growth and not as much on lobbying. Also included in the new coalition are the International Brotherhood of Teamsters, Unite Here, the United Food and Commercial Workers International Union, United Brotherhood of Carpenters and Joiners of America, the United Farm Workers of America, and the Laborers' International Union of North America. The coalition wanted to direct its efforts at workers in industries in which employers could not easily outsource jobs. The primary targets for organizing included industries in cleaning, health care, hotels and restaurants, retailing, and transportation, whereas the AFL-CIO focused on electoral politics as a strategy to promote the labor movement. For example, the AFL-CIO typically invests resources into helping union-friendly politicians being elected into political office.

OBJECTIVE 11.4

Summarize the prevalence of unions.

Prevalence of Unions

The latest figures from the Labor Department's Bureau of Labor Statistics showed that the percentage of wage and salary workers who were members of a union was 11.3 percent.[4] The number of wage and salary workers belonging to unions is at approximately 14.5 million. In 1983, the first year for which comparable union data are available, the union membership rate was 20.1 percent and there were 17.7 million union workers. The unionization rate and the number of employees who are protected by unions is declining steadily.

In 2013, 7.2 million public-sector employees belonged to a union, compared with 7.3 million union workers in the private sector. Public-sector workers had a union membership rate of 35.3 percent—more than five times higher than that of the private-sector workers rate of 6.7 percent. Private-sector industries with high unionization rates included utilities (27.1 percent) and construction (14.0 percent), whereas low unionization rates occurred in agriculture and related industries (1.2 percent) and in financial activities (2.6 percent). Clearly, the statistics show a noteworthy decline in unionization. There are possible reasons for this trend, and we consider five of these.

First, in decades past, unions often intimidated workers to become members even if they did not care to do so. Unions used such tactics to boost their membership, thus, their power to negotiate with employers over terms of employment. Quite simply, it is more difficult to ignore the voices of many rather than the few. Over time, legislation outlawed unions' use of intimidation, after which the prevalence of unions began to decline.

Second, historically, unions provided a voice to protect the rights of disadvantaged groups, including women, older workers, and racial minorities. However, starting in the 1960s, antidiscrimination laws such as Title VII of the Civil Rights Act instituted protections. The array of legislation lessened the role of unions.

Third, globalization of business is believed to have contributed substantially to the decline in unionization in a variety of ways. For example, higher quality automobile imports (such as Toyota and Honda automobiles) than U.S. automobile manufacturers required greater investments quality control and workforce flexibility, which unions tend to resist. Unions resist giving management too much discretion over employee assignments and pay out of concern that they would treat them unfairly; however, the survival of companies required that unions accept flexibility. Unions' willingness to permit greater management discretion raised questions about the ability of unions to protect workers.

Globalization through offshoring activities threatens unionization. In Chapter 5, we discussed offshoring as the migration of all or a significant part of the development, maintenance, and delivery of services to a company located in another country. With rare exception, employees do not move with the jobs. Traditionally, the reason given for offshoring is to reduce costs. Many of the lost jobs in the United States were unionized, which, as we showed, are most costly to employers than nonunion jobs. Moreover, the absence of or less restrictive labor laws (for example, minimum wage laws) in other countries generally permit U.S. companies to lower employment costs.

right-to-work laws
Laws that prohibit management and unions from entering into agreements requiring union membership as a condition of employment.

Fourth, large companies such as Boeing, which have highly unionized workforces, are establishing new facilities in states where unionization rates are low. German automobile manufacturer Volkswagen built a state-of-the-art factory in Tennessee, which possess right-to-work laws. **Right-to-work laws** prohibit management and unions from entering into agreements requiring union membership as a condition of employment.

Fifth, unionization is substantially higher in the public or government sector than in the private sector. Still, public sector unionization is being challenged throughout the country. Traditionally, there was much less resistance to unionize in the public sector than in the private sector. But the tide is changing. For example, Wisconsin Governor Scott Walker signed a law in 2011 that eliminated most union rights for government workers. The state lost nearly 50,000 public sector union members between 2011 and 2013.[5] In Indiana, where a new right-to-work law took effect in 2012, lost about 52,000 union members in both the private and public sectors.[6] Michigan lawmakers approved a right-to-work law a few months later, losing approximately 40,000 union members in both the private and public sectors.[7]

OBJECTIVE 11.5

Describe organized labor's strategies for a stronger movement.

Organized Labor's Strategies for a Stronger Movement

Even though the labor movement has suffered setbacks over the past few decades, it is likely that union membership would have been even lower if the following strategies had not been used.

Strategically Located Union Members

The importance of the jobs held by union members significantly affects union power. For instance, an entire plant may have to be shut down if unionized machinists performing critical jobs decide to strike. Thus, a few strategically located union members may exert a disproportionate amount of power. The type of firm that is unionized can also determine a union's power. Unionization of truckers or dockworkers can affect the entire country, and subsequently, enhance the union's power base. This is precisely what the longshoremen did in the Baltimore, Maryland, strike of 2013, which affected about 15,000 individuals employed in port-related businesses and several tens of thousands more employees who work for the port. Through control of key industries, a union's power may extend to firms that are not unionized.

Pulling the Union Through

One union tactic that has worked effectively at times is to put pressure on the end user of a company's product to have a successful organizing attempt. The United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) authorized a strike against four Johnson Controls Inc. (JCI) factories that made interior parts for some of the country's best-selling vehicles. The quick two-day strike cost workers little lost income, but it hurt General Motors Corporation by shutting down production of their popular Chevy Trail Blazer sport utility vehicle. Worried about lost sales in a profitable segment and desiring to preserve good relations with the UAW, GM played an active behind-the-scenes role by pressuring JCI to settle the dispute. The result was a major UAW victory.

Political Involvement

Committee on Political Education (COPE)
Political arm of the AFL-CIO.

The political arm of the AFL-CIO is the **Committee on Political Education (COPE)**. Founded in 1955, its purpose is to support politicians who are friendly to the cause of organized labor. The union recommends and assists candidates who will best serve its interests. In presidential and congressional elections, union support may have a significant impact. Union members also encourage their friends and families to support those candidates. Joshua Freeman, professor of labor history at the City University of New York Graduate Center, said, "Unions have gotten weaker, but that weakness is not reflected in the political arena. They are very effective in mobilizing their members and families. It's now fairly common to have one out of four votes in an election coming from a union household."[8] The union's political influence increases as the size of the voting membership grows. With friends in government, the union is in a stronger position to maneuver against management. Political involvement means more than endorsing candidates at all levels of politics, and then attempting to deliver the union membership's vote. Unions give money to candidates who pledge to help pass pro-labor legislation. Of the top 10 biggest political donors at the federal level over the past 34 years, eight are unions while only two are corporations. Among the unions, the American Federation of State, County and Municipal Workers contributed more than $60 million.[9]

Union Salting

union salting
Process of training union organizers to apply for jobs at a company and, once hired, working to unionize employees.

Union salting is the process of training union organizers to apply for jobs at a company and, once hired, working to unionize employees. An employee who serves this role is known as a "union salt." Although traditionally used by blue-collar labor unions within the construction and building industries, it is a strategy labor unions are also using in other sectors, such as the hotel and restaurant industries. There have been a variety of court cases regarding legal protections for union salts. In general, a company cannot terminate these employees solely because they also work for a union. However, if productivity suffers, the worker can be terminated.

Flooding the Community

flooding the community
Process of the union inundating communities with organizers to target a particular business.

Flooding the community is the process of the union inundating communities with organizers to target a particular business in an organizing attempt. With their flooding campaigns, unions typically choose companies in which nonunionized employees have asked for help in organizing. Generally, organizers have been recruited and trained by the national union. They are typically young, ambitious, college-educated people with a passion for the U.S. labor movement. Organizers meet with employees in small groups and even visit them at home. They know every nuance of a company's operations and target weak managers' departments as a way to appeal to dissatisfied employees who may be willing to organize.

Public Awareness Campaigns

public awareness campaigns
Labor maneuvers that do not coincide with a strike or organizing campaign to pressure an employer for better wages, benefits, and the like.

Public awareness campaigns involve labor maneuvers that do not coincide with a strike or an organizing campaign to pressure an employer for better wages, benefits, and the like. Increasingly, these campaigns are used as an alternative to strikes because more employers are willing to replace their striking employees. Employers have less recourse against labor campaigns that involve joining political and community groups that support union goals or picketing homes of a company's board of directors. They are also defenseless in dealing with the union's initiating proxy challenges to actions negative to labor, writing letters to the editors of the local newspapers, and filing charges with administrative agencies such as the Occupational Safety and Health Administration and the National Labor Relations Board (NRLB). These types of public awareness campaigns, which are not tied directly to labor gains, are often effective methods of developing union leverage. Also, fighting such campaigns is time consuming and costly for companies.

Building Organizing Funds

To encourage workers to come together, the AFL-CIO often asks its affiliates to increase organizing funds. The federation may also increase funding to its Organizing Institute, which trains organizers, and even launches advertising campaigns to create wider public support for unions. National unions also create organizing funds.

Unions Partnering with High Schools

Some high schools are pairing up with labor unions to prepare students for a career. Ten students from Saydel High School's construction shop class have entered a pilot program that allows them direct entry into the United Association Plumbers and Steamfitters Local Union 33 once they graduate. As Local 33, apprentices receive training in plumbing, heating, air conditioning, medical gas, high purity piping, and water treatment. Greg Foshe, business manager of Local 33, said, "The goal of this program is to bring people into the union at a younger age. When students go from high school directly into their trade, they are going from learning situation to learning situation, creating a fast track educational experience."[10]

Organizing Younger Workers

A major strategy now being pursued by union organizers is to recruit younger workers, and it may be coming at the right time because the lowest union membership rate is occurring among this group. In fact, according to the Bureau of Labor Statistics, the lowest union membership rate occurred among those ages 16 to 24 (4.4 percent). In the past, younger organizers were often considered second-class citizens. Consider what Rachael Hunt, a young union organizer, said: "Too many times, more experienced trade unionists have spoken to me as if I were a

blank slate: ready to mold and be shaped to meet older organizers' viewpoints and goals. This same top-down, stale, bureaucratic organizational model that is crippling unions is also its biggest barrier to recruiting young people."[11] Richard Trumka, AFL-CIO president, said the following regarding including the ideas of younger workers: "I'm not suggesting that the labor movement ought to abandon all its traditions. But what I am saying is that nostalgia for the past is no strategy for the future. Tradition should always have a vote; we just can't let it have a veto."[12]

Organizing through the Card Check

card check
Organizing approach by labor in which employees sign a nonsecret card of support if they want unionization, and if 50 percent of the workforce plus one worker sign a card, the union is formed.

The **card check** is an organizing approach by labor in which employees sign a nonsecret card of support if they want unionization, and if 50 percent of the workforce plus one worker sign a card, the union is formed. This organizing method is based on management not objecting to the use of card check. It permits workers to decide in a nonsecret election their union status. Essentially, organizations decide to remain neutral and peacefully permit their employees to decide whether they want to unionize and not interfere as the union passes out authorization cards.

In 2013, the UAW launched a card-check campaign at the Volkswagen manufacturing facility in Tennessee. The card check procedure avoids holding a secret ballot by having workers sign cards to join a union. A majority of workers in a bargaining unit must sign cards, which are then certified, before the company recognizes the union. The union failed when eight workers represented by the National Right to Work Legal Defense Foundation filed charges with the NLRB alleging that the UAW had lied to workers and bullied them into signing cards.[13] The NLRB dismissed the charges; however, many workers protested the card-check approach, which pressured Volkswagen to hold a secret-ballot election. In 2014, workers elected not to unionize. Some card check campaigns lead to unionization. In 2008, Teamsters union launched a nationwide card-check campaign. Bargaining units from across the country signed authorization cards and were recognized as a union.[14] The largest was the drivers and dockworkers employed by UPS Freight, which added more than 9,900 members.[15]

OBJECTIVE 11.6
Discuss laws affecting collective bargaining.

Laws Affecting Collective Bargaining

A variety of laws influence the collective bargaining process and outcomes. Some are geared specifically toward the process and others are laws that we have previously discussed that influence outcomes.

National Labor Relations Act

The National Labor Relations Act (NLRA) of 1935 (also known as the Wagner Act) is one of the most significant labor–management relations statutes ever enacted. The act declared legislative support, on a broad scale, for the right of employees to organize and engage in collective



ETHICAL DILEMMA

A Strategic Move

You are the plant manager for a medium-sized manufacturing company that has been experiencing growing employee tensions, and there has been a lot of talk among workers about forming a union. You have even seen what appear to be authorization cards being passed out around the plant. Sandy Marshall, one of the workers in your plant, has been seen talking to many of the workers, obviously about forming a union. Sandy is influential with the workers throughout the plant and appears to be a natural leader. You believe that if Sandy continues to promote the union, she will have a major impact among the workers in organizing the union. You have a supervisory position that has just come open. It pays a lot more than what Sandy currently makes. You think, "If I make her a supervisor, she won't be able to use her influence to help get the union started." However, there is another worker in your department who is more qualified and has been with the firm several years longer than Sandy, although he is less influential with other workers throughout the plant.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

bargaining. The spirit of the Wagner Act is stated in Section 7, which defines the substantive rights of employees:

> *Employees shall have the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities, for the purpose of collective bargaining or other mutual aid or protection.*



HR Web Wisdom

National Labor Relations Board

http://www.nlrb.gov

The NLRB is a federal agency that administers the National Labor Relations Act.

The NRLA created the National Labor Relations Board (NLRB). At the time, the board helped the labor movement, which at times resulted in heated and sometimes violent management resistance.[16] The NLRB was given two principal functions: (1) to establish procedures for holding bargaining unit elections and to monitor the election procedures (representation elections), and (2) to investigate complaints and prevent unlawful acts involving unfair labor practices. Much of the NLRB's work is delegated to 33 regional offices throughout the country. Appointments to the NLRB are made by the President and confirmed by the Senate. They decide on detailed rules governing union and management behavior and how elections should be conducted.

Section 8 is a key part of the NLRA because it defines unfair labor practices. Unfair labor practices may result from an employer's or union's actions. There are five employer practices deemed to be unfair to labor:

1. Interfering with or restraining or coercing employees in the exercise of their right to self-organization.
2. Dominating or interfering in the affairs of a union.
3. Discriminating in regard to hire or tenure or any condition of employment for the purpose of encouraging or discouraging union membership.
4. Discriminating against or discharging an employee who has filed charges or given testimony under the act.
5. Refusing to bargain with chosen representatives of employees.

Unions are prohibited from conducting unfair labor practices. Primarily, unions are barred from forcing employees not to exercise their rights as defined in Section 7. Also, unions are prohibited from encouraging employer discrimination against employees who have been denied union membership unless such a denial was the result of failure to pay union membership dues.

Following passage of the Wagner Act, union membership increased from approximately 3 million to 15 million between 1935 and 1947.



HR BLOOPERS

Stopping Unionization at Packer Industries

It appears that the rumors about a union organizing effort at Packer Industries are true. Jay Golden, the Director of HR, just confirmed with a supervisor that the employees have started signing authorization cards. Jay suspected this was coming because he had received an increased number of complaints about pay and working conditions over the last several months. He learned that a small group of employees are leading efforts to build interest in a union and Jay is very concerned. He is convinced that a union would create long-term challenges for the company and his instincts tell him he should do whatever is necessary to discourage employees from organizing. The company's CEO agrees with Jay and together they have started efforts to convince employees that they are better off without the union. The CEO started by holding a mandatory meeting where she made it very clear that if the union is certified, they can all count on a reduction in pay and benefits. Jay also has identified one of the leaders of the unionizing efforts. He's decided to transfer him to the second shift where there are fewer employees for him to talk to about the union. Jay is sure that this employee's transfer will make it clear to all employees that Packer Industries will do whatever it takes to prevent them from unionizing.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

Labor—Management Relations Act

In 1947, with public pressure mounting, Congress passed the Labor–Management Relations Act (Taft–Hartley Act). The Taft–Hartley Act extensively revised the NLRA. A new period began in the evolution of public policy regarding labor. The pendulum had begun to swing toward a more balanced position between labor and management.

Some of the important changes introduced by the Taft–Hartley Act included the following:

1. Modifying Section 7 to include the right of employees to refrain from union activity as well as engage in it.
2. Prohibiting the closed shop and narrowing the freedom of the parties to authorize the union shop.
3. Broadening the employer's right of free speech.
4. Providing that employers need not recognize or bargain with unions formed by supervisors.
5. Giving employees the right to initiate decertification petitions.
6. Providing for government intervention in national emergency strikes.

Another significant change extended the concept of unfair labor practices to unions. Labor organizations were to refrain from the following:

1. Restraining or coercing employees in the exercise of their guaranteed collective bargaining rights.
2. Causing an employer to discriminate in any way against an employee to encourage or discourage union membership.
3. Refusing to bargain in good faith with an employer regarding wages, hours, and other terms and conditions of employment.
4. Engaging in certain types of strikes and boycotts.
5. Requiring employees covered by union-shop contracts to pay initiation fees or dues in an amount which the board finds excessive or discriminatory under all circumstances.
6. *Featherbedding*, or requiring that an employer pay for services not performed.

One of the most controversial elements of the Taft–Hartley Act is its Section 14b, which permits states to enact right-to-work legislation. In the 26 states without right-to-work laws, it is legal for an employer to agree with the union that a new employee must join the union after a certain period of time (generally 30 days) or be terminated. This is referred to as a "union-shop agreement." Right-to-work laws prohibit management and unions from entering into agreements requiring union membership as a condition of employment. These laws are state statutes or constitutional provisions that ban the practice of requiring union membership or financial support as a condition of employment. They establish the legal right of employees to decide for themselves whether or not to join or financially support a union. Twenty-three states, located primarily in the South and West, have adopted such laws, which are a continuing source of irritation between labor and management.

Antidiscrimination Laws and Executive Orders

In Chapter 3, we discussed a variety of federal laws and executive orders that are designed to protect employees from illegal discrimination. Some of these federal laws include the Age Discrimination in Employment Act, the Pregnancy Discrimination Act, and the Equal Pay Act. We also noted that a variety of state and local laws provide similar or enhanced protection. These laws and executive orders made it easier for unions to protect the rights of many members.

OBJECTIVE **11.7**

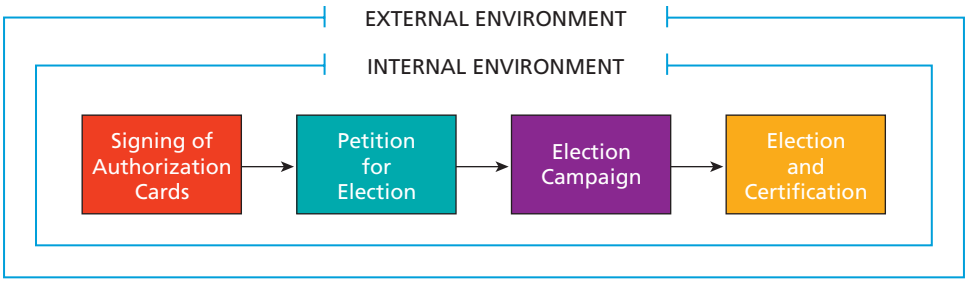
Identify the steps that lead to forming a bargaining unit.

Steps That Lead to Forming a Bargaining Unit

Before a union can negotiate a contract, it must first be formed or certified. The primary law governing the relationship of companies and unions is the NLRA, as amended. Collective bargaining is one of the key parts of the act. Section 8(d) of the act defines collective bargaining, which we described as the process of negotiation between union representatives and representatives of management to agree on a collective bargaining agreement or contract. The act specifies that both the employer and representatives of employees meet at reasonable times to confer in good faith with respect to wages, hours, and other terms related to conditions of employment, or to negotiate an agreement.

FIGURE 11-2

Steps That Lead to Forming a Bargaining Unit



bargaining unit
Group of employees, not necessarily union members, recognized by an employer or certified by an administrative agency as appropriate for representation by a labor organization for purposes of collective bargaining.

The act further provides that the designated representative of the employees shall be the exclusive representative for all the employees in the unit for purposes of collective bargaining. A **bargaining unit** consists of a group of employees, not necessarily union members, recognized by an employer or certified by an administrative agency as appropriate for representation by a labor organization for purposes of collective bargaining.

A unit may cover the employees in one plant of an employer, or it may cover employees in two or more plants of the same employer. Although the act requires the representative to be selected by the employees, it does not require any particular procedure to be used so long as the choice clearly reflects the desire of the majority of the employees in the bargaining unit. The employee representative is normally chosen in a secret-ballot election conducted by the NLRB. When workers desire to become the bargaining representative for a group of employees, several steps leading to certification have to be taken (Figure 11-2).

Prior to observing the distribution of authorization cards, there are usually signs of an upcoming union organizing attempt. Some indications might be an increase in the number or intensity of employee complaints on wages, hours, working conditions, or management practices; unusual or more frequent employee challenges to management authority; and an increase in the number of formal complaints to government agencies such as Occupational Health and Safety Administration, U.S. Department of Labor, and state or federal equal employment agencies.

Signing of Authorization Cards

authorization card
Document indicating that an employee wants to be represented by a labor organization in collective bargaining.

A prerequisite to becoming a recognized bargaining unit is to determine whether there is sufficient interest on the part of employees to justify the unit. Evidence of this interest is expressed when at least 30 percent of the employees in a work group sign an authorization card (Table 11-1). The **authorization card** is a document indicating that an employee wants to be represented by a labor organization in collective bargaining. Most union organizers will not proceed unless at least 50 percent of the workers in the group sign cards.

Petition for Election

After the authorization cards have been signed, a petition for an election may be made to the appropriate regional office of the NLRB. When the petition is filed, the NLRB will conduct an investigation. The purpose of the investigation is to determine, among other things, the following:

1. Whether the board has jurisdiction to conduct an election.
2. Whether there is a sufficient showing of employee interest to justify an election.
3. Whether a question of representation exists (for example, the employee representative has demanded recognition, which has been denied by the employer).
4. Whether the election will include appropriate employees in the bargaining unit (for instance, the board is prohibited from including plant guards in the same unit with the other employees).
5. Whether the representative named in the petition is qualified (for example, a supervisor or any other management representative may not be an employee representative).
6. Whether there are any barriers to an election in the form of existing contracts or prior elections held within the past 12 months.[17]

TABLE 11-1

Example of an Authorization Card

YES, I WANT THE UNION

I, the undersigned, and employee of
(Name of Company)

Hereby authorize the (Name of the Union) to act as my collective bargaining agent with the company for wages, hours, and other terms and conditions of employment.

NAME _____DATE _____

ADDRESS _____

CITY _____ STATE _____ZIP _____

JOB TITLE _____

SIGN HERE _____

NOTE: THIS AUTHORIZATION IS TO BE SIGNED AND DATED IN EMPLOYEE'S OWN HANDWRITING. YOUR RIGHT TO SIGN THIS CARD IS PROTECTED BY LAW.

If these conditions have been met, the NLRB will ordinarily direct that an election be held within 30 days. Election details are left largely to the agency's regional director.

Election Campaign

When an election has been ordered, both union and management usually promote their causes actively. Unions will continue to encourage workers to join the union, and management may begin a campaign to tell workers the benefits of remaining union free. The supervisor's role during the campaign is crucial. Supervisors need to conduct themselves in a manner that avoids violating the law and committing unfair labor practices. Specifically, they should be aware of what can and cannot be done during the pre-election campaign period. Throughout the campaign, supervisors should keep upper management informed about employee attitudes.

Theoretically, both union and management are permitted to tell their stories without interference from the other side. At times, the campaign becomes quite intense. Election results will be declared invalid if the campaign was marked by conduct that the NLRB considers to have interfered with the employees' freedom of choice. Examples of such conduct include the following:

- An employer or a union threatens loss of jobs or benefits to influence employees' votes or union activities.
- An employer or a union misstates important facts in the election campaign when the other party does not have a chance to reply.
- Either an employer or a union incites racial or religious prejudice by inflammatory campaign appeals.
- An employer fires employees to discourage or encourage their union activities or a union causes an employer to take such an action.
- An employer or a union makes campaign speeches to assembled groups of employees on company time within 24 hours of an election.

Election and Certification

The NLRB monitors the secret-ballot election on the date set. Its representatives are responsible for making sure that only eligible employees vote and for counting the votes. Following a valid election, the board will issue a certification of the results to the participants. If a union has been chosen by a majority of the employees voting in the bargaining unit, it will receive a certificate showing that it is now the official bargaining representative of the employees in the unit. However, the right to represent employees does not mean they have the right to dictate terms to management that would adversely affect the organization. The bargaining process does not require either party to make concessions; it only compels them to bargain in good faith in collective bargaining.

Collective Bargaining

Once the NLRB certifies the union, labor and management can engage in collective bargaining. Most union–management agreements in the United States are for a three-year period though contracts may be in effect for as long as seven or eight years. The bargaining structure can affect the conduct of collective bargaining. The four major structures are one company dealing with a single union, several companies dealing with a single union, several unions dealing with a single company, and several companies dealing with several unions. Most contract bargaining is carried out under the first type of structure. The process can become quite complicated when several companies and unions are involved in the same negotiations. However, even when there is only one industry involved and one group of workers with similar skills, collective bargaining can be very difficult.

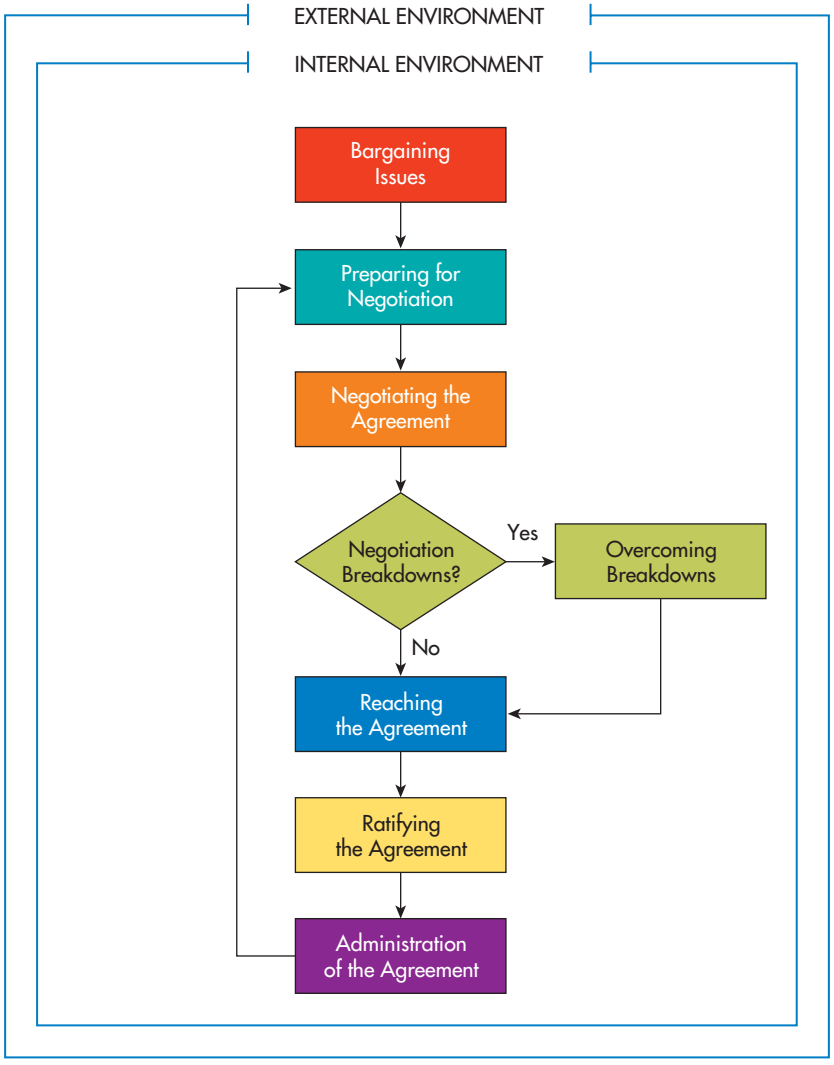
OBJECTIVE 11.8

Describe the collective bargaining process and explain collective bargaining issues.

Collective Bargaining Process

The collective bargaining process is fundamental to union and management relations in the United States. Regardless of the current state of labor–management relations, the general aspects of the collective bargaining process are the same and are illustrated in Figure 11-3. Depending on the type of relationship encountered, the collective bargaining process may be relatively simple, or it may be a long, tense struggle for both parties. Regardless of the complexity of the bargaining issues, the ability to reach agreement is the key to any successful negotiation.

FIGURE 11-3
Collective Bargaining Process



As you can see, both external and internal environmental factors can influence the process. The first step in the collective bargaining process is preparing for negotiations. This step is often extensive and ongoing for both union and management. After the issues to be negotiated have been determined, the two sides confer to reach a mutually acceptable contract. Although breakdowns in negotiations can occur, both labor and management have at their disposal tools and arguments that can be used to convince the other side to accept their views. Eventually, however, management and the union usually reach an agreement that defines the rules for the duration of the contract. The next step is for the union membership to ratify the agreement. There is a feedback loop from "Administration of the Agreement" to "Preparing for Negotiation." Collective bargaining is a continuous and dynamic process, and preparing for the next round of negotiations often begins the moment a contract is ratified.

Bargaining Issues

Because of the complex issues facing labor and management today, negotiating teams must carefully prepare for the bargaining sessions. Prior to meeting at the bargaining table, the negotiators should thoroughly know the culture, climate, history, present economic state, and wage and benefits structure of both the organization and similar organizations. Because the length of a typical labor agreement is three years, negotiators should develop a contract that is successful both now and in the future. This consideration should prevail for both management and labor, although it rarely does. During the term of an agreement, the two sides usually discover contract provisions that need to be added, deleted, or modified. These items become proposals to be addressed in the next round of negotiations.

mandatory bargaining issues
Bargaining issues that fall within the definition of wages, hours, and other terms and conditions of employment.

permissive bargaining issues
Issues that may be raised, but neither side may insist that they be bargained over.

prohibited bargaining issues
Issues that are statutorily outlawed from collective bargaining.

Bargaining issues can be divided into three categories: mandatory, permissive, and prohibited. **Mandatory bargaining issues** fall within the definition of wages, hours, and other terms and conditions of employment. These issues generally have an immediate and direct effect on workers' jobs. A refusal to bargain in these areas is grounds for an unfair labor practice charge. At times, collective bargaining toward new wage, rules, and benefits agreements may drag on for a long time. **Permissive bargaining issues** may be raised, but neither side may insist that they be bargained over. For example, management may want to bargain over health benefits for retired workers, but the union may choose not to bargain over the issue. Another permissive bargaining issue might be the union wanting management to provide child-care arrangements.

Prohibited bargaining issues, such as the issue of the closed shop, an arrangement whereby union membership is a prerequisite, are statutorily outlawed. The Taft–Hartley Act made the closed shop illegal. However, the act was modified 12 years later by the Landrum–Griffin Act to permit a closed shop in the construction industry. This is the only exception allowed.

Despite much dissimilarity, certain topics are included in virtually all labor agreements. Each topic discussed in the following section may be an issue in negotiations.

Recognition

This section usually appears at the beginning of the labor agreement. Its purpose is to identify the union that is recognized as the bargaining representative and to describe the bargaining unit—that is, the employees for whom the union speaks. A typical recognition section might read as follows:

> *The XYZ Company recognizes the ABC Union as the sole and exclusive representative of the bargaining unit employees for the purpose of collective bargaining with regard to wages, hours, and other conditions of employment.*

Management Rights

A section that is often but not always written into the labor agreement spells out the rights of management. If no such section is included, management may reason that it retains control of all topics not described as being able to be bargained in the contract. The precise content of the

management rights section will vary by industry, company, and union. When included, management rights generally involve three areas:

1. Freedom to select the business objectives of the company.
2. Freedom to determine the uses to which the material assets of the enterprise will be devoted.
3. Power to take disciplinary action for cause.

Basically management has the right to determine what work is to be done and where, when, and how it is to be done, to determine the number of employees who will do the work, to supervise and instruct employees in doing the work, to correct employees whose work performance or personal conduct fails to meet reasonable standards, and to hire, dismiss, and promote workers based on performance.

Union Security

Union security is typically one of the first items negotiated in a collective bargaining agreement. The objective of union security provisions is to ensure that the union continues to exist and perform its functions. A strong union security provision makes it easier for the union to enroll and retain members. Some basic forms of union security clauses are next described.

closed shop
Arrangement making union membership a prerequisite for employment.

union shop
Requirement that all employees become members of the union after a specified period of employment (the legal minimum is 30 days) or after a union-shop provision has been negotiated.

maintenance of membership
Employees who are members of the union at the time the labor agreement is signed or who later voluntarily join must continue their memberships until the termination of the agreement as a condition of employment.

agency shop
Labor agreement provision requiring, as a condition of employment, that each nonunion member of a bargaining unit pay the union the equivalent of membership dues as a service charge in return for the union acting as the bargaining agent.

open shop
Employment on equal terms to union members and nonmembers alike.

checkoff of dues
Agreement by which a company agrees to withhold union dues from members' paychecks and to forward the money directly to the union.

CLOSED SHOP A **closed shop** is an arrangement whereby union membership is a prerequisite for employment. As noted previously, closed shops are illegal in every industry except for the construction industry.

UNION SHOP A **union shop** arrangement requires that all employees become members of the union after a specified period of employment (the legal minimum is 30 days) or after a union-shop provision has been negotiated. Employees must remain members of the union as a condition of employment for the duration of the contract. The union shop is generally legal in the United States, except in states that have right-to-work laws.

MAINTENANCE OF MEMBERSHIP With **maintenance of membership**, employees who are members of the union at the time the labor agreement is signed or who later voluntarily join must continue their memberships until the termination of the agreement as a condition of employment. This form of recognition is also prohibited in most states that have right-to-work laws.

AGENCY SHOP An **agency shop** provision does not require employees to join the union; however, the labor agreement requires that, as a condition of employment, each nonunion member of the bargaining unit pay the union the equivalent of membership dues as a kind of tax, or service charge, in return for the union acting as the bargaining agent. The NLRA requires the union to bargain for all members of the bargaining unit, including nonunion employees. The agency shop is outlawed in most states that have right-to-work laws.

OPEN SHOP An open shop describes the absence of union security, rather than its presence. The **open shop**, strictly defined, is employment on equal terms to union members and nonmembers alike. Under this arrangement, no employee is required to join or contribute to the union financially.

CHECKOFF OF DUES Another type of security that unions attempt to achieve is the checkoff of dues. A checkoff agreement may be used in addition to any of the previously mentioned shop agreements. Under the **checkoff of dues** provision, the company agrees to withhold union dues from members' paychecks and to forward the money directly to the union. Because of provisions in the Taft–Hartley Act, each union member must voluntarily sign a statement authorizing this deduction. Dues checkoff is important to the union because it eliminates much of the expense, time, and hassle of collecting dues from each member every pay period or once a month.

Compensation

This section typically constitutes a large portion of most labor agreements. Virtually any item that can affect compensation may be included in labor agreements. Some of the items frequently covered include the following:

WAGE RATE SCHEDULE The base rates to be paid each year of the contract for each job are included in this section. At times, unions are able to obtain a cost-of-living adjustment (COLA), or escalator clause, in the contract to protect the purchasing power of employees' earnings.

OVERTIME AND PREMIUM PAY Another section of the agreement may cover hours of work, overtime pay, hazard pay, and premium pay, such as shift differentials.

JURY PAY For some firms, jury pay amounts to the employee's entire salary when he or she is serving jury duty. Others pay the difference between the amount employees receive from the court and the compensation that would have been earned. The procedure covering jury pay is typically stated in the contract.

LAYOFF OR SEVERANCE PAY The amount that employees in various jobs or seniority levels will be paid if they are laid off or terminated is a frequently included item.

HOLIDAYS The holidays recognized and the amount of pay that a worker will receive if he or she has to work on a holiday is specified here. In addition, the pay procedure for times when a holiday falls on a worker's normal day off is provided.

VACATION This section spells out the amount of vacation that a person may take based on seniority. Any restrictions as to when the vacation may be taken are also stated.

Grievance Procedure

grievance
Employee's dissatisfaction or feeling of personal injustice relating to his or her employment.

grievance procedure
Formal, systematic process that permits employees to express complaints without jeopardizing their jobs.

Virtually all labor agreements include some form of grievance procedure. A **grievance** can be broadly defined as an employee's dissatisfaction or feeling of personal injustice relating to his or her employment. A **grievance procedure** (discussed later in this chapter) is a formal, systematic process that permits employees to express complaints without jeopardizing their jobs.

Employee Security

seniority
The length of time an employee has been associated with the company, division, department, or job.

This section of the labor agreement establishes the procedures that cover job security for individual employees. Seniority is a key topic related to employee security. **Seniority** is the length of time an employee has been associated with the company, division, department, or job. Seniority may be determined companywide, by division, by department, or by job. Agreement on seniority is important because the person with the most seniority, as defined in the labor agreement, is typically the last to be laid off and the first to be recalled. The seniority system also provides a basis for promotion decisions. When qualifications are met, employees with the greatest seniority will likely be considered first for promotion to higher-level jobs.

Job-Related Factors

Many of the rules governing employee actions on the job are also included. Some of the more important factors are company work rules, work standards, and rules related to safety. This section varies, depending on the nature of the industry and the product manufactured.

OBJECTIVE **11.9**
Describe preparation for negotiations and negotiating the agreement.

Preparation for Negotiations

The union must continuously gather information regarding membership needs to isolate areas of dissatisfaction. The union steward is normally in the best position to collect such data.[18] Because they are usually elected by their peers, stewards should be well informed regarding union members' attitudes. The union steward constantly funnels information up through the union's chain of command, where the data are compiled and analyzed. Union leadership attempts to uncover any areas of dissatisfaction because the general union membership must approve any agreement before it becomes final. Because they are elected, union leaders will lose their positions if the demands they make of management do not represent the desires of the general membership.

Management also spends long hours preparing for negotiations. All aspects of the current contracts are considered, including flaws that should be corrected. When preparing for negotiations, management should listen carefully to first-line managers. These individuals administer the labor agreement on a day-to-day basis and must live with errors made in negotiating the

contract. An alert line manager is also able to inform upper management of the demands unions may plan to make during negotiations.

Management also attempts periodically to obtain information regarding employee attitudes. Surveys are often administered to workers to determine their feelings toward their jobs and job environment. Union and management representatives like to know as much as possible about employee attitudes when they sit down at the bargaining table.

Another part of preparation for negotiations involves identifying various positions that both union and management will take as the negotiations progress. Each usually takes an initially extreme position, representing the optimum conditions union or management would prefer. The two sides will likely determine absolute limits to their offers or demands before a breakdown in negotiations occurs. They also usually prepare fallback positions based on combinations of issues. Preparations should be detailed because clear minds often do not prevail during the heat of negotiations.

A major consideration in preparing for negotiations is the selection of the bargaining teams. The makeup of the management team usually depends on the type of organization and its size. Normally, labor relations specialists, with the advice and assistance of operating managers, conduct bargaining. Sometimes, top executives are directly involved, particularly in smaller firms. Larger companies use staff specialists (a HR manager or industrial relations executive), managers of principal operating divisions, and in some cases, an outside consultant, such as a labor attorney.

The responsibility for conducting negotiations for the union is usually entrusted to union officers. At the local level, rank-and-file members who are elected specifically for this purpose will normally supplement the bargaining committee. In addition, the national union will often send a representative to act in an advisory capacity or even to participate directly in the bargaining sessions. The real task of the union negotiating team is to develop and obtain solutions to the problems raised by the union's membership.

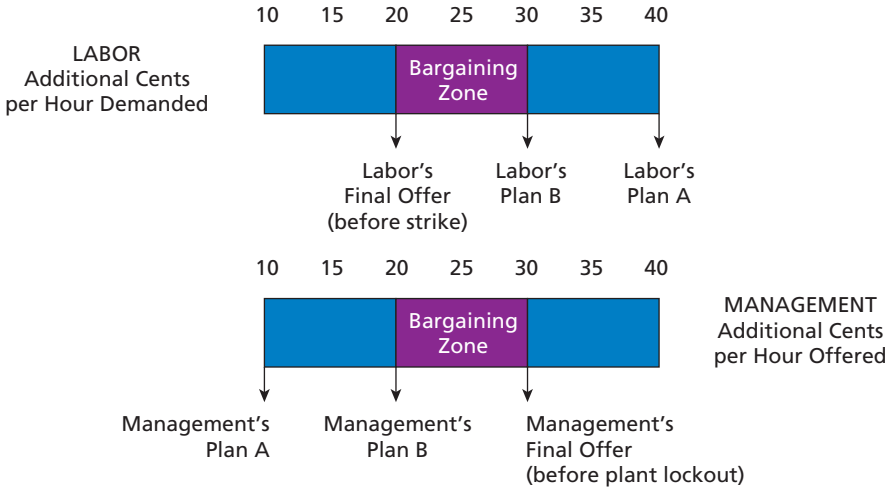
Negotiating the Agreement

There is no way to ensure speedy and mutually acceptable results from negotiations. At best, the parties can attempt to create an atmosphere that will lend itself to steady progress and productive results. For example, the two negotiating teams usually meet at an agreed-on neutral site, such as a hotel. When a favorable relationship can be established early, eleventh-hour (or last-minute) bargaining can often be avoided. It is equally important for union and management negotiators to strive to develop and maintain clear and open lines of communication. Collective bargaining is a problem-solving activity; consequently, good communication is essential to its success. Negotiations should be conducted in the privacy of the conference room, not in the news media. Often in the media, the unions belittle management and naturally management strikes back. The results can be harmful, often to both sides. If the negotiators feel that publicity is necessary, joint releases to the media may avoid unnecessary conflict.

