Human Resources Management

> " *You can get capital and erect buildings, but it takes people to build a business.* "
>
> — Thomas J. Watson, Founder, IBM

LEARNING OBJECTIVES

After studying Chapter 10, you should be able to:

LO 1 Discuss how companies use human resources management to gain competitive advantage. p. 340

LO 2 Give reasons companies recruit both internally and externally for new hires. p. 346

LO 3 Identify various methods for selecting new employees. p. 348

LO 4 Evaluate the importance of spending on training and development. p. 357

LO 5 Explain alternatives for who appraises an employee's performance. p. 360

LO 6 Describe the fundamental aspects of a reward system. p. 364

LO 7 Summarize how unions and labor laws influence human resources management. p. 371

CHAPTER OUTLINE

Management Close-Up

In 1981, Pam Nicholson needed a job. Nicholson was a senior at the University of Missouri, and graduation was looming. So, when recruiters from Enterprise Rent-A-Car appeared on campus, she jumped at the chance to interview. For Nicholson, whose long-range goal was to manage a small business, getting an offer to work behind the counter at an Enterprise rental location in St. Louis seemed like a dream come true.

Nicholson worked hard and progressed steadily at Enterprise. After several years of promotions and challenging job responsibilities, in 2008 she was named president and chief operating officer. Industry observers might say Nicholson's career success has something to do with Enterprise founder Jack Taylor and his simple formula for running a business:

- Hire recent college grads with a thirst for management experience.
- Provide extensive training and mentoring along the way.
- Promote from within.
- Put customers and employees first, and success will follow.

> The career path of Enterprise Rent-A-Car president and COO Pam Nicholson offers a stunning success story. As you read this chapter, consider how Enterprise built its business and how the strategic use of people plays a central role in its success.

Pam Nicholson's career path illustrates Taylor's philosophy. During her first year at Enterprise, she was named assistant branch manager at her rental location. Shortly thereafter, Enterprise relocated her to southern California, where the company was just breaking into the market. In six years, Nicholson helped Enterprise grow from six offices to more than 300. The company made her a vice president and brought her back to headquarters, where she set up the first national preferred-provider arrangements with top automakers, enabling car owners to drive Enterprise rentals while the dealer services their vehicle.

In 1997, Nicholson's career led her to New York, where, in two years, she reorganized a slumping Enterprise unit, doubling its profits and growing its fleet from 20,000 to 30,000 cars. A 1999 promotion made her senior vice president for North American operations.

As for Nicholson's dream of running a small business? She now oversees a global organization with annual revenues near $10 billion, as well as 75,000 employees in 8,000 locations.[1]

human resources management (HRM)

Formal systems for the management of people within an organization.

The opening quote by Thomas Watson, founder of IBM, summarizes our view of the importance of people to any organization. Enterprise Rent-A-Car's decades-old practice of recruiting new college graduates and providing opportunities for advancement has differentiated the company in important ways. **Human resources management (HRM),** historically known as personnel management, deals with formal systems for managing people at work. For that reason, it is one of the fundamental aspects of organizational and managerial life. Your first formal interaction with an organization you wish to join will likely involve some aspect of its human resource function, and throughout your career as a manager you will be a part of, as well as be affected by, your organization's human resource management.

   We begin this chapter by describing HRM as it relates to strategic management. We will also discuss more of the "nuts and bolts" of HRM: staffing, training, performance appraisal, rewards, and labor relations. Throughout the chapter, we discuss legal issues that influence each aspect of HRM. In the next chapter, we expand this focus to address related issues of managing a diverse workforce.

Strategic Human Resources Management

LO 1

HRM has assumed a vital strategic role in recent years as organizations attempt to compete through people. Recall from Chapter 4 that firms can create a competitive advantage when they possess or develop resources that are valuable, rare, inimitable, and organized. We can use the same criteria to talk about the strategic impact of human resources:

1. *Creates value.* People can increase value through their efforts to decrease costs or provide something unique to customers or some combination of the two. Empowerment programs, total quality initiatives, and continuous improvement efforts at companies such as Corning and Xerox are intentionally designed to increase the value that employees bring to the bottom line.
2. *Is rare.* People are a source of competitive advantage when their skills, knowledge, and abilities are not equally available to all competitors. Top companies invest a great deal to hire and train the best and the brightest employees to gain advantage over their competitors. Dow Chemical went to court to stop General Electric from hiring away its engineers. This case shows that some companies recognize both the value and the rareness of certain employees.
3. *Is difficult to imitate.* People are a source of competitive advantage when their capabilities and contributions cannot be copied by others. Disney, Southwest Airlines, and Whole Foods are known for creating unique cultures that get the most from employees (through teamwork) and are difficult to imitate.
4. *Is organized.* People are a source of competitive advantage when their talents can be combined and deployed rapidly to work on new assignments at a moment's notice. Teamwork and cooperation are two pervasive methods for ensuring an organized workforce. But companies such as Spyglass

Southwest Airlines is known for creating a unique culture that gets the most from employees. Southwest rewards its employees for excellent performance and maintains loyalty by offering free airfare, profit sharing, and other incentives. What benefits would you need to stay motivated?

(a software company) and AT&T have invested in information technology to help allocate and track employee assignments to temporary projects.

These four criteria highlight the importance of people and show the closeness of HRM to strategic management. In a recent survey by the Society for Human Resource Management, among HR departments with a strategic plan for human resources, 56 percent worked closely with senior management to create strategies for the organization, and 68 percent worked closely to implement organizational strategies.[2] The evidence is growing that this focus brings positive business results. For example, a study by Deloitte & Touche associated the use of effective human resources practices with higher valuation of a company in the stock market.[3] Global trends make this focus even more important. Competition is intensifying. Rising educational standards and access to technology are increasingly available worldwide. *Innovation*—useful new ideas that emerge from the focused creativity of organization members—has become ever more critical to gaining and maintaining competitive advantage. Because employee skills, knowledge, and abilities are among the most distinctive and renewable resources on which a company can draw, their strategic management is more important than ever. Increasingly, organizations are recognizing that their success depends on what people know, that is, their knowledge and skills. The term **human capital** (or, more broadly, *intellectual capital*) often is used today to describe the strategic value of employee knowledge and abilities.