The negotiating phase of collective bargaining begins with each side presenting its initial demands. Because a collective bargaining settlement can be expensive for a firm, the cost of various proposals should be estimated as accurately as possible. Some changes can be quite expensive, and others cost little or nothing, but the cost of the various proposals being considered must always be carefully deliberated. The term *negotiating* suggests a certain amount of give-and-take, the purpose of which is to lower the other side's expectations. For example, the union might bargain to upgrade its members' economic and working conditions and the company might negotiate to maintain or enhance profitability.

One of the most costly components of any collective bargaining agreement is a wage increase provision. An example of the negotiation of a wage increase is shown in Figure 11-4. In this example, labor initially demands a 40-cent-per-hour increase. Management counters with an offer of only 10 cents per hour. Both labor and management, as expected, reject each other's demand. Plan B calls for labor to lower its demand to a 30-cents-per-hour increase. Management counters with an offer of 20 cents. The positions in plan B are feasible to both sides, as both groups are in the bargaining zone. Wages within the bargaining zone are those that management and labor can both accept, in this case, an increase of between 20 cents and 30 cents per hour. The exact amount will be determined by the power of the bargaining unit and the skills of the negotiators.

FIGURE 11-4
Example of Negotiating a Wage Increase



The realities of negotiations are not for the weak of heart and at times are similar to a high-stakes poker game. A certain amount of bluffing and raising the ante takes place in many negotiations. The ultimate bluff for the union is when a negotiator says, "If our demands are not met, we are prepared to strike." Management's version of this bluff would be to threaten a lockout. Each of these tactics will be discussed later as a means of overcoming breakdowns in negotiations. The party with the greater leverage can expect to extract the most concessions.

Finding solutions to conflict can be win–win or win–lose. In the case of win–win, both parties to a conflict receive something of value even if it is not the most each party wanted. For example, workers and management are at odds over a request for a higher hourly pay rate from $5 to $10. Management claims that raising wages to the $10 level could threaten job security if company sales declined by any amount. If workers and management can agree to a compromise increase (say, a pay raise to $7.50 per hour), then this would be a win–win situation. This is a win–win situation because workers received a pay raise and management provided more to employees while limiting compensation cost increases. Had management not agreed to any raise, the situation would have been win–lose because labor costs would have been contained at the expense of employee morale. In the Watch It Video, the importance of finding a win–win outcome to resolve conflict is discussed.

Watch It 1
If your professor has assigned this, sign into **mymanagementlab.com** to watch a video titled Rudi's Bakery: Conflict and Negotiation and to respond to questions.

Even though one party in the negotiating process may appear to possess the greater power, negotiators often take care to keep the other side from losing face. They recognize that the balance of power may switch rapidly. By the time the next round of negotiations occurs, the pendulum may be swinging back in favor of the other side. Even when management appears to have the upper hand, it may make minor concessions that will allow the labor leader to claim gains for the union. Management may demand that workers pay for grease rags that are lost (assuming that the loss of these rags has become excessive). To obtain labor's agreement to this demand, management may agree to provide new uniforms for the workers if the cost of these uniforms would be less than the cost of lost rags. Thus, labor leaders, although forced to concede to management's demand, could show the workers that they have obtained a concession from management. Each side usually does not expect to obtain all the demands presented in its first proposal. Labor can lose a demand and continue to bring it up in the future. Demands for benefits that the union does not expect to receive when they are first made are known as **beachhead demands**.

beachhead demands
Demands that the union does not expect management to meet when they are first made.

OBJECTIVE 11.10
Discuss breakdowns in the negotiations process.

Breakdowns in Negotiations

At times negotiations break down, even though both labor and management may sincerely want to arrive at an equitable contract settlement. Several means of removing roadblocks may be used to get negotiations moving again.

Third-Party Intervention

Often an outside person can intervene to provide assistance when an agreement cannot be reached and the two sides reach an impasse. The reasons behind each party's position may be quite rational, or the breakdown may be related to emotional disputes that tend to become distorted during the heat of negotiations. Regardless of the cause, something must be done to continue the negotiations. The two basic types of third-party intervention are mediation and arbitration.

mediation
Neutral third party enters the negotiations and attempts to facilitate a resolution to a labor dispute when a bargaining impasse has occurred.

MEDIATION In **mediation**, a neutral third party enters the negotiations and attempts to facilitate a resolution to a labor dispute when a bargaining impasse has occurred. A mediator serves a facilitator role. The objective of mediation is to persuade the parties to resume negotiations and reach a settlement. A mediator has no power to force a settlement but can help in the search for solutions, make recommendations, and work to open blocked channels of communication. Successful mediation depends to a substantial degree on the tact, diplomacy, patience, and perseverance of the mediator. The mediator's fresh insights are used to get discussions going again. Mediation is voluntary at every step of the process. The mediator serves as an informal coach, helping to ensure that the discussions are fair and effective.

The principal organization involved in mediation efforts, other than some state and local agencies, is the Federal Mediation and Conciliation Service (FMCS). The Taft–Hartley Act established the FMCS as an independent agency. Either one or both parties involved in negotiations can seek the assistance of the FMCS, or the agency can offer its help if it feels that the situation warrants it. Federal law requires that the party wishing to change a contract must give notice of this intention to the other party 60 days prior to the expiration of a contract. If no agreement has been reached 30 days prior to the expiration date, the FMCS must be notified.

arbitration
Process in which a dispute is submitted to an impartial third party for a binding decision; an arbitrator basically acts as a judge and jury.

rights arbitration
Arbitration involving disputes over the interpretation and application of the various provisions of an existing contract.

interest arbitration
Arbitration that involves disputes over the terms of proposed collective bargaining agreements.

ARBITRATION In **arbitration**, a dispute is submitted to an impartial third party for a binding decision; an arbitrator acts as a judge and jury. There are two principal types of union management disputes: rights disputes and interest disputes. Disputes over the interpretation and application of the various provisions of an existing contract are submitted to **rights arbitration**, which will be discussed shortly under the heading of "Grievance Procedure in a Union Environment." This type of arbitration is common in the United States.

The other type of arbitration, **interest arbitration**, involves disputes over the terms of proposed collective bargaining agreements. In the private sector, the use of interest arbitration as an alternative for impasse resolution has not been a common practice. Unions and employers rarely agree to submit the basic terms of a contract (such as wages, hours, and working conditions) to a neutral party for disposition. They prefer to rely on collective bargaining and the threat of economic pressure (such as strikes and lockouts) to decide these issues.

For either rights or interest arbitration, the disputants are free to select any person as their arbitrator, so long as they agree on the selection. Most commonly, however, the two sides make a request for an arbitrator to either the American Arbitration Association (AAA) or the FMCS. The AAA is a nonprofit organization with offices in many cities. Both the AAA and the FMCS maintain lists of arbitrators. When considering potential arbitrators, both management and labor will study the arbitrator's previous decisions in an attempt to detect any biases. Obviously, neither party wants to select an arbitrator who might tend to favor the other's position.

After the arbitrator has been selected and has agreed to serve, a time and place for a hearing will be determined. The issue to be resolved will be presented to the arbitrator in a document that summarizes the question(s) to be decided. It will also point out any contract restrictions that prohibit the arbitrator from making an award that would change the terms of the contract.

At the hearing, each side presents its case. Arbitration is an adversarial proceeding, so a case may be lost because of poor preparation and presentation. The arbitrator may conduct the hearing much like a courtroom proceeding. Witnesses, cross-examination, transcripts, and legal counsel may all be used. The parties may also submit or be asked by the arbitrator to submit formal written statements. After the hearing, the arbitrator studies the material submitted and



HR Web Wisdom

American Arbitration Association
http://www.adr.org/

Provides services to individuals and organizations who wish to resolve conflicts out of court.

testimony given and is expected to reach a decision within 30 to 60 days. The decision is usually accompanied by a written opinion giving reasons for the decision.

The courts will generally enforce an arbitrator's decision unless (1) the arbitrator's decision is shown to be unreasonable or capricious in that it did not address the issues; (2) the arbitrator exceeded his or her authority; or (3) the award or decision violated a federal or state law. In one arbitration case that ultimately went to the Supreme Court, the arbitrator's decision appeared to run counter to public policy of prohibiting workers who had tested positive for drugs from operating heavy machinery or being permitted to return to work. However, the Supreme Court wrote, "We recognize that reasonable people can differ as to whether reinstatement or discharge is the more appropriate remedy here. But both employer and union have agreed to entrust this remedial decision to an arbitrator."[19]

Union Strategies for Overcoming Negotiation Breakdowns

There are times when a union believes that it must exert extreme pressure to get management to agree to its bargaining demands. Strikes and boycotts are the primary means that the union may use to overcome breakdowns in negotiations.

STRIKES When union members refuse to work to exert pressure on management in negotiations, their action is referred to as a **strike**. A strike halts production, resulting in lost customers and revenue, which the union hopes will force management to submit to its terms. In recent times, strikes have rarely been part of contract negotiation processes. There were 15 strikes involving 1,000 or more workers in 2013 idling approximately 55,000 workers.[20] This stands in comparison to the more than 200 strikes each year in the 1970s.[21]

strike
Action by union members who refuse to work in order to exert pressure on management in negotiations.

The timing of a strike is important in determining its effectiveness. An excellent time is when business is thriving and the demand for the firm's goods or services is expanding. However, the union might be hard-pressed to obtain major concessions from a strike if the firm's sales are down and it has built up a large inventory. In this instance, the company would not be severely damaged.

Contrary to many opinions, unions prefer to use the strike only as a last resort. During a strike, workers have little income. The strike fund may only pay for items such as food, utilities, and motor fuel. In recent years, many union members have been even more reluctant to strike because of the fear of being replaced. When a union goes on an economic strike and the company hires replacements, the company does not have to lay off these individuals at the end of the strike. For example, Edw. C. Levy Co., headquartered in Detroit, Michigan, hired permanent replacements for the 130 members of the International Union of Operating Engineers Local 150 who struck the contractor's operations at Mittal Steel Company's Burns Harbor plant.[22]

A union's treasury is often depleted by payment of strike benefits to its members. In addition, members suffer because they are not receiving their normal pay. Striking workers during one General Motors strike got paid about $150 a week strike pay instead of the roughly $1,000 a week that they normally took home. Although strike pay helps, union members certainly cannot maintain a normal standard of living with these minimal amounts.

Sometimes during negotiations (usually at the beginning), the union may want to strengthen its negotiating position by taking a strike vote. Members often give overwhelming approval to a strike. This vote does not necessarily mean that there will be a strike, only that the union leaders now have the authority to call one if negotiations reach an impasse. A favorable strike vote can add a sense of urgency to efforts to reach an agreement.

Successful passage of a strike vote has additional implications for union members. Virtually every national union's constitution contains a clause requiring the members to support and participate in a strike if one is called. If a union member fails to comply with this requirement, he or she can be fined as high as 100 percent of wages for as long as union pickets remain outside the company. However, the Supreme Court has ruled that an employee on economic strike may resign from the union and avoid being punished by the union. In today's economy, union members are using more subtle measures, such as sick-outs and work slowdowns, to successfully avoid the impact of a strike while still bringing pressure on the company to meet union demands.

BOYCOTTS The boycott is another of labor's weapons to get management to agree to its demands. A **boycott** involves an agreement by union members to refuse to use or buy the firm's products.

boycott
Agreement by union members to refuse to use or buy the firm's products.

A boycott exerts economic pressure on management, and the effect often lasts much longer than that of a strike. Once shoppers change buying habits, their behavior will likely continue long after the boycott has ended. At times, significant pressures can be exerted on a business when union members, their families, and their friends refuse to purchase the firm's products. This approach is especially effective when the products are sold at retail outlets and are easily identifiable by brand name. For instance, the classic boycott against Adolph Coors Company was effective because the name of the product, Coors beer, was directly associated with the company. Ultimately, the AFL-CIO signed an agreement with Coors that ended a labor boycott of the company.[23]

secondary boycott
Union attempt to encourage third parties (such as suppliers and customers) to stop doing business with a firm; declared illegal by the Taft–Hartley Act.

The practice of a union attempting to encourage third parties (such as suppliers and customers) to stop doing business with the company is known as a **secondary boycott**. The Taft–Hartley Act declared this type of boycott to be illegal.

Management Strategies for Overcoming Negotiation Breakdowns

There are times when management believes that it must exert extreme pressure to get the union to back away from a demand. The lockout and operating the firm by placing management and nonunion workers in the striking workers' jobs are the primary means management may use to overcome breakdowns in negotiations.

lockout
Management keeps employees out of the workplace and runs the operation with management personnel or replacements.

LOCKOUT Management may use the lockout to encourage unions to come back to the bargaining table. In a **lockout**, management keeps employees out of the workplace and runs the operation with management personnel or replacements. In 2013, Kellogg's Memphis cereal manufacturing plant locked out more than 200 union workers and began hiring temporary workers to fill any voids.[24] The company insists that it will continue the lockout until the union agrees to new contract terms that will permit growth in temporary workforce employment at lower wage rates and less generous benefit offerings. The National Football League and the National Basketball Association used a lockout in an attempt to get players to return to negotiations. Unable to work, the employees do not get paid; the fear of a lockout may bring labor back to the bargaining table. A lockout is particularly effective when management is dealing with a weak union, when the union treasury is depleted, or when the business has excessive inventories. The lockout is also used to inform the union that management is serious regarding certain bargaining issues.

CONTINUE OPERATIONS WITHOUT STRIKING WORKERS A course of action that a company can take if the union goes on strike is to operate the firm by placing management and nonunion workers in the striking workers' jobs. The type of industry involved has considerable effect on the impact of this maneuver. If the firm is not labor-intensive and if maintenance demands are not high, such as at a petroleum refinery or a chemical plant, this practice may be quite effective. When appropriate, management may attempt to show how using nonunion employees can actually increase production. At times, management personnel will actually live in the plant and have food and other necessities delivered to them. This was the situation that occurred when the 900 members of Local 470 of the International Association of Machinists struck at the PPG Plant in Lake Charles, Louisiana. Management continued to run the plant with management and contract labor personnel. The union members struck because of an increase in insurance payments and a new hiring-in rate for entry-level workers. Prior to the strike, the local had taken a strike vote, and an overwhelming number of workers had voted in favor of the strike. Later on in negotiations, the union permitted members to vote on whether to accept or reject management's proposal. It was rejected by a majority of the workers. Then management sent registered letters to all union members suggesting that they were not willing to maintain the current work situation, and the company was considering hiring replacement workers. Another vote was taken and the contract was accepted. Prior to the final vote, approximately 100 workers had resigned from the union and crossed the picket line.

OBJECTIVE **11.11**
Describe what is involved in reaching, ratifying, and administering the labor–management agreement.

Reaching the Labor–Management Agreement

The document that emerges from the collective bargaining process is known as a "labor–management agreement" or "contract." It regulates the relationship between employer and employees for a specified period of time. It is still an essential but difficult task because each agreement is unique, and there is no standard or universal model.

Ratifying the Labor–Management Agreement

Most collective bargaining leads to an agreement without a breakdown in negotiations or disruptive actions. Typically, agreement is reached before the current contract expires. After the negotiators have reached a tentative agreement on all contract terms, they prepare a written agreement covering those terms, complete with the effective and termination dates. The approval process for management is often easier than for labor. The president or CEO has usually been briefed regularly on the progress of negotiations. Any difficulty that might have stood in the way of obtaining approval has probably already been resolved with top management by the negotiators.

However, the approval process is more complex for the union. Until a majority of members voting in a ratification election approve it, the proposed agreement is not final. At times, union members reject the proposal and a new round of negotiations must begin. Many of these rejections might not occur if union negotiators were better informed about members' desires.

Administration of the Labor–Management Agreement

Negotiating, as it relates to the total collective bargaining process, may be likened to the tip of an iceberg. It is the visible phase, the part that makes the news. The larger and perhaps more important part of collective bargaining is administration of the agreement, which the public seldom sees. The agreement establishes the union–management relationship for the duration of the contract. Usually, neither party can change the contract's language until the expiration date, except by mutual consent. However, the main problem encountered in contract administration is uniform interpretation and application of the contract's terms. Administering the contract is a day-to-day activity. Ideally, the aim of both management and the union is to make the agreement work to the benefit of all concerned. At times, this is not an easy task.

Management is primarily responsible for explaining and implementing the agreement. This process should begin with meetings or training sessions not only to point out significant features but also to provide a clause-by-clause analysis of the contract. First-line supervisors, in particular, need to know their responsibilities and what to do when disagreements arise. In addition, supervisors and middle managers should be encouraged to notify top management of any contract modifications or new provisions required for the next round of negotiations.

The HR manager or industrial relations manager plays a key role in the day-to-day administration of the contract. He or she gives advice on matters of discipline, works to resolve grievances, and helps first-line supervisors establish good working relationships within the terms of the agreement. When a firm becomes unionized, the HR manager's function tends to change rather significantly and may even be divided into separate HR and industrial relations departments. In such situations, the vice-president of HR may perform all HR management tasks with the exception of dealing with union-related matters. All nonunion employees would go to the HR professional for assistance needed. The vice-president of industrial relations would likely deal with all union-related matters.

OBJECTIVE **11.12**

Describe the grievance procedure in a union environment.

Grievance Procedure in a Union Environment

As previously defined, a *grievance procedure* is a formal, systematic process that permits employees to express complaints without jeopardizing their jobs. A grievance procedure under a collective bargaining agreement is normally well defined. It is usually restricted to violations of the terms and conditions of the agreement. There are other conditions that may give rise to a grievance, including the following:

- A violation of law
- A violation of the intent of the parties as stipulated during contract negotiations
- A violation of company rules
- A change in working conditions or past company practices
- A violation of health or safety standards

Grievance procedures have many common features. However, variations may reflect differences in organizational or decision-making structures or the size of a plant or company. Some general principles based on widespread practice can serve as useful guidelines for effective grievance administration:

- Grievances should be adjusted promptly.
- Procedures and forms used for airing grievances must be easy to use and well understood by employees and their supervisors.
- Direct and timely avenues of appeal from rulings of line supervision must exist.

The multistep grievance procedure is the most common type. In the first step, the employee usually presents the grievance orally and informally to the immediate supervisor in the presence of the union steward. This step offers the greatest potential for improved labor relations, and a large majority of grievances are settled here. The procedure ends if the grievance is resolved at this initial step. If the grievance remains unresolved, the next step involves a meeting between the plant manager or HR manager and higher union officials, such as the grievance committee or the business agent or manager. Prior to this meeting, the grievance is written out, dated, and signed by the employee and the union steward. The written grievance states the events, as the employee perceives them, cites the contract provision that allegedly has been violated, and indicates the settlement desired. If the grievance is not settled at this meeting, it moves to the third step, which typically involves the firm's top labor representative (such as the vice-president of industrial relations) and high-level union officials. At times, depending on the severity of the grievance, the president may represent the firm. Arbitration is the final step in most grievance procedures. In arbitration, the parties submit their dispute to an impartial third party for binding resolution. Most agreements restrict the arbitrator's decision to application and interpretation of the agreement and the final decision is binding on both parties. If the union decides in favor of arbitration, it notifies management. At this point, the union and the company select an arbitrator.[25]

When arbitration is used to settle a grievance, a variety of factors may be considered to evaluate the fairness of the management actions that caused the grievance. Some factors include:

- Nature of the offense
- Due process and procedural correctness
- Double jeopardy
- Past record of grievant
- Length of service with the company
- Knowledge of rules
- Warnings
- Lax enforcement of rule
- Discriminatory treatment

The large number of interacting variables in each case makes the arbitration process difficult. The arbitrator must possess exceptional patience and judgment in rendering a fair and impartial decision.

Labor relations problems can escalate when a supervisor is not equipped to handle grievances at the first step. Because the union steward, the aggrieved party, and the supervisor usually handle the first step informally, the supervisor must be fully prepared. The supervisor should obtain as many facts as possible before the meeting because the union steward is likely to have also done his or her homework.

The supervisor needs to recognize that the grievance may not reflect the real problem. For instance, the employee might be angry with the company for modifying its pay policies, even though the union agreed to the change. To voice discontent, the worker might file a grievance for an unrelated minor violation of the contract.

Any disciplinary action administered may ultimately be taken to arbitration, when such a remedy is specified in the labor agreement. Employers have learned that they must prepare records that will constitute proof of disciplinary action and the reasons for it. Although the formats of written warnings may vary, all should include the following information:

1. Statement of facts concerning the offense
2. Identification of the rule that was violated

FIGURE 11-5
Example of a Written Warning

Date: August 1, 2013
To: Wayne Sanders
From: Judy Bandy
Subject: Written Warning

We are quite concerned because today you were thirty minutes late to work and offered no justification for this. According to our records, a similar offense occurred on July 25, 2013. At that time, you were informed that failure to report to work on time is unacceptable. I am, therefore, notifying you in writing that you must report to work on time. It will be necessary to terminate your employment if this happens again.

Please sign this form to indicate that you have read and understand this warning. Signing is not an indication of agreement.

_____
Name

_____
Date

3. Statement of what resulted or could have resulted because of the violation
4. Identification of any previous similar violations by the same individual
5. Statement of possible future consequences should the violation occur again
6. Signature and date

An example of a written warning is shown in Figure 11-5. In this instance, the worker has already received an oral reprimand. The individual is also warned that continued tardiness could lead to termination. It is important to document oral reprimands because they may be the first step in disciplinary action leading ultimately to arbitration.

OBJECTIVE **11.13**
Explain union decertification.

decertification
Reverse of the process that employees must follow to be recognized as an official bargaining unit.

Union Decertification

Until 1947, once a union was certified, it was certified forever. However, the Taft–Hartley Act made it possible for employees to decertify a union. **Decertification** is the reverse of the process that employees must follow to be recognized as an official bargaining unit. It results in a union losing its right to act as the exclusive bargaining representative of a group of employees. As union membership has declined, the need for decertification elections has also diminished.

Members of a union's bargaining unit typically choose to decertify a union when it feels that the union is not creating an advantage such as in wage rates, benefits, and other employment-related matters. Bargaining unit members may also choose to decertify a union when it disagrees how money is spent. For example, in 2014, the police union in New Haven, Connecticut, overwhelmingly voted to decertify from AFSCME Council 15. Union members were dissatisfied with the use of the lump-sum payments it made to the union (for its members' education and legal representation of police officers if needed) because the Union spent a portion of these payments to subsidize activities for small police forces rather than to the exclusive benefit of its members.[26]

The rules established by the NLRB spell out the conditions for filing a decertification petition; it is essentially the reverse of obtaining union recognition. At least 30 percent of the bargaining unit members must petition for an election. As might be expected, this task by itself may be difficult because union supporters are likely to strongly oppose the move. Few employees know about decertification and fewer still know how to start the process. Also, although the petitioners' names are supposed to remain confidential, many union members are fearful that their signatures on the petition will be discovered. The timing of the NLRB's receipt of the decertification petition is also critical. The petition must be submitted between 60 and 90 days prior to the expiration of the current contract. When all these conditions have been met, the NLRB regional director will schedule a decertification election by secret ballot.

The NLRB carefully monitors the events leading up to the election. Current employees must initiate the request for the election. This is what happened regarding professional football when the National Football League Players Association (NFLPA) decertified in March 2011. If the NLRB determines that management initiated the action, it will not certify the election. After a petition has been accepted, however, management can support the decertification election attempt. If a majority of the votes cast is against the union, the employees will be free from the union. Strong union supporters are all likely to vote. Thus, if a substantial number of employees is indifferent to the union and chooses not to vote, decertification may not occur.

In the Watch It video, UPS provides a balanced perspective on the value of union representation from the standpoint of costs and benefits to employees and the company. Ultimately, employees maintain a choice with or without a union. If employees were dissatisfied with union representation, they could easily choose to decertify it.

Watch It 2
If your professor has assigned this, sign into **mymanagementlab.com** to watch a video titled UPS: Union Management and to respond to questions.

OBJECTIVE **11.14**
Describe collective bargaining in the public sector.

Collective Bargaining in the Public Sector

Executive Order 10988 established the basic framework for collective bargaining in federal government agencies. Title VII of the Civil Service Reform Act of 1978 regulates most of the labor–management relations in the federal service. It establishes the Federal Labor Relations Authority, which is modeled after the NLRA. The intent of the Federal Labor Relations Act is to bring the public-sector model in line with that of the private sector. Requirements and mechanisms for recognition and elections, dealing with impasses, and handling grievances are covered in the act. Collective bargaining for federal unions has traditionally been quite different from private-sector bargaining because wages were off the table. President Franklin D. Roosevelt recognized that the bargaining relationship that exists in the private sector cannot also exist in the public sector saying, it "cannot be transplanted into the public service.... The employer is the whole people."[27] Title V of the U.S. Code, the law that dictates rules for federal employees, did not allow bargaining over wage issues, except for the U.S. Postal Service.

There is no uniform pattern to state and local bargaining rights. More than two-thirds of the states have enacted legislation granting public-sector collective bargaining rights to some groups such as teachers, police, and firefighters. However, the diversity of state labor laws makes it difficult to generalize about the legal aspects of collective bargaining at the state and local levels.

In the public sector, most governmental jurisdictions prohibit their employees from striking. This was vigorously pointed out in the 1981 strike by air traffic controllers when President Ronald Reagan used replacement workers to end the first declared national strike against the federal government. The Professional Air Traffic Controllers Organization (PATCO) sacrificed a substantial pay increase, a generous benefit package, and its existence in its attempt to legitimize strikes in the public sector.[28] As a result, interest arbitration is used to a greater extent than in the private sector, although there is no uniform application of this method.

final-offer arbitration
An arbitration procedure used in the public sector whereby the arbitrator must select one party's offer either as a package or issue-by-issue selection.

A procedure used in the public sector is **final-offer arbitration**, which has two basic forms: package selection and issue-by-issue selection. In package selection, the arbitrator must select one party's entire offer on all issues in dispute. In issue-by-issue selection, the arbitrator examines each issue separately and chooses the final offer of one side or the other on each issue. Final-offer arbitration is often used to determine the salary of a professional baseball player. Both players and management present a dollar figure to an arbitrator. The arbitrator chooses one figure or the other.

OBJECTIVE 11.15
Discuss labor unrest in China.

Labor Unrest in China

The All-China Federation of Trade Unions (ACFTU) is China's only government-recognized union. The recent recession caused the ACFTU to hold up its unionization drives, but it appears that it has resumed its efforts to unionize foreign-invested enterprises. The ACFTU is putting pressure on foreign-invested enterprises to establish unions and sign collective contracts with their employees. Under the People's Republic of China (PRC) Trade Union Law, the employer, not employees, contributes union dues if the company is not unionized. The pressure to unionize through the collection of union dues is likely to continue with the support of ACFTU.[29]

Perhaps because of the renewed push to promote collective bargaining agreements, strikes and protests at factories have become more commonplace. *Outlook Weekly*, an official government publication, reported that labor disputes in Guangdong in the first quarter of 2009 had risen by nearly 42 percent over 2008; and in the Zhejiang province, the annualized increase was almost 160 percent. [30]

A succession of strikes occurred at several factories in Guangdong and China's coastal regions. The strike that received the most attention happened at Honda Motor Company factories in several Guangdong cities. Workers demanded higher wages and better working conditions. Honda gave in, providing a 24 percent pay increase, which prompted work stoppages at several other facilities.[31]

Humiliation caused by a series of suicides at Foxconn, a subsidiary of Taiwan's Hon Hai Precision Industry Company, forced the company to give a 30 percent pay increase. The suicides were apparently in response to poor working conditions at the firm.[32] The new generation of Chinese factory workers, born during the 1980s and 1990s, are more sensitive to social issues and workplace rights than their parents. Previous generations might have taken any job available, even for low salaries. But these young workers are seeking jobs that not only pay well but also provide a better life for their families, provide career development, and treat employees with respect.

By 2009, 85 percent of the *Fortune 500* companies operating in China had been unionized, including Walmart, a firm that has gained a reputation as being anti-union. Chinese union membership grew from 87 million members in 1999 to 212 million members in 2008.[33] The ACFTU reported that by the end of 2009, more than 1.2 million collective contracts were signed involving more than 2 million enterprises and nearly 162 million workers nationwide.

Two years after the strikes and suicides that rocked manufacturers in China, labor problems are again occurring and appear to be happening daily. For example, in late 2011, approximately 7,000 workers at a Taiwanese-owned New Balance supplier in Dongguan protested plans to relocate production to Jiangxi province and cut bonuses. Willie Fung, chairman of Hong Kong bra-maker Top Form International, said, "As the environment goes from bad to worse, a lot of factories want to find a way out. They want to downsize, shut down, or move somewhere else, and this sparks labor disputes." China's leaders are generally not in favor of these strikes because they fear that they will cause social unrest.[34]

Summary

1. ***Discuss why unions exist.*** Labor came about out of necessity. Employers often set unfavorable terms of employment (for example, low wages) and unsafe working conditions. The collective effort of employees provided them with greater power to negotiate better terms of employment.
2. ***Explain why employees join unions.*** Employees join unions because of dissatisfaction with management, the need for a social outlet, the need for avenues of leadership, forced unionization, and social pressure from peers.
3. ***Describe the basic structure of a union.*** The basic element in the structure of the U.S. labor movement is the local union. The national union is the most powerful level, and the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) is the central trade union federation in the United States
4. ***Summarize the prevalence of unions.*** The latest figures from the Labor Department's Bureau of Labor Statistics showed that the percentage of wage and salary workers who were members of a union was 11.3 percent. The number of wage and salary workers belonging to unions is at approximately 14.5 million. In 2013, 7.2 million public-sector employees belonged to a union, compared with 7.3 million union workers in the private sector. Public-sector workers had a union membership rate of 35.3 percent—more than five times higher than that of the private-sector workers rate of 6.7 percent. The unionization rate and the number of employees who are protected by unions is declining steadily.
5. ***Describe organized labor's strategies for a stronger movement.*** Organized labor's new strategies for a stronger movement include strategically located union members, pulling the union through, political involvement, union salting, flooding the community, public awareness campaigns, building organizing funds, partnering with high schools, and organizing through the card check.
6. ***Discuss laws affecting collective bargaining.*** The National Labor Relations Act of 1935 (also known as the Wagner Act) is one of the most significant labor–management relations statutes ever enacted. The act declared legislative support, on a broad scale, for the right of employees to organize and engage in collective bargaining. The Taft–Hartley Act extensively revised the National Labor Relations Act. A new period began in the evolution of public policy regarding labor.
7. ***Identify the steps that lead to forming a bargaining unit.*** The steps involved include signing authorization cards, petitioning for election, campaigning, winning the election, and being certified.
8. ***Describe the collective bargaining process and explain collective bargaining issues.*** The negotiating phase of collective bargaining begins with each side presenting its initial demands. The term *negotiating* suggests a certain amount of give-and-take. The party with the greater leverage can expect to extract the most concessions.

   Bargaining issues can be divided into three categories: mandatory, permissive, and prohibited. Certain topics are included in virtually all labor agreements. These are recognition, management rights, union security, compensation, grievance procedure, employee security, and job-related factors.
9. ***Describe preparation for negotiations and negotiating the agreement.*** The union must continuously gather information regarding membership needs to isolate areas of dissatisfaction. Management also spends long hours preparing for negotiations. The negotiating phase of collective bargaining begins with each side presenting its initial demands. The term *negotiating* suggests a certain amount of give-and-take. The party with the greater leverage can expect to extract the most concessions.
10. ***Discuss breakdowns in the negotiations process.*** Breakdowns in negotiations can be overcome through third-party intervention (mediation and arbitration), union tactics (strikes and boycotts), and management recourse (lockouts and continued operation without striking workers).
11. ***Describe what is involved in reaching, ratifying, and administering the labor–management agreement.*** The document that emerges from the collective bargaining process is known as a "labor–management agreement" or "contract."

    The approval process for management is often easier than for labor. The president or CEO has usually been briefed regularly on the progress of negotiations. However, the approval process is more complex for the union. Until a majority of members voting in a ratification election approve it, the proposed agreement is not final.

    The larger and perhaps more important part of collective bargaining is administration of the agreement, which the public seldom sees. The agreement establishes the union–management relationship for the duration of the contract.
12. ***Describe the grievance procedure in a union environment.*** A grievance procedure under a collective bargaining agreement is normally well defined. It is usually restricted to violations of the terms and conditions of the agreement.
13. ***Explain union decertification.*** Decertification is essentially the reverse of the process that employees must follow to be recognized as an official bargaining unit.

14. ***Describe collective bargaining in the public sector.*** Executive Order 10988 established the basic framework for collective bargaining in federal government agencies. Title VII of the Civil Service Reform Act of 1978 regulates most of the labor–management relations in the federal service. It establishes the Federal Labor Relations Authority, which is modeled after the NLRA. The intent of the Federal Labor Relations Act is to bring the public-sector model in line with that of the private sector. Requirements and mechanisms for recognition and elections, dealing with impasses, and handling grievances are covered in the act. Collective bargaining for federal unions has traditionally been quite different from private-sector bargaining because wages were off the table.

15. ***Discuss labor unrest in China.*** The All-China Federation of Trade Unions (ACFTU) is China's only government-recognized union. The recent recession caused the ACFTU to hold up its unionization drives, but it appears that it has resumed its efforts to unionize foreign-invested enterprises. The ACFTU is putting pressure on foreign-invested enterprises to establish unions and sign collective contracts with their employees. Under the People's Republic of China (PRC) Trade Union Law, the employer, not employees, contributes union dues if the company is not unionized. The pressure to unionize through the collection of union dues is likely to continue with the support of ACFTU.

Key Terms

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local union 309
craft union 310
industrial union 310
national union 310
American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) 310
Change to Win Coalition 310
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Exercises

✪**11-1.** How easy do you believe the following firms would be for unionization (assuming that they are not already unionized)? Explain your rationale.
a. McDonald's
b. Chevrolet dealership
c. Toyota USA
d. Delta pilots

11-2. This is a role-playing exercise involving a union member (you) and a new hire in a right-to-work state. Your job is to convince the new hire that joining the union is in his or her best interest.

11-3. This is a role-playing exercise involving a long-term employee (you) and a new hire in a right-to-work state. Your job is to convince the new hire that not joining the union is in his or her best interest.

Questions for Review

11-4. What are organized labor's strategies for a stronger movement?

11-5. Define the following:
(a) agency shop
(b) closed shop
(c) union shop
(d) open shop

✪**11-6.** What is the status (prevalence) of unions today?

11-7. What is the difference between the NLRA and the Labor–Management Relations Act?

✪**11-8.** Why has the NLRB recently been thrust into the forefront with regard to labor relations?

11-9. What steps must a union take in establishing the collective bargaining relationship? Briefly describe each step.

11-10. What are the steps involved in the collective bargaining process?

✪**11-11.** Distinguish among mandatory, permissive, and prohibited bargaining issues.

11-12. What are topics included in virtually all labor agreements?

11-13. Define each of the following:
(a) closed shop
(b) union shop
(c) agency shop
(d) maintenance of membership
(e) checkoff of dues

11-14. What are the primary means by which breakdowns in negotiations may be overcome? Briefly describe each.

11-15. What is the difference between *mediation* and *arbitration*?

11-16. What is the difference between rights arbitration and interest arbitration?

11-17. What is typically involved in the grievance procedure in a unionized organization?

11-18. Why would the members of a union's bargaining unit choose to decertify?

11-19. How is the collective bargaining process different in the public sector?

INCIDENT 1 Bargaining Process for Amico Holdings

Tom had just returned from a meeting with his union friends at the Malaysian Trade Union Congress (MTUC) and was reflecting on what the meeting was about. He had been working for Amico Holdings (a timber manufacturing company) for the past 10 years and had seen the company through ups and downs. The meeting with officials at MTUC was fruitful as some terms and conditions had been drawn up.

Tom had seen that the work conditions had not improved much over the years, and together with four other colleagues, Mr. Muhammad, Mr. Taib, Mr. Sugu, and Mr. Rahma, he had formed the Amico Union Group (AUG) on August 25, 2008. As the leader of the union, Tom felt that it was time to enter into a collective bargaining agreement between Amico and the newly formed union.

"An application for union recognition was sent out to the minister in December 2009, and it has already been approved. We now have the green light to enter into a collective bargaining agreement with Amico Holdings. However, the management of Amico Holdings filed an appeal against the High Court decision," said Mr. Muhammad.

"We need to fight for more wages, allowances, sick leave, annual leave, retirement, and termination benefits. It is our right!" said Tom. "Those are our basic rights!" a crowd of union supporters at the meeting shouted. The atmosphere at the MTUC office was getting chaotic.

"Several letters have been sent to the industrial relations court. I think we should now proceed to the high courts," said the MTUC president. "Tom, please get the documents ready so we can pursue this matter, and hopefully we can come to a compromise on this with Amico Holdings."

"I hope this matter can be resolved as soon as possible, otherwise I think we should all go on strike," said Tom to his secretary.

Questions

11-20. Why would the management of Amico Holdings not want to go through the process of collective bargaining?

11-21. What are the benefits of going through the collective bargaining process?

INCIDENT 2 You Are Out of What?

Marcus Ned eagerly drove his new company pickup onto the construction site. His employer, Kelso Construction Company, had just assigned him to supervise a crew of 16 equipment operators, oilers, and mechanics. This was the first unionized crew Marcus had supervised, and he was unaware of the labor agreement in effect that carefully defined and limited the role of supervisors. As he approached his work area, he noticed one of the cherry pickers (a type of mobile crane with an extendable boom) standing idle with the operator beside it. Marcus pulled up beside the operator and asked, "What's going on here?"

"Out of gas," the operator said.

"Well, go and get some," Marcus said.

The operator reached to get his thermos jug out of the toolbox on the side of the crane and said, "The oiler's on break right now. He'll be back in a few minutes."

Marcus remembered that he had a five-gallon can of gasoline in the back of his pickup. So he quickly got the gasoline, climbed on the cherry picker, and started to pour it into the gas tank. As he did so, he heard the other machines shutting down in unison. He looked around and saw all the other operators climbing down from their equipment and standing to watch him pour the gasoline. A moment later, he saw the union steward approaching.

Questions

11-22. Why did all the operators shut down their machines?

11-23. If you were Marcus, what would you do now?

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12 Internal Employee Relations

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Explain the concept of employment at will.
2. Explain discipline and disciplinary action.
3. Describe the disciplinary action process.
4. Discuss the various approaches to disciplinary action.
5. Describe the problems in the administration of disciplinary action.
6. Explain termination of employment.
7. Discuss termination of employees at various levels.
8. Explain demotion as an alternative to termination.
9. Describe downsizing.
10. Explain the use of ombudspersons and alternative dispute resolution.
11. Describe transfers, promotions, resignations, and retirements as factors involved in internal employee relations.
12. Explain some issues associated with administering disciplinary action in other countries.

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internal employee relations
Those human resource management activities associated with the movement of employees within the organization.

The status of most workers is not permanently fixed in an organization. Employees constantly move upward (promotion), laterally (transfers), downward (demotion), and out of the organization (separation and termination). At times, employees may violate work rules that require management intervention or employees may possess a grievance based on their claim of inappropriate application of policy or other inappropriate behavior. To ensure that workers with the proper skills and experience are available at all levels, constant and concerted efforts are required to maintain good internal employee relations. **Internal employee relations** comprise the human resources (HR) management activities associated with the movement of employees within the company and the relationship between employees and employers within the company. Such topics include discipline and disciplinary action, termination, demotion, downsizing, transfers, promotions, resignations, and retirement.

Employment at will is first discussed as a factor affecting internal employee relations, particularly for employee groups who are not represented by a labor union. Understanding employment at will provides a basis for understanding why movement of employees is more likely in nonunion settings than in union settings

OBJECTIVE **12.1**
Explain the concept of employment at will.

employment at will
Unwritten contract created when an employee agrees to work for an employer but no agreement exists as to how long the parties expect the employment to last.