As more executives have come to appreciate that their employees can be their organization's most valuable resources, human resources managers have played a greater role in contributing to the organization's strategic planning. That means human resources (HR) specialists are challenged to know their organization's business, and line managers are challenged to excel at selecting and motivating the best people. As contributors to the organization's strategy, HR managers also face greater ethical challenges. When they were merely a specialized staff function, they could focus on, say, legal requirements for hiring decisions. But strategy decisions require them to be able to link decisions about staffing, training, and other HR matters to the organization's business success. For example, as members of the top management team, HR managers may be faced with the need for drastic downsizing of the workforce while still retaining top executives through generous salaries or bonuses, or they may fail to aggressively investigate and challenge corrupt practices of colleagues. Such dilemmas are complex and challenging. In the long run, however, organizations are best served when HR leaders are a strong advocate for at least four sets of values: strategic, ethical, legal, and financial.[4]

human capital

The knowledge, skills, and abilities of employees that have economic value.

Tough economic times deliver exciting HR opportunities as well as tough HR challenges. Well-managed firms seize the opportunities and meet the challenges.

One company that prepares well for a slowdown is PriceSpective, a consulting firm. The company's four co-owners meet monthly with senior managers to determine whether their current staffing levels are appropriate for their coming needs. Whenever sales are slow, PriceSpective institutes a temporary hiring freeze. Because these actions are part of a regular planning process, employees don't worry; they know managers are simply making course adjustments to keep the company efficient. Also, even when clients are not signing up for services, PriceSpective keeps talking to prospective employees. For the firm's specialized practice serving pharmaceutical firms, it needs many employees with doctoral degrees, who would be difficult to find and hire quickly when business picks up. Of course, when interviewing during a hiring freeze, managers are careful to explain the company' situation and plans for the future.

Other firms are able to hire during a recession, gaining access to a huge pool of talented people. The recent recession drove more shoppers from higher-priced retailers to Family

Dollar Stores, so the company opened more stores, receiving applications from workers with better-than-usual credentials. The company also needed specialists for its information technology department; it found experienced IT workers who left Circuit City when that chain went out of business. Companies that, like Family Dollar, build up their staff when talented people are hungry for work can boost sales, improve efficiency, and gain an advantage over competitors—if they can keep and motivate these employees.[5]

Managing human capital to sustain a competitive advantage is perhaps the most important part of an organization's HR function. But on a day-to-day basis, HR managers also have many other concerns regarding their workers and the entire personnel puzzle. These concerns include attracting talent; maintaining a well-trained, highly motivated, and loyal workforce; managing diversity; devising effective compensation systems; managing layoffs; and containing health care and pension costs. Balancing these issues is difficult, and the best approach varies depending on the circumstances of the organization. A steel producer facing a cutback in business may need human resources activities to assist with layoffs, whereas a semiconductor company may need more staff to produce enough microchips to meet the demands of the consumer electronics market. The emphasis on different HR activities depends on whether the organization is growing, declining, or standing still. This leads to the practical issues involved in HR planning.

"Hire the best. Pay them fairly. Communicate freely. Provide challenges and rewards. Get out of their way. They'll knock your socks off."
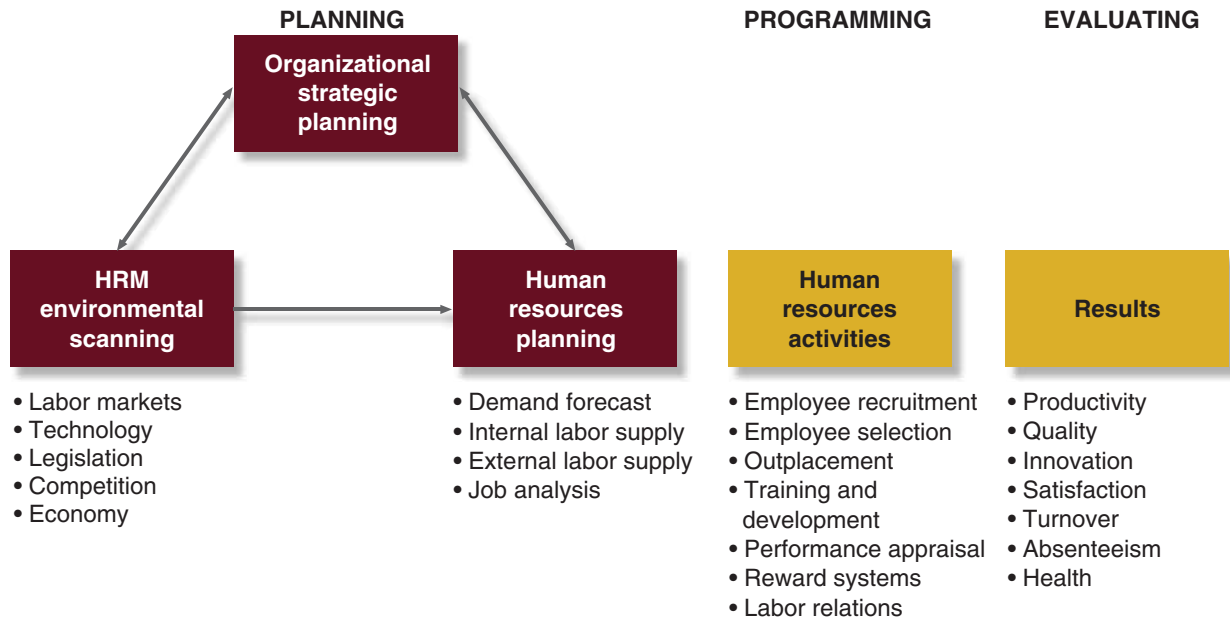
—Mary Ann Allison

The HR Planning Process

"Get me the right kind and the right number of people at the right time." It sounds simple enough, but meeting an organization's staffing needs requires strategic human resources planning: an activity with a strategic purpose derived from the organization's plans.

The HR planning process occurs in three stages: planning, programming, and evaluating. First, HR managers need to know the organization's business plans to ensure that the right number and types of people are available—where the company is headed, in what businesses it plans to be, what future growth is expected, and so forth. Few actions are more damaging to morale than having to lay off recently hired college graduates because of inadequate planning for future needs. Second, the organization conducts programming of specific human resources activities, such as recruitment, training, and layoffs. In this stage, the company's plans are implemented. Third, human resources activities are evaluated to determine whether they are producing the results needed to contribute to the organization's business plans. Figure 10.1 illustrates the components of the human resources planning process. In this chapter, we focus on human resources planning and programming. Many of the other factors listed in Figure 10.1 are discussed in later chapters.

Demand Forecasts   Perhaps the most difficult part of human resources planning is conducting *demand* forecasts, that is, determining how many and what type of people are needed. Demand forecasts for people needs are derived from organizational plans. To develop the iPhone, Apple had to determine how many engineers and designers it needed to ensure such a complex product was ready for a mid-2007 U.S. launch, given that the company was collaborating with a phone service provider. Managers also needed to estimate how many iPhones the company would sell. Based on a forecast of selling 10 million units the first full year, they needed to determine how many production employees would be required, along with the staff who would market the phone, handle publicity for the product launch, and answer phone and online inquiries from customers learning how to use the new product. Similarly, companies selling an

PLANNING		PROGRAMMING	EVALUATING

Organizational strategic planning

HRM environmental scanning

- Labor markets
- Technology
- Legislation
- Competition
- Economy

Human resources planning

- Demand forecast
- Internal labor supply
- External labor supply
- Job analysis

Human resources activities

- Employee recruitment
- Employee selection
- Outplacement
- Training and development
- Performance appraisal
- Reward systems
- Labor relations

Results

- Productivity
- Quality
- Innovation
- Satisfaction
- Turnover
- Absenteeism
- Health

FIGURE 10.1
An Overview of the HR Planning Process

existing product consider current sales and projected future sales growth as they estimate the plant capacity needed to meet future demand, the sales force required, the support staff needed, and so forth. They calculate the number of labor-hours required to operate a plant, sell the product, distribute it, serve customers, and so forth. These estimates are used to determine the demand for different types of workers.

Labor Supply Forecasts   Along with forecasting demand, managers must forecast the *supply of labor*, that is, how many and what types of employees the organization actually will have. In performing a supply analysis, the organization estimates the number and quality of its current employees as well as the available external supply of workers. To estimate internal supply, the company typically relies on its experiences with turnover, terminations, retirements, promotions, and transfers. A computerized human resources information system assists greatly in supply forecasting.

Externally, organizations have to look at workforce trends to make projections. Worldwide, as we discussed in Chapter 6, the highly skilled, higher-paid jobs have been generated mostly in the cities of the industrialized world, where companies have scrambled to find enough qualified workers. At the same time, companies in industrialized nations have used offshoring to move much of their routine and less-skilled work to nations with a large population willing to work for lower pay. However, as described in the "From the Pages of *BusinessWeek*" feature, the resulting demand for overseas talent has made a variety of jobs difficult to fill throughout the world.

Where Are All the Workers?

FROM THE PAGES OF

BusinessWeek

Employers in some unlikely places say they're having trouble filling jobs. Factory managers in Ho Chi Minh City report many of their $62-a-month workers went home for the Tet holiday in February and never came back. In Bulgaria, computer experts are in such demand they can't be bothered to answer the want ads of a Los Angeles movie studio. And in Peoria, Illinois, Caterpillar Inc. is struggling to train enough service technicians. The problem in each case: not enough people who are both able and willing to do the work for the posted pay. "We've got a global problem . . . and it's only going to continue to get worse," says Stephen Hitch, a human resources manager at Caterpillar.

A global labor crunch, already being felt by some employers, appears to have intensified in recent months. That's in spite of widely publicized layoffs, including Citigroup's plans to shed as many as 15,000 staffers. In fact, U.S. unemployment remains low—just 4.5 percent in February 2007—and even companies in countries with higher jobless rates are feeling pinched. "It's not just a U.S. phenomenon," says Jeffrey A. Joerres, CEO of Manpower, the staffing agency.

What's going on here? With global growth running at a strong 5 percent a year since 2004, the strategies that companies developed to hold down labor costs—including offshoring work to low-wage countries—are running out of gas far sooner than many expected. The seemingly inexhaustible pools of cheap labor from China, India, and elsewhere are drying up as demand outstrips the supply of people with the needed skills.

Corporations are determined to keep labor costs under control, so they're reaching deeper into their bag of tricks. Some are doing more in-house training so they don't have to recruit pricey talent on the open market. Some are lowering their standards for new hires or moving operations to virgin territories other outsourcers haven't discovered, such as the Belarusian capital, Minsk, or smaller cities in Bulgaria and Romania.

For now, though, workers with skills that are in short supply are enjoying the ride. If you're a petroleum engineer in Colorado, you can write your own ticket. Pittsburgh-based Consol Energy is so desperate for coal miners that it's staging a media campaign that includes billboards, the Internet, and its first-ever television commercials. In agriculture, the crackdown on illegal immigration has dried up farm labor so much that crops were left rotting in the fields in 2006. Even Michigan, which has the nation's highest unemployment rate, is reaching out to migrant farmworkers from Texas and, soon, Florida.

The job U.S. employers say is hardest to fill is sales representative. The trouble is, companies can't find people with the technical expertise and business savvy to explain complex products to customers, Manpower says. Right behind them on U.S. employers' wish lists are teachers, mechanics, and technicians.

Economists, of course, will tell you there's no such thing as a labor shortage. From a worker's viewpoint, many so-called shortages could quickly be solved if employers were to offer more money. And worldwide, millions of people still can't find jobs. The strongest evidence that there's no general shortage today is that overall worker pay has barely outpaced inflation. In the United States, the share of national income going to corporate profit, rather than, say, labor, is hovering around a 50-year high. With so many people newly available for work in China, India, and the former Soviet Union, the only thing that could cause a real shortage would be "a global pandemic that kills millions of people," Harvard University economist Richard B. Freeman wrote in a research paper in 2006.