Employment at Will

Employment at will is a legal doctrine that specifies that employment may be terminated by either the employer or employee for any reason. "The employment-at-will doctrine avows that, when an employee does not have a written employment contract and the term of employment is of definite duration, the employer can terminate the employee for good cause, bad cause, or no cause at all."[1] For unionized workers, a collective bargaining agreement sets aside an employer's ability to use employment-at-will provisions because the terms of employment are managed in accordance with the provisions of the collective bargaining agreement. Certainly there are numerous hiring standards to avoid such as race, religion, sex, national origin, age, and disabilities. Notwithstanding various employment standards to avoid that are based on laws, court decisions, and executive orders, approximately two of every three U.S. workers depend almost entirely on the continued goodwill of their employer. Individuals falling into this category are known as "at-will employees."

There are three exceptions to the at-will doctrine, which have been established by courts of law. The first is an implied contract exception. Implied contracts can be formed through an employer's



representation of continued employment in writing or through oral statements. Written statements made in employment handbooks that specify continued employment based on continued satisfactory job performance are an example of an implied contract. A manager or supervisor who makes similar oral statements to employees is also an example of an implied contract. Employers can do certain things to help protect themselves against litigation for wrongful discharge based on a breach of implied employment contract. Statements in documents such as employment applications and policy manuals that suggest job security or permanent employment should be avoided if employers want to minimize charges of wrongful discharge. Telling a person during a job interview that he or she can expect to hold the job as long as they want could be considered a contractual agreement and grounds for a lawsuit. Normally, a person should not be employed without a signed acknowledgment of the at-will disclaimer. In addition, the policy manual should have it noticeably stated in bold, larger-than-normal print, so it is clear to the employee that this is an at-will relationship. Other guidelines that may assist organizations in avoiding wrongful termination suits include clearly defining the worker's duties, providing good feedback on a regular basis, and conducting realistic performance appraisals on a regular basis. Most states recognize this exception.

Second, employers generally cannot exercise at-will termination if such a termination violates a state's public policy. For example, workers' compensation programs are governed by rules in every state. Terminating an employee for filing a workers' compensation claim after becoming injured while on the job cannot be made on at-will grounds. Most states recognize this exception.

Third, only a few states recognize something referred to as an implied covenant of good faith and fair dealing into the employment relationship. Terminating employment without *just cause*, which we discuss later in this chapter, would be considered an act of bad faith and unfair dealing. An example of employer bad faith would be terminating a long-service employee who consistently has demonstrated exceptional job performance and follows work rules.

OBJECTIVE 12.2

Explain discipline and disciplinary action.

Discipline and Disciplinary Action

discipline
State of employee self-control and orderly conduct that indicates the extent of genuine teamwork within an organization.

disciplinary action
Invoking a penalty against an employee who fails to meet established standards.

Discipline is the state of employee self-control and orderly conduct that indicates the extent of genuine teamwork within an organization. A necessary but often trying aspect of internal employee relations is the application of **disciplinary action**, which is invoking a penalty against an employee who fails to meet established standards. Even though disciplinary action may be tense, unpleasant, and fraught with conflict, at times it must be done. Don Crosby, vice-president of international and corporate HR at McDonald's, said, "It's the hardest thing a manager has to do. It's also rocky terrain for many executives, who simply do not know when or how to hold the stick, swinging it haphazardly and inconsistently, striking too hard, too soft, or not at all."[2]

Effective disciplinary action addresses the employee's wrongful behavior, not the employee as a person. Incorrectly administered disciplinary action is destructive to both the employee and the organization. Thus, disciplinary action should not be applied haphazardly. Disciplinary action is not usually management's initial response to a problem. Normally, there are more positive ways of convincing employees to adhere to company policies that are necessary to accomplish organizational goals. However, managers must administer disciplinary action at times when company rules are violated.

OBJECTIVE 12.3

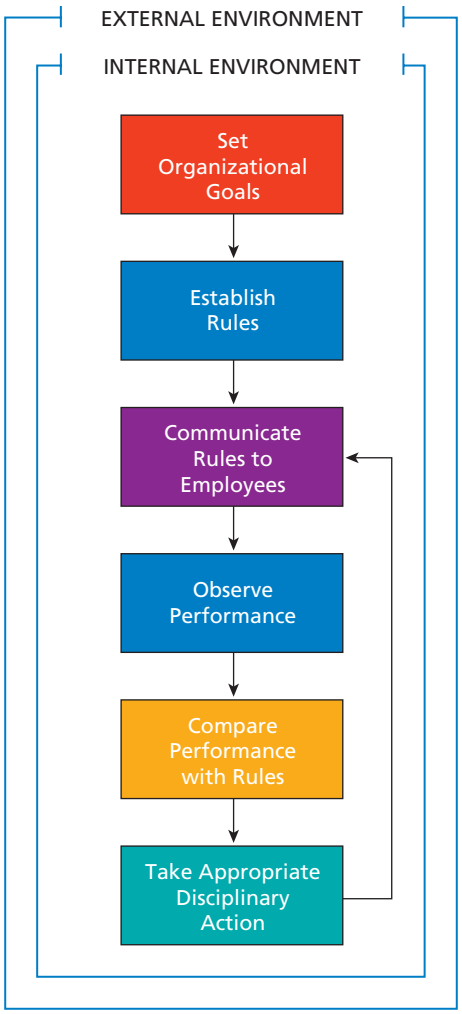
Describe the disciplinary action process.

Disciplinary Action Process

The disciplinary action process is dynamic and ongoing. Because one person's actions can affect others in a work group, the proper application of disciplinary action fosters acceptable behavior by other group members. Conversely, unjustified or improperly administered disciplinary action can have a detrimental effect on other group members.

The disciplinary action process is shown in Figure 12-1. The external environment affects every area of HR management, including disciplinary actions. Changes in the external environment, such as technological innovations, may render a rule inappropriate and may necessitate creating new rules. Laws and government regulations that affect company policies and rules are also constantly changing. For instance, the Occupational Safety and Health Act (OSHA) caused many firms to establish safety rules.

FIGURE 12-1
Disciplinary Action Process



Changes in the internal environment of the firm can also alter the disciplinary action process. Through organization development, the firm may change its employer brand. As a result of this shift, first-line supervisors may begin to handle disciplinary action more positively. Organization policies can also have an impact on the disciplinary action process. Think how a new smoke-free workplace policy might impact the workplace and the possible need for disciplinary action.

The disciplinary action process deals largely with infractions of rules. Notice in Figure 12-1 that rules are established to better facilitate the accomplishment of organizational goals. Rules are specific guides to behavior on the job. The dos and don'ts associated with accomplishing tasks may be highly inflexible. For example, a company may forbid the use of tobacco products anywhere on company property.

After management has established rules, it must communicate these rules to employees. The manager then observes the performance of workers and compares performance with rules. As long as employee behavior does not vary from acceptable practices, there is no need for disciplinary action, but when an employee's behavior violates a rule, corrective action may need to be taken. Taking disciplinary action against someone often creates an uncomfortable psychological climate. However, managers can still sleep well at night after taking disciplinary action if the rules have been clearly articulated to everyone.

The purpose of disciplinary action is to alter behavior that can have a negative impact on achievement of organizational objectives, not to chastise the violator. The word *discipline* comes from the word *disciple*, and when translated from Latin, it means, *to teach*. Thus, the intent of disciplinary action should be to ensure that the recipient sees disciplinary action as a learning process rather than as something that inflicts pain.

Note that the process shown in Figure 12-1 includes feedback from the point of taking appropriate disciplinary action to communicating rules to employees. When disciplinary action is taken, all employees should realize that certain behaviors are unacceptable and should not be repeated.[3] However, if appropriate disciplinary action is not taken, employees may view the behavior as acceptable and repeat it.

OBJECTIVE 12.4

Discuss the various approaches to disciplinary action.

Approaches to Disciplinary Action

Several approaches to the administration of disciplinary action have been developed. Three of the most important concepts are the hot stove rule, progressive disciplinary action, and disciplinary action without punishment.

Hot Stove Rule

hot stove rule
An approach to disciplinary action that have four consequences which are analogous to touching a hot stove.

According to the **hot stove rule**, disciplinary action should have the following consequences, which are analogous to touching a hot stove:

1. *Burns immediately.* If disciplinary action is to be taken, it must occur immediately so that the individual will understand the reason for it.
2. *Provides warning.* It is also extremely important to provide advance warning that punishment will follow unacceptable behavior. As individuals move closer to a hot stove, its heat warns them that they will be burned if they touch it; therefore, they have the opportunity to avoid the burn if they so choose.
3. *Gives consistent punishment.* Disciplinary action should also be consistent in that everyone who performs the same act will be punished accordingly. As with a hot stove, each person who touches it with the same degree of pressure and for the same period of time is burned to the same extent.
4. *Burns impersonally.* Disciplinary action should be impersonal. The hot stove burns anyone who touches it—without favoritism.

If the circumstances surrounding all disciplinary action were the same, there would be no problem with this approach. However, situations are often quite different, and many variables may be present in each disciplinary action case. For instance, does the organization penalize a loyal 20-year employee the same way as an individual who has been with the firm for less than six weeks? Supervisors often find that they cannot be completely consistent and impersonal in taking disciplinary action and they need a certain degree of flexibility. Because situations do vary, progressive disciplinary action may be more realistic and more beneficial to both the employee and the organization.

Progressive Disciplinary Action

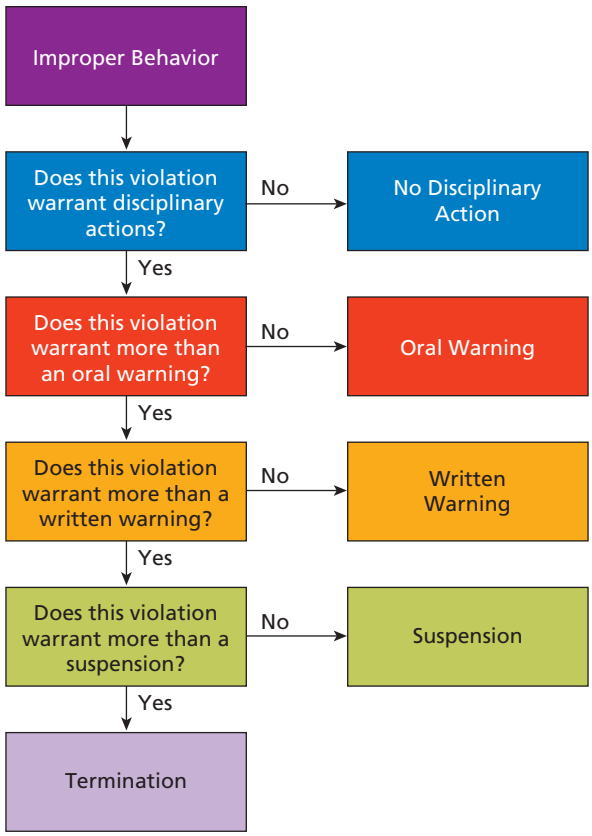
progressive disciplinary action
Approach to disciplinary action designed to ensure that the minimum penalty appropriate to the offense is imposed.

Progressive disciplinary action is intended to ensure that the minimum penalty appropriate to the offense is imposed. The progressive disciplinary model was developed in response to the National Labor Relations Act (NLRA). The goal of progressive disciplinary action is to formally communicate problem issues to employees in a direct and timely manner so that they can improve their performance. Its use involves answering a series of questions about the severity of the offense. The manager must ask these questions, in sequence, to determine the proper disciplinary action, as illustrated in Figure 12-2. After the manager has determined that disciplinary action is appropriate, the proper question is, "Does this violation warrant more than an oral warning?" If the improper behavior is minor and has not previously occurred, perhaps only an oral warning will be sufficient. Also, an individual may receive several oral warnings before a *yes* answer applies. The manager follows the same procedure for each level of offense in the progressive disciplinary process. The manager does not consider termination until each lower-level question is answered *yes*. However, major violations, such as assaulting a supervisor or another worker, may justify moving through each level of question to the immediate termination of the employee. It is important for the worker to know what can result if improvement does not result.[4]

To assist managers in recognizing the proper level of disciplinary action, some firms have formalized the procedure. One approach to establish progressive disciplinary action guidelines

FIGURE 12-2

Progressive Disciplinary Action Approach





HR Web Wisdom

Progressive Disciplinary Action

http://humanresources.about.com/od/discipline/

Numerous articles related to disciplinary action and progressive disciplinary action.

in a factory environment is shown in Table 12-1. In this example, a worker who is absent without authorization will receive an oral warning the first time it happens and a written warning the second time; the third time, the employee will be terminated. Fighting on the job is an offense that normally results in immediate termination. Specific guidelines for various offenses should be developed to meet the needs of the organization. For example, the wearing of rings or jewelry for aircraft mechanics is strictly prohibited. There would likely be no such rule in an office environment. Basically, the rule should fit the need of the situation.

TABLE 12-1

Suggested Guidelines for Disciplinary Action

Offenses Requiring First, an Oral Warning; Second, a Written Warning; and Third, Termination
Negligence in the performance of duties
Unauthorized absence from job
Inefficiency in the performance of job
Offenses Requiring a Written Warning and Then Termination
Sleeping on the job
Failure to report to work one or two days in a row without notice
Negligent use of property
Offenses Requiring Immediate Termination
Theft
Fighting on the job
Falsifying time card
Failure to report to work three days in a row without notice

Disciplinary Action without Punishment

disciplinary action without punishment
Process in which a worker is given time off with pay to think about whether he or she wants to follow the rules and continue working for the company.

The process of giving a worker time off with pay to think about whether he or she wants to follow the rules and continue working for the company is called **disciplinary action without punishment**. The approach throws out formal punitive disciplinary action policies for situations such as chronic tardiness or a bad attitude in favor of affirming procedures that make employees want to take personal responsibility for their actions and be models for accomplishment of the corporate mission. When an employee violates a rule, the manager issues an oral reminder. Repetition brings a written reminder, and the third violation results in the worker having to take one, two, or three days off (with pay) to think about the situation. During the first two steps, the manager tries to encourage the employee to solve the problem. If the third step is taken, upon the worker's return, the worker and the supervisor meet to agree that the employee will not violate rules again or the employee will leave the firm. When disciplinary action without punishment is used, it is especially important that all rules are explicitly stated in writing. At the time of orientation, new workers should be told that repeated violations of different rules will be viewed in the same way as several violations of the same rule. This approach keeps workers from taking undue advantage of the process. Walmart has a form of disciplinary action without punishment they call "Decision-Making Day." It provides a paid day off for the employee to decide either to improve or leave the company. It is Walmart's most severe discipline before termination.[5]

OBJECTIVE 12.5
Describe the problems in the administration of disciplinary action.

Problems in the Administration of Disciplinary Action

As might be expected, administering disciplinary action is not a pleasant task, but it is a job that managers sometimes have to do. Although the manager is in the best position to take disciplinary action, many would rather avoid it even when it is in the company's best interest. Such reluctance often stems from breakdowns in other areas of HR management. For instance, if a manager has consistently rated an employee high on annual performance appraisals, the supervisor's rationale for taking disciplinary action against a worker for poor performance would be weak. In a possible termination situation, it could be that the employee's productivity has actually dropped substantially. It might also be that the employee's productivity has always been low, yet the supervisor had trouble justifying to upper-level management that the person should be terminated. Rather than run the risk of a decision being overturned, the supervisor retains the ineffective worker.

Occasionally, there may be suits involving members of protected groups who claim that the disciplinary action was taken against them because they are members of a protected group. One of the best ways for a company to protect itself against suits claiming discrimination or harassment is to ensure that it has proper, written policies barring unfair treatment of its staff and a system for ensuring that the policies are followed. Disciplinary actions should be fully documented, and managers should be trained in how to avoid bias claims.[6] Also, although discrimination laws prohibit employers from making employment decisions based on an employee's membership in a protected class, basing decisions solely on performance helps prevent violation of these laws.

A supervisor may be perfectly justified in administering disciplinary action, but there is usually a proper time and place for doing so. For example, taking disciplinary action against a worker in the presence of others may embarrass the individual and actually defeat the purpose of the action. Even when they are wrong, employees resent disciplinary action administered in public. By disciplining employees in private, supervisors prevent them from losing face with their peers.

In addition, many supervisors may be too lenient early in the disciplinary action process and too strict later. This lack of consistency does not give the worker a clear understanding of the penalty associated with the inappropriate action. A supervisor will often endure an unacceptable situation for an extended period of time. Then, when a decision is finally made to take action, he or she is apt to overreact and come down excessively hard. However, consistency does not necessarily mean that the same penalty must be applied to two different workers for the same offense. For instance, managers would be consistent if they always considered the worker's past record and length of service.



ETHICAL DILEMMA

To Fire or Not to Fire

You are a first-line supervisor for Kwik Corporation, a medium-sized manufacturer of automotive parts. Workers in your company and also your department are quite close, and you view them as family. The work in your department can be quite dangerous. It is especially important that all workers wear their safety glasses because in the past there have been some serious injuries. The company has a rule that states that any employee who does not follow the stated policy will receive a written reprimand on the first offense and will be terminated on the second violation. You have had to terminate several workers in the past because of similar violations. The other day, Allen Smith, one of your best and most influential employees, violated the safety glasses rule and you gave him a reprimand. You hated to do that because he is by far your best worker and he often helps you if you have a problem with the other workers. He has also been with the company for a long time. You would really be lost without him. You walk up to Allen's workstation and observe him not wearing his safety glasses again. He knows that he has been caught and quickly puts his glasses on and says in a pleading voice, "Please don't fire me. I promise it will never happen again. I have just had a lot on my mind lately."

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

OBJECTIVE **12.6**

Explain termination of employment.

Termination

termination
Most severe penalty that an organization can impose on an employee.

Termination is the most severe penalty that an organization can impose on an employee; therefore, it should be the most carefully considered form of disciplinary action. The experience of being terminated is traumatic for employees regardless of their position in the organization. They can experience feelings of failure, fear, disappointment, and anger. It is also a difficult time for the person making the termination decision. Knowing that termination may affect not only the employee but also an entire family increases the trauma. Not knowing how the terminated employee will react also may create considerable anxiety for the manager who must do the firing. An individual who is terminated may respond with a wide range of emotions ranging from workplace violence to being totally unemotional in the matter.

"Just Cause" as a Standard for Choosing to Terminate Employment

just cause
A standard for determining whether to terminate an employee and the standard is based on whether an employee violated company policy or work rules and the severity of the violation.

Just cause is a standard for determining whether to terminate an employee and the standard is based on whether an employee violated company policy or work rules and the severity of the violation. Employers that embrace the at-will doctrine are not compelled to justify a termination decision. However, in an employment contract, just cause separates the basis for termination from that of a mass layoff because of economic reasons or exercise of at-will rights by requiring a reason for termination.

In union settings, most collective bargaining agreements require just cause for discipline and discharge. If a union files a grievance over the termination of a union member, the employer typically has the burden to show just cause existed for the termination during a labor arbitration hearing. We discuss labor arbitration later in the alternative dispute resolution section of this chapter. In the nonunion settings, just cause is protection for the employer and employee. For example, assume that a company includes a severance pay policy. In most policies, companies withhold severance pay when termination is for just cause. Just cause provides protection to employers by justifying not making severance pay whose termination is for just cause, and it provides protection to employees by justifying receipt of severance pay whose termination does not meet just cause standards.

In 1972, Professor Carroll R. Daugherty, who served as a labor arbitrator, put forth seven tests to help future arbitrators decide whether employee termination or other adverse actions in union settings, such as demotion, met just cause standards. Although established for use by arbitrators, the questions provide useful guidance for management whose companies have just cause employment provisions. Prior to making a decision to terminate an employee, management can review whether the just cause standard will likely be upheld if the termination is subsequently challenged by the former employee. The seven tests follow:

1. Did the company give to the employee forewarning or foreknowledge of the possible or probably disciplinary consequences of the employee's conduct?

2. Was the company's rule or managerial [sic] reasonably related to (a) the orderly, efficient, and safe operation of the company's business and (b) the performance that the company might properly expect of the employee?
3. Did the company, *before* administering discipline to an employer, make an effort to discover whether the employee did in fact violate or disobey a rule or order of management?
4. Was the company's investigation conducted fairly and objectively?
5. At the investigation, did the company "judge" obtain substantial and compelling evidence or proof that the employee was guilty as charged?
6. Has the company applied its rules, orders, and penalties even-handedly and without discrimination to all employees?
7. Was the degree of discipline administered by the company in a particular case reasonably related to (a) the seriousness of his employee's proven offense and (b) the record of the employee in his service with the company?[7]

Considerations in Communicating the Termination Decision

Most of the time, when the decision is made to terminate a worker, the employee should not really be surprised because he or she should have been given explicit warnings and counseling prior to being fired. The worker should have been advised of specific steps needed to take to keep the job. Support should have been provided to show what needed to be done. The worker also should have been given a reasonable period of time to comply with the supervisor's expectations.

Experts suggest that firings should be on Mondays because it lets the dismissed workers start looking for a job right away.[8] Further, firing a worker at the end of the day leaves little chance for discussion among the remaining staff that may interrupt the workplace. Managers should try to plan the termination and not make it based on emotions. Certain steps should be followed in the termination process. In the first place, the worker's manager normally should personally do the firing. Second, the firing process should be kept short, using nonaccusatory language. Third, the manager should not go into the reason for the dismissal and should not answer any questions regarding the decision.[9] In some states, when an employee is involuntarily terminated, the employer must pay all earned and unpaid wages within 24 hours after the employee demands it. To avoid any potential dispute over when a demand was made, most employers simply have the final paycheck available at the termination meeting. Also, select a location where there will be no interruptions. If the employee becomes argumentative,



HR BLOOPERS

Effective Discipline at Berries Groceries

As Katie Smith travels to one of the Berries Groceries store locations, she is worried about the meeting she is about to have with one of the deli clerks. As the HR Manager for the chain of grocery stores, Katie is working to improve the overall performance and retention of the mostly part-time grocery staff. The store manager of this location called Katie about the employee and he asked her to sit in on a disciplinary meeting to give the employee a written warning. Last week, the deli clerk had failed to follow the proper procedures when closing the deli counter at the end of the day, and as a result, some food had spoiled and needed to be thrown out. The manager told Katie that this employee and other employees have failed to follow the proper procedures in the past, but he has never given any disciplinary action before this incident. However, this time there was a significant amount of food product that went to waste, and he felt that he could use this disciplinary action to set an example for all employees so they know that they need to start following the procedure. He said he tells every employee the closing procedures when they are hired and that he should not have to remind them every time they close the deli. Katie understands the importance of ensuring that employees follow proper food handling procedures but has an uneasy feeling that this meeting is not going to go well.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

managers may need to get up and leave once the worker has been fired. For that reason, a manager's office is normally not used.[10] Finally, most managers believe that it is best to have a witness because the person being fired may interpret your statements in the worst possible light.[11]

OBJECTIVE 12.7
Discuss termination of employees at various levels.

Termination of Employees at Various Levels

Regardless of the similarities in the termination of employees at various levels, distinct differences exist with regard to nonmanagerial/nonprofessional employees, executives, and middle and lower-level managers and professionals.

Termination of Nonmanagerial/Nonprofessional Employees

Individuals in this category are neither managers nor professionally trained individuals, such as engineers or accountants. They generally include employees such as steelworkers, truck drivers, salesclerks, and wait staff. If the firm is unionized, the termination procedure is typically well defined in the labor–management agreement. For example, drinking on the job might be identified as a reason for immediate termination. Absences, on the other hand, may require three written warnings by the supervisor before termination action can be taken.

When the firm is union-free, these workers can generally be terminated more easily because the worker is most likely an at-will employee. In most union-free organizations, violations justifying termination are often included in the firm's employee handbook. At times, especially in smaller organizations, the termination process is informal with the first-line supervisor telling workers what actions warrant termination. Regardless of the size of the organization, management should inform employees of the actions that warrant termination.

Termination of Middle- and Lower-Level Managers and Professionals

Typically, the most vulnerable and perhaps the most neglected groups of employees with regard to termination have been middle- and lower-level managers and professionals. Employees in these jobs may lack the political clout that a terminated executive has. Although certainly not recommended, termination may have been based on something as simple as the attitude or feelings of an immediate superior on a given day.

Termination of Executives

Unlike workers at lower-level positions, CEOs do not have to worry about their positions being eliminated. Their main concern is pleasing the board of directors because hiring and firing the CEO is a board's main responsibility. Often the reason for terminating a CEO is because the board of directors lost confidence in the executive. Tenure has become increasingly shaky for new CEOs because the turnover in large corporations is high. According to John Challenger, CEO of the outplacement firm Challenger, Gray & Christmas, Inc., "It's not a job for someone who thinks they're going to stay in one spot for a long career right now," he says. "'Tenures are short,'" particularly in big public companies."[12]

Executives usually have no formal appeal procedure. The reasons for termination may not be as clear as those for lower-level employees. Some of the reasons include the following:

1. *Economic downturns.* At times, business conditions may force a reduction in the number of executives.
2. *Reorganization/downsizing.* To improve efficiency or as a result of merging with another company, a firm may reorganize or downsize, resulting in the elimination of some executive positions.
3. *Philosophical differences.* A difference in philosophy of conducting business may develop between an executive and the board. To maintain consistency in management philosophy, the executive may be replaced.
4. *Decline in productivity.* The executive may have been capable of performing satisfactorily in the past but, for various reasons, can no longer perform the job as required.

This list does not include factors related to illegal activities such as sexual harassment or insider trading. Under those circumstances, the firm has no moral obligation to the terminated executive.

An organization may derive positive benefits from terminating executives, but such actions also present a potentially hazardous situation for the company. Terminating a senior executive is an expensive proposition, often in ways more costly than just the separation package. The impact on the organization should be measured in relationships, productivity, strategic integrity, and investor confidence, as well as dollars. Many corporations are concerned about developing a negative public image that reflects insensitivity to the needs of their employees. They fear that such a reputation would impede their efforts to recruit high-quality managers. Also, terminated executives have, at times, made public statements detrimental to the reputation of their former employers.

OBJECTIVE 12.8

Explain demotion as an alternative to termination.

Demotion as an Alternative to Termination

demotion
Process of moving a worker to a lower level of duties and responsibilities, which typically involves a reduction in pay.

Demotion is the process of moving a worker to a lower level of duties and responsibilities, which typically involves a reduction in pay. Demotion may be a legitimate career option that had nothing to do with disciplinary action. However, in this section, demotion is addressed as a disciplinary action option. Emotions may run high when an individual is demoted. The demoted person may suffer loss of respect from peers and feel betrayed, embarrassed, angry, and disappointed. The employee's productivity may also decrease further. For these reasons, demotion should be used cautiously. If demotion is chosen instead of termination, efforts must be made to preserve the self-esteem of the individual. The person may be asked how he or she would like to handle the demotion announcement. A positive image of the worker's value to the company should be projected.

The handling of demotions in a unionized organization is usually spelled out clearly in the labor–management agreement. Should a decision be made to demote a worker for unsatisfactory performance, the union should be notified of this intent and given the specific reasons for the demotion. Often the demotion will be challenged and carried through the formal grievance procedure. Documentation is necessary for the demotion to be upheld. Even with the problems associated with demotion for cause, it is often easier to demote than to terminate an employee. In addition, demotion is often less devastating to the employee. For the organization, however, the opposite may be true if the demotion creates lingering ill will and an embittered employee.

Downsizing, discussed next, is not the same as termination but the results for workers involved is the same; they no longer have a job.

OBJECTIVE 12.9

Describe downsizing.

Downsizing

downsizing
Reverse of a company growing; it suggests a one-time change in the organization and the number of people employed (also known as *restructuring* or *rightsizing*).

Downsizing, also known as *restructuring* or *rightsizing*, is essentially the reverse of a company growing; it suggests a one-time change in the organization and the number of people employed. Typically, both the organizational structure and the number of people in the organization shrink for the purpose of improving organizational performance. The retail and investment side of banking is expecting large downsizing. In fact, one report expected that at least 50,000 Wall Street jobs would be eliminated by the end of 2014.[13] It is expected that employment levels will not return to prefinancial-crisis levels until 2023.[14]

One big lesson from research on downsizing is that when organizations resist or delay layoffs as long as possible, they tend to bounce back faster when the upturn hits.[15] This is especially true in organizations with skilled workers. This happens, in part, because these organizations save on recruiting and training costs when the demand for their people returns, and by keeping their experienced workforce around, they can move more effectively than their competitors that are scrambling to hire and train new employees with the right skills.[16]

Companies that have downsized should not forget about the workers that remain. Communication channels should be open to let those remaining workers know what and why the downsizing occurred. Often those who remain suffer *survivor's guilt* or *survivor syndrome*, and

open communication can do much to get by the feeling. Often it is a good idea to have a venting session where workers are allowed to express their concerns. Questions should be answered clearly and candidly.

Planning is crucial as a company prepares for downsizing. Often there may be age and other discrimination claims if downsizing results in a disproportionately adverse impact on members of a protected class. At times, older workers with higher salaries than their younger counterparts become targets for cost-cutting measures and age discrimination claims occur. It is important to analyze the breakdown of downsized workers to ensure that all protected groups of workers are not disproportionately affected. It is equally imperative that an employer use objective, job-related criteria to decide which positions will be affected. Also, the downsizing organization should be prepared to deal with government requirements such as Consolidated Omnibus Budget Reconciliation Act (COBRA) and Employee Retirement Income Security Act (ERISA).

Workers should understand when they are hired how the system will work in the event of layoffs. When the firm is unionized, the layoff procedures are usually stated clearly in the labor–management agreement. Seniority usually is the basis for layoffs, with the least-senior employees laid off first. The agreement may also have a clearly spelled-out *bumping procedure*. When senior-level positions are eliminated, the people occupying them have the right to bump workers from lower-level positions, assuming that they have the proper qualifications for the lower-level job. When bumping occurs, the composition of the workforce is altered.

Union-free firms should also establish layoff procedures prior to facing layoff decisions. In union-free firms, productivity and the needs of the organization are typically key considerations. When productivity is the primary factor, management must be careful to ensure that productivity, not favoritism, is the actual basis for the layoff decision. Therefore, it is important to define accurately productivity considerations well in advance of any layoffs.

Negative Aspects of Downsizing

When downsizing is chosen, companies typically describe the positive results, such as improving the bottom line. Many believe that the guaranteed results of employee downsizing on organizational market returns, profitability, and other financial outcomes are at best evasive.[17] There also is a negative side to downsizing. Following are some examples:

- During layoffs, employers and employees must realize that there is a natural grieving period and a desire to go back to the way things used to be. Friendships may be lost, and there is day-to-day uncertainty about the future. It is difficult to think about contributing to the bottom line when you do not know if tomorrow will be your day to be cut.[18]
- Layers are pulled out of a firm, making advancement in the organization more difficult. Thus, more and more individuals find themselves plateaued.
- Workers begin seeking better opportunities because they believe they may be the next in line to be laid off. Often the best workers find other jobs and there is an increase in voluntary departures.[19]
- Employee loyalty is often significantly reduced. For workers who remain after downsizing, the loyalty level is often low.
- Institutional memory or corporate culture is lost.
- Workers who remain after downsizing are also faced with the realization of having to do additional work (some call it "ghost work"). Jim Link, staffing agency Randstad's managing director for HR, said, "The piling-on of responsibilities is at an all-time high."[20]
- When demand for the products or services returns, the company often realizes that it has cut too deeply. It then begins looking for ways to get the job done.

Worker Adjustment and Retraining Notification Act

The Worker Adjustment and Retraining Notification (WARN) Act requires covered employers to give 60 days advance notice before a plant closing or mass layoff that will affect at least 100 full-time employees.[21] As an example of how the process works: Century Aluminum of West Virginia ceased operations on February 20, 2009. It had issued a federal WARN notice in December 2008 to its 679 employees.[22] Therefore, no penalty was imposed on the company.

There are severe monetary sanctions for failing to comply with the requirements of WARN. The penalties for WARN notice violations include liability to each affected worker for back pay and benefits for up to 60 days. Approximately 1,650 former employees of Mortgage Lenders Network will divide a $2.7 million under a settlement. The company failed to provide the required 60-day warning notice to employees that it would close.[23] However, if an unforeseeable business circumstance causes a business to close earlier than 60 days, WARN does not apply. Such was the case with Hale-Halsell Company. Six days after the retailer United Supermarket, Hale-Halsell's biggest customer, severed ties with the company, the wholesaler announced 200 layoffs.[24]

Outplacement

outplacement
A procedure whereby laid-off employees are given assistance in finding employment elsewhere.

In **outplacement**, laid-off employees are given assistance in finding employment elsewhere. The use of outplacement began at the executive level, but it has also been used at other organizational levels. Through outplacement, the firm tries to soften the impact of displacement. Barbara Barra, executive vice-president of operations for the consulting firm Lee Hecht Harrison, said, "There is a strong correlation between how a company treats departing employees and its ability to attract and retain top talent now and in the future, particularly when the economy rebounds."[25] Some of the services provided by outplacement include a discussion of pension options, Social Security benefits, expenses for interviews, and wage/salary negotiations. Usually career guidance is provided as well as instructions on how to conduct a self-appraisal directed toward recognizing skills, knowledge, experience, and other qualities recruiters may require in a new job. Tutoring in how to search for a job is usually available, and there is often help available in how to interview in the new employment environment.

When organizational change takes place, there will be a psychological impact on both the individuals who were dismissed and those who remain. Companies use outplacement to take care of employees by moving them successfully out of the company. This proactive response will also likely have a positive influence on those who remain with the company after downsizing. More employers are offering outplacement help to preserve their employer brand and reputation.

Severance Pay

severance pay
Compensation designed to assist laid-off employees as they search for new employment.

Severance pay is compensation designed to assist laid-off employees as they search for new employment. Although no federal law requires U.S. companies to pay severance, a recent study found that although more than half of organizations gave severance pay to all departing employees, 17.7 percent made payments to selected groups only.[26] Even so, U.S. employees earn the least amount of severance pay worldwide, regardless of their job level or tenure.[27] When offered, typically one to two weeks of severance pay for every year of service is provided, up to some predetermined maximum. The employee's organizational level generally affects the amount of severance pay provided. For example, nonmanagers may get eight or nine weeks of pay even if their length of service is greater than eight or nine years. Middle managers may receive severance pay amounts based on the number of years worked.

There are many compelling reasons to pay severance to employees who are involuntarily terminated. Many managers think that treating ousted workers well sends an important message to those who remain behind. There may be a feeling that "we all could be in that situation someday." But a major reason a firm offers severance today is that something in return is provided. The departing worker must waive all rights to sue the company, but the waiver has to be voluntary.[28] In a recent survey, nearly three-quarters of some 400 HR professionals answered *yes* when asked if they required workers who were laid off to sign a form releasing their organization from liability for employment actions.[29] From the employee's viewpoint, severance is paid so that they will not sue the organization.[30] "It's not love; it's not a gift—it's a business transaction," notes Alan Sklover, author of *Fired, Downsized, or Laid Off*.[31]

Recent developments might lead companies to reconsider whether to provide severance pay to employees. In 2014, the U.S. Supreme Court ruled (*U.S. v. Quality Stores Inc.*) that severance pay is subject to Federal Insurance Contribution Act (FICA) tax. In Chapter 10, we said that FICA requires that employees and employers pay a portion of the cost of Old Age, Survivors,

and Disability Insurance (OASDI) and Medicare coverage. Arguably, paying a tax on money that is awarded to former employees can create a substantial cost burden for companies.

Not all internal employee relations situations are as severe as termination and layoffs, and an ombudsperson or alternative dispute resolution may be used to resolve these disputes.

OBJECTIVE **12.10**

Explain the use of ombudspersons and alternative dispute resolution.

Ombudsperson

ombudsperson
Complaint officer who has access to top management and who hears employee complaints, investigates, and recommends appropriate action.

An **ombudsperson** is a complaint officer who has access to top management and who hears employee complaints, investigates, and recommends appropriate action. Employers use ombudspersons in their organizations to help defuse problems before they become lawsuits or scandals. The more internal mechanisms a corporation has to deal with internal problems, the less likely these problems are to wind up in court. Ombudspersons are impartial, neutral counselors who can give employees confidential advice about problems ranging from abusive managers to allegations of illegal corporate activity. Ombudspersons are used so that all workers may seek informal, confidential assistance to work through problems without losing control over how their concerns will be addressed. The ombudsperson is typically independent of line management and reports near or at the top of the organization.

Melissa Cameron is the ombudsperson for Bayer Corporation North American operations. The firm's 16,600 employees can contact her confidentially to blow the whistle on bad behavior or discuss other workplace issues. She said, "If you find even one or two cases a year that are substantiated, you have more than paid for my salary in terms of addressing a situation on the front end rather than going through litigation."[32]

Alternative Dispute Resolution

alternative dispute resolution (ADR)
Procedure whereby the employee and the company agree ahead of time that any problems will be addressed by an agreed-upon means.

As the number of employment-related lawsuits increases, companies have looked for ways to protect themselves against the costs and uncertainties of the judicial system. **Alternative dispute resolution (ADR)** is a procedure whereby the employee and the company agree ahead of time that any problems will be addressed by an agreed-upon means.

ADR is based on the use of a jury waiver, which is a contractual provision in which an employee waives the right to a trial by jury in a legal proceeding brought against an employer.[33] Types of ADR include arbitration, mediation, negotiated rulemaking, neutral fact-finding, and minitrials. With the exception of binding arbitration, the goal of ADR is to provide a forum for the parties to work toward a voluntary, consensual agreement, as opposed to having a judge or other authority decide the case. Mediation is the preferred method for most people. ADR cases run the gamut from racial, gender, and age discrimination to unfair firings. The idea behind ADR is to resolve conflicts between employer and employee through means less costly and contentious than litigation. A successful program can save a company thousands of dollars in legal costs and hundreds of hours in managers' time. Just as important, perhaps, it can protect a company from the demoralizing tension and bitterness that employee grievances can spread through a workforce. Compared to litigation, ADR processes are less adversarial, faster and more efficient, relatively lower in cost, and private. In the Watch It video, attorneys from the Gordon Law Group discuss the realities of conflict in the workplace between employees as well as between the employer and employee that occur from time to time. They also refer to approaches to find resolution to conflict.



HR Web Wisdom

Alternative Dispute Resolution
http://www.opm.gov/er/adrguide/toc.asp

Office of Personnel Management, Alternative Dispute Resolution: A Resource Guide.

Watch It
If your professor has assigned this, sign into mymanagementlab.com to watch a video titled Gordon Law Group and to respond to questions.

When parties agree to mediate, they are able to reach a settlement in 96 percent of the cases. A presidential executive order requires federal agencies to (1) promote greater use of mediation, arbitration, early neutral evaluation, agency ombudspersons, and other alternative dispute resolution techniques; and (2) promote greater use of negotiated rulemaking.

The Supreme Court rendered an opinion in *Circuit City v. Adams* that greatly enhanced an employer's ability to enforce compulsory ADR agreements. The Court held that the ADR was valid and enforceable and made clear that ADR applied to the vast majority of employees and was available to employers seeking to enforce compulsory arbitration agreements. However, in 2012, the National Labor Relations Board (NLRB) held that a Florida-based home builder committed an unfair labor practice under federal labor law by maintaining a mandatory arbitration agreement that waived the rights of employees to participate in class or collective actions. Only time will tell how this decision will affect ADR.

OBJECTIVE **12.11**

Describe transfers, promotions, resignations, and retirements as factors involved in internal employee relations.

Transfers

transfer
Lateral movement of a worker within an organization.

The lateral movement of a worker within an organization is called a **transfer**. A transfer may be initiated by the firm or by an employee. The process does not and should not imply that a person is being either promoted or demoted. Transfers serve several purposes, five of which we describe here. First, firms often find it necessary to reorganize. Offices and departments are created and abolished in response to the company's needs. In filling positions created by reorganization, the company may have to move employees without promoting them. A similar situation may exist when an office or department is closed. Rather than terminate valued employees, management may transfer them to other areas within the organization. These transfers may entail moving an employee to another desk in the same office or to a location halfway around the world.

Second, transfers make positions available in the primary promotion channels. At times, productive but unpromotable workers may clog promotion channels. Other qualified workers in the organization may find their opportunities for promotion blocked. When this happens, a firm's most capable future managers may seek employment elsewhere. To keep promotion channels open, the firm may decide to transfer employees who are unpromotable but productive at their organizational level.