But try telling that to employers whose workforce strategies, developed for a period of surplus labor, don't fit the new realities. The challenge is finding people who can do the jobs on offer. Manufacturers in Japan are suffering a lack of skilled workers because of the country's aging population as well as downsizing during the 1990s. China, although far more youthful than Japan, could soon feel the same pinch. Sure, its biggest problem at the moment continues to be creating jobs for the millions of workers pouring into cities, and wages are barely rising overall. But that may be starting to change as the government boosts incentives for people to stay in rural areas and most factories remain concentrated in a few coastal regions. And while India produces 400,000 engineering graduates a year, few have the skills and language abilities to work in an advanced multinational corporation. Some 1.3 million people applied to tech-services giant Infosys Technologies in 2006, but the company says only 2 percent of those were employable.

For business, it seems, there's no shortage of work involved in easing worker shortages.

SOURCE: Excerpted from Peter Coy and Jack Ewing, "Where Are All the Workers?" *BusinessWeek,* April 9, 2007, http://www.businessweek.com.

In the United States, demographic trends have contributed to a shortage of workers with the appropriate skills and education level. Traditional labor-intensive jobs, in agriculture, mining, and assembly-line manufacturing, are making way for jobs in technical, financial, and customized goods and service industries. These jobs often require much more training and schooling than the jobs they are replacing—or that the education system may currently be producing. Demand for highly qualified employees continues to outpace supply—one reason some jobs are being transferred overseas. Some demographic trends we discussed in Chapter 2 may worsen this situation. For example, the upcoming retirement of the baby-boomer generation will remove a large number of educated and trained employees from the workforce. And in math, science, and engineering graduate schools, fewer than half of the students receiving graduate degrees are American born. (To fill U.S. jobs, companies must hire U.S. citizens or immigrants with permission to work in the United States.)

One response managers have made to deal with this skills shortage has been to increase significantly the remedial and training budgets within their own organizations.[6] Another response has been to increase the labor supply by recruiting workers from other countries. The supply of legal immigrant labor is restricted by various laws and regulations. For example, each year the U.S. government awards H-1B visas to 65,000 college-educated workers in high-skilled, highly demanded jobs such as engineers and scientists. Those people are permitted to work temporarily in the United States. Managers at high-tech companies including Microsoft, Oracle, and Intel complain that the number of H-1B visas is too small to enable companies to meet the demand for technical workers, and some companies address that challenge by aggressively hiring early each year, before the quota has been met. Immigrant workers are also attractive to companies with a low-cost strategy, because strong labor demand in the United States enables U.S. workers to insist on higher pay.[7] Retraining downsized workers is yet another approach to increasing the workforce labor pool.

Health care is an industry that is growing—in some areas, faster than organizations can hire and train staff. Manufacturing, on the other hand, is shrinking. As sales decline and companies downsize or close altogether, workers are laid off without other job prospects. Recently, some companies and not-for-profit organizations have begun collaborating to meet the needs of both industries by retraining laid-off manufacturing workers to enter the health-care field.

The Manufacturers Association of Central New York teamed up with the Northern Area Health Education Center and Syracuse University to evaluate and retrain displaced workers in health care fields. Applicants take aptitude tests to determine what skills they already possess—for example, interpersonal skills, including teamwork, or the ability to interpret graphics. Those who already show a level of proficiency in certain areas can obtain a certificate of competency for those skills. A Web site hosted by the Northern Area Health Education Center posts the credential information so that interested employers such as hospitals or nursing homes can find potential job candidates; the site also shows candidates what types of jobs they would qualify for. "We are focusing on jobs that do not have degrees or licenses," says Tom Hadlick, director of the assessment program, which is called WorkKeys. Nursing assistants, pharmacy technicians, and paramedics fall into this category. This collaboration is a way to benefit both the people who need work and the industry that needs them.[8]

On the plus side, earlier forecasts of a diverse workforce have become fact, adding greatly to the pool of available talent. The business world is no longer the exclusive domain of white males. In fact, two-career families have become the norm. Minorities,

women, immigrants, older and disabled workers, and other groups have made the management of diversity a fundamental activity of the modern manager. Because of the importance of managing the "new workforce," the next chapter is devoted entirely to this topic.

Reconciling Supply and Demand   Once managers have a good idea of the supply of and the demand for various types of employees, they can start developing approaches for reconciling the two. In some cases, organizations find they need more people than they currently have (i.e., a labor deficit). In such cases, organizations can hire new employees, promote current employees to new positions, or outsource work to contractors. In other cases, organizations may find that they have more people than they need (i.e., a labor surplus). If this is detected far enough in advance, organizations can use attrition—the normal turnover of employees—to reduce the surplus. In other instances, the organization may lay off employees or transfer them to other areas.

When managers do need to hire, one tool they can use is their organization's compensation policy. Large companies in particular spend a lot of time gathering information about pay scales for the various jobs they have available and making sure their compensation system is fair and competitive. We discuss pay issues later in this chapter.

job analysis

A tool for determining what is done on a given job and what should be done on that job.

Job Analysis   Although issues of supply and demand are fairly "macro" activities—conducted at an organizational level—HR planning also has a "micro" side called *job analysis*. **Job analysis** does two things.[9] First, it tells the HR manager about the job itself: the essential tasks, duties, and responsibilities involved in performing the job. This information is called a *job description*. The job description for an accounting manager might specify that the position will be responsible for monthly, quarterly, and annual financial reports, getting bills issued and paid, preparing budgets, ensuring the company's compliance with laws and regulations, working closely with line managers on financial issues, and supervising an accounting department of 12 people.

Second, job analysis describes the skills, knowledge, abilities, and other characteristics needed to perform the job. This is called the *job specification*. For our accounting manager example, the job requirements might include a degree in accounting or business, knowledge of computerized accounting systems, prior managerial experience, and excellent communication skills.

Job analysis provides the information required by virtually every human resources activity. It assists with the essential HR programs: recruitment, training, selection, appraisal, and reward systems. It may also help organizations defend themselves in lawsuits involving employment practices—for example, by clearly specifying what a job requires if someone claims unfair dismissal.[10] Ultimately, job analysis helps increase the value added by employees to the organization because it clarifies what is really required to perform effectively.