Third, transfers may satisfy employees' personal needs. The reasons for wanting a transfer are numerous. An individual may need to accompany a transferred spouse to a new location or work closer to home to care for aging parents, or the worker may dislike the long commute to and from work. Factors such as these may be of sufficient importance that employees may resign if a requested transfer is not approved. Rather than risk losing a valued employee, the firm may agree to the transfer.

Fourth, transfers may also be an effective means of dealing with personality clashes. Some people just cannot get along with one another. Because each of the individuals may be a valued employee, a transfer may be an appropriate solution to the problem. But managers must be cautious regarding the "grass is always greener on the other side of the fence" syndrome. When some workers encounter a temporary setback, they immediately ask for a transfer before they even attempt to work through the problem.

Fifth, because of a limited number of management levels, it is becoming necessary for managers to have a wide variety of experiences before achieving a promotion. Individuals who desire upward mobility often explore possible lateral moves so that they can learn new skills.

Promotions

promotion
Movement of a person to a higher-level position in an organization.

A **promotion** is the movement of a person to a higher-level position in the organization. The term *promotion* is one of the most emotionally charged words in the field of HR management. An individual who receives a promotion normally receives additional financial rewards and the ego boost associated with achievement and accomplishment. Most employees feel good about being promoted. But for every individual who gains a promotion, there are probably others who were not selected. If these individuals wanted the promotion badly enough or their favorite candidate was overlooked, they may slack off or even resign. If the consensus of employees directly involved is that the wrong person was promoted, considerable resentment may result.

There are numerous laws, court cases, and executive orders that apply when individuals are hired. These same hiring standards apply to promotion decisions. Promotion decisions should not discriminate against employees because of age, race, religion, national origin, color, sex, pregnancy, or disability.[34]

Resignations

Even when an organization is totally committed to making its environment a good place to work, workers will still resign. Some employees cannot see promotional opportunities, or at least not enough, and will therefore move on. A certain amount of turnover is healthy for an organization and is often necessary to afford employees the opportunity to fulfill career objectives. When turnover becomes excessive, however, the firm must do something to slow it. The most qualified employees are often the ones who resign because they are more mobile. On the other hand, marginally qualified workers never seem to leave. If excessive numbers of a firm's highly qualified and competent workers are leaving, a way must be found to reverse the trend.

Analyzing Voluntary Resignations

exit interview
Means of revealing the real reasons employees leave their jobs; it is conducted before an employee departs the company and provides information on how to correct the causes of discontent and reduce turnover.

When a firm wants to determine why individuals leave, it can use the exit interview or the postexit questionnaire. An **exit interview** is a means of revealing the real reasons employees leave their jobs; it is conducted before an employee departs the company and provides information on how to correct the causes of discontent and reduce turnover. Determining why employees leave a company can provide an opportunity for the firm to make changes to reduce turnover rates and reduce the associated costs.[35] Also, a good exit interview should assess whether employees felt they had received a good realistic job preview.[36]

Often, the reason an employee leaves the job is misleading. Leigh Branham, author of *The 7 Hidden Reasons Employees Leave: How to Recognize the Subtle Signs and Act before It's Too Late*, believes that employees will cite pay as the reason they quit their jobs, 60 to 80 percent of the time. His research suggests that only 12 to 15 percent of employees leave for this reason.[37] Perhaps departing employees are reluctant to burn bridges by revealing the real reason for leaving because they may need a reference from their supervisor in the future and fear reprisal. However, only after determining the *real* reason for leaving can a firm develop a strategy to overcome the problem.

At times, women who are on the fast track are not candid about why they quit. A consulting firm was hired to discover why top-performing women were quitting in high numbers, saying in their exit interviews that they wanted to spend more time with their kids. But the employers later learned that these women had returned to work with another firm, some starting their own firms and working longer hours. In anonymous interviews, the women who had quit explained the problem. Most said they'd left their jobs because they could not see a future for themselves there. The wanting-to-spend-more-time-with-kids story was just cover—so they could maintain good relations with their former bosses.[38]

Often a third party, such as a person in the HR department or an outsource party, will conduct the exit interview. A third party may be used because employees may not be willing to air their problems with their former bosses. Outsourcing the exit interviews may be beneficial because employers believe that the person who is leaving will be more honest when he or she is not speaking to a company employee. Over time, properly conducted exit interviews can provide considerable insight into why employees leave. Patterns are often identified that uncover weaknesses in the firm's management system. Knowledge of the problem permits corrective action to be taken. Also, exit interviews help to identify training and development needs and identify areas in which changes need to be made. They may also be used to identify hidden biases of managers who are hurting the productivity of the unit.[39]

postexit questionnaire
Questionnaire sent to former employees several weeks after they leave the organization to determine the real reason they left.

Another means of determining the real reason employees are leaving the organization is by administering a **postexit questionnaire**, which is sent to former employees several weeks after they leave the organization. Usually, they have already started work at their new company. Ample blank space is provided so that a former employee can express his or her feelings about

and perceptions of the job and the organization. Because the individual is no longer with the firm, he or she may respond more freely to the questions. However, there are several major weaknesses in the use of the postexit questionnaire. Participation rates are often low because former workers may not care enough to respond and they may be difficult to reach after they have departed.[40] Also, the interviewer is not present to interpret and probe for more information.

Attitude Surveys: A Means of Retaining Quality Employees

Exit and postexit interviews can provide valuable information to improve HR management practices. The problem, however, is that these approaches are reactions to events that were detrimental to the organization.

attitude survey
Survey that seeks input from employees to determine their feelings about topics such as the work they perform, their supervisor, their work environment, flexibility in the workplace, opportunities for advancement, training and development opportunities, and the firm's compensation system.

An alternative, proactive approach is administering attitude surveys. **Attitude surveys** seek input from employees to determine their feelings about topics such as the work they perform, their supervisor, their work environment, flexibility in the workplace, opportunities for advancement, training and development opportunities, and the firm's compensation system. They can provide valuable information to management, but they should not be a substitute for day-to-day discussion between managers and workers.[41] Because some employees will want their responses to be confidential, every effort should be made to guarantee their anonymity. To achieve this, it may be necessary to have the survey administered by a third party. Regardless of how the process is handled, attitude surveys have the potential to improve management practices. For this reason, they are widely used throughout industry today. Joseph Cabral, senior vice-president and chief HR officer for the North Shore-LIJ Health System in Long Island, New York, says "North Shore has been surveying its 38,000 employees annually for the past three years, but it recently went to a quarterly survey to provide more real-time and actionable results and to allow comparisons across worksites and departments."[42]

Employees should be advised of the purpose of the survey. The mere act of giving a survey communicates to employees that management is concerned about their problems, wants to know what they are, and wants to solve them, if possible. Analyzing survey results of various subgroups and comparing them with the firm's total population may indicate areas that should be investigated and problems that need to be solved. For instance, the survey results of the production night shift might be compared with the production day shift. Should problems show up, management must be willing to make the suggested changes. If the survey does not result in some improvements, the process may be a deterrent to employees and future surveys may not yield helpful data. Basically, if you are not going to do anything as a result of the survey, do not bother to administer it.

Offboarding

offboarding
Facilitates employee departure from the company by assisting in the completion of exit tasks, including exit interviews, forms completion, the return of company property, and ensuring that employees receive the appropriate extended benefits.

Offboarding facilitates employee departure from the company by assisting in the completion of exit tasks, including exit interviews, forms completion, the return of company property, and ensuring that employees receive the appropriate extended benefits.[43] Topics such as the worker's 401(k) and COBRA need to be addressed. Teresa Grote, practice director of composite solutions for Ascendum, an information technology company, said, "I think that in our highly litigious society today, making sure that you go through proper offboarding is probably equally, if not more, important than proper onboarding."[44]

Retirements

Many long-term employees leave an organization by retiring. However, the majority of today's employees are not planning for a traditional retirement, in which they have an immediate and abrupt end to their working career at a specific age, such as 65. Some want to work past the normal retirement age because they are healthy and want to keep active; others have to work because their retirement account has dwindled and they cannot afford to retire. **Phased retirement** is any arrangement that allows people to move from full-time work to retirement in steps. About half of all U.S. workers phase into retirement in some way.[45] In addition, 20 percent of employers say that phased retirement is critical to their company's HR strategy today; that number nearly triples, to 61 percent, when employers look ahead five years. Allen Steinberg, a principal at Hewitt Associates, said, "Employers will be losing key talent at a time

phased retirement
Any arrangement that allows people to move from full-time work to retirement in steps.

when attracting and retaining skilled workers will be more important."[46] However, a recent study found that major corporations do not have phased retirement programs for older workers who can continue adding value.[47]

The Pension Protection Act of 2006 permits limited phased retirement by allowing in-service pension plan withdrawals to begin at age 62 rather than 65. A benefit of phased retirement is that it permits a company to reduce labor costs without hurting morale. It also lets an organization hold on to its experienced workers so they can share their knowledge with a less-experienced workforce. Employees at Lee Memorial can work as few as 16 hours a week and still be eligible for benefits. Mercy Health's phased retirement plan allows workers aged 50 and older to reduce the number of hours worked while keeping their benefits.[48] CVS Caremark has set up a "snowbird" employment program to retain valuable employees. The program allows pharmacists to transfer south to places such as Florida for the winter, following the business's customers. Other benefits CVS Caremark provides the more mature workforce include part-time work, training, and flexible scheduling. The workforce of 50 and older has grown from 7 percent in the early 1990s to more than 18 percent today.[49]

Sometimes employees will be offered early retirement before reaching the organization's normal length-of-service requirement. Historically, early retirement has been viewed as an attractive solution when workforce reductions had to be made. Early retirement plans, which gained popularity in the 1980s, appealed to older workers facing layoffs. Early retirement is still being used, but companies often reserve the right to reject a highly productive worker's request.

OBJECTIVE 12.12

Explain some issues associated with administering disciplinary action in other countries.

Administering Disciplinary Action in Other Countries

Previously, the discussion of disciplinary action was examined as it related to managers in the United States. Moving into the international arena often presents different situations. For instance, the punishment for a company employee who stole $10,000 in the United States would likely lead to termination. However, a Japanese judge ruled that the $10,000 was too small an amount to justify termination and the worker was reinstated.[50]

The concept of employment at will is generally accepted in the United States. Remember that employment at will is an unwritten contract created when an employee agrees to work for an employer but no agreement exists as to how long the parties expect the employment to last. When it comes to discharging a worker who is not performing, it is much harder to do in Europe than in North America and other parts of the world. In fact, Europe may have the most employee-friendly laws. Even though they face global competition, unions in several European countries have resisted changing their laws and removing government protections. In many Western European countries, laws on labor unions and employment make it difficult to lay off employees. Laws make it hard to fire workers, so companies are reluctant to hire. It is also difficult to discipline a worker for poor performance in China. Laws tend to come down on the side of the employees when addressing disciplinary action.

In India, as soon as a company hires more than 100 employees, it is legally impossible to terminate anyone without permission of the government and then it must be because of criminal wrongdoing. Such laws have long discouraged foreign investors, held back manufacturing, and prevented the nation from experiencing industrial growth similar to China's. Presently legislators are fighting to push a law through Parliament to let a company expand its workforce without surrendering the power to lay off workers to bureaucrats. The bill faces intense opposition from unions.[51]

Because of the differences in how governments view disciplinary action in the global environment, it is difficult for a global company to establish a standardized policy on disciplinary action. The company will want to create a precise picture of employment and working conditions to establish appropriate practices in each country. Some of the factors that should be considered include hiring and termination rules and regulations covering severance practices.[52]

Summary

1. ***Explain the concept of employment at will.*** *Employment at will* is an unwritten contract created when an employee agrees to work for an employer but no agreement exists as to how long the parties expect the employment to last.
2. ***Explain discipline and disciplinary action.*** *Discipline* is the state of employee self-control and orderly conduct present within an organization.

   Disciplinary action occurs when a penalty is invoked against an employee who fails to meet established standards.
3. ***Describe the disciplinary action process, discuss the various approaches to disciplinary action, and describe the problems in the administration of disciplinary action.*** After management has established rules, it must communicate these rules to employees. The manager then observes the performance of workers and compares performance with rules. As long as employee behavior does not vary from acceptable practices, there is no need for disciplinary action, but when an employee's behavior violates a rule, corrective action may be necessary.

   Three of the most important concepts are the hot stove rule, progressive disciplinary action, and disciplinary action without punishment. As might be expected, administering disciplinary action is not a pleasant task, but it is a job that managers sometimes have to do. Although the manager is in the best position to take disciplinary action, many would rather avoid it even when it is in the company's best interest. Such reluctance often stems from breakdowns in other areas of HR management.
4. ***Explain termination of employment, termination of employment at various levels, and explain demotion as an alternative to termination.*** *Termination* is the most severe penalty that an organization can impose on an employee; therefore, it should be the most carefully considered form of disciplinary action. Regardless of the similarities in the termination of employees at various levels, distinct differences exist with regard to nonmanagerial/nonprofessional employees, executives, and middle and lower-level managers and professionals.

   Demotion is the process of moving a worker to a lower level of duties and responsibilities, which typically involves a reduction in pay. If demotion is chosen instead of termination, efforts must be made to preserve the self-esteem of the individual.
5. ***Describe downsizing and explain the use of ombudspersons and alternative dispute resolution.*** *Downsizing,* also known as *restructuring* or *rightsizing*, is essentially the reverse of a company growing; it suggests a one-time change in the organization and the number of people employed.

   An *ombudsperson* is a complaint officer with access to top management who hears employee complaints, investigates, and recommends appropriate action.

   Alternative dispute resolution is a procedure whereby the employee and the company agree ahead of time that any problems will be addressed by an agreed-upon means.
6. ***Describe transfers, promotions, resignations, and retirements as factors involved in internal employee relations.*** The lateral movement of a worker within an organization is called a *transfer*.

   A *promotion* is the movement of a person to a higher-level position in the organization. Even when an organization is totally committed to making its environment a good place to work, workers will still resign.

   Many long-term employees leave an organization by retiring. The majority of today's employees are not planning for a traditional retirement, in which they have an immediate and abrupt end to their working career at a specific age, such as 65. Some want to work past the normal retirement age because they are healthy and want to keep active; others have to work because their retirement account has dwindled and they cannot afford to retire.
7. ***Explain some issues associated with administering disciplinary action in other countries.*** Because of the differences in how governments view disciplinary action in the global environment, it is difficult for a global company to establish a standardized policy on disciplinary action. The concept of employment at will is generally accepted in the United States. However, when it comes to discharging a worker who is not performing, it is much harder to do in Europe than in North America and other parts of the world. In fact, Europe may have the most employee-friendly laws.

Key Terms

internal employee relations 339
employment at will 339
discipline 340
disciplinary action 340
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offboarding 354
phased retirement 354

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Exercises

12-1. Which of the following jobs is likely to be covered by employment at will? Explain why or why not.
a. lawyer
b. graphic designer
c. database developer
d. chief executive officer

✪**12-2.** Evaluate the following violations of standards. Using progressive disciplinary action, how might a person be fired for each violation?
a. late for work
b. unclean work area
c. insubordination

Questions for Review

12-3. Define *internal employee relations.*
12-4. What is meant by the term *employment at will*?
12-5. Explain the three exemptions to the employment-at-will doctrine.
12-6. What are the steps to follow in the disciplinary action process?
12-7. Describe the following while considering progressive disciplinary action:
(a) a goal
(b) steps to determine the proper disciplinary action
(c) an example
✪**12-8.** What are the problems associated with the administration of disciplinary action?
12-9. How does termination often differ with regard to nonmanagerial/nonprofessional employees, executives, and middle and lower-level managers and professionals?
12-10. Explain the term *just cause*.
12-11. Define *downsizing.* What are some problems associated with downsizing?
12-12. Define *outplacement* and *severance pay*.
12-13. Define *ombudsperson* and *alternative dispute resolution (ADR).* Why might a firm want to use an ombudsperson or alternative dispute resolution?
12-14. Briefly describe the purposes of the lateral movement of a worker within an organization.
✪**12-15.** Briefly describe the techniques available to determine the real reasons that an individual decides to leave the organization.
12-16. Define *offboarding*. Why is it important?
12-17. What are the major weaknesses in the use of the postexit questionnaire?

INCIDENT 1 Should He Be Fired?

Jason, Tom, and Jerry work at Boom-Box, a call center. Jason is a team manager, and Tom is his assistant manager. They are good friends, and Jason lets Tom run the team. Jerry is Tom's subordinate and one of Jason's most experienced team members. The team has good rapport with one another, and it is common to have the team celebrate a teammate's birthday at the office. Being a customer service company, Boom-Box's corporate culture strongly encourages team building as a policy and believes team rapport and happy staff are the cornerstones to providing excellent customer service.

It was during an especially hectic workday when Tom was making yet another round of cash collection from the team to buy a birthday cake for a teammate that trouble started between Tom and Jerry.

Jerry was hard at work trying to deal with an especially difficult customer. He was having some trouble trying to understand the customer's thick accent. To add to his troubles, Tom walked by and wanted him to fork out his contribution money right then. Tom said, "This is the second time I'm walking by and you are the last person in the team to pay up. How many times do you want me to ask you for money?" Jerry snapped back, "I'm on the phone with a customer! I'll talk to you later!" Tom walked away.

Later, during a scheduled break, Tom told Jerry off for being disrespectful to him in front of the team. This led to a heated argument that almost ended in a fight. When Jason found out, he quickly convened a private meeting between Tom and Jerry to iron out the issue amicably. Unfortunately, it got out of hand with Tom storming out of the meeting room, accusing Jason of not taking his side and challenging Jerry to a fistfight as he left.

This challenge was overheard by other call center workers, and the matter was soon brought to the attention of the deputy vice president of the division. After a disciplinary hearing, Tom was fired. Jerry was disciplined and was passed over for promotion the next two years. Jason was never promoted and resigned as team manager four years later.

Questions

12-18. Do you agree with the severity of punishment meted out to Tom and Jerry? Discuss.

12-19. What message, if any, is Boom-Box's higher management sending to the rest of the team managers by letting Jason remain a team manager after the incident?

INCIDENT 2 To Heck with Them!

Isabelle Anderson is the North Carolina plant manager for Hall Manufacturing Company, a company that produces a line of relatively inexpensive painted wood furniture. Six months ago, Isabelle became concerned about the turnover rate among workers in the painting department. Manufacturing plant turnover rates in that part of the South generally averaged about 30 percent, which was the case at Hall. The painting department, however, had experienced a turnover of nearly 200 percent in each of the last two years. Because of the limited number of skilled workers in the area, Hall had introduced an extensive training program for new painters, and Isabelle knew that the high turnover rate was costly.

Isabelle conducted exit interviews with many of the departing painters. Many of them said that they were leaving for more money, others mentioned better benefits, and some cited some kind of personal reasons for quitting. But there was nothing to help Isabelle pinpoint the problem. Isabelle had checked and found that Hall's wages and benefits were competitive with, if not better than, those of other manufacturers in the area. She then called in Nelson Able, the painting supervisor, to discuss the problem. Nelson's response was, "To heck with them! They will do it my way or they can hit the road. You know how this younger generation is. They work to get enough money to live on for a few weeks and then quit. I don't worry about it. Our old-timers can take up the slack." After listening to Nelson for a moment, Isabelle thought that she might know what caused the turnover problem.

Questions

12-20. Interpret a turnover rate of 200 percent. What does it mean?

12-21. Do you believe that the exit interviews were accurate? Explain your answer.

12-22. What do you believe was the cause of the turnover problem?

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12-23. What might be some problems associated with conducting disciplinary action in the global environment?

12-24. What are the challenges to employers that are associated with the just cause standard?

Endnotes

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13 Employee Safety, Health, and Wellness

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Explain the nature and role of safety, health, and wellness.
2. Describe the role of the Occupational Safety and Health Administration.
3. Discuss whistleblower protection under OSHA.
4. Explain the issues of safety unique to small businesses.
5. Summarize the economic impact of safety.
6. Explain the focus of safety programs.
7. Describe the consequences of musculoskeletal disorders.
8. Explain the meaning of ergonomics.
9. Summarize the problems associated with workplace bullying and violence.
10. Describe the purposes of wellness programs and explain social networking and wellness.
11. Define *stress*, explain the consequences of stress including identifying stressful jobs, and explain burnout.
12. Describe the importance of physical fitness programs.
13. Explain substance abuse, describe substance-abuse-free workplaces, and describe how to implement a drug-testing program.
14. Describe employee assistance programs.
15. Discuss health care in the global environment.

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Many workplaces have features that could threaten the *safety* and *health* of employees if not managed properly. For example, in manufacturing settings, metal presses mold liquid steel into components for engine manufacturing. The temperature of liquefied steel exceeds 1,000° F, which would melt human flesh in an instant. In other manufacturing settings, exposure to substances, such as silica, that have carcinogenic qualities are known to substantially raise lung cancer risks. Safety and health is also a prevalent concern in other settings such as in protective services (for example, the precarious environments in which firefighters and police officers work) and in health care settings (for example, doctors, nurses, and lab technicians who come into contact with patients with contagious viruses or blood-borne illnesses).

Besides the influence of a hazardous work environment, employee *wellness* concerns may manifest in different ways. For example, some employees may have difficulties performing their jobs effectively because of stressful work environments (for example, intense production scheduling) or emotional stress that results from problems outside the workplace (for example, the fallout from divorce). Sometimes, behaviors outside the workplace (for example, the use of illicit drugs or overeating) could negatively affect wellness, and subsequently, job performance.

Human resources (HR) practice takes place in a physical and social work environment that often has an impact on workers' safety, health, and wellness. Our focus in this chapter is on exploring employee safety, health, and wellness and how companies manage these concerns.

OBJECTIVE **13.1**

Explain the nature and role of safety, health, and wellness.

Nature and Role of Safety, Health, and Wellness

safety
Protection of employees from injuries caused by work-related accidents.

health
Employees' freedom from physical or emotional illness.

In our discussion, **safety** involves protecting employees from injuries caused by work-related accidents. Included within the umbrella definition of safety are factors related to musculoskeletal disorders, stress injuries, and workplace and domestic violence. **Health** refers to employees' freedom from physical or emotional illness. Problems in these areas can seriously affect a worker's productivity and quality of work life. They can dramatically lower a firm's effectiveness and employee morale. In fact, job-related injuries and illnesses are more common than most people realize. For a variety of reasons, which we discuss throughout this chapter, HR professionals play a crucial role in promoting a safe and healthful work environment and addressing ways to support physical and mental wellness. Strictly from a business perspective, HR professionals



guard the welfare of its valuable human capital without whom it cannot achieve its strategic objectives. Also, HR professionals invest time and energy to ensure compliance with government health and safety standards.

We begin with the role of promoting occupational safety and health, which is mandated by the Occupational Safety and Health Act of 1970. Afterward, we address employee wellness concerns and programs.

OBJECTIVE 13.2

Describe the role of the Occupational Safety and Health Administration.

Occupational Safety and Health Administration

The Occupational Safety and Health Act of 1970 created the Occupational Safety and Health Administration (OSHA). The purpose of OSHA is to ensure worker safety and health in the United States by working with employers and employees to create better working environments. The act requires employers to provide employees a safe and healthy place to work and this responsibility extends to providing *safe employees*. The courts have reasoned that a dangerous worker is comparable to a defective machine.

general duty clause
As used by OSHA, employers are required to furnish, to each employee, a place of employment that is free from recognizable hazards that are causing, or likely to cause, death or serious physical harm to the employee.

Employers have a responsibility under the **general duty clause** of the Occupational Safety and Health Act to furnish a workplace free from recognized hazards that are causing or are likely to cause death or serious physical harm. To prove a violation of the general duty clause, OSHA has to demonstrate (1) that a condition or activity in the workplace presented a hazard, (2) that the employer or its industry recognized this hazard, (3) that the hazard was likely to cause death or serious physical harm, and (4) that a feasible and effective means existed to eliminate or materially reduce the hazard. In 2010, a trainer at SeaWorld was drowned by a killer whale. OSHA fined SeaWorld $7,000 for violating the act's general duty clause by exposing trainers to the hazards of working in close contact with killer whales.[1] OSHA also issued recommendations that SeaWorld maintain the safety of its animal trainers by having them stay behind barriers or maintain a safe distance away when working with killer whales. SeaWorld challenged this finding in court, but the U.S. Court of Appeals ultimately denied the company's petition against the violation and fine.

Employers possess other rights and responsibilities under OSHA. Likewise, employees possess rights and responsibilities. Figure 13-1 summarizes these rights and responsibilities on an official OSHA poster, which employers are required to display in the workplace.

In 1913, the U.S. Bureau of Labor Statistics documented about 23,000 industrial deaths in a workforce of 38 million, which is a rate of about 61 deaths per 100,000 workers.[2] The number of fatal work injuries in the United States in 2012 was 4,383 based on a substantially larger workforce, which was the second lowest total since the fatality census was first conducted in 1992.[3] Since its beginning in 1970, OSHA has helped to cut workplace fatalities by more than 60 percent and occupational injury and illness by 40 percent. At the same time, U.S. employment has more than doubled from 56 million workers at 3.5 million work sites to more than 125 million workers. The agency has helped standardize reasonable worker protections. Rules defining confined spaces, machine guards, or hard hat zones have allowed many plant managers and site supervisors to think more about productivity, not accidents. The most frequently mentioned hazard that OSHA addresses has to do with missing or inadequate fall protection.[4]

The mission of OSHA is to promote and ensure workplace safety and health and to reduce workplace fatalities, injuries, and illnesses. OSHA is committed to ensuring—so far as possible—that every working man and woman in the nation has a safe and healthful working environment. It believes that providing workers with a safe workplace is central to their ability to enjoy health, security, and the opportunity to achieve the American dream. Addressing safety and health issues in the workplace also saves the employer money and adds value to the business. To handle this workload, OSHA has approximately 2,200 inspectors.

Even though OSHA would like a successful partnership relationship to exist, at times penalties must be given. Financial penalties serve as reminders to companies of the benefits of maintaining safe and healthy working conditions. A serious hazard citation has a maximum penalty of $7,000. A serious violation occurs when there is substantial probability that death or serious physical harm could result from a hazard about which the employer knew or should have known.[5] A willful citation might have a maximum amount of $70,000 per violation. Calculated instance by instance, if 10 employees were exposed to one hazard the employer

FIGURE 13-1

Job Safety and Health—It's the Law!



intentionally did not eliminate, the penalty amount would immediately jump to as much as $700,000. For example, an electronic cigarette manufacturer received penalties amounting to $184,500 for various OSHA violations.[6] Of this total, two willful citations carried a penalty of $112,500 because the company did not provide protective gloves when workers handled products containing nicotine and eye protection when they handled corrosive chemicals and concentrated nicotine.

OSHA has implemented the Severe Violator Enforcement Program that increases inspections at work sites where "recalcitrant employers" have repeatedly violated safety regulations and endangered workers. It also requires a mandatory follow-up inspection to make sure required changes were made. BP Products North America Inc. received the largest fine in OSHA's history for its failure to correct hazards faced by employees at its Texas City refinery. However, this record will likely be broken as a result of the death and destruction caused by the oil well explosion and the resulting damage to the Gulf Coast in 2010.

OBJECTIVE 13.3

Discuss whistleblower protection under OSHA.

OSHA and Whistle-blowers

A little known fact is that OSHA is charged with more than just enforcing health and safety matters. Within the Department of Labor, OSHA enforces the whistle-blower protection provisions of 21 statutes, covering not just workplace safety but also the environment, consumer products, the financial system, and other areas. For instance, the Sarbanes–Oxley Act has a provision that makes it illegal to fire or otherwise discriminate against a corporate officer for trying to report possible accounting irregularities to higher corporate officials or enforcement agencies. The U.S. Department of Labor administers this portion of the Sarbanes–Oxley Act, not the U.S. Securities and Exchange Commission. The whistle-blower provision of the Dodd–Frank Act prohibits employers from retaliating against employees who raise various protected concerns or provide protected information to the employer or to the government. OSHA Assistant Secretary Dr. David Michaels said, "Whistleblowers play a vital role in ensuring the integrity of our financial system, as well as the safety of our food, air, water, workplaces and transportation systems. The ability of workers to speak out and exercise their legal rights without fear of retaliation is crucial to many of the legal protections and safeguards that all Americans value."[7]

Recently OSHA ruled that DISH Network violated the whistle-blower protection provisions of the Sarbanes–Oxley Act by blacklisting a former employee three times, including a negative job reference. It ordered DISH Network to pay the former employee $157,024 in back wages, $100,000 in compensatory damages, and to pay reasonable attorneys' fees for the former employee. While employed, the individual notified his supervisor that a vendor was defrauding DISH Network by charging for work it had not performed. After voluntarily leaving DISH Network, he filed a complaint with OSHA because he had been blacklisted after leaving his job.[8]

In 2012, OSHA ordered AirTran Airways, a subsidiary of Dallas, Texas–based Southwest Airlines Company, to reinstate a former pilot who was fired after reporting numerous mechanical concerns. The agency also has ordered that the pilot be paid more than $1 million in back wages plus interest and compensatory damages. An investigation by OSHA's Whistleblower Protection Program found reasonable cause to believe that the termination was an act of retaliation in violation of the whistle-blower provision of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century. OSHA recently ordered a Florida trucking company to reinstate a driver fired for refusing to drive two unsafe trucks. The department ruled that Zurla Trucking, a 42-driver company, violated the Surface Transportation Assistance Act. It was required to pay back wages, plus interest, and compensatory damages and $125,000 in punitive damages. Zurla also had to remove adverse references related to the firing from the employee's records. However, most of the attention regarding health and safety relates to OSHA.

OSHA prohibits any person from discharging or in any manner retaliating against any employee because the employee has exercised rights under OSHA. Rights provided by the act include employee participation in safety and health activities such as complaining to OSHA and seeking an OSHA inspection, participating in an OSHA inspection, participating or testifying in any proceeding related to an OSHA inspection, and reporting a work-related injury, illness, or

fatality. Under OSHA, retaliation is generally defined as any action that would dissuade a reasonable employee from engaging in protected activity. Depending on the circumstances of the case, "adverse" action can include:

- Firing or laying off
- Blacklisting
- Demoting
- Denying overtime or promotion
- Disciplining
- Denial of benefits
- Failure to hire or rehire
- Intimidation
- Making threats
- Reassignment affecting prospects for promotion
- Reducing pay or hours[9]

In another ruling, OSHA ordered Wisconsin Central Limited railway to reinstate an employee in Wisconsin who was terminated after reporting a work-related injury. OSHA also ordered the company to pay the employee more than $350,000 in back wages, compensatory damages, attorney's fees, and punitive damages. The employee had filed a whistle-blower complaint with OSHA alleging termination because he reported a workplace injury following the end of a work shift.[10]

OBJECTIVE 13.4

Explain the issues of safety unique to small businesses.

OSHA and the Small Business

OSHA provides a Web-based step-by-step occupational health and safety guide that can help determine the government requirements that apply to small businesses. The guide is intended to help small business employers meet the legal requirements imposed by OSHA and achieve an in-compliance status before an OSHA inspection. It covers the basics of an occupational safety and health plan for small business owners, tips on how to self-assess the workplace, employee training strategies, and more.

It also has an on-site consultation service that provides small businesses with free advice from trained state government staff. The service is completely separate from any enforcement programs that the OSHA operates and is entirely confidential. Sessions identify and uncover potential workplace hazards and are intended to help small business owners improve their workplace safety and health systems. Small businesses that participate can qualify for a one-year exemption from routine OSHA inspections.



HR BLOOPERS

Health and Safety Problems at XIF Chemicals

XIF Chemicals is finally in a position to significantly grow its market share in the specialty chemical marketplace. The company has had a few problems with safety violations in their laboratories, but HR Director Janet Haven believes that they have finally achieved compliance and can now focus on what is really important—new product development. She needs to make one more staffing change and then everything should be in order. Today she is going to inform laboratory employee Joe Jones that the company is transferring him to another division. Joe is a good worker, but he has just caused too many problems in the laboratory. While the laboratory manager has assured Janet that they are in compliance with all safety regulations, Joe has once again placed a call to OSHA to complain about some concern with chemical storage and request an inspection. Joe claims he shared his concern with the laboratory manager who ignored him. Janet trusts that the manager has followed all safety regulations so she feels Joe's concerns are unfounded. In fact, in a follow-up call Janet made to him, Joe couldn't tell her what specific safety regulation was being violated. So Janet has decided the best option is to have Joe move to a position where he has less access to the chemicals that cause him such a concern.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

OBJECTIVE 13.5

Summarize the economic impact of safety.

Safety: The Economic Impact

Job-related deaths and injuries of all types extract a high toll not only in human misery but also in economic loss. According to a Liberty Mutual Workplace Safety Index, workplace illnesses and injuries cost U.S. firms more than $55 billion in workers' compensation costs, an average of more than $1 billion per week.[11] The leading cause of workplace injuries and their associated costs are overexertion (e.g., lifting, carrying, pushing, pulling, etc.). The significant financial costs are often passed along to the consumer in the form of higher prices. Thus, job-related deaths and injuries affect everyone, directly or indirectly. Safety risks can be significant for employers. In addition to workers' compensation costs, OSHA can levy major fines. Indirect costs related to turnover and lost productivity add to the expense.

Companies have come a long way in recognizing the importance and cost benefits of safety. Workplaces are safer, thanks to efforts of employers, insurance companies, unions, and state and federal agencies. Safety professionals strive for lower workers' compensation costs, as do insurance companies, who work to keep both their clients' and their own costs down. However, death and injuries continue to occur.

OBJECTIVE 13.6

Explain the focus of safety programs.

Focus of Safety Programs

Every employer needs to have a comprehensive safety program in place regardless of the degree of danger involved. Safety programs may accomplish their purposes in two primary ways: one focusing on *unsafe employee actions* and the other on *unsafe working conditions*.

Unsafe Employee Actions

Training and orientation of new employees emphasizing safety is especially important. The early months of employment are often critical because it has been proven that work injuries decrease with length of service. The first approach in a safety program is to create a psychological environment and employee attitudes that promote safety. A *corporate culture* needs to exist in which employees are involved and engaged and have the opportunity to provide input on changes to their workplace. Studies show a positive link between employee engagement and involvement and safety performance.[12] Accident rates decline when workers consciously or subconsciously think about safety. This attitude must permeate the firm's operations, and a strong company policy emphasizing safety and health is crucial. Although there is danger that everyone's responsibility will become no one's responsibility, a truly safe environment takes the effort of everyone from top management to the lowest-level employee. Although every individual in a firm should be encouraged to come up with solutions to potential safety problems, the firm's managers must take the lead. Management's unique role is clear because OSHA places primary responsibility for employee safety on the employer.

Unsafe Working Conditions

The second approach to safety program design is to develop and maintain a safe physical working environment. Here, altering the environment becomes the focus for preventing accidents. Even if Joe, a machine operator, has been awake all night with a sick child and can barely keep his eyes open, the safety devices on his machine will help protect him. Management should create a physical environment in which accidents cannot occur. It is in this area that OSHA has had its greatest influence.

Developing Safety Programs

Workplace accident prevention requires safety program planning. Plans may be relatively simple, as for a small retail store, or more complex and highly sophisticated, as for a large automobile assembly plant. Regardless of the organization's size, the support of top management is essential if safety programs are to be effective.

Table 13-1 shows some of the reasons for top management's support of a safety program. This information suggests that the lost productivity of a single injured worker is not the only factor to consider. Every phase of HR management is involved. The firm may have difficulty recruiting if it gains a reputation for being an unsafe place to work. Employee relations erode if

TABLE 13-1

Reasons for Management's Support of a Safety Program

- **Personal loss.** The physical pain and mental anguish associated with injuries are always unpleasant and may even be traumatic for an injured worker. Of still greater concern is the possibility of permanent disability or even death.
- **Financial loss to injured employees.** Most employees are covered by company insurance plans or personal accident insurance. However, an injury may result in financial losses not covered by insurance.
- **Lost productivity.** When an employee is injured, there will be a loss of productivity for the firm. In addition to obvious losses, there are often hidden costs. For example, a substitute worker may need additional training to replace the injured employee. Even when another worker is available to move into the injured employee's position, efficiency may suffer.
- **Higher insurance premiums.** Workers' compensation insurance premiums are based on the employer's history of insurance claims. The potential for savings related to employee safety provides a degree of incentive to establish formal programs.
- **Possibility of fines or imprisonment.** Since the enactment of the Occupational Safety and Health Act, a willful and repeated violation of its provisions may result in serious penalties for the employer.
- **Social responsibility.** Many executives feel responsible for the safety and health of their employees. A number of firms had excellent safety programs years before OSHA existed. They understand that a safe work environment is not only in the best interests of the firm, but also that providing one is the right thing to do.

workers believe that management does not care enough about them to provide a safe workplace. Firms will see an increase in compensation costs when they must pay a premium to attract and retain qualified applicants. Maintaining a stable workforce may become difficult if employees perceive their workplace as hazardous. To overcome the aforementioned problems, safety training must be a continuous process to ensure a safe workplace.

job hazard analysis (JHA)
Multistep process designed to study and analyze a task or job and then break down that task into steps that provide a means of eliminating associated hazards.

JOB HAZARD ANALYSIS **Job hazard analysis (JHA)** is a multistep process designed to study and analyze a task and then break down that task into steps that provide a means of eliminating associated hazards. JHA can have a major impact on safety performance. It results in a detailed written procedure for safely completing many tasks within a plant. A successful JHA program features several key components: management support, supervisor and employee training, written program, and management oversight. It is an effective and useful tool to isolate and address safety issues and risks.

OSHA has issued a comprehensive booklet to assist in JHA. The booklet explains what JHA is and offers guidelines to help firms conduct their own step-by-step analysis.[13]

SUPERFUND AMENDMENTS REAUTHORIZATION ACT (SARA), TITLE III SARA requires businesses to communicate more openly about the hazards associated with the materials they use and produce and the wastes they generate. Although SARA has been around since 1986, some firms



ETHICAL DILEMMA

Illegal Dumping

You have just become aware that the company that disposes of your plant waste is not following Environmental Protection Agency guidelines. The firm is dumping toxic waste at night in a closed landfill six miles from the plant. To make matters worse, your brother-in-law operates the waste disposal company. You have already warned him once, and you have just learned that he is still illegally dumping. You confront him, telling him that you are going to use the hotline to report him if he illegally dumps waste one more time, but he threatens to implicate you if you blow the whistle.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

still do not have a satisfactory program in place. The hazard communication standard often leads the list of OSHA violations because the top category for OSHA citations is for no written hazard communication program. Dealing with this standard appears to be relatively simple and inexpensive, except when organizations ignore its provisions.

EMPLOYEE INVOLVEMENT One way to strengthen a safety program is to include employee input, which provides workers with a sense of involvement. To prevent accidents, each worker must make a personal commitment to safe work practices. A team concept, in which employees watch out for each other as a moral obligation, is a worthy goal. Supervisors can show support for the safety program by conscientiously enforcing safety rules and by closely conforming to the rules themselves. Participation in such teams helps form positive attitudes, and employees develop a sense of ownership of the program. Involved employees may become concerned not only with safety issues but also with ways to improve productivity.

SAFETY ENGINEER In many companies, one staff member coordinates the overall safety program. Titles such as *safety engineer* and *safety director* are common. One of the safety engineer's primary tasks is to provide safety training for company employees. This involves educating line managers about the merits of safety and recognizing and eliminating unsafe situations. Although the safety engineer operates essentially in an advisory capacity, a well-informed and assertive person in this capacity may exercise considerable influence in the organization. Some major corporations also have *risk management departments* that anticipate losses associated with safety factors and prepare legal defenses in the event of lawsuits.

Accident Investigation

Accidents can happen even in the most safety-conscious firms. Whether or not an accident results in an injury, an organization should carefully evaluate each occurrence to determine its cause and to ensure that it does not recur. The safety engineer and the line supervisor usually jointly investigate accidents. One of the responsibilities of any supervisor is to prevent accidents. To do so, the supervisor must learn, through active participation in the safety program, why accidents occur, how they occur, where they occur, and who is involved. Supervisors gain a great deal of knowledge about accident prevention by helping to prepare accident reports. OSHA Form 300 is a log of work-related injuries and illnesses. The log is used in the evaluation of safety programs, discussed next. Most employers electronically transmit records of occupational injuries and illnesses directly to OSHA.

Evaluation of Safety Programs

Perhaps the best indicator of a successful safety program is a reduction in the injury frequency rate. OSHA's formula is:

Injury Frequency Rate = (Number of Recordable Injuries × 200,000) divided by the number of hours worked. The 200,000 figure is the equivalent of 100 full-time employees working 40 hours per week, 50 weeks a year.

Other OSHA metrics currently in use include total cases, nonfatal cases without lost workdays, total lost workday cases, cases with days away from work, and measure of fatalities. In addition to program-evaluation criteria, an effective reporting system helps to ensure that accidents are reported and receive attention. This is important because almost half of workplaces inspected by OSHA are for underreported numbers of employee injuries or illnesses.[14] With the start of a new safety program, the number of accidents may decline significantly because some supervisors may fail to report certain accidents to make the statistics for their units look better. Proper evaluation of a safety program depends on the accurate reporting and recording of data.

Organizations must use the conclusions derived from an evaluation for them to be of any value in improving the safety program. Gathering data and permitting this information to collect dust on the safety director's desk will not solve problems or prevent accidents. Accident investigators must transmit evaluation results upward to top management and downward to line managers to generate improvements.

OBJECTIVE 13.7

Describe the consequences of musculoskeletal disorders.

Musculoskeletal Disorders

musculoskeletal disorders (MSDs)
Conditions that affect the body's muscles, joints, tendons, ligaments, and nerves.

carpal tunnel syndrome (CTS)
Caused by pressure on the median nerve that occurs as a result of a narrowing of the passageway that houses the nerve.

Musculoskeletal disorders (MSDs) are conditions that affect the body's muscles, joints, tendons, ligaments, and nerves. Work-related MSDs, including tendonitis, carpal tunnel syndrome, and back pain, cost U.S. companies $61.2 billion annually just to cover lost productivity.[15] According to the U.S. Bureau of Labor Statistics, nearly 400,000 MSD cases accounted for 34 percent of all injury and illness cases in 2012.[16] The median days away from work was 12 days. The highest incidence rate occurred for laborer and freight, stock, and material movers. Back problems accounted for 41.2 percent of total MSDs.

A major musculoskeletal disorder is **carpal tunnel syndrome (CTS)** caused by pressure on the median nerve that occurs as a result of a narrowing of the passageway that houses the nerve. People who have CTS may experience pain, numbness, or tingling in the hands or wrist, a weak grip, the tendency to drop objects, sensitivity to cold, and in later stages, muscle deterioration, especially in the thumb.

CTS tends to develop in people who use their hands and wrists repeatedly in the same way. Illustrators, carpenters, assembly-line workers, and people whose jobs involve work on personal computers are the ones most commonly affected. Workers in an office environment often experience CTS. If employees keyboard 40 words per minutes, they press 12,000 keys per eight-hour day with approximately eight ounces of force needed to press each key. Using these estimates, employees working full-time will exert approximately 16 tons of force each day.[17]

CTS is preventable, or at least its severity can be reduced. Managers can provide ergonomic furniture, especially chairs, and ensure that computer monitors are positioned at eye level and keyboards at elbow level. Employees can also cooperate by reporting early symptoms of CTS. Also, it helps to often rest the hand and wrist in a neutral position trying not to perform the exact activities that caused the syndrome. Often taking nonsteroidal anti-inflammatory drugs will help. Certainly, any physical therapy aimed at exercising the hand muscle-tendon units should be stopped until after symptoms have disappeared. Other suggested actions include keeping wrists straight, taking exercise breaks, alternating tasks, shifting positions periodically, adjusting chair height, working with feet flat on the floor, and being conscious of posture. Many of these actions suggest the need for ergonomics.

OBJECTIVE 13.8

Explain the meaning of ergonomics.

Ergonomics

ergonomics
Process of designing the workplace to support the capabilities of people and job or task demands.

A specific approach to dealing with health problems such as MSDs and enhancing performance is ergonomics. **Ergonomics** is the process of designing the workplace to support the capabilities of people and job or task demands. Through ergonomics, the goal is to fit the machine and work environment to the person, rather than require the person to make the adjustment. Ergonomics includes all attempts to structure work conditions so that they maximize energy conservation, promote good posture, and allow workers to function without pain or impairment. Failure to address ergonomic issues results in fatigue, poor performance, and MSDs. In fact, ergonomic disorders are the fastest-growing category of work-related illness.

There is a clear economic payoff in using ergonomics. Blue Grass Energy, a Kentucky distribution cooperative, implemented a proactive and mandatory stretching program for its field crews, purchased battery-operated tools, and tested back-saving technology and has minimized lost labor hours resulting from injuries in the field. All the line workers are required to stretch their muscles before each strenuous work day, resulting in a dramatic decline in pulled hamstrings and other muscles and back injuries.[18] Other companies have discovered that improving the work environment boosts morale, lowers injury rates, and yields a positive return on investment. A sound ergonomic approach to avoiding workplace injuries is prevention.

The workforce of the future is expected to be increasingly mobile. With mobile devices, employees can work virtually anywhere. Ergonomics engineers are concerned that this group is setting itself up for musculoskeletal problems, which can range from discomfort to the development of tendonitis. Margo Fraser, executive director of the Association of Canadian Ergonomists, said, "Workers who find they are pulling laptops out in coffee shops and fast-food restaurants must also remember they are not just sitting in non-ergonomic chairs, but ones that are "anti-ergonomic," purposefully designed to keep people from sitting in them for hours at a time."[19]

Herman Miller is a manufacturer of ergonomically well designed office equipment, including chairs and work surfaces. As you will see in the Watch It video, Herman Miller also provides ergonomics training to its clients. This company also makes investments in safety training for its employees to promote safety within as well as helping them to serve as more effective consultants to clients.

Watch It 1
If your professor has assigned this, sign into **mymanagementlab.com** to watch a video titled Herman Miller: Safety and to respond to questions.

Another threat to the safety and security of people on the job is workplace bullying and violence, discussed next.

OBJECTIVE **13.9**
Summarize the problems associated with workplace bullying and violence.

Workplace Bullying and Violence

Unfortunately, workplace bullying and violence has become a fact of life in some workplaces, and these activities threaten the safety of employees, family members, and customers. Increasingly, most companies are adopting ways to ensure worker safety against bullying and violence. We discuss these issues next.

Workplace Bullying

workplace bullying
Acts of continual hostile conduct that deliberately hurt another person emotionally, verbally, or physically.

The definition of workplace violence has been expanded to include bullying because it has become more common, is costly, and is a possible predictor of physical violence. **Workplace bullying** includes acts of continual hostile conduct that deliberately hurt another person emotionally, verbally, or physically. There are basically two types of bullying—physical and psychological. Physical bullying involves intimidation or threatening actions.[20] Screaming, pushing, shoving, or invading a person's personal space provide examples of physical bullying. Psychological bullying involves activities such as jokingly ridiculing a person in a harmful manner or even staring at somebody in a hostile way. Most companies include bullying behaviors within their workplace violence policy. Usually employees will accept a firm's expectations if they are clearly stated.

Experts use the term *status-blind harassment* to separate workplace bullying from workers protected under federal and state statutes. Adeola Adele, EPLI product leader for Marsh's FINPRO group, says, "Workplace violence starts with bullying." She tells of a case in which an individual shot his coworkers. The worker had been bullied at work, and no one would listen.[21]

Some researchers make the case that a definition of bullying should include social hostility, which includes gossiping or social rejection. According to one survey, this is the most common type of bullying committed by women, who are responsible for more than 40 percent of workplace bullying.[22]

It is often seen as a means of gaining power over another person through repeated aggressive behavior. Bullying may cause severe psychological pain for victims and for coworkers who witness the attacks.[23] According to a study by the National Institute for Occupational Safety and Health, bullying tends to occur when there is a lack of trust of management, a poor organizational climate, higher absenteeism and turnover rates, reduced productivity, and higher litigation costs.[24] In recent years, employers have noted increased workplace rudeness, which may lead to increased bullying.[25] According to one study, 27 percent of employees report being bullied at work.[26] Currently, several states have proposed legislation regarding bullying in the workplace; however, none of those states has passed legislation.

More often than not, managers and supervisors, not nonsupervisory employees, tend to be bullies. Some research attributes this phenomenon to the economic downturn and slow recovery, which has put substantial stress on managers and supervisors.[27] Men are more often bullies than are women.[28]

It is quite important for a company to develop a culture that does not accept bullying. Firms should strive to make civility part of the culture.[29] Workplace bullying does not occur in a culture in which leaders send the message that each employee is valued, respected, and appreciated. Creating a culture of civility may require careful planning and may require a change in thinking and behaviors for corporate leaders.

At this time, there are no legal protections against bullying unless it were to involve physical contact with the victim or to violate existing equal employment opportunity laws that prohibit discrimination such as sexual harassment. Nevertheless, it is in an employer's best interests to ensure that bullying does not occur. Apart from the serious impact on victims, the employer is likely to experience unwanted turnover, higher absenteeism, and higher insurance costs.[30] A critical intangible consequence is earning a bad institutional reputation, which could turn current or prospective customers away and make it difficult to recruit talent.

Workplace Violence

All too often, HR professionals are receiving wake-up calls about the potential for workplace violence. Recently, an employee killed two fellow workers at a Kraft Foods Inc. plant in Philadelphia, and in another instance, a truck driver shot and killed eight coworkers, then himself, at a beer distributor in Connecticut. OSHA defines **workplace violence** as physical assault, threatening behavior, verbal abuse, hostility, or harassment directed toward employees at work or on duty. The fact that OSHA has included verbal abuse in the definition of workplace violence has HR professionals concerned that the general duty clause could even be cited for obscene language.[31]

workplace violence
Physical assault, threatening behavior, verbal abuse, hostility, or harassment directed toward employees at work or on duty.

According to the U.S. Bureau of Labor Statistics, violence accounted for 17 percent of all workplace injuries in 2012, and 767 people were killed.[32] Sadly, homicide is the second-leading cause of death on the job—second only to motor vehicle crashes. Regardless of who commits the crime, there is the horror of random workplace violence.

There is no way to estimate the physical and psychological damage to other employees, who are only onlookers to the violent behavior. The issue facing most large employers is not *if* they will ever deal with an act of workplace violence, but *when*.

Vulnerable Employees

Employees at gas stations and liquor stores, taxi drivers, police officers, and convenience store managers working night shifts face the greatest danger from workplace violence. However, no workplace is immune from violence. Hospital managers overwhelmingly say that the biggest threat emergency department workers face is patient violence. Most hospitals now have security guards stationed in their emergency departments, particularly at times such as Saturday nights, when violence seems to escalate.

There are numerous reasons for violent acts committed by employees or former employees. Among the most common are personality conflicts, marital or family problems, drug or alcohol abuse, and firings or layoffs.

Domestic violence, unfortunately, also is a relevant topic for HR professionals' consideration. Spillover from domestic violence is a threat to employees and their coworkers because one of the easiest places to the find the victim is at his or her workplace.[33] One study suggested that 1 in 10 employees is currently being abused, which often carries itself over to the workplace.[34] Another study examined 500 assaults that occurred in the workplace as a result of domestic violence and slightly more than half of the incidents ended in at least one homicide.[35] For example, Robert Reza slipped into the Emcore manufacturing plant in Albuquerque, New Mexico, and shot six employees—killing two—before taking his own life because he was angry with his girlfriend, a plant employee.[36] Domestic violence can have an impact on a firm's bottom line, costing about $5.8 billion each year in absenteeism, lower productivity, and turnover.[37] Therefore, business organizations have a huge stake in the problem of domestic violence.

Judith A. Lampley, general counsel of the Equal Employment Advisory Council, said, "The biggest mistake an employer can make is to ignore the issue."[38] The *general duty clause* of the Occupational Safety and Health Act requires a firm to furnish a workplace free from recognized hazards that are causing or are likely to cause death or serious physical harm. This includes protecting

not only an intended victim of domestic violence, but also coworkers, who can become victims when angry partners bring weapons to a workplace. An employer could potentiality face claims by the victim, coworkers, third parties, and even the person who caused the domestic violence.

Legal Consequences of Workplace Violence

In addition to the horror of workplace violence, there is also the ever-present threat of legal action. Civil lawsuits claiming *negligent hiring* or *negligent retention* are a constant threat. *Negligent hiring* is the liability an employer incurs when it fails to conduct a reasonable investigation of an applicant's background, and then assigns a potentially dangerous person to a position in which he or she can inflict harm. **Negligent retention** is the liability an employer may incur when a company keeps persons on the payroll whose records indicate a strong potential for wrongdoing and fails to take steps to defuse a possibly violent situation. If an employer ignores warning signs leading up to a violent incident, it could be held legally liable. As previously mentioned, under OSHA's *general duty clause*, employers are required to furnish, to each employee, a place of employment that is free from recognizable hazards that are causing, or likely to cause, death or serious harm to the employee.

negligent retention
Liability an employer may incur when a company keeps persons on the payroll whose records indicate a strong potential for wrongdoing and fails to take steps to defuse a possibly violent situation.

Laws passed since the early 1980s recognize the seriousness of domestic violence. In 1984, the Family Violence Prevention and Services Act was passed to help prevent domestic violence and provide shelter and related assistance for victims. The Violence Against Women Act was passed in 1994, creating new federal criminal laws and establishing additional grant programs within the Department of Health and Human Services and the Department of Justice (DOJ). The Violence Against Women and DOJ Reauthorization Act of 2005 required a study to be prepared to determine the prevalence of domestic violence, dating violence, sexual assault, and stalking among men, women, youth, and children. At least 29 states plus the District of Columbia have laws that allow people who leave jobs because of domestic violence to become eligible for unemployment benefits. Also, some states such as Florida, California, Colorado, Hawaii, Illinois, Kansas, and Maine, give domestic violence victims the right to take time off. Florida law permits employees to take up to three days leave from work in any 12-month period for a variety of activities connected with domestic violence issues.

Individual and Organizational Characteristics to Monitor

Some firms that have experience with workplace violence are trying an alternative approach. Instead of trying to screen out violent people, they are attempting to detect employees who commit minor aggressive acts and exhibit certain behaviors. These individuals often go on to engage in more serious behaviors. Once identified, these people are required to meet with trained staff members for counseling as long as needed. This approach may require more commitment on the part of the firm, but the alternative cost of violence may make this expenditure reasonable in the long run.

Although there are no sure signs an employee will commit an act of violence, certain behaviors can signal a problem, such as erratic behavior, increased irritability or hostility, reduced quality of work, poor organizational and time management skills, absenteeism, and a look of physical exhaustion. There are usually signs preceding workplace violence. Workers who shoot and kill their coworkers are likely to be employees who recently experienced a negative change in employment status, including those who have been fired, whose contracts have not been renewed, or who have been suspended because of a dispute with management. In one instance, a Domino's Pizza employee was discharged and later arrested after setting fires at two stores, causing more than $1 million in damages. The worker entered the buildings using keys he had not been required to turn in.[39] All terminations should require employees to return all company property issued, such as keys, access cards and ID badges, and uniforms. Workers who are fired for a violent conflict should be escorted off company property. If possible, a heightened security alert should be made at the perimeter for several hours afterward in the event the employee returns to "get even."

Preventive Actions

The best protection employers can offer is to establish a zero tolerance policy for workplace violence by and against employees.[40] However, there is no way an employer can completely avoid risk when it comes to violence. Incidences of some unbalanced person coming in and shooting people

happen randomly, and organizations can do little to anticipate or prevent them. However, there are things that can be done to reduce the risk. There are basically two parts to violence prevention. First, there must be a process in place to help with early detection of worker anger. Second, supervisors and HR staff need to be trained in how to skillfully handle difficult employment issues.

A firm can take certain actions to minimize violent acts and to avoid lawsuits. It should have policies that ban weapons on company property, including parking lots, and under suspicious circumstances, require employees to submit to searches for weapons or examinations to determine their mental fitness for work. A firm should also have a policy stating that it will not tolerate any incidents of violence or even threats of violence, and it should encourage employees to report all suspicious or violent activity to management. In addition, many firms are equipping receptionists and those responsible for checking workers into the facility with panic buttons to enable them to alert security officers instantly.

Can the selection process predict applicants who will be prone to violence? The answer is "No." On the other hand, the profiles of individuals *not* prone to violence tend to have certain things in common. The most important characteristic and one with the highest correlation is that an applicant has no history of substance abuse. Other positive factors include being outwardly focused and having outside interests and friendships rather than being mainly self-involved. Finally, applicants with a good work history often are a strong predictor of a person not inclined to violence.

To confirm these characteristics, the firm must conduct a thorough background investigation prior to hiring. Gordon Basichis, cofounder of Corra Group, an international corporate security firm, said, "At first glance, a person's background check for misdemeanors may not look so bad, but it can get worse because sexual and violent crimes, especially domestic ones, can get plea-bargained down or dropped by family members."[41]

OBJECTIVE **13.10**

Describe the purposes of wellness programs and explain social networking and wellness.

Employee Wellness

wellness programs
Designed to promote the mental and physical well-being of employees and family members.

Wellness programs are designed to promote the mental and physical well-being of employees and family members.[42] Oftentimes, employers create employee assistance programs as a structure within which to offer wellness initiatives. *Employee assistance programs*, which we discuss later, help employees cope with personal problems that may impair their personal lives or job performance. Examples of such problems include alcohol or drug abuse, domestic violence, the emotional impact of AIDS and other diseases, clinical depression, and eating disorders.[43] EAPs also assist employers in helping troubled employees identify and solve problems that may be interfering with their jobs or personal lives.

Wellness programs are becoming more widespread as more employers become conscious of the impact employee health has on performance. Employers that start wellness programs not only help lower health-related costs, but also find that employees are more engaged and productive at work. A recent study found that medical costs fall by about $3.27 for every dollar spent on wellness programs, and that the costs of absenteeism declined by $2.73 for every dollar spent.[44] Further program growth is being prompted by the shift toward wellness and prevention in the design of employer-sponsored health care benefits and by federal health care reform legislation. Barry Hall, global wellness research leader at Buck Consultants LLC's Boston office, said, "Wellness is currently the biggest area of growth in benefits, and it's primarily fueled by employer demand."[45] The Patient Protection and Affordable Care Act provides employers with additional incentives to help workers stay healthy. The cap on premium discounts increased from 20 percent to 30 percent in 2014. Employers can use these discounts to entice employees to participate and meet certain goals in company wellness programs. Under certain situations, employers can move the incentive up to 50 percent. Small businesses with fewer than 100 employees are now eligible for grants to implement new wellness programs.

The traditional view that health is dependent on medical care and is the absence of disease is changing. Today, it is clear that optimal well-being is often achieved through environmental safety, organizational changes, and healthier lifestyles. Laura Karkula, vice-president of Wellness Products at OptumHealth, said, "The research shows that companies that deploy health and wellness programs and take the approach of building an overall culture of health have a stronger commitment to those values."[46] Health and wellness programs have also been shown to encourage employees to remain at their companies longer. Important factors in making these programs successful include active strong leadership, especially from the CEO.[47]

There is growing evidence that in addition to containing direct medical costs, effective health programs boost productivity, reduce absenteeism, lower turnover and recruiting costs, and improve morale. Infectious diseases, over which a person has little control, are not the problem they once were. From 1900 to 1970, the death rate from major infectious diseases dropped dramatically. However, the death rate from major chronic diseases, such as heart disease, cancer, and stroke, has significantly increased. Today, heart disease and stroke are the top two killers worldwide. Chronic obstructive pulmonary disease and lung cancer are also growing threats to life. Healthy lifestyle measures such as not smoking, eating healthy foods, and exercising more may help prevent these diseases.

Chronic lifestyle diseases are much more prevalent today than ever before. The good news is that people have a great deal of control over many of them. These are diseases related to smoking, excessive stress, lack of exercise, obesity, and alcohol and drug abuse. Increased recognition of this has prompted employers to become actively involved with their employees' health and to establish wellness programs. Focusing on health care is inherently reactive; focusing on health is proactive, and potentially, a game changer.

There has been a shift toward an approach to improving health that includes involving workers in identifying problems and developing solutions. Wellness programs often expand their focus to include other health issues, such as diet, stress, substance abuse, employee assistance programs, and smoking cessation.

In developing a wellness program, firms should first conduct a health-risk assessment by surveying their employees to determine which workers could benefit from lifestyle change. Then, a wellness program to address appropriate employee health needs can be implemented. Sometimes getting everyone on board to take a health-risk assessment is difficult and incentives such as gift cards and use of big-screen televisions and travel opportunities are used as grand prizes. At Integris Health, employees who completed a health-risk assessment received preferred pricing on benefits, but those who completed the assessment and brought it to a physician during a preventive care visit collected an extra incentive.[48] Penalties such as increased insurance premiums are also being used to increase employee participation in wellness programs.[49] Beth Umland, director of research for health and benefits at Mercer LLC in New York City, said, "Premium discounts are becoming a real mainstay incentive and the amount of premium discounts is growing."[50]

Once companies have identified high-risk employees and the health issues they face, they can determine what programs are needed and offer incentives for participation in activities such as smoking cessation classes or joining Weight Watchers. At Lincoln Plating, everyone gets quarterly health-risk appraisals that include blood-pressure screening and body weight, body fat, and flexibility measurements. Each employee reviews the quarterly results with the wellness manager or occupational nurse and sets individual wellness objectives.

The growth in wellness programs has created new leaders with titles such as wellness manager, health and wellness manager, well-being director, wellness coordinator, wellness specialist, and wellness champion. Most of these employees report to a company's top HR or employee benefits executive who is responsible for defining the wellness mission and working to improve health and well-being.[51]

Social Networking and Wellness

Employers increasingly are adopting social networking to strengthen the success of their wellness programs. In his research, Dr. Nicholas Christakis of the Harvard Medical School found that good health is pervasive. When someone loses weight or quits smoking, their friends and family are more likely to also do so. He said, "The implication of this research is that interventions can leverage this phenomenon to purposefully spread healthy behaviors."[52] Social networking brings employees together and works to increase peer support. Social networking also generates participation rates higher than any traditional form of wellness initiative. Using social network tools such as Twitter and Facebook, employees can tell others how well they are doing with regard to quitting smoking or losing weight. Jamie Curtis, vice-president of business development with Spectrum Health Systems, said, "If employees are given access to a social platform as part of a Wellness program, they feel more empowered to participate."[53] Once workers quit smoking or lose weight, they are certain to tell others, creating a sort of competition. Can you imagine the impact before and after pictures of a person who has lost weight would have on other friends? Such might be the same case with a Tweet that says, "I lost another 10 pounds."

Limeade Inc. of Washington offers social media–based wellness programs that permit employees to engage in healthy activities. The system permits workers to track their progress and share tips with colleagues. Limeade CEO Henry Albrecht said, "Our programs are social because the science of behavioral change shows that people make changes when they have support of friends and peers."[54]

OBJECTIVE 13.11

Define *stress*, explain the consequences of stress including identifying stressful jobs, and explain burnout.

stress
Body's nonspecific reaction to any demand made on it.

Nature of Stress

Stress is the body's nonspecific reaction to any demand made on it. It affects people in different ways and therefore is highly individualized. Certain events may be quite stressful to one person but not to another. Moreover, the effect of stress is not always negative. For example, mild stress actually improves productivity, and it can be helpful in developing creative ideas. For many students, a small bit of stress before an exam actually improves performance. However, excessive stress may have the opposite effect.

Many believe their stress has increased over the past five years. Several factors account for this rise, including increased workloads, terrorism, corporate scandals, and economic conditions. The recent recession increased stress levels even among employees who still had jobs.[55] Although much of the world has reduced the number of hours worked each year per person over the past decade, Americans have done just the opposite. Each year, more than 275,000,000 working days are lost in the United States because of absenteeism resulting from stress.[56] And the costs are staggering. Overall, absenteeism cost employers $84 billion in lost productivity.[57] Roughly, the cost of absenteeism was $3,600 for each hourly worker on an annual basis and $2,650 for salaried employees. If people work longer hours, they often do not have time to refresh, resulting in a deterioration of their personal lives.

Potential Consequences of Stress

Although everyone lives under a certain amount of stress, if it is severe enough and persists long enough, it can be harmful. In fact, stress can be as disruptive to an individual as any accident. It can result in poor attendance, excessive use of alcohol or other drugs, poor job performance, or even overall poor health. There is increasing evidence indicating that severe, prolonged stress is related to the six leading causes of death, including heart disease, cancer, lung ailments, accidents, cirrhosis of the liver, and suicide.[58] This is in addition to the everyday headaches, back spasms, overeating, and other annoying ailments the body has developed in response to stress. Stress tops the list of changeable health risks that contribute to health care costs, ahead of other top risks such as current and past tobacco use, obesity, lack of exercise, high blood-glucose levels, depression, and high blood pressure.

Stressful Jobs

Many workers could identify with Jet Blue flight attendant Steven Slater when he imploded on the job and exited down the plane's emergency slide.[59] After a rude passenger's bag hit his head, he used the plane's intercom to curse the customer, thanked the other passengers, grabbed two beers, activated the emergency chute, left the plane, and went home. There are probably many workers who would like to take similar actions in their workplaces. John Challenger, chief executive officer of Challenger, Gray & Christmas, a Chicago-based outplacement firm, said, "Slater tapped into a vein of anger that a lot of people have toward their employers. They are mad about all the layoffs they've gone through at work. They are mad about having their benefits cut."[60] Stress and workload strains are real challenges now. Estimates are that one in three people in the United States is living with extreme stress, with a large percentage of all doctor visits being related to stress.

The National Institute for Occupational Safety and Health has studied stress as it relates to work and found that some jobs are generally perceived as being more stressful than other jobs. The 12 most stressful jobs are listed in Table 13-2. The common factor among these jobs is lack of employee control over work.[61] Workers in such jobs may feel that they are trapped, treated more like machines than people. Workers who have more control over their jobs, such as college professors and master craftpersons, hold some of the less stressful jobs.

The fact that certain jobs are identified as more stressful than others has important managerial implications. Managers are responsible for recognizing significantly deviant behavior and referring employees to health professionals for diagnosis and treatment. Telling signs of stress

TABLE 13-2

Stressful Jobs

The 12 Jobs with the Most Stress	
1. Laborer	**7.** Manager/administrator
2. Secretary	**8.** Waitress/waiter
3. Inspector	**9.** Machine operator
4. Clinical lab technician	**10.** Farm owner
5. Office manager	**11.** Miner
6. Supervisor	**12.** Painter

Other High-Stress Jobs (in Alphabetical Order)	
Bank teller	Nurse's aide
Clergy member	Plumber
Computer programmer	Police officer
Dental assistant	Practical nurse
Electrician	Public relations worker
Firefighter	Railroad switchperson
Guard	Registered nurse
Hairdresser	Sales manager
Health aide	Sales representative
Health technician	Social worker
Machinist	Structural-mental worker
Meat cutter	Teacher's aide
Mechanic	Telephone operator
Musician	Warehouse worker

Source: From a ranking of 130 occupations by the federal government's National Institute for Occupational Safety and Health.

may include a reduction in the quantity and quality of work, frequent short periods of absence, increased alcohol consumption, poor time keeping, or becoming tearful or withdrawn. Under excessive stress, a person's dominant trait may become even more obvious. For example, if the individual is a private person, he or she withdraws from colleagues; if the person is upbeat, he or she becomes hyperactive. Ideally, stress should be dealt with before this occurs. To do so, managers must be aware of potential sources of stress. These sources exist both within and outside the organization. Regardless of its origin, stress possesses devastating potential.

Burnout

burnout
Incapacitating condition in which individuals lose a sense of the basic purpose and fulfillment of their work.

Burnout, although rarely fatal, is an incapacitating condition in which individuals lose a sense of the basic purpose and fulfillment of their work. It is a special form of stress in which individuals become exhausted either physically or mentally or both. Seemingly the body or the mind can no longer handle the overwhelmingly high demands placed on it. Burnout differs from stress in that it causes people who have previously been highly committed to their work to become disillusioned and lose interest and motivation. Individuals who experience burnout often experience emotional exhaustion and lose interest in work.[62] When this occurs, they may lose their motivation to perform. Burnout is the most common factor leading to the decision to *check out* temporarily.

Burnout is frequently associated with people whose jobs require them to work closely with others under stressful and tension-filled conditions. However, any employee may experience burnout, and no one is exempt. The dangerous part of burnout is that it is contagious. A highly cynical and pessimistic burnout victim can quickly transform an entire group into burnouts.

Virtual teams that exist over the long term (more than a year) often run a strong risk of declining performance as a result of team burnout.

Burnout's price tag is high: it results in reduced productivity, higher turnover, and generally lousy performance. According to the American Institute of Stress, employee burnout costs the U.S. economy about $300 million annually. People often become physically and psychologically weakened from trying to deal with it. Although some employees try to hide their problems, shifts in their behavior may indicate dissatisfaction. They may start procrastinating or go to the opposite extreme of taking on too many assignments. They may lose things and become increasingly disorganized. Good-natured individuals may turn irritable. They may become cynical, disagreeable, pompous, or even paranoid. Their motivation toward a project may not be the same as it used to be, and they may dread doing work that they used to enjoy. It is very important that the problem be dealt with quickly. Some means of dealing with burnout include keeping expectations realistic, reducing workload, finding means to relax at work, and developing and maintaining interests outside work.

OBJECTIVE 13.12

Describe the importance of physical fitness programs.

Physical Fitness Programs

The most commonly offered in-house corporate wellness programs involve efforts to promote exercise and fitness. To understand the interest in such programs, consider the results of physical inactivity: obesity, hypertension, heart disease, diabetes, anxiety, depression, and certain types of cancer. Unfortunately, the prevalence of obesity, which is associated with most of these health conditions, is substantial. More than one-third of adults were obese in 2009–2010.[63]

From management's viewpoint, physical fitness programs make a lot of sense. Loss of productivity resulting from coronary disease alone costs U.S. businesses billions of dollars annually. Company-sponsored fitness programs often reduce absenteeism, accidents, and sick pay. There is increasing evidence that if employees stick to company fitness programs, they will experience better health, and the firm will have lower health costs.

Kenneth Cooper, who coined the term *aerobics* (which literally means *with oxygen*), has advice for those with or without access to fitness centers. To begin, he feels that moderate exercise is important. He recommends 30 minutes of exercise four to five days a week. People do not need to train for a marathon to be healthy; they just need to stop being couch potatoes.[64] His studies also show that cardiovascular training is not enough. He promoted eating a heart-healthy diet and using vitamin supplements such as antioxidants. He felt that eliminating tobacco products and habit-forming drugs, controlling alcohol, keeping stress levels down, and getting periodic health exams helps everyone's fitness.[65]

The City of Los Angeles operates on the premise that providing a safe and healthy work environment improves worker productivity. As you will learn in the Watch It video, the city relies on four approaches to meet this objective.

Watch It 2

If your professor has assigned this, sign into **mymanagementlab.com** to watch a video titled City of Los Angeles: Safety and to respond to questions.

OBJECTIVE 13.13

Explain substance abuse, describe substance-abuse-free workplaces, and describe how to implement a drug-testing program.

Substance Abuse

Failure to test for drugs can sometimes have a disastrous effect on companies large and small. For instance, Cake for You is a small specialty bakery. Its service includes making and delivering wedding cakes to receptions. In hiring a delivery driver, Cake for You owners always carefully determined that job candidates had a valid driver's license. The owners were quite pleased with their new employee, Mike. He was prompt, neatly attired, and seemed to have a pleasant demeanor. Unfortunately, while making a delivery one morning, Mike was involved in, and in fact caused, a four-vehicle accident that resulted in one fatality. The investigation revealed that Mike was high on marijuana. Had the owners of the firm included drug testing as part of their screening process, they might not be facing a huge

lawsuit. In certain industries, such as transportation, for example, drug use on the job is especially hazardous and potentially devastating to the firm. Think of the damage that could be caused by a 40-ton truck careening out of control. Under ideal conditions, a fully loaded truck in daylight on a dry road cannot stop in less than 300 feet, or the length of a football field.

substance abuse
Use of illegal substances or the misuse of controlled substances such as alcohol and drugs.

Substance abuse involves the use of illegal substances or the misuse of controlled substances such as alcohol and drugs. About 14 million people who are employed either full-time or part-time abuse alcohol or drugs.[66] These workers use more sick days and are late more often. They remain in jobs for shorter lengths of time, and their health care costs are twice that of other employees.[67] According to the Substance Abuse and Mental Health Services Administration, drug-using employees are 3.6 times as likely to be involved in workplace accidents and 5 times as likely to file workers' compensation claims.[68] Further, research indicates that between 10 and 20 percent of the nation's workers who die on the job test positive for alcohol or drugs.[69] Even so, few issues generate more controversy today than substance-abuse testing. Yet, alcohol and drug abuse are definitely workplace issues.

Alcohol Abuse

alcoholism
Medical disease characterized by uncontrolled and compulsive drinking that interferes with normal living patterns.

Although our society often attaches a stigma to alcoholism, in 1956, the American Medical Association described it as a treatable disease. **Alcoholism** is a medical disease characterized by uncontrolled and compulsive drinking that interferes with normal living patterns. The National Council on Alcoholism & Drug Dependence reports that 40 percent of workplace fatalities and 47 percent of workplace injuries are related to alcohol consumption. Stress plays an important role in a person becoming an alcoholic. It is a significant problem that affects people at every level of society, and it can both result from and cause excessive stress. When under stress, people with a particular genetic arrangement are inclined to act impulsively, increasing their danger of problem drinking.[70] As a person starts to drink excessively, the drinking itself produces greater stress. A vicious cycle is created as this increased stress is dealt with by more drinking. Early signs of alcohol abuse are especially difficult to identify. Often the symptoms are nothing more than an increasing number of days absent from work. Alcohol abusers are also much more likely to be using other substances.[71]

Drug Abuse

Drug users are increasingly gravitating to the workplace, which is also an ideal place to sell drugs. Drug use in the workplace costs employers approximately $81 billion each year in lost productivity, according to the U.S. Department of Labor. The National Institute of Drug Abuse cites that employees at risk for illegal on-the-job substance use have been shown to have three times more sick days, three times the tardiness rate, three times more accidents, and are five times more likely to file workers' compensation claims than individuals not engaging in illegal substance use.[72] Because most of *Fortune 500* companies conduct pre-employment drug screening, a large number of employed drug users work for smaller businesses, many of which do not use drug testing. In fact, 71 percent of companies with 2,500 or more employees require pre-employment drug tests, whereas less than 40 percent of businesses with fewer than 100 employees even had a pre-employment drug-testing policy.[73]

It has also been estimated that more than 120 million prescriptions for controlled substance painkillers are dispensed annually. These substances include powerful painkillers that also carry an extremely high risk of addiction.[74] Prescription drugs can be as addictive, impairing, and destructive as common street drugs.

Substance-Abuse-Free Workplace

The Drug-Free Workplace Act of 1988 requires some federal contractors and all federal grantees to agree that they will provide drug-free workplaces as a condition of receiving a contract or grant from a federal agency (details of the act may be seen in Table 13-3). The U.S. Department of Transportation (DOT) requires drug and alcohol testing for drivers of commercial vehicles, as well as employees that perform "safety-sensitive duties." Unless public safety and security are at risk, employers decide if drug testing is performed.

Firms have tackled the drug-abuse problem head-on by establishing a drug-free workplace program. But, some cautions should be taken. Some philosophies and practices that can undermine the effectiveness of drug-free workplace programs may be seen in Table 13-4.

TABLE 13-3

Drug-Free Workplace Act of 1988

The Drug-Free Workplace Act of 1988 requires some federal contractors and all federal grantees to agree that they will provide drug-free workplaces as a condition of receiving a contract or grant from a federal agency.

Organizations, with contracts from any U.S. federal agency, must comply with the provisions of the act if the contract is in the amount of $100,000 or more. Organizations must do the following:

(A) publish a statement notifying employees that the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited in the person's workplace. The statement should also notify employees of any punitive actions that will be taken.
(B) establish a drug-free awareness program to inform employees about
  (i) the dangers of drug abuse in the workplace;
  (ii) the policy of maintaining a drug-free workplace;
  (iii) any available drug counseling, rehabilitation, and employee assistance programs; and
  (iv) the penalties that many be imposed on employees for drug abuse violations.
(C) make it a requirement that each employee be given a copy of the workplace substance abuse policy.

If a contractor is found not to have a drug-free workplace, each contract awarded by any federal agency shall be subject to suspension of payments under the contract or termination of the contract, or both. The contractor may also be ineligible for award of any contract by any federal agency, and for participation in any future procurement by any federal agency, for a period not to exceed 5 years.

TABLE 13-4

Philosophies and Practices That Can Undermine the Effectiveness of Drug-Free Workplace Programs

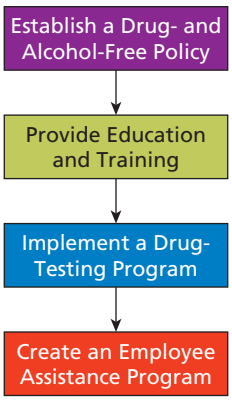
- Focusing only on illicit drug use and failing to include alcohol—the number-one drug of abuse in our society
- Accepting drug use and alcohol abuse as part of modern life and a cost of doing business
- Overreliance on drug testing
- Focusing on termination of users rather than rehabilitation
- Reluctance of supervisors to confront employees on the basis of poor performance
- Reinforcing an individual's denial regarding the impact of his or her alcohol and drug use
- Restricting benefits or access to treatment of alcoholism and addiction
- Allowing insurers to restrict access to treatment programs

Source: http://www.dol.gov/elaws/asp/drugfree/drugs/screen5.asp?selection_list= (accessed April 19, 2014).

The steps for establishing a substance-abuse-free workplace may be seen in Figure 13-2. Note that the first step is to establish a drug- and alcohol-free policy. The U.S. Department of Labor offers a Drug-Free Workplace Advisor that provides guidance on how to develop a drug- and alcohol-free workplace. At Texas Instruments, the policy is simple and straightforward: "There will be no use of any illegal drug."

The second step is to provide education and training for supervisors and workers. At a minimum, supervisor training should include a review of the drug-free workplace policy, the supervisor's specific responsibilities in implementing the policy, and ways to recognize and deal with employees who have job performance problems that could be related to alcohol and drug use. Managers must learn to recognize impaired or intoxicated employees and those who may be addicted. Possible signs that suggest an employee may be a substance abuser includes excessive absenteeism, radical mood swings, and a decline in personal appearance. However, the existence of these indicators alone is not adequate to determine the presence or absence of *any* condition. The supervisor should never try to diagnose, make accusations, or treat such problems. The indicators provide the supervisor a basis for making a referral to a person who can help the employee, such as an employee assistance program.

FIGURE 13-2
Developing a Substance-Abuse-Free Workplace



Employees should also be educated as to the purpose and ramifications of the drug- and alcohol-free environment. The purpose of this training is to familiarize employees with the drug-free workplace program and provide general education awareness about the dangers of alcohol and drug abuse. Employees should be informed about the requirements of the organization's drug-free workplace policy, the prevalence of alcohol and drug abuse and their impact on the workplace, how to recognize the connection between poor performance and alcohol or drug abuse, the progression of the disease of alcohol and drug addiction, and what types of assistance may be available. The program should send a clear message that use of alcohol and drugs in the workplace is prohibited. Employees are encouraged to voluntarily seek help with alcohol and drug problems. It should be noted that individuals who are in recovery from a problem with alcohol or with legal or illegal drugs are protected from discrimination under the Americans with Disabilities Act.[75]

There are hundreds of substances that people abuse. These include marijuana, cocaine, amphetamines, heroin and other opiates, ecstasy, LSD, PCP, inhalants, alcohol, and steroids. The two most commonly abused drugs are marijuana and cocaine. Some signs of marijuana use include red eyes, dry mouth, slowed reaction time, increased hunger, paranoia, short-term memory loss, and a distorted sense of time. The most common signs of cocaine use are dilated pupils, increased energy, and excited speech. Some cocaine users may also experience frequent nose bleeds.[76]

Implementing a Drug-Testing Program

The third step in establishing a substance-abuse-free workplace is to implement a drug-testing program. Proponents of drug-testing programs contend that they are necessary to ensure workplace safety, security, and productivity. A drug-free workplace program should balance the rights of employees and the rights of employers, balance the need to know and rights to privacy, balance detection and rehabilitation, and balance the respect for employees and the safety of all. The difficulty is not in formulating the policy, but rather in implementing it. Also remember that the Americans with Disabilities Act protects an employee in a substance-abuse rehabilitation program.

Urine, blood, oral fluids, or hair samples are possible drug-testing methods, with most employers relying on urine testing. However, the majority regard blood tests as the forensic benchmark against which to compare others. The problem with this approach is that it is invasive and requires trained personnel for administration and analysis. The use of hair samples is unique in that drug traces will remain in the hair and will not likely diminish over time. Human hair samples are easy to collect, store, and transport, and they are difficult to change. Although urine and blood testing can detect only current drug use, advocates of hair sample analysis claim it can detect drug use from 3 days to 90 days after drug consumption. This would prohibit an applicant from compromising the test by short-term abstinence. A new method is able to detect drugs and other substances from the sweat in fingerprints, permitting mobile drug testing with immediate results.[77]

When the oral fluid method is used, the collection pad is saturated and the individual places the swab in a collection vial, snaps off the handle, seals the container, and hands it over for analysis. Oral fluid testing is especially well-suited to cases of reasonable suspicion and post-accident testing. Oral fluid is a great deterrent because it can be done immediately in the workplace and

it does not give an individual an opportunity to adulterate or substitute a urine specimen.[78] From a prospective employee's viewpoint, oral fluid and hair testing may be less embarrassing than a urine test. For example, it is humiliating for a candidate to hear, "We're really happy to have you on board. But, will you take this cup and fill it?"