Staffing the Organization

LO 2

Once HR planning is completed, managers can focus on staffing the organization. The staffing function consists of three related activities: recruitment, selection, and outplacement.

Recruitment

recruitment

The development of a pool of applicants for jobs in an organization.

Recruitment activities help increase the pool of candidates that might be selected for a job. Recruitment may be internal to the organization (considering current employees for promotions and transfers) or external. Each approach has advantages and disadvantages.[11]

Internal Recruiting   The advantages of internal recruiting are that employers know their employees, and employees know their organization. External candidates who are unfamiliar with the organization may find they don't like working there. Also, the opportunity to move up within the organization may encourage employees to remain with the company, work hard, and succeed. Recruiting from outside the company can be demoralizing to employees. Many companies, such as Sears and Eli Lilly, prefer internal to external recruiting for these reasons.

Internal staffing has some drawbacks. If existing employees lack skills or talent, internal recruitment yields a limited applicant pool, leading to poor selection decisions. Also, an internal recruitment policy can inhibit a company that wants to change the nature or goals of the business by bringing in outside candidates. In changing from a rapidly growing, entrepreneurial organization to a mature business with more stable growth, Dell went outside the organization to hire managers who better fit those needs.

Many companies that rely heavily on internal recruiting use a job-posting system. A *job-posting system* is a mechanism for advertising open positions, typically on a bulletin board or the company's intranet. Texas Instruments uses job posting. Employees complete a request form indicating interest in a posted job. The posted job description includes a list of duties and the minimum skills and experience required.

Just over this employee's shoulder is an internal job listing board, typical for companies who prefer internal recruiting. Companies are increasingly utilizing their intranet sites to post jobs as well.

External Recruiting   External recruiting brings in "new blood" to a company and can inspire innovation. Among the most frequently used sources of outside applicants are Internet job boards, company Web sites, employee referrals, newspaper advertisements, and college campus recruiting.

Recent surveys suggest that employers place the greatest emphasis on referrals by current employees and online job boards.[12] Some companies actively encourage employees to refer their friends by offering cash rewards. In fact, surveys show word-of-mouth recommendations are the way most job positions get filled. Not only is this recruitment method relatively inexpensive, but employees also tend to know who will be a good fit with the company. Web job boards such as CareerBuilder, Monster, and Yahoo HotJobs have exploded in popularity as a job-recruitment tool because they easily reach a large pool of job seekers. They have largely supplanted newspaper want ads, although print recruiting has grown somewhat, partly as a result of forming alliances with the job boards. Most companies also let people apply for jobs at their corporate Web site, and many even list open positions. Employment agencies are another common recruitment tool, and for important management positions companies often use specialized executive-search firms. Some companies also are buying search engine
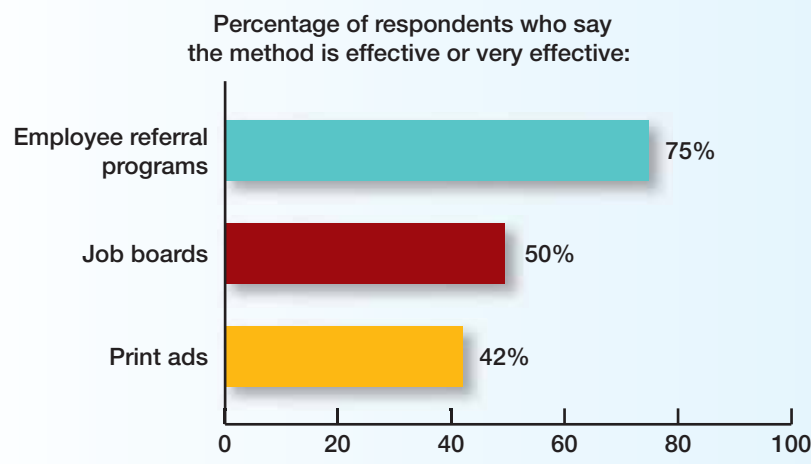
The bottom line
Innovation

Outside hires often bring new ideas to the organization.

Some college graduates know exactly what they want to do when they graduate, and others have trouble deciding. Wendy Kopp has an option—put aside your ultimate career goals for two years and teach at a school that really needs you. Kopp founded her not-for-profit organization, Teach for America (TFA), nearly 20 years ago with the idea that some of the nation's best and brightest college graduates could—and would—make a real difference to students attending inner city and rural schools where resources are slim or nonexistent. The idea has resonated so greatly among graduating seniors and young professionals that Teach for America has become the largest hiring employer of college seniors in the nation. During a single year, nearly 20,000 students and graduates apply for roughly 2,400 positions. "We recruit insanely aggressively," admits Kopp. Applicants

endure rigorous interviews, testing, and training before they are placed in a school, and they are asked to give a two-year commitment to the project.

All of this activity has not been lost on some of the biggest U.S. companies. In fact, investment bank J.P. Morgan found itself competing with Teach for America for a number of job candidates. So the bank and TFA teamed up to hold joint recruiting events at various colleges. J.P. Morgan has committed to deferring job offers to seniors who are accepted by both its training program and TFA, giving those graduates a chance to fulfill their TFA assignment. Why would the bank make this concession? "We want employees who are committed to serving the community as well as serving shareholders," explains David Puth, Morgan's head of global currency and commodities. Amgen has followed suit, in an effort to grab the best math and science students. Wachovia redesigned its recruiting efforts to mirror those of TFA. Shannon McFayden, head of the bank's human resources department, explains why. "We think Teach for America is the best college recruiting organization in the U.S."[15]

What recruiting methods are most valuable?[14]

Percentage of respondents who say the method is effective or very effective:

- Employee referral programs — 75%
- Job boards — 50%
- Print ads — 42%

ads to display next to the results for relevant terms such as *nurse*. Another online tool is to obtain leads through networking sites such as LinkedIn and Craigslist. Campus recruiting can be helpful for companies looking for applicants who have up-to-date training and innovative ideas. However, companies that rely heavily on campus recruiting and employee referrals have to take extra care to ensure that these methods do not discriminate by generating pools of applicants who are, say, mostly women or primarily white.[13]

Most companies use some combination of the methods we have been discussing, depending on the particular job or situation. For example, they might use internal recruiting for existing jobs that need replacements, and external recruiting when the firm is expanding or needs to acquire some new skill.