The final step in obtaining a substance-abuse-free workplace is the creation of an employee assistance program.

OBJECTIVE 13.14

Describe employee assistance programs.

Employee Assistance Programs

employee assistance program (EAP)
Comprehensive approach that many organizations have taken to deal with burnout, alcohol and drug abuse, and other emotional disturbances.

The Drug-Free Workplace Act also requires federal employees and employees of firms under government contract to have access to employee assistance program services. An **employee assistance program (EAP)** is a comprehensive approach that many organizations have taken to deal with numerous problem areas such as burnout, alcohol and drug abuse, and other emotional disturbances.

As you would imagine, EAPs grew rapidly in number following that act. Returns on investment in EAPs will vary but one estimate is that a mature, well-run program will return a minimum of three dollars for every dollar spent on it. Advantages claimed for EAPs include lower absenteeism, decreases in workers' compensation claims, and fewer accidents.

Whether managed in-house or outsourced, EAPs have traditionally focused first on mental health, including substance-abuse counseling. Today, companies are aware that the advantages of an EAP extend well beyond assistance for alcohol or drug-related problems. Many have expanded to include financial and legal advice, referrals for day care and elder care, and a host of other services, including assistance with marital or family difficulties, job performance problems, stress, and grief. The recent recession caused some EAPs to move beyond mental health to serve recession-induced employee issues such as financial and legal challenges. EAPs are also being used to provide assistance with managing critical events in the workplace such as mass shooting in domestic violence cases. In an EAP, most or all of the costs (up to a predetermined amount) are borne by the employer. The EAP concept includes a response to personal psychological problems that interfere with both an employee's well-being and overall productivity. The purpose of EAPs is to provide emotionally troubled employees with the same consideration and assistance given employees with physical illnesses. Just having an EAP sends a message that the employer cares, and this can provide considerable encouragement for employees.

A primary concern with an EAP is getting employees to use the program. Some employees perceive that there is a stigma attached to *needing help*. Supervisors must receive training designed to provide specialized interpersonal skills for recognizing troubled employees and encouraging them to use the firm's EAP. Addicted employees are often experts at denial and deception, and they can fool even experienced counselors.

OBJECTIVE 13.15

Discuss health care in the global environment.

Health Care in the Global Environment

U.S.-based global operations are often safer and healthier than host-country operations, but frequently not as safe as similar operations in the United States. Safety and health laws and regulations often vary greatly from country to country. Such laws can range from virtually nonexistent to as stringent as those in the United States. For example, Abu Dhabi has compulsory coverage for expatriates and requires a full refund for maternity costs and coverage for chronic conditions.[79] In Switzerland, the rules vary between districts. Some require the expatriate to buy medical insurance from an organization in that district. The Dutch require any person who resides in the Netherlands to hold a health insurance policy that meets certain requirements, including pre-existing and chronic conditions.[80] Australia requires that all non-Australian citizens coming from countries without reciprocal health care agreements must provide a new proof of insurance. This affects all countries except for Finland, Ireland, Italy, Malta, the Netherlands, Belgium, New Zealand, Norway, Sweden, and the United Kingdom.[81]

Health care facilities across the globe vary greatly in their state of modernization. The vast majority of health care in developing world countries do not have acceptable systems for drinking water, sewage treatment, or reliable power.[82] If expatriates are assigned to these more remote or less-developed areas, companies should be aware that in many medical facilities needles are often reused, equipment is not properly used, and there is a lack of basic medical supplies.

Health care coverage in the United States, Australia, United Kingdom, and Western Europe is generally well established. But a growing number of expatriates are being sent to emerging markets, including Central and Eastern Europe, the Far East, and Africa. Expatriates going to these countries expect to be supported with health-care benefits such as private medical insurance, life insurance, and evacuation and repatriation coverage in the event of a medical emergency. Medical evacuation can be an essential benefit for overseas workers, particularly if they are in a location that may not offer the same level of medical treatment they would receive in their home country. For example, staff working in Southeast Asia may have to be transported to Singapore or Hong Kong for adequate treatment.[83] Firms that are sending people to work in places where standards of local health care and medical treatment are uncertain need to provide sufficient insurance coverage.

Summary

1. ***Explain the nature and role of safety, health, and wellness.*** *Safety* involves protecting employees from injuries as a result of work-related accidents. *Health* refers to the employees' freedom from physical or emotional illness. *Wellness* programs are designed to promote the mental and physical well-being of employees and family members.
2. ***Describe the role of the Occupational Safety and Health Administration (OSHA).*** The role of OSHA is to ensure a safe and healthful workplace for every U.S. worker.
3. ***Discuss whistle-blower protection under OSHA.*** Within the Department of Labor, OSHA enforces the whistle-blower protection provisions of 21 statutes, covering not just workplace safety but also the environment, consumer products, the financial system, and other areas.
4. ***Explain the issues of safety unique to small businesses.*** Small businesses are not exempt from the mandate to provide a safe and healthful work environment. OSHA provides online resources and free consulting assistance to help small businesses comply with OSHA requirements.
5. ***Summarize the economic impact of safety.*** Job-related deaths and injuries of all types extract a high toll not only in human misery, but also in economic loss. The significant financial costs are often passed along to the consumer in the form of higher prices. Thus, job-related deaths and injuries affect everyone, directly or indirectly. Safety risks can be significant for employers. In addition to workers' compensation costs, OSHA can levy major fines.
6. ***Explain the focus of safety programs.*** Safety programs may be designed to accomplish their purposes in two primary ways. The first approach is to create a psychological environment and attitude that promote safety. The second approach to safety program design is to develop and maintain a safe physical working environment.
7. ***Describe the consequences of musculoskeletal disorders.*** *Musculoskeletal disorders (MSDs)* are conditions that affect the body's muscles, joints, tendons, ligaments, and nerves. Work-related MSDs, including tendonitis, carpal tunnel syndrome, and back pain, cost U.S. businesses billions of dollars annually just to cover the lost productivity costs associated with these ailments. A major musculoskeletal disorder is *carpal tunnel syndrome (CTS)* caused by pressure on the median nerve that occurs as a result of a narrowing of the passageway that houses the nerve.
8. ***Explain the meaning of ergonomics.*** *Ergonomics* is the study of human interaction with tasks, equipment, tools, and the physical environment. Through ergonomics, the goal is to fit the machine and work environment to the person, rather than require the person to make the adjustment.
9. ***Summarize the problems associated with workplace bullying and violence.*** *Workplace bullying* includes acts of continual hostile conduct that deliberately hurt another person emotionally, verbally, or physically. Companies have expanded the definition of workplace violence to include bullying because they recognize that it is common, costly, and a possible forerunner to acts of physical violence.

   OSHA defines *workplace violence* as physical assault, threatening behavior, verbal abuse, hostility, or harassment directed toward employees at work or on duty. Workplace violence affects more than two million workers each year.

   Spillover from domestic violence is a threat to both women and their companies. Domestic violence has become an epidemic in this country.
10. ***Describe the purposes of wellness programs and explain social networking and wellness.*** Wellness programs are becoming more widespread as more employers become

conscious of the impact employee health has on performance. Today, the prevailing opinion is that optimal health can generally be achieved through environmental safety, organizational changes, and changed lifestyles.

Employers increasingly are adopting social networking to strengthen the success of their wellness programs. If used effectively and thoughtfully, these strategies have the potential to create high participation rates, long-term engagement, sustainable behavior change, and significant health outcomes for employee populations.

11. ***Define stress, explain the consequences of stress, including identifying stressful jobs, and explain burnout.*** *Stress* is the body's nonspecific reaction to any demand made on it. Stress may be coped with through numerous means.

Although everyone lives under a certain amount of stress, if it is severe enough and persists long enough, it can be harmful. In fact, stress can be as disruptive to an individual as any accident. It can result in poor attendance, excessive use of alcohol or other drugs, poor job performance, or even overall poor health.

The National Institute for Occupational Safety and Health has studied stress as it relates to work and found that some jobs are generally perceived as being more stressful than other jobs. The common factor among these jobs is lack of employee control over work.

Burnout, although rarely fatal, is an incapacitating condition in which individuals lose a sense of the basic purpose and fulfillment of their work.

12. ***Describe the importance of physical fitness programs.*** Many U.S. business firms have exercise programs designed to help keep their workers physically fit. These programs often reduce absenteeism, accidents, and sick pay.

13. ***Explain substance abuse, describe substance-abuse-free workplaces, and describe how to implement a drug-testing program.*** *Substance abuse* involves the use of illegal substances or the misuse of controlled substances such as alcohol and drugs. The Drug-Free Workplace Act of 1988 requires some federal contractors and all federal grantees to agree that they will provide drug-free workplaces as a condition of receiving a contract or grant from a federal agency.

The first step for establishing a substance-abuse-free workplace is to establish a drug- and alcohol-free policy. The second step is to provide education and training for supervisors and workers. The third step in establishing a substance-abuse-free workplace is to implement a drug-testing program. The final step in obtaining a substance-abuse-free workplace is the creation of an employee assistance program.

14. ***Describe employee assistance programs.*** An *employee assistance program* is a comprehensive approach that many organizations develop to deal with marital or family problems; job performance problems; stress, emotional, or mental health issues; financial troubles; alcohol and drug abuse; and grief.

15. ***Discuss health care in the global environment.*** U.S.-based global operations are often safer and healthier than host-country operations, but frequently not as safe as similar operations in the United States. Safety and health laws and regulations often vary greatly from country to country. Such laws can range from virtually nonexistent to as stringent as those in the United States.

Key Terms

safety 361
health 361
general duty clause 362
job hazard analysis (JHA) 367
musculoskeletal disorders (MSDs) 369
carpal tunnel syndrome (CTS) 369
ergonomics 369
workplace bullying 370
workplace violence 371
negligent retention 372
stress 375
burnout 376
substance abuse 378
alcoholism 378
employee assistance program (EAP) 381

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Exercises

13-1. Calculate the OSHA injury frequency rate, using the following data:
Total Working Hours: 1,500,000; three injured

13-2. How stressful do you consider the following jobs? Explain your answer.
a. commercial real estate agent
b. loan officer
c. interpreter
d. public relations officer

Questions for Review

13-3. Define *safety* and *health.*

13-4. Some of the reasons for top management's support of a safety program are lost productivity and the possibility of fines or imprisonment. Explain why.

13-5. What relationship does OSHA have with small businesses?

13-6. What are the primary ways in which safety programs are designed? Discuss.

13-7. What is the purpose of job hazard analysis?

13-8. What are the key components of a successful job hazard analysis (JHA) program?

13-9. How can employers help in preventing their employees from developing carpal tunnel syndrome?

13-10. Define *workplace bullying.* What are the basic forms of workplace bullying?

13-11. What effect does workplace and domestic violence have on an organization?

13-12. Instead of trying to screen out violent people, some firms are trying the alternative approach of detecting violent employees. Explain this approach.

13-13. Define *stress*. Why should a firm attempt to identify stressful jobs?

13-14. Why are firms adopting social networking to strengthen the success of their wellness programs?

13-15. Why might physical fitness programs be established in organizations?

13-16. Give some examples of how safety and health laws and regulations vary from country to country.

13-17. What are the steps for establishing a substance-abuse-free workplace?

13-18. What is an employee assistance program?

INCIDENT 1 What a Change!

"Just leave me alone and let me do my job," said Manuel Gomez. Dumbfounded, Bill Brown, Manuel's supervisor, decided to count to 10 and did not respond to Manuel's comment. As he walked back to his office, Bill thought about how Manuel had changed over the past few months. He had been a hard worker and extremely cooperative when he started working for Bill two years before. The company had sent Manuel to two training schools and had received glowing reports about his performance in each of them.

Until about a year ago, Manuel had a perfect attendance record and was an ideal employee. At about that time, however, he began to have personal problems, which resulted in a divorce six months later. Manuel had several times requested a day off to take care of personal business. Bill attempted to help in every way he could without getting directly involved in Manuel's personal affairs. But Bill was aware of the strain Manuel must have experienced as his marriage broke up, and he and his wife engaged in the inevitable disputes over child custody, alimony payments, and property.

During the same time period, top management initiated a push for improving productivity. Bill found it necessary to put additional pressure on all his workers, including Manuel. He tried to be considerate, but he had to become much more performance-oriented, insisting on increased output from every worker. As time went on, Manuel began to show up late for work, and actually missed two days without calling Bill in advance. Bill attributed Manuel's behavior to extreme stress. Because Manuel had been such a good worker for so long, Bill excused the tardiness and absences, only gently suggesting that Manuel should try to do better.

Sitting at his desk, Bill thought about what might have caused Manuel's outburst a few minutes previously. Bill had suggested to Manuel that he shut down the machine he was operating and clean up the surrounding area. This was a normal part of Manuel's job and something he had been careful to do in the past. Bill felt the disorder around Manuel's machine might account for the increasing number of defects in the parts he was making. "This is a tough one. I think I'll talk to the boss about it," thought Bill.

Questions

13-19. What do you think is likely to be Manuel's problem? Discuss.

13-20. Might a substance-free workplace be appropriate for Bill Brown's company? If so, what would be the steps in establishing such a workplace?

13-21. How might use of an employee assistance program help in this situation?

INCIDENT 2 A Commitment to Safety?

Wanda Zackery was extremely excited a year ago when she joined Landon Electronics as its first safety engineer. She had graduated from Florida State University with a degree in electrical engineering and had a strong desire to enter business. Wanda had selected her job at Landon Electronics over several other offers. She believed that it would provide her with a broad range of experiences that she could not receive in a strictly engineering job. Also, when the company president, Martha Lincoln, interviewed her, she promised her that the firm's resources would be at her disposal to correct any safety-related problems.

Her first few months at Landon were hectic but exciting. She immediately identified numerous safety problems. One of the most dangerous involved a failure to install safety guards on all exposed equipment. Wanda carefully prepared her proposal, including expected costs, to make needed minimum changes. She estimated that it would take approximately $50,000 to complete the necessary conversions. Wanda then presented the entire package to Ms. Lincoln. She explained the need for the changes to her, and Ms. Lincoln cordially received her presentation. She said that she would like to think it over and get back to her.

But that was six months ago! Every time Wanda attempted to get some action on her proposal, Ms. Lincoln was friendly but still wanted some more time to consider it. In the meantime, Wanda had become increasingly anxious. Recently, a worker had barely avoided a serious injury. Some workers had also become concerned. She heard through the grapevine that someone had telephoned the regional office of OSHA.

Her suspicions were confirmed the very next week when an OSHA inspector appeared at the plant. No previous visits had ever been made to the company. Although Ms. Lincoln was not overjoyed, she permitted the inspector access to the company. Later, she might have wished that she had not been so cooperative. Before the inspector left, he wrote violations for each piece of equipment that did not have the necessary safety guards. The fines could total $70,000 if the problems were not corrected right away. The inspector cautioned that repeat violations could cost $700,000 and possible imprisonment.

As the inspector was leaving, Wanda received a phone call. "Wanda, this is Ms. Lincoln. Get up to my office right now. We need to get your project under way."

Questions

13-22. Discuss Ms. Lincoln's level of commitment to occupational safety.

13-23. Is there a necessary trade-off between Landon's need for low expenses and the workers' need for safe working conditions? Explain.

13-24. Safety programs may accomplish their purposes in two primary ways: one focusing on *unsafe employee actions* and the other on *unsafe working conditions.* Which areas of Wanda's proposal was she directing her efforts? Discuss.

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13-25. What are the purposes of wellness programs?

13-26. Why should a firm be concerned with employee burnout?

Endnotes

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Part Six

Operating in a Global Environment

Chapter 14

Global Human Resource Management



14 Global Human Resource Management

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

1. Discuss the evolution of global business.
2. Explain global human resource management.
3. Discuss the factors that set the stage for global HR practice.
4. Summarize global staffing practices.
5. Describe global performance management and human resource development practices.
6. Discuss global compensation practices.
7. Identify global safety and health issues.
8. Describe global employee and labor relations practices.
9. Discuss globalization issues for small to medium-sized businesses.

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The current state of globalization has resulted in a high level of interconnections between the economies of various parts of the world. U.S. employers will increasingly conduct business with entities in a variety of other countries as former underdeveloped parts of the world experience tremendous economic, trade, and standard of living growth. In addition, the move from traditional manufacturing to knowledge- and service-based employment also means that jobs as well as markets are more likely to be dispersed geographically. As the need for employers to interact globally increases, human resources (HR) management professionals are going to have increased opportunities to develop programs for U.S. employees in foreign assignments, as well as for indigenous employees in foreign offices of the parent company. In this chapter, we provide a glimpse of HR practices around the world.

OBJECTIVE **14.1**

Discuss the evolution of global business.

Evolution of Global Business

The environment confronted by businesses today is so vastly different from doing business in one or two countries of only a few decades ago. The world is becoming more of a multinational community in which the interdependencies between countries and between organizations are increasing dramatically. It is now one large marketplace consisting of more than 7.1 billion people speaking 6,700 languages, with thousands of governments all having different regulations and tax requirements. There are more than 900,000 organizations. The top 100 companies generate more than $13 trillion.[1] In fact, only 5 percent of the total amount of consumers worldwide resides in the United States.[2]

An indicator of the magnitude of the global economy is the gross domestic product (GDP), which describes the size of a country's economy. Size is expressed as the market value of all final goods and services produced within the country over a specified period. GDP figures are reported at each nation's GDP at purchasing power parity (PPP) exchange rates. That is, these figures indicate the sum value of all goods and services produced in the country valued at prices prevailing in the United States. This is the measure most economists prefer when looking at per capita welfare and when comparing living conditions or use of resources across countries. The five largest GDPs total more than $45 trillion: United States, $17.5 trillion; China, $14.6 trillion; India, $5.4 trillion; Japan, $4.8 trillion; and Germany, $3.3 trillion.[3]

With globalization, everybody in the organization, and especially in the HR department, has had to change focus, change attitude, and adjust the approach in the way an organization



operates. Not long ago, General Electric was "American," and Sony was "Japanese," but today these companies are truly global. Years ago, a lot of U.S. multinational corporations had operations in Canada or perhaps Mexico, but not in many other countries. Now, U.S. firms such as Coca-Cola, Procter & Gamble, and Texas Instruments do most of their business and employ most of their workers outside the United States. Countless products of U.S. companies are made outside the country. Many non-U.S. companies make products here, such as Toyota American, which manufactures cars in Kentucky. Companies still regularly do business in Canada and Mexico, but many now have operations in Hong Kong, Singapore, Japan, the United Kingdom, France, Germany, and Southeast Asia, to name a few. More and more U.S. global corporations are doing business in former Eastern Bloc countries. Vietnam, a country with which the United States was at war throughout the 1960s until the mid-1970s, now has U.S. firms operating there. Stewart McCardle, vice-president of global financial services for Weichert Relocation Resources Inc., said, "U.S. companies are placing employees throughout Africa, the Middle East and Eastern Europe. In South America, it's not just Brazil or Argentina, but also Chile and Colombia."[4]

Today, globalization is not limited to only large organizations. It is now important for both large and small firms. Going global can provide a company with an assortment of rewards. The major benefit is that having a global customer base provides some protection against domestic business cycles. Companies that export tend to be more profitable, better organized, and more competitive than companies that are exclusively domestically focused.

Most companies initially become global without making substantial investments in foreign countries by exporting, licensing, or franchising. Ultimately, they may become a multinational or global corporation.

Exporting

exporting
Selling abroad, either directly or indirectly, by retaining foreign agents and distributors.

Exporting entails selling abroad, either directly or indirectly, by retaining foreign agents and distributors. It is a way that many small businesses enter the global market. When deciding to enter the global arena, exporters need to identify and understand their target markets. Companies must determine whether the market or country needs their products or services, whether there are any import tariffs or quotas, and the local pricing structures. Also, exporters have to understand and manage other countries' cultures and governmental policies.[5]

Licensing

licensing
Arrangement whereby an organization grants a foreign firm the right to use intellectual properties such as patents, copyrights, manufacturing processes, or trade names for a specific period of time.

Licensing is an arrangement whereby an organization grants a foreign firm the right to use intellectual properties such as patents, copyrights, or trade names for a specific period of time. The use of a licensing arrangement is expanding in emerging markets. For example, 7-Eleven has granted licenses to use its trademark in Indonesia.

Franchising

franchising
Option whereby the parent company grants another firm the right to do business in a prescribed manner.

Franchising is an option whereby the parent company grants another firm the right to do business in a prescribed manner. For example, Subway shops must follow marketing procedures established by the headquarters. Franchising arrangements involve integration of operations with trademark usage. The growth of franchising in the world is phenomenal. Franchisees must follow stricter operational guidelines than licensees. Fifteen years ago, only giants such as McDonalds were meaningfully engaged in international franchising, but now international expansion has become a popular choice for many small U.S. franchises.[6] The internalization of franchising has become a noteworthy trend.[7] More than 400 U.S. franchises operate internationally. High demand U.S. franchise categories include food and beverage, health and beauty, wellness and fitness, professional services, education, apparel/textile, and retail.[8] KFC saw the benefit of being an early entrant into China and has more than 3,000 KFCs located throughout China, making Yum! Brands the largest U.S. franchisor in that country.[9] Yum! Brands, also the parent company of Pizza Hut and Taco Bell, closed more U.S. units than it opened, whereas it expanded by 14 percent outside the United States.[10] Naked Pizza of New Orleans recently opened its N K D Pizza in Dubai, United Arab Emirates.[11]

In determining whether international franchising is justified, the company must evaluate the amount of time, effort, risk, and legal proceedings related to selling a franchise internationally. It also must determine whether the product is valued in the targeted country. Also, the unique

culture of the country should be a part of the decision-making process. Most franchise companies have to bend and change to the cultural experiences of each individual country. Many countries such as Australia, Brazil, China, France, Indonesia, Italy, Japan, Malaysia, Mexico, Russia, South Korea, Spain, and Venezuela have their own specific regulations.[12] Most U.S. companies rely heavily on contractual relationships; however, in many other countries, people conduct business based on relationships first rather than relying on a contract. For example, in countries such as Singapore, Australia, and the United Kingdom, it is best to focus on the specifics of the contract and provide detailed information when negotiating with prospects or their attorneys. In most Latin American countries, the Middle East, and China, it is important to first build a solid relationship with the investor.[13]

Multinational Corporation

multinational corporation (MNC)
Firm that is based in one country (the parent or home country) and produces goods or provides services in one or more foreign countries (host countries).

Companies can vary greatly in their degree of global involvement. A **multinational corporation (MNC)** is a firm that is based in one country (the parent or home country) and produces goods or provides services in one or more foreign countries (host countries). An MNC directs manufacturing and marketing operations in several countries; these operations are coordinated by a parent company, usually based in the firm's home country. For example, General Motors is a U.S. corporation, headquartered in Detroit, Michigan, with manufacturing plants located in the United States, China, Mexico, and South Korea. Volkswagen is a German corporation, headquartered in Wolfsburg, Germany, with manufacturing facilities in many other countries, including the United States.

Global Corporation

global corporation
Organization that has corporate units in a number of countries that are integrated to operate as one organization worldwide.

A **global corporation** is an organization that has corporate units in a number of countries that are integrated to operate as one organization worldwide. The global corporation operates as if the entire world were one entity. Global corporations sell essentially the same products throughout the world with components that may be made or designed in different countries. Expectations are that as the world becomes more globally open, the globalization of corporations will become much more commonplace. Not many years ago, Procter & Gamble was primarily a U.S. business investing heavily in food brands. Now it is a truly global corporation with more than 300 brands in more than 180 countries crossing the Americas, Europe, the Middle East and Africa, and Asia.[14] Its corporate leaders are an extremely diverse group, representing many cultures and backgrounds. Another global company, Johnson & Johnson has in 250 businesses in 60 countries.[15]

CH2MHILL is a global engineering company that oversees complex projects around the world, including the expansion of the Panama Canal. As the Watch It Video indicates, company leadership carefully anticipates and studies contextual factors that impact how business should be practiced in diverse cultural settings.

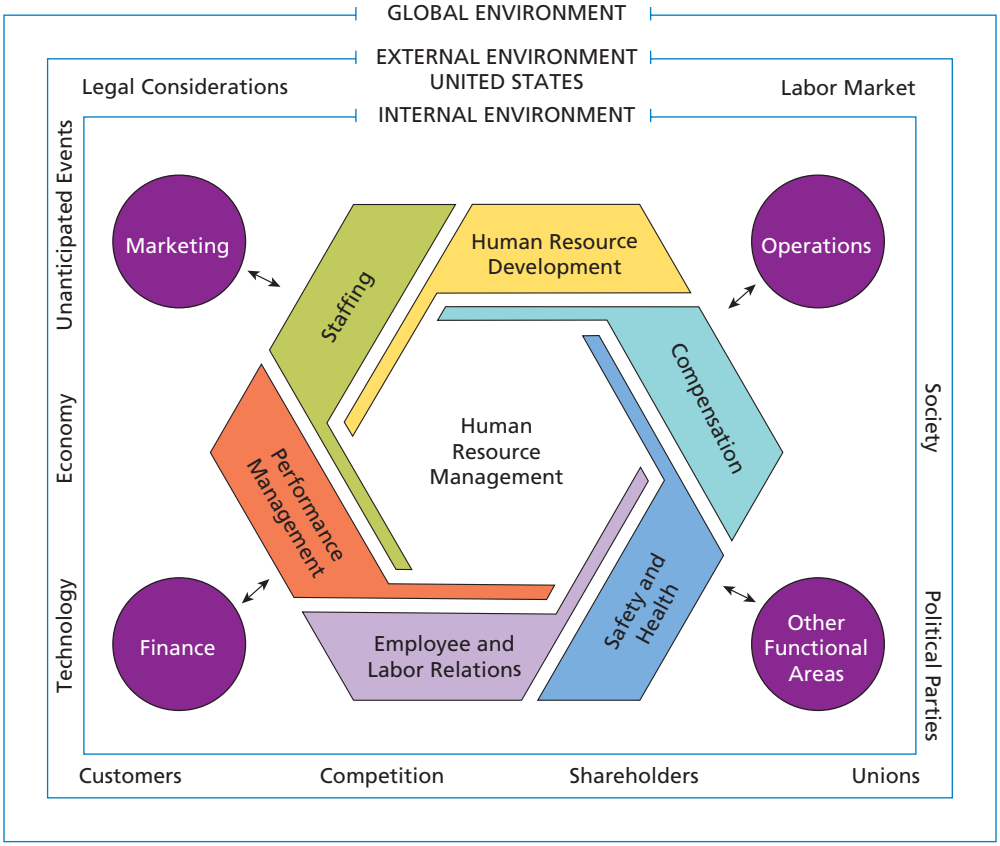
Watch It 1
If your professor has assigned this, sign into **mymanagementlab.com** to watch a video titled CH2MHILL: Management in the Global Environment and to respond to questions.

OBJECTIVE **14.2**
Explain global human resource management.

Global Strategic Human Resource Management

The world is experiencing an increasing global workforce. Global HR problems and opportunities are enormous and are expanding. Individuals dealing with global HR matters face a multitude of challenges beyond that of their domestic counterparts. These considerations range from cultural to political barriers to demographic considerations in the workforce and international aspects such as compensation. Before upper management decides on a global move, it is vitally important that the critical nature of HR issues be considered. Companies that engage in the global economy place even greater emphasis on strategic HR. The functional areas associated with effective global HR management are similar to the ones they experience domestically, as shown in Figure 14-1. Although the six functions are the same, the global external environmental

FIGURE 14-1
Environment of Global Human Resources Management



factors may significantly impact the manner in which they are implemented. Sound global HR management practices are required for successful performance in each area. As with domestic HR, the functional areas are not separate and distinct, but are highly interrelated. We will discuss the functional areas after giving some consideration to the setting in which global HR happens.

OBJECTIVE **14.3**
Discuss the factors that set the stage for global HR practice.

Setting the Stage for Global HR Practice

HR practice in the United States is influenced by many factors that we have highlighted at various points throughout the previous chapters. These factors include country political and economic structure, the legal system, national cultural norms, and characteristics of the labor force. When practicing HR within any one country, these factors are relatively constant. For example, the United States has many worker protections such as antidiscrimination laws. Global HR practitioners require, at minimum, an appreciation of the variation in these five factors to understand how to best structure and implement the six HR functions that we revisit later in the chapter.

Country Politics and Economic Structure

A country's political system and its economic structure are highly related. In this section, we consider the United States and China given the substantial size of their economies and their prominence in global business. The United States political system is based on democracy. Democratic governments are formed by participation of all eligible citizens through voting directly on issues (for example, election of the U.S. president) or indirectly through elected representatives (for example, members of Congress and the Senate). Two political parties dominate the composition of government. The Democratic and Republican parties are the two major political parties in the United States. These parties often have differing opinions on how HR management should be accomplished. For example, Democrats tend to favor government regulation that protects the rights of employees, for instance, the Fair Labor Standards Act. Republicans, on the other hand, tend not to favor government regulation, believing that businesses should have as much flexibility as possible to operate successfully. For example, many in the Republican Party feel that the Patient Protection and Affordable Care Act

should be dismantled for many reasons, including the cost burden that employers must provide health insurance that meet minimum standards or pay a significant penalty for employees. The U.S. economy is based on the idea of *capitalism*. Under capitalism, the government does not possess ownership of all land, businesses, or natural resources. This economic system relies on market forces in which supply and demand for products, services, and labor determine monetary value. For example, in Chapter 9, we discussed how supply and demand influences pay rates.

China's political system is based on *communism*. Communism is set on the principle of community ownership. That is, all property, businesses, and natural resources are community owned, but these items are controlled by the single political party (Communist Party). Also, in communist societies, the government provides basic necessities based on need. In principle, citizens elect individuals to serve in the Communist Party, but that is rarely the case. In recent decades, China's economy has become more diverse. While maintaining communist control, economic growth has been fueled by market forces and capitalism. As a result, a growing segment of the population has gained considerable wealth and is adopting similar lifestyles as in the United States that is based on income and wealth. Still, one of the key challenges for the government has been to sustain adequate job growth for tens of millions of workers laid off from state-owned enterprises, migrants, and new entrants to the workforce.

Legal System

The growing complexity of legal compliance in the global environment is one of the most important trends affecting global business. Managers working for global businesses contend with a growing tide of employment legislation that cuts across national boundaries. Legal and political forces are unique to each country, and sometimes, the laws of one contradict those of another. For instance, the French authorities acknowledge that their data-protection laws are in direct conflict with the U.S. Sarbanes–Oxley Act, but they insist that multinationals comply with French law. Further, the nature and stability of political and legal systems vary across the globe. U.S. firms enjoy relatively stable legal and political systems, and the same is true in many of the developed countries. In other nations, however, the legal and political systems are much less stable. Some governments are subject to coups, dictatorial rule, and corruption, which can substantially alter both the business and legal environments. Legal systems can also become unstable, with contracts suddenly becoming unenforceable because of internal politics.

HR regulations and laws vary greatly among countries. In the United States, United Kingdom, and Canada, the list of hiring standards to avoid is quite lengthy and precise. In India, it is legal for an advertisement for an Indian airline flight attendant to read: "18–27 years old, different height minimums for males and females, status unmarried, unblemished complexion and good eyesight."[16] As previously mentioned, merely conducting a background check is different from one country to another. In many Western European countries, laws on labor unions and employment make it difficult to lay off employees. Because of political and legal differences, it is essential that a comprehensive review of the political and legal environment of the host country is conducted before beginning global operations.

Some have asked the question, "Does operating under local laws and customs free a company of all ethical considerations?" Google certainly understands the problems that can occur when attempting to go global. To do business in China, Google had to submit its search results to government censorship, which was an undesirable concession. Still, company leaders felt the benefits to the Chinese people would exceed the evils of the censored results and went ahead with it. But after repeated squabbling with the Chinese government and evidence of hacking into the Gmail accounts of dissidents in late 2009 and in March 2010, Google removed its search engine from China.[17] Each company will have to evaluate what it would do in instances such as Google encountered.

Americans may encounter laws that are routinely ignored by host countries, creating somewhat of a dilemma. For example, the laws in some countries that require a minimum age for factory workers are often not enforced. The U.S. Department of Labor report revealed continued child labor abuses in the apparel and textile industries.

National Cultural Norms

cultural values
The norms for behaviors and beliefs.

Cultural differences create challenges for managing HR. **Cultural values** pertain to the norms for behaviors and beliefs. Throughout the book, we discussed corporate culture, which is largely shaped by top management. In this case, national culture is steeped in a country's history, and

we can describe it based on a society's social traditions, political and economic philosophy, and legal system. More recently, researchers and practitioners have tried to understand how cultural values influence workplace practices. We often rely on six categories to describe national culture.[18] These include power distance, individualism/collectivism, masculine/feminine, uncertainty avoidance, pragmatism/normative, and indulgence/restraint. We focus on the first three because those dimensions are among the most widely discussed in the global HR context.

Power distance describes the extent to which power is unequally distributed. High power distance cultures reinforce hierarchical control, and members generally do not expect justification for the actions taken by those in power. Low power distance cultures embrace greater equality and justification for actions, particularly where actions create a disadvantage to an individual or group. Germany is well known for a culture that rates low in power distance whereas the United Arab Emirates is culture that strongly captures a high power distance orientation.

Individualism refers to the extent to which an individual focuses on his or her own welfare relative to others. Collectivism describes a concern for the welfare of the larger group such as family, coworkers, or other groups. The United States and Canada are highly individualistic cultures, whereas Chile, China, and Mexico value collectivistic norms.

Masculine cultures place high value on achievement, material award, and assertiveness. Feminine cultures espouse cooperation, modesty, and quality of life. Japan is an example of a highly masculine culture, whereas Norway and Finland embody the values of a feminine culture.

The Watch It video provides additional perspective on China's culture. History and religion play an important role in shaping culture. In addition, cultural character influences how to conduct business.

Watch It 2

If your professor has assigned this, sign into **mymanagementlab.com** to watch a video titled Impact of Culture on Business: Spotlight on China and to respond to questions.

Labor Force Characteristics and Dynamics

As in the United States, the characteristics of the labor force worldwide holds implications for global HR practice. For example, China's work force is aging dramatically, much like in the United States.[19] However, the Chinese government's one-child policy has left a substantial gap in younger generations; thus, a shrinking labor pool. For decades, the Chinese government imposed a policy in which couples were allowed to have up to one child. Recently, the government has begun to relax this policy by allowing some couples to have as many as two children. For entirely different reasons, Japan is facing a similar labor shortage because of cultural values that increasingly disfavor romantic relationships.[20] Economic growth in India has been affected by the widespread return of unskilled factory workers from large cities to rural farming locations.[21] Low wages, high costs, and significant rates of inflation have made it difficult for those individuals to meet basic financial obligations. Government policies that provide substantial subsidies to residents create an attractive alternative. Factories struggle to maintain or expand production given the impracticalities of city life.

Educational attainment is an important consideration. A McKinsey Global Institute report warns that many countries throughout the world are facing a labor shortage of highly skilled workers that will continue for years to come.[22] The report indicates that gaps between labor supply and demand for labor will increase between 3 percent and 11 percent based on country. At the same time, low-skilled workers will far exceed the demand for their services. Inadequate primary educational systems in many countries are a major contributor to these trends.

The role of gender plays a significant role in influencing employment. The global assignment of women and members of racial and ethnic minorities can involve cultural and legal issues. Regrettably, female talent is underused in emerging countries. This may be partly explained by family-related constraints and pressures, as well as work-related issues that combine to force women to either settle for dead-end jobs or leave the workforce. For example, in Saudi Arabia, women are not permitted to drive.[23] In China, there is a social stigma attached to women who use professional help or who place their parents in assisted-living facilities. Often, global careers are affected when a worker decides to

return to China to take care of her family. In the United Arab Emirates, a single woman cannot board a plane or stay in a hotel unless a male relative is willing to accompany her. In many emerging markets, workplace bias seems to escalate for young mothers. In India, a woman returning from a global assignment often is given less-challenging roles or projects or receives lower performance ratings.[24]

There are also some positive trends that have emerged regarding women working the global environment. According to a recent study, nearly three million female university graduates enter the Chinese workforce each year. Of the total Graduate Management Admission Test applicants, 40 percent are male and 60 percent are female. The study also discovered that 76 percent of Chinese women aspire to top-level positions compared to only 52 percent in the United States.[25]

Economic growth in the BRIC countries of Brazil, Russia, India, and China and in the United Arab Emirates far outpaces growth in developed nations. Women are rapidly moving into the management ranks. In 2009, women accounted for about 40 percent of the Brazilian labor force, but held 45 percent of managerial jobs and 30 percent of executive positions. China has the highest female labor-force participation rate of all BRIC nations, with 75 percent of women ages 15 to 65 in the workforce. Ninety-one percent of Chinese companies have senior female leaders, and women hold 32 percent of all senior management positions. But these women also confront problems of gender bias, significant elder care responsibilities, and long workweeks.[26]

We now turn our attention to the six functional HR functional areas in a global context: staffing, human resources development (training), performance management, compensation, safety and health, and employee and labor relations.

OBJECTIVE 14.4

Summarize global staffing practices.

Global Staffing

Companies must choose from various types of global staff members and may use specific approaches to global staffing. Global staff members may be selected from among three different types: expatriates, host-country nationals, and third-country nationals.

Expatriate

expatriate
Employee who is not a citizen of the country in which a firm's operations are located but is a citizen of the country in which the organization is headquartered.

An **expatriate** is an employee who is not a citizen of the country in which the firm operations are located but is a citizen of the country in which the organization is headquartered. The U.S. expatriate population has grown rapidly because of the large numbers of workers who are being sent to China and India. An example of an expatriate is a U.S. citizen who is employed by General Electric (headquartered in the United States) and is assigned to a position in Italy.

Host-Country National

host-country national (HCN)
Employee who is a citizen of the country where the subsidiary is located.

A **host-country national (HCN)** is an employee who is a citizen of the country where the subsidiary is located. An example would be a U.S. citizen working for a Japanese company in the United States. Normally, the bulk of employees in international businesses will be HCNs. Companies that are staffed by locals not only are typically less expensive but also offer advantages from a cultural and business standpoint. In most industries, HCNs comprise more than 98 percent of the workforce in the foreign operations of North American and Western European MNCs. Halliburton is a leading energy services company headquartered in the United States with 75,000 employees working in 80 countries, representing 140 nationalities.[27] Halliburton's workforce, including managers, is overwhelmingly made up of citizens of the host country.[28] Hiring local people and operating the company like local companies whenever possible is good business. The ultimate goal of most foreign operations is to turn over control to local management.

Third-Country National

third-country national (TCN)
Citizen of one country, working in a second country, and employed by an organization headquartered in a third country.

A **third-country national (TCN)** is a citizen of one country, working in a second country, and employed by an organization headquartered in a third country. An example would be an Italian citizen working for a French company in Germany.

Approaches to Global Staffing

Using the three basic types of global staff, there are four major approaches to global staffing: ethnocentric, polycentric, regiocentric, and geocentric staffing. These approaches reflect how the organization develops its HR policies and the preferred types of employees for different positions.

ethnocentric staffing
Staffing approach in which companies primarily hire expatriates to staff higher-level foreign positions.

ETHNOCENTRIC STAFFING With **ethnocentric staffing**, companies primarily hire expatriates to staff higher-level foreign positions. This would be the case with Rich Products Corporation, based in Buffalo, New York, with $3.3 billion in annual sales. Rich sells food products in 112 countries and employs 9,000 workers worldwide.[29] Judy Campbell, vice-president, international HR, said, "Our strategy has always been to focus on local talent development. We have never had more than six expats in any of our international locations."[30] This strategy assumes that home-office perspectives and issues should take precedence over local perspectives and issues and that expatriates will be more effective in representing the views of the home office. The corporate HR department is primarily concerned with selecting and training managers for foreign assignments, developing appropriate compensation packages, and handling adjustment issues when managers return home. Generally, expatriates are used to ensure that foreign operations are linked effectively with parent corporations.

polycentric staffing
Staffing approach in which host-country nationals are used throughout the organization, from top to bottom.