Selection

LO 3

selection

Choosing from among qualified applicants to hire into an organization.

Selection builds on recruiting and involves decisions about whom to hire. As important as these decisions are, they are—unfortunately—at times made in very careless or cavalier ways. In this section we describe a number of selection instruments to which you may soon be exposed in your own career.

Applications and Résumés   Application blanks and résumés provide basic information to prospective employers. To make a first cut through candidates, employers review the profiles and backgrounds of various job applicants. Applications and résumés typically include information about the applicant's name, educational background, citizenship, work experiences, certifications, and the like. Their appearance and accuracy also say something about the applicant—spelling mistakes, for example, are almost always immediately disqualifying (something to keep in mind when preparing your own). While providing important information, applications and résumés tend not to be extremely useful for making final selection decisions.

Interviews   The most popular selection tool is interviewing, and every company uses some type of interview. However, employment interviewers must be careful about what they ask and how they ask it. As we will explain later in the chapter, federal law requires that employers avoid discriminating against people based on criteria such as sex and race; questions that distinguish candidates according to protected categories may be seen as evidence of discrimination.

In an unstructured (or nondirective) interview, the interviewer asks different interviewees different questions. The interviewer may also use probes, that is, ask follow-up questions to learn more about the candidate.[16]

In a **structured interview,** the interviewer conducts the same interview with each applicant. There are two basic types of structured interview. The first approach—called the *situational interview*—focuses on hypothetical situations. Zale Corporation, a major jewelry chain, uses this type of structured interview to select sales clerks. A sample question is: "A customer comes into the store to pick up a watch he had left for repair. The watch is not back yet from the repair shop, and the customer becomes angry. How would you handle the situation?" An answer that says "I would refer the customer to my supervisor" might suggest that the applicant felt incapable of handling the situation on his or her own. The second approach—called the *behavioral description interview*—explores what candidates have actually done in the past. In selecting accountants, Bill Bufe of Plante & Moran asks candidates how they handled a difficult person they have worked with, and Art King asks how candidates have handled a stressful situation, because he believes this shows how candidates "think on their feet."[17] Because behavioral questions are based on real events, they often provide useful information about how the candidate will actually perform on the job.

Each of these interview techniques offers a manager different advantages and disadvantages, and many interviewers use more than one technique during the same interview. Unstructured interviews can help establish rapport and provide a sense of the applicant's personality, but they may not provide the manager with specific information about the candidate's ability. Structured interviews tend to be more reliable predictors of job performance because they are based on the job analysis that has been done for the position. They are also more likely to be free of bias and stereotypes. And because the same questions are being asked of all candidates for the job, an interview that is at least partially structured allows the manager to compare responses across different candidates.[18]

Reference Checks   Résumés, applications, and interviews rely on the honesty of the applicant. To make an accurate selection decision, employers have to be able to trust the words of each candidate. Unfortunately, some candidates may hide criminal backgrounds that could pose a risk to the employer or exaggerate their qualifications. In a highly publicized incident, the dean of admissions at the Massachusetts Institute of Technology resigned after nearly three decades on the job because the school learned that she had provided false information about her educational background.[19] Although she had certainly demonstrated an ability to perform the job functions, she could no longer claim the level of integrity required by that position. Once lost, a reputation is hard to regain.

Because these and more ambiguous ethical gray areas arise, employers supplement candidate-provided information with other screening devices, including *reference checks.* Virtually all organizations contact references or former employers and educational institutions listed by candidates. Although checking references makes sense, reference information is becoming increasingly difficult to obtain as a result of several highly publicized lawsuits. In one case, an applicant sued a former boss on the grounds

During an interview, employers may opt to hold unstructured interviews, where they ask each potential employee different questions, or they may choose to hold structured interviews where the employer asks all potential employees the same questions.

structured interview

Selection technique that involves asking all applicants the same questions and comparing their responses to a standardized set of answers.

that the boss told prospective employers the applicant was a "thief and a crook." The jury awarded the applicant $80,000.[20] Nevertheless, talking to an applicant's previous supervisor is a common practice and often does provide useful information, particularly if specific job-related questions are asked ("Can you give me an example of a project candidate X handled particularly well?").

Background Checks   For a higher level of scrutiny, background investigations also have become standard procedure for many companies. Some state courts have ruled that companies can be held liable for negligent hiring if they fail to do adequate background checks. The different types of checks include Social Security verification, past employment and education verification, and a criminal records check. A number of other checks can be conducted if they pertain to the job being hired for, including a motor vehicle record check (for jobs involving driving) and a credit check (for money-handling jobs).

Internet tools have made basic background checks fast and easy to perform. A recent survey of executive recruiters learned that more than three-quarters use search engines such as Google to find out about candidates.[21] Such searches can turn up a variety of information, including what people have written on blogs or posted under their name on MySpace or Facebook. Internet users are advised to remember that anything that carries their name online may become information for potential employers, even years down the road.

Figure 10.2 shows the various screening tools used by many *Fortune* 1000 companies.