POLYCENTRIC STAFFING When HCNs are used throughout the organization, from top to bottom, it is referred to as **polycentric staffing**. In developed countries such as Japan, Canada, and the United Kingdom, there has been more reliance on local executives and less on traditional expatriate management. The ultimate goal of most foreign operations is to turn over control to local management. The use of the polycentric staffing model is based on the assumption that HCNs are better equipped to deal with local market conditions. Organizations that use this approach will usually have a fully functioning HR department in each foreign subsidiary responsible for managing all local HR issues. Corporate HR managers focus primarily on coordinating relevant activities with their counterparts in each foreign operation. Most global employees are usually HCNs because this helps to clearly establish that the company is making a commitment to the host country and not just setting up a foreign operation. HCNs often have much more thorough knowledge of the culture, the politics, and the laws of the locale, as well as how business is done. There is no standard format in the selection of HCNs.

regiocentric staffing
Staffing approach that is similar to the polycentric staffing approach, but regional groups of subsidiaries reflecting the organization's strategy and structure work as a unit.

REGIOCENTRIC STAFFING **Regiocentric staffing** is similar to the polycentric approach, but regional groups of subsidiaries reflecting the organization's strategy and structure work as a unit. There is some degree of autonomy in regional decision making, and promotions are possible within the region but rare from the region to headquarters. Each region develops a common set of employment practices.

geocentric staffing
Staffing approach that uses a worldwide integrated business strategy.

GEOCENTRIC STAFFING **Geocentric staffing** is a staffing approach that uses a worldwide integrated business strategy. The firm attempts to always hire the best person available for a position, regardless of where that individual comes from. The geocentric staffing model is most likely to be adopted and used by truly global firms. Usually, the corporate HR function in geocentric companies is the most complicated because every aspect of HR must be dealt with in the global environment.

Recruiting Host-Country Nationals

One of the biggest mistakes that can be made in the multinational arena is to assume that the recruiting approaches that work in the parent company will also be effective in recruiting HCNs. For example, an error that many recruiters make is believing that all countries in Europe are similar or the same. Thinking that Italy is similar to France simply because the countries are close to each other is like believing that the United States is similar to Mexico because they are neighbors in North America. The use of technology in global recruiting also varies considerably. For example, although Scandinavian companies in Norway, Sweden, and Denmark were among the first to promote Internet use for recruiting, recruiters in France, Italy, and much of southern Europe do not use it as much.[31]

Selecting Expatriates

Expatriates are often selected from those already within the organization, and the process involves four distinct stages: self-selection, creating a candidate pool, technical skills assessment, and making a mutual decision.

In stage one, self-selection, candidates determine whether they are right for a global assignment, whether their spouses and children are interested in relocating internationally, and whether this is the best time for a move. In the case of self-selection, the candidates assess themselves on

all of the relevant dimensions for a job and then decide whether to pursue a global assignment. The self-assessment extends to the entire family. One survey found that 55 percent of employees facing dual-career issues are less likely to put themselves forward as a candidate for a global assignment.[32] When candidates are selected for expatriate assignments, spouses, partners, and entire families also need to be "selected." Basically, candidates must decide whether to go to the next step in the selection process.

Stage two involves creating a candidate database organized according to the firm's staffing needs. Included in the database is information such as the year the employee is available to go overseas, the languages the employee speaks, the countries the employee prefers, and the jobs for which the employee is qualified.

Stage three involves scanning the database for all possible candidates for a given global assignment; then the list is forwarded to the assigning department. There, each candidate is assessed on technical and managerial readiness relative to the needs of the assignment. In the final stage, one person is identified as an acceptable candidate based on his or her technical or managerial readiness and is tentatively selected.

If the decision is made to employ expatriates, certain selection criteria should be carefully considered in stages two and three. It takes a special blend of person to add up to an outstanding expatriate who can be productive and accepted in an unfamiliar setting. Expatriate selection criteria should include cultural adaptability, strong communication skills, technical competence, professional or operational expertise, global experience, country-specific experience, interpersonal skills, language skills, family flexibility, and country- or region-specific considerations. However, according to one survey by Cartus, a workforce development provider, when considering employees for international assignments, 72 percent of companies chose technical competence and 65 percent chose job experience.[33]

Background Investigation

Conducting a background investigation on potential employees is especially important in the global environment. According to the HireRight study, 25 percent of global companies either conduct employee screening or have plans to start, an increase from 11 percent in 2009.[34] Conducting background investigations when working in the global environment is equally, or even more, important, but differences across cultures and countries often put up barriers. Each country has its own laws, customs, and procedures for background screenings. For instance, Japanese law covers a person working at the Tokyo office of a U.S.-based company and includes privacy statutes that prohibit criminal checks on Japanese citizens. The United Kingdom does



HR BLOOPERS

United Architect's Expatriate Problems

On the flight back from United Architect's London office, Nate Brown is trying to figure out how to handle his current challenge. As the HR Director of the multinational firm, Nate was in London to meet with an expatriate that has requested a transfer home. The architect moved to London six months ago for a three-year assignment and now she says it just isn't going to work out. The firm transferred her to London rather quickly and didn't follow their usual selection and orientation process because of the tight timeframe. The London office had just secured a new project and they needed an architect from the U.S. office to join them immediately to get the project started. The architect that was selected told Nate that her husband had some concerns about taking the assignment because he would not be able to work while in London and he is at a critical point in his career. Further, although the architect had traveled for the firm previously, she had never traveled abroad. However, she agreed to take the assignment because she thought it would be good for her career. Now she is having problems getting along with her London colleagues and reports that she just is not happy living in London. Nate also believes her husband is pressuring her to move back home as well. The project is at a critical point and Nate knows it will be extremely difficult to find a new architect for the project now.

If your professor has assigned this, go to **mymanagementlab.com** to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

not allow third parties such as background-checking firms to have direct access to criminal records held by local police. Instead, the job applicant and the recruiting organization must sign and submit a formal request to a specific agency responsible for handling criminal records. It can take up to 40 business days to get information back. HireRight, a pre-employment screening company in Irvine, California, tells the story of a person who had been in the United States for two years and had applied for a job with a multinational firm. There were no gaps in the individual's employment history that would suggest he had ever been in jail. However, further checking revealed that he had been convicted of murder in his home country and in accord with a practice that was legal at the time, had paid a proxy to serve his prison term while he remained free and in the workforce.[35]

Root Capital is a small business that invests in small agricultural businesses in Africa and South America. As described in the Watch It video, company leadership faces challenges in hiring local talent that meets its business objectives. Also, working across multiple national cultures, Root Capital faces challenges in maintaining employee cohesion across the distant locations.

Watch It 3
If your professor has assigned this, sign into **mymanagementlab.com** to watch a video titled Root Capital: Human Resource Management and Operations and to respond to questions.

OBJECTIVE **14.5**
Describe global performance management and human resource development practices.

Global Performance Management and Human Resource Development

Some training and development professionals believe that performance appraisal as well as training and development strategies that work for a U.S. audience can be equally effective abroad. Unfortunately, nothing could be further from the truth. Also, global training and development is needed because people, jobs, and organizations are often quite different. Next, various aspects of global HR development will be discussed.

Performance Management

Two major influences on the effectiveness of performance appraisal practices throughout the world are information asymmetry and cultural values.[36] *Information asymmetry* refers to a difference in the quality and amount of information available to two or more individuals or groups. For example, let's assume that a company's headquarters in the United States instructed an employee to increase the staffing of its factory in New Delhi, India, by 10 percent in 2014. The headquarters will adopt this goal as a performance criterion come time to conduct the expatriate's performance appraisal. At the end of the year, the staffing increased by only 4 percent, which leads the company headquarters to judge the expatriate's performance as negative. The expatriate has learned from immersion in his job that illiteracy or substandard pay relative to the cost of living contributed dramatically to the result. However, the corporate headquarters does not have intimate knowledge of local conditions in New Delhi and simply attributed the outcome to an ineffective expatriate.

Cultural norms influence the adoption of performance appraisal practices as well as an employee's reaction to appraisal. In China and Japan, performance feedback is uncommon because the normative practice of "saving face" is well-ingrained in those cultures. Giving negative performance feedback would cast the employee in a negative light, which is something that the Japanese and Chinese seek to avoid at all costs.

There is some evidence to suggest that performance appraisal practices performed by companies within high power distance cultures rely on the manager or supervisor as the single source of judgment.[37] Where power distance is lower, it is not unusual for companies to solicit performance information from multiple sources, including subordinates. In individualistic cultures, performance appraisal seeks to differentiate employees based on performance. In contrast, performance appraisals in collectivist cultures generally do not focus on individual performance because negative performance information could hurt the solidarity of group members.

Expatriate Human Resource Development

The training of employees going on a global assignment has often been bleak but appears to be improving. The development process should start as soon as workers are selected—definitely before they begin the global assignment. Organizations are recognizing that expatriate employees and their families face special situations and pressure that training and development activities must prepare them to deal with. Employees and their families must have an effective orientation program and a readjustment-training program. In addition, the employee must have a program of continual development. Figure 14-2 illustrates the ideal expatriate preparation and development program, which includes pre-move orientation and training, continual development, and repatriation orientation and training.

Pre-Move Orientation and Training

Pre-move orientation and training of expatriate employees and their families are essential before the global assignment begins. The pre-move orientation needs to be aggressively undertaken so that the expatriate understands cultural do's and don'ts and is immersed in the language. Obviously, providing an expatriate a cultural "dummies" guide and a basic phrasebook for speaking the language is not enough. Continuing employee development, in which the employee's global skills are fitted into career planning and corporate development programs, makes the eventual transition to the host home country less disruptive. Marc Sokol, senior vice-president at Personnel Decisions International, said, "The cost of failure is very high. If you leave it to self-study, then you're rolling the dice."[38]

Many organizations have established a formal *buddy system* to alleviate the stress new expatriates and their families normally endure and to reduce the time it takes for expatriates to operate at peak productivity. Buddies often inform expatriates of host-office norms and politics, invite them into their homes, introduce them to friends and networks, and help bolster their credibility in the office.

Continual Development: Online Assistance and Training

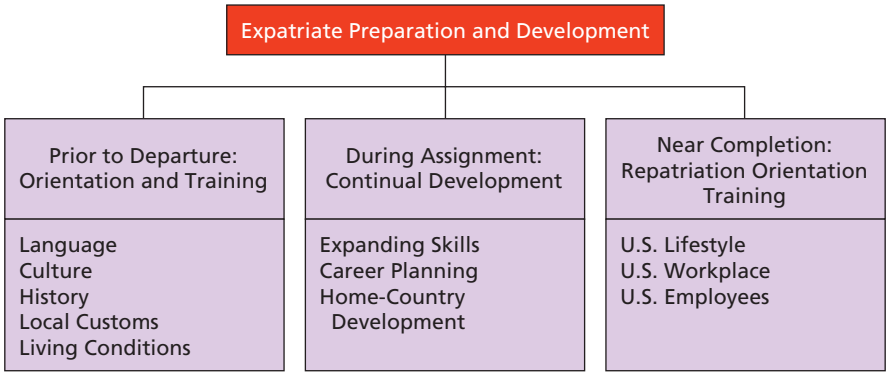
Companies now offer online assistance and training in areas such as career services, cross-cultural training, and employee assistance programs. The Internet offers global employees assistance 24 hours a day, seven days a week. Technology is a timesaving and cost-effective solution for the stress experienced by employees who are on assignment or doing business travel. With a satellite phone, individuals can communicate with one another in undeveloped countries. The distance problems from headquarters cannot be overcome without e-mail and voice mail, but for some issues Skype can be used if there is an Internet connection. Satellite phones throughout the world can also have Internet access, but the price goes up because additional hardware is required. Even if the assignment is a short-term business trip, technology can be used to provide ongoing contact and support with the home country. For example, online career services can give expatriates and their spouses the opportunity to upgrade skills while on assignment.

Repatriation Orientation and Training

repatriation
Process of bringing expatriates home.

Orientation and training are also necessary prior to **repatriation**, which is the process of bringing expatriates home. Repatriation is often the weak link in global HR management. Returning expatriates have not always had a pleasant experience. Even though a company may spend

FIGURE 14-2
The Expatriate Preparation and Development Program



considerable money in sending managers overseas, too many returning managers report dissatisfaction with the process.[39] Many companies do not specify in advance how the international experience will fit into an employee's career progression. In fact, numerous expatriates were not even guaranteed a job on their return.[40] Further, expatriates often come home to a company that has undergone significant change from such events as mergers, acquisitions, reorganizations, and workforce contraction or expansion, which can create an unfamiliar environment.[41]

International businesses spend upward of two to three times of an expatriate's base salary only to have 16 percent resign within two years of their return.[42] Reasons given for leaving include they were not being properly prepared to return to their work and were not able to use skills they learned abroad. Employers should make every effort to find a place in the organization that will use the expatriate's experience gained during the assignment. Also, the returning expatriate should be given a job with at least the same degree of responsibility and authority.

To counter the challenges of repatriation, firms need to have a formal in-house repatriation program in place. A dialogue regarding expectations and career planning on return will help to manage expectations. Also, the exchange should continue after the employee has returned home. In addition, acknowledgment and recognition of the significant overseas contribution is a courtesy that the returning employee has earned and richly deserves. Ideally, there should be a clear career path or position identified for the expatriate employee on his or her return. An effective repatriation training program should support the assignees in defining their new or strengthened skills and knowledge and instruct them on how to posture themselves in the corporate environment to which they have returned.

Global E-learning

The recent recession has made organizations more aware of the cost benefits generated by e-learning.[43] Globalization has created a special need for e-learning, and companies are embracing it to train the global workforce. In the past, a training program for a *Fortune 200* company in the Far East would likely cost between $250,000 and $500,000 for travel and related expenses. Many believe that live, instructor-led training is still more effective, but the question that must be asked is, "how much more effective?" E-learning allows companies to keep the money and still receive a good training product. The Towards Maturity 2010–2011 Benchmark Survey predicts that at least 25 percent of multinational companies are introducing mobile-device learning, online learning tools, virtual classrooms, podcasting, and social learning tools to support trainers.[44]

The most obvious deterrent to any global e-learning implementation is the failure to recognize the impact of cultural differences on the program's success.[45] Not analyzing the culture or failing to recognize important cultural differences can seriously damage success. One study found that only 25 percent of e-learning implementation plans addressed cultural differences that affect management. Cultural accessibility is required so all learners are able to achieve the same learning outcomes by putting in the same amount of effort. A problem that evolves in implementing global e-learning is that the e-learning program is embedded with the culture of the person(s) who developed the program.[46]

Research showed that 91 percent of employees of global corporations said that English is "required" or "important" in their jobs, and that the need is increasing dramatically. Eighty-nine percent of employees said they are more likely to climb the corporate ladder if they can communicate in English. Many companies offer courses only in English or in English and one other language, usually Spanish. An English-only focus works for firms that routinely conduct their business all over the world in English. But others need courses in more than one language. Companies that want to offer courses in several languages usually turn to translators. Financial services provider GE Capital relies on translation companies to offer Web-based courses in English, French, German, and Japanese.[47]

Hilton's team members are scattered the world over. In a sector that sees high turnover rates, it is also hard to imagine that a classroom trainer could keep up with the demands of hundreds of new workers requiring training. Hilton, along with many multinational companies, realized that it could save money through online courses. Hilton first introduced e-learning when the company launched its Hilton University with 60 generic business skills programs and 21 finance programs. Over the years, Hilton put in place an additional 40 business skills courses and significantly increased the number of generic online courses offered. Hilton came a long way in a short period, from 5,000 course completions after the first year to more than 40,000 completions in the third year.[48]

Virtual Teams in a Global Environment

Virtual teams are becoming commonplace in many global organizations. In today's workplace it is not surprising to have as many as 50 percent of employees working on virtual teams.[49] Intel Corporation conducted a study that revealed that approximately two-thirds of their employees collaborated with team members located at different sites and in different regions.[50] With virtual teams, team members do not have to meet face-to-face to be effective, thereby eliminating "dead time" caused by traveling. These teams operate across boundaries of time and geography and have become a necessity of everyday working life.

Virtual teams enable companies to accomplish things more quickly and efficiently. The times when virtual team members are in one place are few, especially when members are located across the globe. This often makes global teams more difficult to manage effectively. Communication is the key to keeping teams working effectively together.[51]

Some of the difficulties that virtual teams confront with regard to communication are discussed next. Without face-to-face communication, team members often do not feel as connected or committed to the team. The virtual work environment does not provide opportunities to build trust that comes from close proximity.[52] Although meeting face-to-face requires time and expense, virtual teams that invest in one or two such meetings per year perform better overall than those that do not.[53] Obviously, face-to-face communication is best for providing feedback followed by video, telephone, instant messaging, e-mail, and bulletin boards. E-mail and bulletin boards are generally best for tasks that require little collaboration such as information sharing. When teams need to solve complex problems or make decisions, technology such as videoconferencing or telepresence can be a valuable asset.[54]

Communication problems between team members appear to be directly proportional to the number of time zones that separate them. An effective virtual leader rotates the time frames when conference calls for team meetings are going to be held so that the same people are not always inconvenienced. If it is only a couple of zones, teammates will be in their offices earlier or later than one another, but their workdays still overlap enough to allow phone calls. If the distance stretches from 9 to 12 time zones, workdays do not overlap at all, and e-mail and voice mail must be used.[55] There is also the language problem to contend with. Because English is becoming the world language, those for whom English is a second language may be at a disadvantage. Many Asians are concerned with saving face if they do not understand something. They may be hesitant to ask questions that would reveal their ignorance, thus widening the communication gap. On the other hand, those who are fluent only in English may be at a disadvantage when working with their international colleagues who move easily between their native languages, English, French, and Mandarin.[56]

There are some general rules to follow in selecting virtual team members. Chad Thompson, Aon Hewitt's senior consultant with the talent and rewards practice, believes that the best virtual workers are those who thrive on interdependent working relationships. He also believes that employees who do not mind or who like ambiguity in their job responsibilities and who have strong communication skills also tend to succeed in virtual work environments. Workers who have been labeled as "lone wolves" usually do not function well in a virtual team because they do not collaborate well.[57]

Virtual team members do not have the luxury of getting together over lunch or just communicating informally in the office. To overcome this lack of informal getting to know each other, Facebook (featuring pictures and profiles of team members), a discussion board, a team calendar, or a chat room might be beneficial. Team members can then connect with each other in ways other than meetings and establish a stronger group bond.[58]

OBJECTIVE 14.6

Discuss global compensation practices.

Global Compensation

Companies that are successful in the global environment align their HR programs in support of their strategic business plans. A major component is the manner in which the HR total compensation program supports the way the business is structured, organized, and operated both globally and regionally.

Compensation for Host-Country Nationals

Certainly, in compensation-related matters, organizations should think globally but act locally. The realities of global business—in which each country has its own culture and different service expectations—must be reflected in the way employees are serviced.[59] Brad Boyson, head of HR

and corporate services for Hamptons MENA, a property company with operations throughout the Middle East, believes that prudent HR professionals should "benchmark on local conditions and add as needed."[60]

One reason that organizations relocate to other areas of the world is probably the high-wage pressures in the home country that threaten their ability to compete on a global basis. Globally, the question of what constitutes a fair day's pay is not as complicated as it is in the United States; normally, it is slightly above the prevailing wage rates in the area. The same is often true of benefits and nonfinancial rewards. Variations in laws, living costs, tax policies, and other factors all must be considered when a company is establishing global compensation packages. For example, Puerto Rico has laws that require paying severance pay and a Christmas bonus. Employers in Nigeria are required to provide a life insurance policy for employees at a rate of three times their salary. In Italy, a mandatory benefit is paid when an employee leaves an organization, regardless of whether this is as a result of resignation, termination, or retirement. In Belgium, employers offering a defined contribution pension scheme must provide a guaranteed investment return of 3.25 percent.[61]

Some countries have employment laws that feature specific criteria for terminations, including those related to layoffs, shutdowns, mergers and acquisitions, and discharge for cause. Other termination laws call for notice periods, severance requirements, payout of paid time off and incentive compensation, benefits continuation, and employee consent and grievance procedures.[62]

The company will want to create a precise picture of employment and working conditions to establish appropriate practices in each country. Some of the factors that should be considered include minimum-wage requirements, which often differ from country to country and even from city to city within a country; working-time information, such as annual holidays, vacation time and pay, paid personal days, standard weekly working hours, probation periods, and overtime restrictions and payments; and hiring and termination rules and regulations covering severance practices.

Culture often plays a part in determining compensation. North American compensation practices encourage individualism and high performance; continental European programs typically emphasize social responsibility; the traditional Japanese approach considers age and company service as primary determinants of compensation. In other countries, there is no guarantee that additional compensation will ensure additional output. In mainland China, workers who are paid by the hour often do not work hard. Under the communist system, working harder than anyone else did not result in additional pay. Therefore, there was no reason to do so. It has been found that, in some countries, additional pay has resulted in employees' working less. As soon as employees have earned enough to satisfy their needs, time spent with family or on other noncompany activities is perceived as more valuable than additional cash. In former communist countries, people were used to a system in which pay and performance were not related. Under the old system, good employees were paid the same as poor performers. With the collapse of the Iron Curtain, the idea that pay and performance should be related is now making its way into people's minds.

In countries such as France and Greece, where the best graduates often choose government positions with secure paychecks for life, it is quite difficult to attract good employees with pay schemes that include high bonuses for achieving specific objectives. In places such as Hong Kong, where people value risk and are motivated by personal financial gains, employees who have achieved a significant professional result expect a financial form of recognition (raise, bonus, or commission) within a matter of weeks. They are likely to look for another employer if they have to wait until their next annual performance review. Whereas people in the United States derive great status from high pay, nations in large parts of Europe and Asia shun conspicuous wealth. In Italy, where teamwork is more valued than individual initiative, sales incentives for top sales professionals working in small teams can be demotivating. The recipient of a large award may feel awkward when receiving larger than a fair share of the reward pie.

Because of these and other cultural differences, it is difficult to design a global, one-size-fits-all pay scheme that attracts the best talent in all countries. In particular, pay-for-performance schemes often need to be adapted to local preferences, depending on whether income security or higher risks and returns are preferred.

Expatriate Compensation

Expatriate compensation provides exceptional challenges compared to home-country employment, such as developing packages that are reasonably cost-effective while still attractive and motivating. For expatriate managers and professionals, the situation is more complex than simply

paying at or slightly above local host-country compensation rates. The largest expatriate costs historically have included overall remuneration, housing, cost-of-living allowances, and physical relocation. Because of the cost associated with moving a manager overseas, some firms are using shorter periods, often done far earlier in a manager's career, to give workers global involvement without moving the entire family.[63]

balance sheet approach
Provides expatriates the standard of living they normally enjoy in the United States or the expatriate's home country.

Most companies ensure that expatriates' compensation accounts for additional costs that may be associated with moving to and living in another country. The **balance sheet approach** provides expatriates the standard of living they normally enjoy in the United States or the expatriate's home country. Thus, the United States or the home country is the standard for all payments. This approach has strategic value to companies for two important reasons. First, this approach protects expatriates' standards of living. Without it, companies would have a difficult time placing qualified employees in international assignments. Second, the balance sheet approach enables companies to control costs because it relies on objective indexes that measure cost differences between the United States and foreign countries.

Employees receive allowances whenever the costs in the foreign country exceed the costs in the United States. Expense categories include housing and utilities, goods and services, discretionary income, and taxes. Allowance amounts vary according to the lifestyle enjoyed in the United States. Companies can obtain pertinent information about costs for foreign countries from at least three information sources. First, they can rely on expatriates who have spent considerable time on assignment or foreign government contacts. Second, private consulting companies (e.g., Towers Watson) or research companies (e.g., Bureau of National Affairs) can conduct custom surveys. Third, most U.S. companies consult the *U.S. Department of State Indexes of Living Costs Abroad, Quarters Allowances, and Hardship Differentials*, which is published quarterly by the U.S. Department of State.

In the past few years, additional challenges have hit companies as they have attempted to go global. First, the devaluation of the U.S. dollar has had a major impact on expatriate compensation. Also, there have been changes to the U.S. tax code that affect expatriate lifestyle. These challenges come at a time when global business is expanding. Meeting these challenges will affect how effectively the United States competes in the global market. In the past, expatriates regularly received a premium for taking an overseas assignment. Today, overseas jobs with rich expatriate packages are becoming less prevalent.[64]

OBJECTIVE **14.7**
Identify global safety and health issues.

Global Safety and Health

Special needs are often encountered when global safety and health issues are encountered. Global health care provider CIGNA International has teamed up with CIGNA Behavioral Health to offer employee assistance programs (EAPs) for expatriate employees of multinational firms. The EAP allows CIGNA International participants to access a multilingual support and counseling network. Employees and their dependents can receive assistance through telephone or personal visits for a wide range of behavioral health and work–life concerns. The program is designed to help employees better manage stress and anxiety, depression, and substance abuse, as well as to help them to lead healthy lifestyles.

Specific to global assignments are emergency evacuation services and global security protection. An international firm was preparing to evacuate 15 expatriate employees and dependents from a country that had suffered an earthquake. When it came time to meet at the departure point, 25 people showed up. Those arranging for the evacuation had not known that two technical teams were in the country supporting clients at the time.

Often, evacuation and care of injured employees is done through private companies. Medical emergencies are frightening under any circumstances, but when an employee becomes sick or injured abroad, it can be a traumatic experience. If the travelers are assigned to more remote or less-developed areas, companies should be aware that in many medical facilities, needles are often reused, equipment is not properly used, and there is a lack of basic medical supplies. Also, employees and their families living abroad must constantly be aware of security issues. Many firms provide bodyguards who escort executives everywhere. Some firms even have disaster plans to deal with evacuating expatriates if natural disasters, civil conflicts, or wars occur.

Global companies continue to face global safety risks. That is one of the lessons learned after the 1984 disaster in Bhopal, India, affected Union Carbide's worldwide operations. The Bhopal

disaster was the worst industrial disaster in history. It was caused by the accidental release of 40 metric tons of methyl isocyanate (MIC) from a Union Carbide India, Limited (UCIL), pesticide plant located in the heart of the city of Bhopal, in the Indian state of Madhya Pradesh. UCIL was a joint venture between Union Carbide and a consortium of Indian investors. The accident in the early hours produced heavier-than-air toxic MIC gas, which rolled along the ground through the surrounding streets, killing thousands outright and injuring anywhere from 150,000 to 600,000 others, at least 15,000 of whom died later from their injuries. Some sources give much higher fatality figures.[65]

Health and safety professionals with international experience say one of the most important trends sweeping through successful multinational companies is the shift to a single safety management system that applies to all their operations throughout the world. Although the example of Bhopal revealed the risks of safety failures, experts emphasize that taking a global approach to safety and health is not only about avoiding problems. It also opens up a wealth of opportunities to improve performance. Although events on the scale of Bhopal are rare, many companies have discovered that the way they treat their workers anywhere on the planet can pose a risk to their corporate reputation.

Employers should also be concerned with health issues for HCNs. In many instances, employee health has deteriorated because of an increase in chronic disease and lifestyle-related health issues, not only in developed countries, but also in emerging economies such as Mexico, China, and India. Twenty years ago, less than 10 percent of Mexican adults were obese; today, 68 percent are overweight and the problem is becoming increasingly widespread in younger people. It is estimated that 57.2 percent of the Indian population will have diabetes by 2025. China and the Philippines are troubled by inconsistent health care, especially among the poor.[66]

OBJECTIVE **14.8**

Describe global employee and labor relations practices.

Global Employee and Labor Relations

Obviously, the strength and nature of unions differ from country to country, with unions ranging from nonexistent to relatively strong. In fact, unionism in private companies is a declining phenomenon in nearly all developed countries. Codetermination, which requires firms to have union or worker representatives on their boards of directors, is common in European countries. Even though they face global competition, unions in several European countries have resisted changing their laws and removing government protections. Laws make it hard to fire workers, so companies are reluctant to hire. Generous and lengthy unemployment benefits discourage the jobless from seeking new work. Motorola paid a net pretax charge of about $83 million in related severance fees for jobs cut in Germany. Wage bargaining remains centralized, and companies have little flexibility to fashion contracts that fit their needs. High payroll taxes raise labor costs, and their laws mandating cumbersome layoff procedures increase the cost of the product.



ETHICAL DILEMMA

Mordita

Your company, a distributor of heavy mining equipment, wants to trade in the Mexican market where cash under the table, *mordita* (a little bit), is part of doing business. This payoff practice is so ingrained in the Mexican culture that a business virtually cannot open a Mexican operation without going along. You have observed many companies that did not pay and they failed to enter the Mexican market, as well as those that paid and entered the market, and overall, did fairly well. You can continue to raise your stature with mining companies, farmers, and contractors and encourage them to lobby the government to freely open the market, or you can pay the bribe.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

On the other hand, in some South American countries, such as Chile, collective bargaining for textile workers, miners, and carpenters is prohibited. And unions are generally allowed only in companies of 25 workers or more. This practice has encouraged businesses to split into small companies to avoid collective bargaining, leaving workers on their own.

OBJECTIVE 14.9

Discuss globalization issues for small to medium-sized businesses.

Globalization for Small to Medium-Sized Businesses

International sales have become a vital and growing part of the market for small to medium-sized businesses.[67] A recent study found that nearly a quarter of U.S. small firms receive some sales from overseas, and another 6 percent is expected to join their ranks for a combined total of approximately one million small to medium-sized business owners who engage in international sales in the near future.[68] Globalization, the Internet, and e-commerce have made it easier than ever for small businesses to reach the 95 percent of consumers that do not live in the United States. Exporting gives small businesses the opportunities to tap into new markets, increase sales, generate economies of scale, and improve inventory management, as well as help maintain U.S. competitiveness and create jobs.

The United States has a goal of doubling exports in five years, from $1.57 trillion in 2009 to $3.14 trillion in 2014. This growth is projected to create two million new jobs.[69] To achieve this goal, the Small Business Administration (SBA) has programs available to help small business customers expand into exporting. In 2009, SBA supported about 1,500 export loans to small business, totaling more than $580 million and generating more than $1.6 billion in sales. Export loan providers include the following:[70]

- *Export Working Capital Loans* are short-term loans of 12 months or less. These loans provide a line of credit for suppliers, inventory, or production of goods. As a result of the Small Business Jobs Act, the SBA guarantee on these loans is 90 percent, with the maximum size of the loan being $4.5 million.
- *Export Express Loans* help small businesses that need capital fast to take advantage of a possible overseas sale. They can help cover marketing materials, translation, or travel costs for a trade mission. These loans can get approval by the SBA within 36 hours. The Small Business Jobs Act increased loan sizes up $500,000 and are 90 percent guaranteed up to $350,000. There is also a 75 percent guarantee for loans larger than $350,000.
- *International Trade Loans* help businesses invest in real estate and working capital to support exporting over the long term. These loans can be used for expansion, renovation, and modernization of facilities or in some cases refinancing existing loans. Usually, these loans are needed when a few big orders from abroad start to flow in, and the business needs to expand to a larger location or buy equipment to meet demand. International Trade Loans can be for up to $5 million. They carry a 90 percent guarantee, and maturity is usually 10 to 15 years for machinery or 25 years for real estate.[71]

There are numerous examples where the SBA has been helpful. An Export Working Capital Loan helped Nidek Medical Products, Inc., a manufacturer of medical nebulizers and oxygen concentrators for 25 years with 40 employees. The company was focusing largely on international sales and had established distribution warehouses in South America and Europe. But carrying the receivables for export sales had created a cash crunch and put the company's finances in jeopardy. With assistance from the SBA, the company received a $1.3 million Export Working Capital Loan that solved its cash flow difficulties.

The move into global markets can be intimidating for leaders of smaller businesses, but HR professionals in these companies can help. They can learn more about the cultural and human capital factors that will have the biggest effect on new international initiatives. They can work with government and business groups to navigate the legal and bureaucratic environments that can make it difficult for businesses to get started in new markets.[72]

Summary

1. ***Describe the evolution of global business.*** Most companies initially become global without making substantial investments in foreign countries by exporting, licensing, or franchising. A multinational corporation is a firm that is based in one country (the parent or home country) and produces goods or provides services in one or more foreign countries (host countries). A global corporation has corporate units in a number of countries that are integrated to operate as one organization worldwide.
2. ***Explain global strategic HR management.*** The world is experiencing an increasing global workforce. Global HR problems and opportunities are enormous and are expanding. Individuals dealing with global HR matters face a multitude of challenges beyond that of their domestic counterparts.
3. ***Discuss the facts that set the stage for global HR practices.*** HR practice in the United States is influenced by many factors. These factors include country political and economic structure, the legal system, national cultural norms, and characteristics of the labor force. When practicing HR within any one country, these factors are relatively constant. For example, the United States has many worker protections such as antidiscrimination laws. Global HR practitioners require, at minimum, an appreciation of the variation in these five factors to understand how to best structure and implement HR practices in other countries.
4. ***Explain global staffing.*** Companies must choose from various types of global staff members and may use specific approaches to global staffing. Global staff members may be selected from among three different types: expatriates, host-country nationals, and third-country nationals. There are four major approaches to global staffing: ethnocentric, polycentric, regiocentric, and geocentric.
5. ***Describe global performance management and HR development practices.*** Some training and development professionals believe that performance appraisal as well as training and development strategies that work for a U.S. audience can be equally effective abroad. Unfortunately, nothing could be further from the truth. Also, global training and development is needed because people, jobs, and organizations are often quite different. Some training and development professionals believe that training and consulting principles and strategies that work for a U.S. audience can be equally effective abroad. Nothing could be further from the truth. The ideal expatriate preparation and development program includes pre-move orientation and training, continual development, and repatriation orientation and training.
6. ***Explain global compensation.*** Globally, the question of what constitutes a fair day's pay for host-country nationals is not as complicated as it is in the United States; normally, it is slightly above the prevailing wage rates in the area. The same is often true of benefits and nonfinancial rewards.

   Expatriate compensation provides exceptional challenges compared to home-country employment, such as developing packages that are reasonably cost-effective while still attractive and motivating. For expatriate managers and professionals, the situation is more complex than simply paying at or slightly above local host-country compensation rates.
7. ***Describe global safety and health.*** U.S.-based global operations are often safer and healthier than host-country operations but frequently not as safe as similar operations in the United States.
8. ***Explain global employee and labor relations practices.*** The strength and nature of unions differ from country to country, with unions ranging from nonexistent to relatively strong.
9. ***Describe globalization issues for small and medium-sized businesses.*** There has been a growing push among business organizations and the government to help small and medium-sized businesses increase their exports.

Key Terms

exporting 390
licensing 390
franchising 390
multinational corporation (MNC) 391
global corporation 391
cultural values 393
expatriate 395
host-country national (HCN) 395
third-country national (TCN) 395
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polycentric staffing 396
regiocentric staffing 396
geocentric staffing 396
repatriation 399
balance sheet approach 403

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Exercises

✪**14-1.** We've studied HR practices primarily in the U.S. context throughout this book. What are some of the challenges that HR professionals face when designing the following HR practices outside the U.S. context?
a. performance appraisal
b. training and development
c. compensation

14-2. What obstacles might have to be overcome to open a global organization in the following regions of the world?
a. Asia
b. Europe
c. Middle East

Questions for Review

14-3. How does going global affect companies?

14-4. Define the following terms:
(a) ethnocentric staffing
(b) polycentric staffing
(c) regiocentric staffing
(d) geocentric staffing
(e) repatriation

✪**14-5.** What are some global issues confronting women?

14-6. What are the various types of global staff members?

14-7. What is the general process for selecting expatriates?

✪**14-8.** Why is pre-move orientation and training of expatriates so important?

✪**14-9.** Why is repatriation orientation and training needed?

14-10. What are the deterrents to the implementation of any global e-learning program?

14-11. What difficulties do virtual teams have in the global environment?

✪**14-12.** What is meant by the statement with reference to compensation for host-country nationals, "Organizations should think globally but act locally"?

14-13. What has been the status of expatriate compensation in recent years?

14-14. Why should employees and their families living abroad be aware of security issues?

✪**14-15.** What are some problems and opportunities related to small and medium-sized businesses in the global environment?

INCIDENT 1 The Overseas Transfer

In college, Pat Marek majored in industrial management and was considered by his teachers and peers to be a good all-around student. Pat not only took the required courses in business, but also learned French as a minor. After graduation, Pat took an entry-level management training position with Tuborg International, a multinational corporation with offices and factories in numerous countries, including the United States. His first assignment was in a plant in Chicago. His supervisors quickly identified Pat for his ability to get the job done and still maintain good rapport with subordinates, peers, and superiors. In only three years, Pat had advanced from a manager trainee to the position of assistant plant superintendent.

After two years in this position, he was called into the plant manager's office one day and told that he had been identified as ready for a foreign assignment. The move would mean a promotion. The assignment was for a plant in Haiti, a predominantly French-speaking country; but Pat wasn't worried about living and working there. He was excited and wasted no time in making the necessary preparations for the new assignment.

Prior to arriving at the plant in Haiti, Pat took considerable time to review his French textbook exercises. He was surprised at how quickly the language came back to him. He thought that there wouldn't be any major difficulties in making the transition from Chicago to Haiti. However, Pat found, on arrival, that the community where the plant was located did not speak the pure French that he had learned. There were many expressions that meant one thing to Pat but had an entirely different meaning to the employees of the plant.

When meeting with several of the employees a week after arriving, one of the workers said something to him that Pat interpreted as uncomplimentary. Actually, the employee had greeted him with a rather risqué expression but in a different tone than Pat had heard before. All of the other employees interpreted the expression to be merely a friendly greeting. Pat's disgust registered in his face.

As the days went by, this type of misunderstanding occurred a few more times, until the employees began to limit their conversation with him. In only one month, Pat managed virtually to isolate himself from the workers within the plant. He became disillusioned and thought about asking to be relieved from the assignment.

Questions

14-16. What problems had Pat not anticipated when he took the assignment?

14-17. How could the company have assisted Pat to reduce the difficulties that he confronted?

14-18. Do you believe the situation that Pat confronted is typical of an American going to a foreign assignment? Discuss.

INCIDENT 2 Expat in the Heartland

"Good morning, Mr. Thomson!"

"Good morning, Lee! Please, call me John. Mr. Thomson is my father. Where are you off to this early in the morning?"

"Oh, I'm going for a Tai-chi session at the community club. Would you like to join me, Mr. Thomson?"

"I would love to!"

"Are you settling in well, Mr. Thomson? I was surprised to find a Westerner as my neighbor when you moved in. Don't you much prefer to live in a condominium than to live in a public housing flat?"

"I'm not given a generous housing allowance. But I would have chosen to live in a public housing flat anyway, because I wanted to experience life in Singapore's heartland. I'm settling in very well. My HR department put me through a comprehensive orientation program to help my family and me appreciate the cultural differences and anticipate any difficulties we might face in adapting to a new culture. With the help of my HR department, my wife has even gotten a new job teaching at a nearby preschool. It's been wonderful so far. Everybody here is friendly and makes us feel very welcome. In fact, I find the locals here so polite and much more formal than Australians."

"I'm happy to hear that you are adapting well, Mr. Thomson. How long is your assignment in Singapore?"

"I'll be here for two years before going back to Australia. And please, do call me John!"

"I will, Mr. Thomson!"

Questions

14-19. What were John Thomson's personal character traits that made him suitable to be a global employee? What other traits should be considered?

14-20. John Thomson was not given a generous housing allowance. What might be some reasons for this? Discuss the factors to consider when deciding on a compensation package for global employees.

14-21. Should the HR department help Mrs. Thomson find a job in Singapore? Discuss.

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Go to **mymanagementlab.com** for the following Assisted-graded writing questions:

14-22. What are the approaches to global staffing?

14-23. What are some global employee and labor relations problems?

Endnotes

Scan for Endnotes or go to www.pearsonglobaleditions.com/Mondy

Glossary

Achievement tests: A test of current knowledge and skills.

Active job seekers: Individuals committed to finding another job whether presently employed or not.

Adverse impact: Concept established by the *Uniform Guidelines*; it occurs if women and minorities are not hired at the rate of at least 80 percent of the best-achieving group.

Affirmative action: Stipulated by Executive Order 11246, it requires employers to take positive steps to ensure employment of applicants and treatment of employees during employment without regard to race, creed, color, or national origin. Affirmative Action creates the expectation and program requirements that companies make a positive effort to recruit, hire, train, and promote employees from groups who are underrepresented in the labor force.

Affirmative action program (AAP): Approach developed by organizations with government contracts to demonstrate that workers are employed in proportion to their representation in the firm's relevant labor market.

Agency shop: Labor agreement provision requiring, as a condition of employment, that each nonunion member of a bargaining unit pay the union the equivalent of membership dues as a service charge in return for the union acting as the bargaining agent.

Alcoholism: Medical disease characterized by uncontrolled and compulsive drinking that interferes with normal living patterns.