FIGURE 10.2

Use of Preemployment Selection Tools (tools that 212 security representatives at *Fortune* 1000 companies said their companies use consistently)
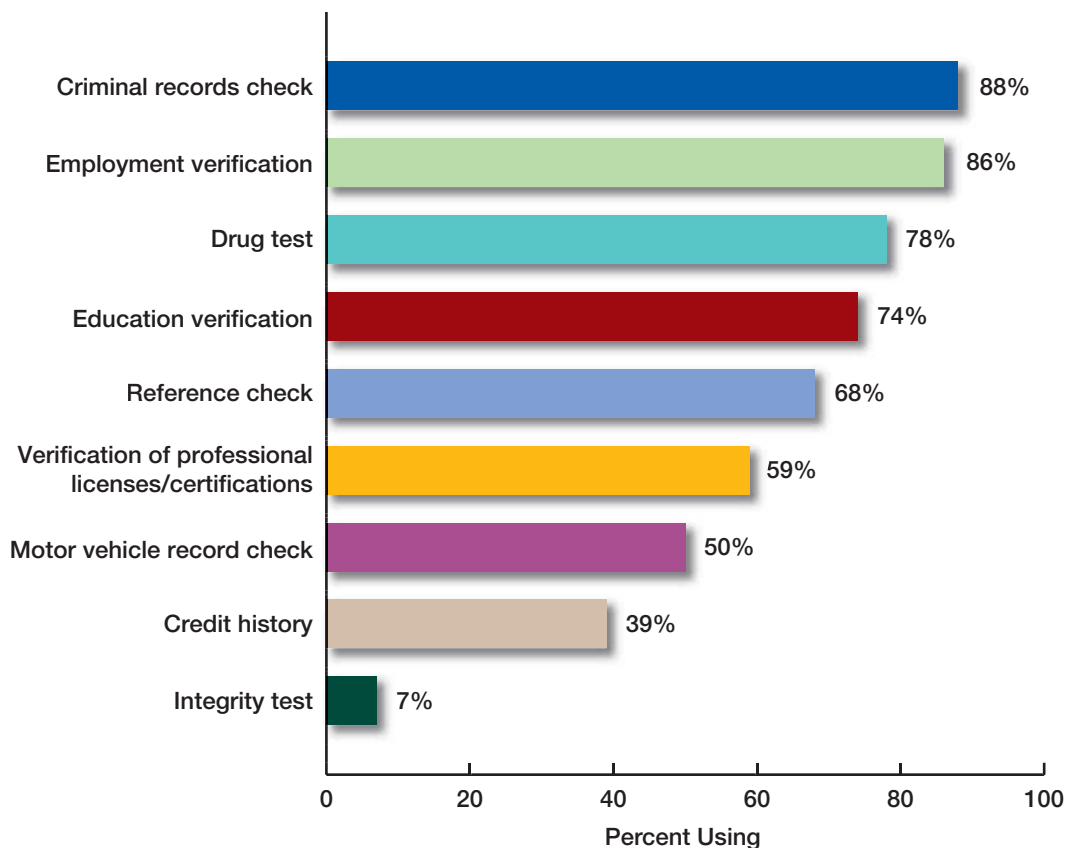
SOURCE: *Top Security Threats and Management Issues Facing Corporate America,* Pinkerton Consulting and Investigations Inc., 2003.

Personality Tests   Employers have been more hesitant to use personality tests for employee selection, largely because they are hard to defend in court.[22] However, some personality types have been associated with greater job satisfaction and performance, especially in situations in which the organization can build groups of people with similar positive traits.[23] As a result, personality tests are regaining popularity, and chances are that at some point in your career you will complete some personality tests. A number of well-known paper-and-pencil inventories measure personality traits such as sociability, adjustment, and energy. Typical questions are "Do you like to socialize with people?" and "Do you enjoy working hard?" Some personality tests try to determine the type of working conditions that the candidate prefers, to see if he or she would be motivated and productive in the particular job. For example, if the candidate prefers making decisions on his or her own but the job requires gaining the cooperation of others, another candidate might be a better fit.

Drug Testing   *Drug testing* is now a frequently used screening instrument. Since the passage of the Drug-Free Workplace Act of 1988, applicants and employees of federal contractors and Department of Defense contractors and those under Department of Transportation regulations have been subject to testing for illegal drugs. Well over half of all U.S. companies conduct preemployment drug tests.

Genetic testing tries to identify the likelihood of contracting a disease (such as emphysema) on the basis of a person's genetic makeup. It is far less common than drug testing and remains controversial.[24]

Cognitive Ability Tests   Among the oldest employment selection devices are cognitive ability tests. These tests measure a range of intellectual abilities, including verbal comprehension (vocabulary, reading) and numerical aptitude (mathematical calculations). About 20 percent of U.S. companies use cognitive ability tests for selection purposes.[25] Figure 10.3 shows some examples of cognitive ability test questions.

Performance Tests   In a performance test, the test taker performs a sample of the job. Most companies use some type of performance test, typically for administrative assistant and clerical positions. The most widely used performance test is the typing test. However, performance tests have been developed for almost every occupation, including managerial positions. Assessment centers are the most notable offshoot of the managerial performance test.[26]

Assessment centers originated during World War II. A typical **assessment center** consists of 10 to 12 candidates who participate in a variety of exercises or situations; some of the exercises involve group interactions, and others are performed individually. Each exercise taps a number of critical managerial dimensions, such as leadership, decision-making skills, and communication ability. Assessors, generally line managers from the organization, observe and record information about the candidates' performance in each exercise. The first organization to use assessment centers was AT&T. Since then, a number of large organizations have used or currently are using the assessment center technique, including the FBI and Sears.

assessment center

A managerial performance test in which candidates participate in a variety of exercises and situations.

Integrity Tests   To assess job candidates' honesty, employers may administer integrity tests. Two forms of integrity tests are polygraphs and paper-and-pencil honesty tests. Polygraphs, or lie detector tests, have been banned for most employment purposes.[27] Paper-and-pencil honesty tests are more recent instruments for measuring integrity. These tests include questions such as whether a person has ever thought about stealing and whether he or she believes other people steal ("What percentage of people take more than $1 from their employer?"). Although companies including Payless ShoeSource reported that losses due to theft declined following the introduction of integrity tests, the accuracy of these tests is still debatable.[28]

Verbal	1. What is the meaning of the word surreptitious?

Verbal

1. What is the meaning of the word surreptitious?
   - a. covert
   - b. winding
   - c. lively
   - d. sweet

2. How is the noun clause used in the following sentence:
   "I hope that I can learn this game."
   - a. subject
   - b. predicate nominative
   - c. direct object
   - d. object of the preposition

Quantitative

3. Divide 50 by .5 and add 5. What is the result?
   - a. 25
   - b. 30
   - c. 95
   - d. 105

4. What is the value of 144^2?
   - a. 12
   - b. 72
   - c. 288
   - d. 20736

Reasoning

5. _____ is to boat as snow is to _____
   - a. sail, ski
   - b. water, winter
   - c. water, ski
   - d. engine, water

6. Two women played 5 games of chess. Each woman won the same number of games, yet there were no ties. How can this be so?
   - a. There was a forfeit.
   - b. One player cheated.
   - c. They played different people.
   - d. One game was still in progress.