AllianceQ: Group of *Fortune 500* companies, along with more than 3,000 small and medium-sized companies, that have collaborated to create a pool of job candidates.

Alternative dispute resolution (ADR): Procedure whereby the employee and the company agree ahead of time that any problems will be addressed by an agreed-on means.

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO): Central trade union federation in the United States.

Applicant pool: Number of qualified applicants recruited for a particular job.

Apprenticeship training: Training method that combines classroom instruction with on-the-job training.

Aptitude tests: A test of how well a person can learn or acquire skills or abilities.

Arbitration: Process in which a dispute is submitted to an impartial third party for a binding decision; an arbitrator basically acts as a judge and jury.

Assessment center: Selection technique that requires individuals to perform activities similar to those they might encounter in an actual job.

Attitude survey: Survey that seeks input from employees to determine their feelings about topics such as the work they perform, their supervisor, their work environment, flexibility in the workplace, opportunities for advancement, training and development opportunities, and the firm's compensation system.

Authorization card: Document indicating that an employee wants to be represented by a labor organization in collective bargaining.

Availability forecast: Determination of whether the firm will be able to secure employees with the necessary skills, and from what sources.

Baby boomers: People born just after World War II through the mid-1960s.

Bargaining unit: Group of employees, not necessarily union members, recognized by an employer or certified by an administrative agency as appropriate for representation by a labor organization for purposes of collective bargaining.

Balance sheet approach: Provides expatriates the standard of living they normally enjoy in the United States or the expatriate's home country.

Base pay: The monetary compensation employees earn on a regular basis for performing their jobs. Hourly pay and salary are the main forms of base pay.

Beachhead demands: Demands that the union does not expect management to meet when they are first made.

Behavior change: Change in job-related behaviors or performance that can be attributed to training.

Behavior modeling: Training and development method that permits a person to learn by copying or replicating behaviors of others to show managers how to handle various situations.

Behavioral encouragement plans: Individual incentive pay plans that reward employees for specific such behavioral accomplishments as good attendance.

Behavioral interview: Structured interview where applicants are asked to relate actual incidents from their past relevant to the target job.

Behavioral observation scale (BOS): A specific kind of behavioral system for evaluating job performance by illustrating positive incidents (or behaviors) of job performance for various job dimensions.

Behavioral systems: Performance appraisal methods that focus on distinguishing between successful and unsuccessful behaviors.

Behaviorally anchored rating scale (BARS) method: Performance appraisal method that combines elements of the traditional rating scale and critical incident methods; various performance levels are shown along a scale with each described in terms of an employee's specific job behavior.

Benchmarking: Process of monitoring and measuring a firm's internal processes, such as operations, and then comparing the data with information from companies that excel in those areas.

Bias errors: Evaluation errors that occur when the rater evaluates the employee based on a personal negative or positive

opinion of the employee rather than on the employee's actual performance.

Blended training: The use of multiple training methods to deliver training and development.

Board interview: An interview approach in which several of the firm's representatives interview a candidate at the same time.

Bottom-up forecast: Forecasting method in which each successive level in the organization, starting with the lowest, forecasts its requirements, ultimately providing an aggregate forecast of employees needed.

Boycott: Agreement by union members to refuse to use or buy the firm's products.

Broadbanding: Compensation technique that collapses many pay grades (salary grades) into a few wide bands to improve organizational effectiveness.

Burnout: Incapacitating condition in which individuals lose a sense of the basic purpose and fulfillment of their work.

Business games: Training and development method that permits participants to assume roles such as president, controller, or marketing vice-president of two or more similar hypothetical organizations and compete against each other by manipulating selected factors in a particular business situation.

Card check: Organizing approach by labor in which employees sign a nonsecret card of support if they want unionization, and if 50 percent of the workforce plus one worker sign a card, the union is formed.

Career: General course that a person chooses to pursue throughout his or her working life.

Career development: Formal approach used by the organization to ensure that people with the proper qualifications and experiences are available when needed.

Career path: A flexible line of movement through which a person may travel during his or her work life.

Career planning: Ongoing process whereby an individual sets career goals and identifies the means to achieve them.

Caregiver (family responsibility) discrimination: Discrimination against employees based on their obligations to care for family members.

Carpal tunnel syndrome (CTS): Common repetitive stress injury caused by pressure on the median nerve that occurs as a result of a narrowing of the passageway that houses the nerve.

Case study: Training and development method in which trainees are expected to study the information provided in the case and make decisions based on it.

Cash balance plan: Retirement plan with elements of both defined benefit and defined contribution plans.

Change to Win Coalition: Union federation consisting of seven unions that broke from the AFL-CIO and formally launched a rival labor federation representing about 6 million workers from seven labor unions.

Checkoff of dues: Agreement by which a company agrees to withhold union dues from members' paychecks and to forward the money directly to the union.

Classification method: Job evaluation method in which classes or grades are defined to describe a group of jobs.

Clawback policy: Allows the company to recover compensation if subsequent review indicates that payments were not calculated accurately or performance goals were not met.

Closed shop: Arrangement making union membership a prerequisite for employment.

Coaching: Often considered a responsibility of the immediate boss, who provides assistance, much like a mentor, but the primary focus is about performance.

Cognitive ability tests: Tests that determine general reasoning ability, memory, vocabulary, verbal fluency, and numerical ability.

Coinsurance: The percentage of covered expenses paid by the insured. Most fee-for-service plans stipulate 20 percent coinsurance. This means that the insured will pay 20 percent of covered expenses, whereas the insurance company pays the remaining 80 percent.

Collective bargaining: The process in which labor union leadership enters into good faith negotiations with management representatives over terms of employment such as work hours, pay, and job security.

Collective bargaining agreements: Written documents that describe the terms of employment reached between management and unions.

Committee on Political Education (COPE): Political arm of the AFL-CIO.

Company stock: The total equity or worth of the company.

Company stock shares: Equity segments of equal value, which increase with the number of stock shares held.

Comparison systems: A type of performance-appraisal method, require that raters (e.g., supervisors) evaluate a given employee's performance against other employees' performance attainments. Employees are ranked from the best performer to the poorest performer.

Compensation: Total of all rewards provided employees in return for their services.

Compensation policy: Policies that provide general guidelines for making compensation decisions.

Compensation survey: A means of obtaining data regarding what other firms are paying for specific jobs or job classes within a given labor market.

Competencies: An individual's capability to orchestrate and apply combinations of knowledge, skills, and abilities consistently over time to perform work successfully in the required work situations.

Competency modeling: All of the competencies necessary for success in a group of jobs that are set within an industry context.

Competency-based pay: Compensation plan that rewards employees for the capabilities they attain.

Compressed workweek: Any arrangement of work hours that permits employees to fulfill their work obligation in fewer days than the typical five-day workweek.

Construct validity: Test validation method that determines whether a test measures certain constructs, or traits, that job analysis finds to be important in performing a job.

Consumer-driven health care: Refers to the objective of helping companies maintain control over costs while also enabling employees to make greater choices about health care.

Content validity: Test validation method whereby a person performs certain tasks that are actually required by the job or completes a paper-and-pencil test that measures relevant job knowledge.

Contingent workers: Described as the "disposable American workforce" by a former secretary of labor, have a nontraditional relationship with the worksite employer, and work as part-timers, temporaries, or independent contractors.

Contrast errors: A rating error in which a rater (e.g., a supervisor) compares an employee to other employees rather than to specific explicit performance standards.

Corporate career Web sites: Job sites accessible from a company home page that list available company positions and provide a way for applicants to apply for specific jobs.

Corporate culture: System of shared values, beliefs, and habits within an organization that interacts with the formal structure to produce behavioral norms.

Corporate social responsibility (CSR): Implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves.

Corporate sustainability: Concerns with possible future impact of an organization on society, including social welfare, the economy, and the environment.

Corporate university: Training and development delivery system provided under the umbrella of the organization.

Cost-of-living adjustment (COLA): Escalator clause in a labor agreement that automatically increases wages as the U.S. Bureau of Labor Statistics cost-of-living index rises.

Country's culture: Set of values, symbols, beliefs, languages, and norms that guide human behavior within the country.

Craft union: Bargaining unit, such as the Carpenters and Joiners Union, which is typically composed of members of a particular trade or skill in a specific locality.

Criterion-related validity: Test validation method that compares the scores on selection tests to some aspect of job performance determined, for example, by performance appraisal.

Critical incident technique (CIT): Performance appraisal method that requires keeping written records of highly favorable and unfavorable employee work actions.

Cross-training: Type of training for educating team members about the other members' jobs so that they may perform them when a team member is absent, is assigned to another job in the company, or has left the company altogether.

Cultural values: The norms for behaviors and beliefs.

Customized benefit plan: Benefit plan that permits employees to make yearly selections to largely determine their benefit package by choosing between taxable cash and numerous benefits.

Decertification: Reverse of the process that employees must follow to be recognized as an official bargaining unit.

Deferred compensation: An agreement between an employee and a company to render payments to an employee at a future date.

Defined benefit plan: Retirement plan that provides the participant with a fixed benefit upon retirement.

Defined contribution plan: Retirement plan that requires specific contributions by an employee an employer to a retirement or savings fund established for the employee.

Demotion: Process of moving a worker to a lower level of duties and responsibilities, which typically involves a reduction in pay.

Development: Learning that goes beyond today's job and has a more long-term focus.

Direct financial compensation (core compensation): Pay that a person receives in the form of wages, salary, commissions, and bonuses.

Disciplinary action: Invoking a penalty against an employee who fails to meet established standards.

Disciplinary action without punishment: Process in which a worker is given time off with pay to think about whether he or she wants to follow the rules and continue working for the company.

Discipline: State of employee self-control and orderly conduct that indicates the extent of genuine teamwork within an organization.

Discretionary benefits: Benefit payments made as a result of unilateral management decisions in nonunion firms and from labor–management negotiations in unionized firms.

Disparate treatment: Occurs when an employer treats some employees less favorably than others because of race, religion, sex, national origin, or age.

Diversity: Any perceived difference among people: age, race, religion, functional specialty, profession, sexual orientation, geographic origin, lifestyle, tenure with the organization or position, and any other perceived difference.

Diversity management: Ensuring that factors are in place to provide for and encourage the continued development of a diverse workforce by melding actual and perceived differences among workers to achieve maximum productivity.

Downsizing: Reverse of a company growing; it suggests a one-time change in the organization and the number of people employed (also known as restructuring or rightsizing).

Dual-career family: A situation in which both husband and wife have jobs and family responsibilities.

Dual-career path: Career path that recognizes that technical specialists can and should be allowed to contribute their expertise to a company without having to become managers.

E-learning: Training and development method for online instruction using technology-based methods such as the DVDs, company intranets, and the Internet.

Employee assistance program (EAP): Comprehensive approach that many organizations have taken to deal with burnout, alcohol and drug abuse, and other emotional disturbances.

Employee referral: An employee of the company recommends a friend or associate as a possible member of the company; this continues to be the way that top performers are identified.

Employee requisition: Document that specifies job title, department, the date the employee is needed for work, and other details.

Employee stock option plan (ESOP): Plan in which a firm contributes stock shares to a trust, which then allocates the stock to participating employee accounts according to employee earnings.

Employee stock plans: The right to purchase shares of company stock.

Employer branding: Firm's corporate image or culture created to attract and retain the type of employees the firm is seeking.

Employment at will: Unwritten contract created when an employee agrees to work for an employer but no agreement exists as to how long the parties expect the employment to last.

Employment interview: Goal-oriented conversation in which an interviewer and an applicant exchange information.

Equal Employment Opportunity (EEO): The set of laws and policies that requires all individuals' rights to equal opportunity in the workplace, regardless of race, color, sex, religion, national origin, age, or disability.

Ergonomics: Process of designing the workplace to support the capabilities of people and job or task demands.

Errors of central tendency: Error that occurs when raters (e.g., supervisors) judge all employees as average or close to average.

Ethics: Discipline dealing with what is good and bad, or right and wrong, or with moral duty and obligation.

Ethnocentric staffing: Staffing approach in which companies primarily hire expatriates to staff higher-level foreign positions.

Event recruiting: Recruiters going to events being attended by individuals the company is seeking.

Executive: A top-level manager who reports directly to a corporation's CEO or to the head of a major division.

Executive order (EO): Directive issued by the president that has the force and effect of law enacted by Congress as it applies to federal agencies and federal contractors.

Exempt employees: Employees categorized as executive, administrative, professional, or outside salespersons.

Exit interview: Means of revealing the real reasons employees leave their jobs; it is conducted before an employee departs the company and provides information on how to correct the causes of discontent and reduce turnover.

Expatriate: Employee who is not a citizen of the country in which the firm operations are located but is a citizen of the country in which the organization is headquartered.

Exporting: Selling abroad, either directly or indirectly, by retaining foreign agents and distributors.

Factor comparison method: Job evaluation method that assumes there are five universal factors consisting of mental requirements, skills, physical requirements, responsibilities, and working conditions; the evaluator makes decisions on these factors independently.

Fee-for-service plans: Insurance protection for three types of medical expenses: hospital expenses, surgical expenses, and physician's charges.

Final-offer arbitration: An arbitration procedure used in the public sector whereby the arbitrator selects one party's offer either as a package or issue-by-issue selection.

First-impression effect: An initial favorable or unfavorable judgment about an employee's which is ignored or distorted.

Flexible spending account (FSA): Benefit plan established by employers that allows employees to deposit a certain portion of their salary into an account (before paying income taxes) to be used for eligible expenses.

Flextime: Practice of permitting employees to choose their own working hours, within certain limitations.

Flooding the community: Process of the union inundating communities with organizers to target a particular business in an organizing attempt.

Forced distribution method: Performance appraisal method in which the rater is required to assign individuals in a work group to a limited number of categories, similar to a normal frequency distribution.

Formal assessment: The use of established external approaches to facilitate evaluation of an issue at hand.

401(k) plan: Defined contribution plan in which employees may defer income up to a maximum amount allowed.

Franchising: Option whereby the parent company grants another firm the right to do business in a prescribed manner.

Free agents: People who take charge of all or part of their careers by being their own bosses or by working for others in ways that fit their particular needs or wants.

Gain sharing: Plans designed to bind employees to the firm's productivity and provide an incentive payment based on improved company performance.

General duty clause: As used by OSHA, employers are required to furnish, to each employee, a place of employment that is free from recognizable hazards that are causing, or likely to cause, death or serious physical harm to the employee.

General Schedule: Classification of federal government jobs into 15 classifications (GS-1 through GS-15), based on such factors as skill, education, and experience levels. In addition, jobs that require high levels of specialized education (e.g., a physicist), significantly influence public policy (e.g., law judges), or require executive decision making are classified in three additional categories: Senior Level (SL), Scientific & Professional (SP) positions, and the Senior Executive Service (SES).

Generalist: A person who may be an executive and performs tasks in a variety of HR-related areas.

Generation X: Label affixed to the 40 million American workers born between the mid-1960s and late 1970s.

Generation Y: Comprises people born between the late 1970s and mid-1990s.

Generation Z or Digital Natives: Internet-assimilated children born between 1995 and 2009.

Genetic tests: Tests given to identify predisposition to inherited diseases, including cancer, heart disease, neurological disorders, and congenital diseases.

Geocentric staffing: Staffing approach that uses a worldwide integrated business strategy.

Glass ceiling: Invisible barrier in organizations that impedes women and minorities from career advancement.

Global corporation: Organization that has corporate units in a number of countries that are integrated to operate as one organization worldwide.

Golden parachute contract: Perquisite that protects executives in the event that another company acquires their firm or the executive is forced to leave the firm for other reasons.

Graphoanalysis: Use of handwriting analysis as a selection factor.

Grievance: Employee's dissatisfaction or feeling of personal injustice relating to his or her employment.

Grievance procedure: A formal, systematic process that permits employees to express complaints without jeopardizing their jobs.

Group interview: Meeting in which several job applicants interact in the presence of one or more company representatives.

Halo error (positive halo error): Evaluation error that occurs when a manager generalizes one positive performance feature or incident to all aspects of employee performance, resulting in a higher rating.

Hazard pay: Additional pay provided to employees who work under extremely dangerous conditions.

Health: Employees' freedom from physical or emotional illness.

Health reimbursement accounts (HRAs): Allows an employer to set aside funds to reimburse medical expenses paid by participating employees.

Health savings accounts (HSAs): Tax-free health spending and savings accounts available to individuals and families who have qualified high-deductible health insurance policies as determined by IRS regulation.

Horn error (negative halo error): Evaluation error that occurs when a manager generalizes one negative performance feature or incident to all aspects of employee performance, resulting in a lower rating.

Host-country national (HCN): Employee who is a citizen of the country where the subsidiary is located.

Hot stove rule: An approach to disciplinary action that have four consequences which are analogous to touching a hot stove.

Hourly pay: One type of base pay. Employees earn hourly pay for each hour worked.

Human capital: As defined by economists, refers to sets of collective skills, knowledge, and ability that employees can apply to create economic value for their employers.

Human capital theory: A theory premised on the idea that employees' knowledge and skills generate productive capital known as human capital. Employees can develop knowledge and skills from formal education or on-the-job experiences.

Human resource development (HRD): Major HRM function consisting not only of training and development but also of individual career planning and development activities, organization development, and performance management and appraisal.

Human resource ethics: Application of ethical principles to HR relationships and activities.

Human resource information system (HRIS): Any organized approach for obtaining relevant and timely information on which to base HR decisions.

Human resource management (HRM): Utilization of individuals to achieve organizational objectives.

Human resource manager or human resource management professional: Individual who normally acts in an advisory or staff capacity, working with other managers to help them deal with HR matters.

Human resource planning (workforce planning): Systematic process of matching the internal and external supply of people with job openings anticipated in the organization over a specified period of time.

HR outsourcing (HRO): Process of hiring external HR professionals to do the HR work that was previously done internally.

Illegal discriminatory bias: A bias error for which a supervisor rates members of his or her race, gender, nationality, or religion more favorably than members of other classes.

Interindustry wage or compensation differentials: Pattern of pay and benefits associated with characteristics of industries.

In-basket training: Training and development method in which the participant is asked to establish priorities for and then handle a number of business papers, e-mail messages, memoranda, reports, and telephone messages that would typically cross a manager's desk.

Incentive pay: Compensation, other than base wages or salaries, that fluctuates according to employees' attainment of some standard (e.g., a pre-established formula, individual or group goals, or company earnings).

Indirect financial compensation (employee benefits): All financial rewards that are not included in direct financial compensation.

Industrial union: Bargaining unit that generally consists of all the workers in a particular plant or group of plants.

Interest arbitration: Arbitration that involves disputes over the terms of proposed collective bargaining agreements.

Interindustry wage or compensation differentials: Pattern of pay and benefits associated with characteristics of industries.

Internal employee relations: Those HR management activities associated with the movement of employees within the organization.

Internet recruiter: Person whose primary responsibility is to use the Internet in the recruitment process (also called cyber recruiter).

Internship: Special form of recruitment that involves placing a student in a temporary job with no obligation either by the company to hire the student permanently or by the student to accept a permanent position with the firm following graduation.

Job: Group of tasks that must be performed for an organization to achieve its goals.

Job analysis: Systematic process of determining the skills, duties, and knowledge required for performing jobs in an organization.

Job bidding: Procedure that permits employees who believe that they possess the required qualifications to apply for a posted position.

Job description: Document that provides information regarding the essential tasks, duties, and responsibilities of a job.

Job design: Process of determining the specific tasks to be performed, the methods used in performing these tasks, and how the job relates to other work in an organization.

Job enlargement: Increasing the number of tasks a worker performs, with all of the tasks at the same level of responsibility.

Job enrichment: Changes in the content and level of responsibility of a job so as to provide greater challenges to the worker.

Job evaluation: Process that determines the relative value of one job in relation to another.

Job evaluation ranking method: Job evaluation method in which the raters examine the description of each job being evaluated and arrange the jobs in order according to their value to the company.

Job fair: Recruiting method engaged in by a single employer or group of employers to attract a large number of applicants to one location for interviews.

Job hazard analysis (JHA): Multistep process designed to study and analyze a task or job and then break down that task into steps that provide a means of eliminating associated hazards.

Job-based pay: Employee compensation for jobs employees currently perform.

Job-knowledge tests: Tests designed to measure a candidate's knowledge of the duties of the job for which he or she is applying.

Job posting: Procedure for informing employees that job openings exist.

Job rotation (cross-training): Moves employees from one job to another to broaden their experience.

Job sharing: Two part-time people split the duties of one job in some agreed-on manner and are paid according to their contributions.

Job specification: A document that outlines the minimum acceptable qualifications a person should possess to perform a particular job.

Job structure: An ordered set of similar jobs based on worth.

.Jobs: Network of employment Web sites where any company can list job openings for free.

Just-in-time training (on-demand training): Training provided anytime, anywhere in the world when it is needed.

Just cause: A standard for determining whether to terminate an employee and the standard is based on whether an employee violated company policy or work rules and the severity of the violation.

Keyword résumé: Résumé that contains an adequate description of the job seeker's characteristics and industry-specific experience presented in keyword terms to accommodate the computer search process.

Keywords: Words or phrases that are used to search databases for résumés that match.

Labor market: Potential employees located within the geographic area from which employees are recruited.

Labor unions: Organizations that exist to represent the interests of employees in the workplace and to ensure fair treatment when conflicts arise between one or more employee and management.

Lateral skill path: Career path that allows for lateral moves within the firm, taken to permit an employee to become revitalized and find new challenges.

Learning: The extent to which an employee understands and retains principles, facts, and techniques.

Learning organization: Firm that recognizes the critical importance of continuous performance-related training and development and takes appropriate action.

Leniency error: Giving an undeserved high performance appraisal rating to an employee.

Licensing: Arrangement whereby an organization grants a foreign firm the right to use intellectual properties such as patents, copyrights, manufacturing processes, or trade names for a specific period of time.

Likes and dislikes survey: Procedure that helps individuals in recognizing restrictions they place on themselves.

Line managers: Individuals directly involved in accomplishing the primary purpose of the organization.

Local union: Basic element in the structure of the U.S. labor movement.

Lockout: Management keeps employees out of the workplace and runs the operation with management personnel or replacements.

Maintenance of membership: Employees who are members of the union at the time the labor agreement is signed or who later voluntarily join must continue their memberships until the termination of the agreement as a condition of employment.

Managed care plans: Health care delivery that emphasizes cost control by limiting an employee's choice of doctors and hospitals. These plans also provide protection against health care expenses in the form of prepayment to health care providers.

Management development: Consists of all learning experiences provided by an organization resulting in upgrading skills and knowledge required in current and future managerial positions.

Management incentive plans: Bonuses to managers who meet or exceed objectives based on sales, profit, production, or other measures for their division, department, or unit.

Market match policy: Average pay that most employers provide for a similar job in a particular area or industry.

Mandatory bargaining issues: Bargaining issues that fall within the definition of wages, hours, and other terms and conditions of employment.

Market lag policies: Pay policy that distinguishes companies from the competition by compensating employees less than most competitors. Lagging the market indicates that market levels fall below the market match line.

Market lead policies: Pay policy that distinguishes companies from the competition by compensating employees more highly than most competitors. Leading the market denotes market levels above the market match line.

Market match policies: Average pay that most employers provide for a similar job in a particular area or industry.

Mediation: Neutral third party enters the negotiations and attempts to facilitate a resolution to a labor dispute when a bargaining impasse has occurred.

Mental and substance abuse plans: Mental health and substance abuse benefits are designed to cover treatment of mental illness and chemical dependence on alcohol and legal and illegal drugs.

Mentoring: Approach to advising, coaching, and nurturing for creating a practical relationship to enhance individual career, personal, and professional growth and development.

Merit bonuses: Lump sum monetary awards based on employees' past job performances. Employees do not continue to receive nonrecurring merit increases every year. Employees must instead earn them each time.

Merit pay: Pay increase added to employees' base pay based on their level of performance.

Mission: Unit's continuing purpose, or reason for being.

Multinational corporation (MNC): Firm that is based in one country (the parent or home country) and produces goods or provides services in one or more foreign countries (host countries).

Musculoskeletal disorders (MSDs): Conditions that affect the body's muscles, joints, tendons, ligaments, and nerves.

NACElink Network: An alliance among the National Association of Colleges and Employers, DirectEmployers Association, and Symplicity Corporation; a national recruiting network and suite of Web-based recruiting and career services automation tools serving the needs of colleges, employers, and job candidates.

National union: Organization composed of local unions, which it charters.

Negative halo effect: See *horn error*.

Negligent hiring: Liability a company incurs when it fails to conduct a reasonable investigation of an applicant's background, and then assigns a potentially dangerous person to a position where he or she can inflict harm.

Negligent retention: Liability an employer may incur when a company keeps persons on the payroll whose records indicate strong potential for wrongdoing and fails to take steps to defuse a possible violent situation.

Network career path: Method of career progression that contains both a vertical sequence of jobs and a series of horizontal opportunities.

Niche sites: Web sites that cater to highly specialized job markets such as a particular profession, industry, education, location, or any combination of these specialties.

Nominal hourly compensation: The face value of a dollar.

Nonfinancial compensation: Satisfaction that a person receives from the job itself or from the psychological and/or physical environment in which the person works.

Nonqualified plans: Welfare and pension plans that do not meet various requirements set forth by the Employee Retirement Income Security Act of 1974 (ERISA), disallowing favorable tax treatment for employee and employer contributions.

Norm: Frame of reference for comparing an applicant's performance with that of others.

Objectivity: Condition that is achieved when everyone scoring a given test obtains the same results.

Offboarding: Facilitates employee departure from the company by assisting the completion of exit tasks, including exit interviews, forms completion, the return of company property, and ensuring that employees receive the appropriate extended benefits.

Offshoring: Migration of all or a significant part of the development, maintenance, and delivery of services to a vendor located in another country.

Ombudsperson: Complaint officer with access to top management who hears employee complaints, investigates, and recommends appropriate action.

Online higher education: Educational opportunities including degree and training programs that are delivered, either entirely or partially, via the Internet.

Onshoring: Moving jobs not to another country but to lower-cost American cities.

On-the-job-training (OJT): An informal training and development method that permits an employee to learn job tasks by actually performing them.

Open shop: Employment on equal terms to union members and nonmembers alike.

Organization development (OD): Planned and systematic attempts to change the organization, typically to a more behavioral environment.

Organizational analysis: Training needs assessment activity, which focuses on the firm's strategic mission, goals, and corporate plans are studied, along with the results of strategic HR planning.

Organizational fit: Management's perception of the degree to which the prospective employee will fit in with the firm's culture or value system.

Organizational results: Typically, training outcomes such as enhanced productivity, lower costs, and higher product or service quality.

Orientation: Initial training and development effort for new employees that informs them about the company, the job, and the work group.

Outplacement: A procedure whereby laid-off employees are given assistance in finding employment elsewhere.

Outsourcing: Process of hiring an external provider to do the work that was previously done internally.

Out-of-pocket maximum: The maximum amount an employee pays for health care during a calendar or plan year.

Paid time off (PTO) banks: Means of dealing with the problem of unscheduled absences by providing a certain number of days each year that employees can use for any purpose.

Paired comparisons: Supervisors compare each employee to every other employee, identifying the better performer in each pair.

Passive job seekers: Potential job candidates, who are typically employed, satisfied with their employer, and content in their current role but if the right opportunity came along, they might like to learn more.

Pay grade: Grouping of similar jobs to simplify pricing jobs.

Pay level compensation policies: Determine whether the company will be a pay leader (market lead), a pay follower (market lag), or assume an average position (market match) in the labor market.

Pay mix compensation policies: Combination of direct (core compensation) and indirect financial compensation (employee benefits) components that make up an employee's total compensation package.

Pay range: Minimum and maximum pay rate with enough variance between the two to allow for a significant pay difference.

Pay structures: Pay rate differences for jobs of unequal worth and the framework for recognizing differences in employee contributions.

Performance appraisal (PA): Formal system of review and evaluation of individual or team task performance.

Performance management (PM): Goal-oriented process directed toward ensuring that organizational processes are in place to maximize the productivity of employees, teams, and ultimately, the organization.

Permissive bargaining issues: Issues may be raised, but neither side may insist that they be bargained over.

Perquisites (perks): Special benefits provided by a firm to a small group of key executives and designed to give the executives something extra.

Person analysis: A training needs assessment activity that focuses on finding answers to questions such as Who needs to be trained? What do they need to do differently from what they're doing today? What kind of knowledge, skills, and abilities (KSAs) do employees need?

Person-focused pay: Compensation for developing the flexibility, knowledge, and skills to perform a number of jobs effectively.

Personality: Individual differences in characteristic patterns of thinking, feeling, and behaving.

Personality tests: Self-reported measures of traits, temperaments, or dispositions.

Phased retirement: Any arrangement that allows people to move from full-time work to retirement in steps.

Piecework: Incentive pay plan in which employees are paid for each unit they produce.

Point method: Job evaluation method where the raters assign numerical values to specific job factors, such as knowledge required, and the sum of these values provides a quantitative assessment of a job's relative worth.

Polycentric staffing: Staffing approach in which host-country nationals are used throughout the organization, from top to bottom.

Position: Collection of tasks and responsibilities performed by one person.

Positive halo effect: See *halo error.*

Postexit questionnaire: Questionnaire sent to former employees several weeks after they leave the organization to determine the real reason they left.

Preferred provider organization (PPO): Managed-care health organization in which incentives are provided to members to use services within the system; out-of-network providers may be utilized at greater cost.

Preliminary screening: In employee selection, a review to eliminate those who obviously do not meet the position's requirements.

Premium pay: Compensation paid to employees for working long periods of time or working under dangerous or undesirable conditions.

Prepaid medical services: HMOs are sometimes described as providing prepaid medical services because fixed periodic enrollment fees cover HMO members for all medically necessary services only if the services are delivered or approved by the HMO.

Prescription drug plans: Coverage of the costs of drugs that state or federal laws require be dispensed by licensed pharmacists.

Primary care physicians: Designated by HMOs to determine whether patients require the care of a medical specialist. This functions to control costs by reducing the number of medically unnecessary visits to expensive specialists.

Profession: Vocation characterized by the existence of a common body of knowledge and a procedure for certifying members.

Professional employer organization (PEO): A company that leases employees to other businesses.

Profit sharing: Compensation plans that result in the distribution of a predetermined percentage of the firm's profits to employees.

Progressive disciplinary action: Approach to disciplinary action designed to ensure that the minimum penalty appropriate to the offense is imposed.

Prohibited bargaining issues: Issues that are statutorily outlawed from collective bargaining.

Promotion: Movement of a person to a higher-level position in an organization.

Promotion from within (PFW): Policy of filling vacancies above entry-level positions with current employees.

Public awareness campaigns: Labor maneuvers that do not coincide with a strike or organizing campaign to pressure an employer for better wages, benefits, and the like.

Qualified plans: Welfare and pension plans that meet various requirements set forth by the Employee Retirement Income Security Act of 1974; these plans entitle employees and employers to favorable tax treatment by deducting the contributions from taxable income. Qualified plans do not disproportionately favor highly compensated employees.

Quality circles: Groups of employees who voluntarily meet regularly with their supervisors to discuss problems, investigate causes, recommend solutions, and take corrective action when authorized to do so.

Rating errors: In performance appraisals, differences between human judgment processes versus objective, accurate assessments uncolored by bias, prejudice, or other subjective, extraneous influences.

Reactions: Training evaluation criterion focused on the extent to which trainees liked the training program related to its usefulness, and quality of conduct.

Real hourly compensation: Measure of the purchasing power of a dollar.

Realistic job preview (RJP): Method of conveying both positive and negative job information to the applicant in an unbiased manner.

Recruitment: Process of attracting individuals on a timely basis, in sufficient numbers, and with appropriate qualifications to apply for jobs with an organization.

Recruitment methods: Specific means used to attract potential employees to the firm.

Recruitment sources: Where qualified candidates are located.

Reengineering: Fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service, and speed.

Reference checks: Validations from individuals who know the applicant that provide additional insight into the information furnished by the applicant and allow verification of its accuracy.

Referral plans: Individual incentive pay plans for rewarding the referral of new customers or recruiting successful job applicants.

Regiocentric staffing: Staffing approach that is similar to the polycentric staffing approach, but regional groups of subsidiaries reflecting the organization's strategy and structure work as a unit.

Reliability: Extent to which a selection test provides consistent results.

Relocation benefits: Company-paid shipment of household goods and temporary living expenses, covering all or a portion of the real estate costs associated with buying a new home and selling the previously occupied home.

Repatriation: Process of bringing expatriates home.

Requirements forecast: Determining the number, skill, and location of employees the organization will need at future dates in order to meet its goals.

Reshoring: Reverse of offshoring and involves bringing work back to the United States.

Results-based performance appraisal: Performance appraisal method in which the manager and subordinate jointly agree on objectives for the next appraisal period; in the past a form of management by objectives.

Résumé: Goal-directed summary of a person's experience, education, and training developed for use in the selection process.

Reverse mentoring: A process in which older employees learn from younger ones.

Right-to-work laws: Laws that prohibit management and unions from entering into agreements requiring union membership as a condition of employment.

Rights arbitration: Arbitration involving disputes over the interpretation and application of the various provisions of an existing contract.

Role-playing: Training and development method in which participants are required to respond to specific problems they may encounter in their jobs by acting out real-world situations.

Sabbaticals: Temporary leaves of absence from an organization, usually at reduced pay.

Safety: Protection of employees from injuries caused by work-related accidents.

Salary: One type of base pay. Employees earn salaries for performing their jobs, regardless of the actual number of hours worked. Companies generally measure salary on an annual basis.

Salary compression: Situation that occurs when less experienced employees are paid as much as or more than employees who have been with the organization a long time due to a gradual increase in starting salaries and limited salary adjustment for long-term employees.

Say on pay: Provision that gives shareholders in all but the smallest companies an advisory vote on executive pay.

Scanlon plan: Gain sharing plan that provides a financial reward to employees for savings in labor costs resulting from their suggestions.

Secondary boycott: Union attempt to encourage third parties (such as suppliers and customers) to stop doing business with a firm; declared illegal by the Taft–Hartley Act.

Selection: Process of choosing from a group of applicants the individual best suited for a particular position and the organization.

Selection ratio: Number of people hired for a particular job compared to the number of qualified individuals in the applicant pool.

Self-assessment: Process of learning about oneself.

Seniority: Length of time an employee has been associated with the company, division, department, or job.

Seniority pay: Pay program in which pay increases are based on length of service.

Severance pay: Compensation designed to assist laid-off employees as they search for new employment.

Shared service center (SSC): A center that takes routine, transaction-based activities dispersed throughout the organization and consolidates them in one place (also known as a center of expertise).

Shareholders: Owners of a corporation.

Shift differential: Additional money paid to employees for the inconvenience of working less-desirable hours.

Simulators: Training and development delivery system comprised of devices or programs that replicate actual job demands.

Situational interview: Gives interviewers better insight into how candidates would perform in the work environment by creating hypothetical situations candidates would be likely to encounter on the job and asking them how they would handle them.

Skill-based pay: System that compensates employees for their job-related skills and knowledge, not for their job titles.

Social audit: Systematic assessment of a company's activities in terms of its social impact.

Specialist: Individual who may be a HR executive, a HR manager, or a nonmanager, and who is typically concerned with only one of the five functional areas of HR management.

Spillover effect: Nonunion companies' offer of similar compensation unionized companies with the goal of is reducing the likelihood that nonunion workforces will seek union representation.

Spot bonus: Relatively small monetary gift provided employees for outstanding work or effort during a reasonably short period of time.

Staffing: Process through which an organization ensures that it always has the proper number of employees with the appropriate skills in the right jobs, at the right time, to achieve organizational objectives.

Standardization: Uniformity of the procedures and conditions related to administering tests.

Stock compensation plans: Companywide incentive plans that grant employees the right to purchase shares of company stock.

Stock options: Incentive plan in which employees can buy a specified amount of stock in their company in the future at or below the current market price.

Strategic planning: Process by which top management determines overall organizational purposes and objectives and how they are achieved.

Strength/weakness balance sheet: A self-evaluation procedure, developed originally by Benjamin Franklin, that assists people in becoming aware of their strengths and weaknesses.

Stress: Body's nonspecific reaction to any demand made on it.

Stress interview: Form of interview in which the interviewer intentionally creates anxiety.

Strictness errors: Being unduly critical of an employee's work performance.

Strike: Action by union members who refuse to work in order to exert pressure on management in negotiations.

Structured interview: Interview in which the interviewer asks each applicant for a particular job the same series of job-related questions.

Substance abuse: Use of illegal substances or the misuse of controlled substances such as alcohol and drugs.

Succession planning: Process of ensuring that qualified persons are available to assume key managerial positions once the positions are vacant.

Survey feedback: Organization development method of basing change efforts on the systematic collection and measurement of subordinate's attitudes through anonymous questionnaires.

Talent management: Strategic endeavor to optimize the use of human capital, which enables an organization to drive short- and long-term results by building culture, engagement, capability, and capacity through integrated talent acquisition, development, and deployment processes that are aligned to business goals.

Task analysis: A training needs assessment activity, which focuses on the tasks required to achieve the firm's purposes.

Team building: Conscious effort to develop effective work groups and cooperative skills throughout the organization.

Team coordination training: Team training focused on educating team members how to orchestrate the individual work that they do to complete the task.

Team training: Training focused on teaching knowledge and skills to individuals who are expected to work collectively toward meeting a common objective.

Telecommuting: Work arrangement whereby employees, called "teleworkers" or "telecommuters," are able to remain at home (or otherwise away from the office) and perform their work using computers and other electronic devices that connect them with their offices.

Term life insurance: Protection for providing monetary payments to an employee's beneficiaries upon the employee's death, and offered only during a limited period based on a specified number of years or maximum age.

Termination: Most severe penalty that an organization can impose on an employee.

Third-country national (TCN): Citizen of one country, working in a second country, and employed by an organization headquartered in a third country.

360-degree feedback evaluation method: Popular performance appraisal method that involves evaluation input from multiple levels within the firm as well as external sources.

Traditional career path: Employee progresses vertically upward in the organization from one specific job to the next.

Training: Activities designed to provide learners with the knowledge and skills needed for their present jobs.

Training and development (T&D): Heart of a continuous effort designed to improve employee competency and organizational performance.

Trait systems: Type of performance-appraisal method, requiring raters (e.g., supervisors or customers) to evaluate each employee's traits or characteristics (e.g., quality of work and leadership).

Transfer: Lateral movement of a worker within an organization.

Transfer of training: Training evaluation method focusing on the extent to which an employee generalizes knowledge and skill learned in training to the work place, as well as maintains the level of skill proficiency or knowledge learned in training.

Two-tier wage system: A wage structure where newly hired workers are paid less than current employees for performing the same or similar jobs.

Unemployment insurance: Provides workers whose jobs have been terminated through no fault of their own monetary payments for up to 26 weeks or until they find a new job.

***Uniform Guidelines*:** Provide a single set of principles that were designed to assist employers, labor organizations, employment agencies, and licensing and certification boards in complying with federal prohibitions against employment practices that discriminate on the basis of race, color, religion, sex, and national origin.

Union salting: Process of training union organizers to apply for jobs at a company and, once hired, working to unionize employees.

Union shop: Requirement that all employees become members of the union after a specified period of employment (the legal minimum is 30 days) or after a union-shop provision has been negotiated.

Unstructured interview: Interview in which the job applicant is asked probing, open-ended questions.

Validity: Extent to which a test measures what it claims to measure.

Vestibule system: Training and development delivery system that takes place away from the production area on equipment that closely resembles equipment actually used on the job.

Vesting: An employee's acquired nonforfeitable rights to pension benefits.

Virtual job fair: Online recruiting method engaged in by a single employer or group of employers to attract a large number of applicants.

Voluntary benefits: Benefits which are 100 percent paid by the employee but the employer typically pays the administrative cost.

Wage: See *hourly pay*.

Wage curve: Fitting of plotted points to create a smooth progression between pay grades (also known as the pay curve).

Wellness programs: Designed to promote the mental and physical well-being of employees and family members.

Whole life insurance: A type of life insurance that provides protection to employees' beneficiaries during employees' employment and into the retirement years.

Workers' compensation: Provides a degree of financial protection for employees who incur expenses resulting from job-related accidents or illnesses.

Work standards method: Performance appraisal method that compares each employee's performance to a predetermined standard or expected level of output.

Workplace bullying: Acts of continual hostile conduct that deliberately hurt another person emotionally, verbally, or physically.

Workplace violence: Physical assault, threatening behavior, verbal abuse, hostility, or harassment directed toward employees at work or on duty.

Work-sample tests: Tests that require an applicant to perform a task or set of tasks representative of the job.

Zero-base forecast: Forecasting method that uses the organization's current level of employment as the starting point for determining future staffing needs.

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