Mechanical

7. If gear A and gear C are both turning counter-clockwise, what is happening to gear B?
   - a. It is turning counter-clockwise.
   - b. It is turning clockwise.
   - c. It remains stationary.
   - d. The whole system will jam.

A   B   C
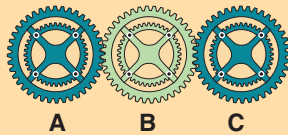
Answers: 1a, 2c, 3d, 4d, 5c, 6c, 7b.

SOURCE: From George Bohlander, Scott Snell, and Arthur Sherman, *Managing Human Resources,* 12th ed. Copyright © 2001. Reprinted by permission of South-Western, a division of Thomson Learning, www.thomsonrights.com. Fax 800 730-2215.

FIGURE 10.3

Sample Measures of Cognitive Ability

reliability

The consistency of test scores over time and across alternative measurements.

validity

The degree to which a selection test predicts or correlates with job performance.

Reliability and Validity   Regardless of the method used to select employees, two crucial issues that need to be addressed are a test's reliability and its validity. **Reliability** refers to the consistency of test scores over time and across alternative measurements. For example, if three different interviewers talked to the same job candidate but drew very different conclusions about the candidate's abilities, we might suspect that there were problems with the reliability of one or more of the selection tests or interview procedures.

Validity moves beyond reliability to assess the accuracy of the selection test. The most common form of validity, *criterion-related validity*, refers to the degree to which a test actually predicts or correlates with job performance. For example, in the academic world, a recent study found that the Graduate Management Admission Test (GMAT) was more valid than undergraduate grade point average in predicting performance in business school—but the two together were highly valid.[29] In the context of staffing, such validity is usually established through studies comparing test performance and job performance for a large enough sample of employees to enable a fair conclusion to be reached. For example, if a high score on a cognitive ability test is strongly predictive of

good job performance, then candidates who score well will usually be preferred over those who do not. Still, no test by itself perfectly predicts performance. Managers usually rely on other criteria as well before making a final selection.

Another form of validity, *content validity*, concerns the degree to which selection tests measure a representative sample of the knowledge, skills, and abilities required for the job. The best-known example of a content-valid test is a keyboarding test for administrative assistants, because keyboarding is a task a person in that position almost always performs. However, to be completely content-valid, the selection process also should measure other skills the assistant would be likely to perform, such as answering the telephone, duplicating and faxing documents, and dealing with the public. Content validity is more subjective (less statistical) than evaluations of criterion-related validity but is no less important, particularly when one is defending employment decisions in court.

Due to tough economic times, workforce reductions in companies throughout the U.S. have become commonplace. Job seekers are shown here standing in line to attend a job fair in Chicago.

Workforce Reductions

Unfortunately, staffing decisions do not simply focus on hiring employees. As organizations evolve and markets change, the demand for certain employees rises and falls. Also, some employees simply do not perform at a level required to justify continued employment. For these reasons, managers sometimes must make difficult decisions to terminate their employment.

Layoffs   As a result of the massive restructuring of American industry brought about by mergers and acquisitions, divestiture, and increased competition, many organizations have been downsizing—laying off large numbers of managerial and other employees. As mentioned in Chapter 9, dismissing any employee is tough, but when a company lays off a substantial portion of its workforce, the results can rock the foundations of the organization.[30] The victims of restructuring face all the difficulties of being let go—loss of self-esteem, demoralizing job searches, and the stigma of being out of work. To some extent, employers can help employees with these problems by offering **outplacement,** the process of helping people who have been dismissed from the company regain employment elsewhere. Even then, the impact of layoffs goes further than the employees who leave. For many of the employees who remain with the company, disenchantment, distrust, and lethargy overshadow the comfort of still having a job. In many respects, how management deals with dismissals will affect the productivity and satisfaction of those who remain. A well-thought-out dismissal process eases tensions and helps remaining employees adjust to the new work situation.

outplacement

The process of helping people who have been dismissed from the company regain employment elsewhere.

Organizations with strong performance evaluation systems benefit because the survivors are less likely to believe the decision was arbitrary. In addition, if care is taken during the actual layoff process—that is, if workers are offered severance pay and help in finding a new job—remaining workers will be comforted. Companies also should avoid stringing out layoffs by dismissing a few workers at a time.

Termination   People sometimes "get fired" for poor performance or other reasons. Should an employer have the right to fire a worker? In 1884, a Tennessee court ruled: "All may dismiss their employee(s) at will for good cause, for no cause, or even for cause morally wrong." The concept that an employee may be fired for any reason is known as **employment-at-will** or *termination-at-will* and was upheld in a 1908 Supreme Court ruling.[31] The logic is that if the employee may quit at any time, the employer is free to dismiss at any time.

employment-at-will

The legal concept that an employee may be terminated for any reason.

Since the mid-1970s, courts in most states have made exceptions to this doctrine. Under the public policy exception (i.e., a ruling designed to protect the public from harm), employees cannot be fired for such actions as refusing to break the law, taking time off for jury duty, or "whistle-blowing" to report illegal company behavior. For example, if a worker reports an environmental violation to the regulatory agency and the company fires him or her, the courts may argue that the firing was unfair because the employee acted for the good of the community. Union contracts that limit an employer's ability to fire without cause are another major exception to the employment-at-will doctrine.

Employers can avoid the pitfalls associated with dismissal by developing progressive and positive disciplinary procedures.[32] By *progressive*, we mean that a manager takes graduated steps in attempting to correct a workplace behavior. For example, an employee who has been absent receives a verbal reprimand for the first offense. A second offense invokes a written reprimand. A third offense results in employee counseling and probation, and a fourth results in a paid-leave day to think over the consequences of future rule infractions. The employer is signaling to the employee that this is the "last straw." Arbitrators are more likely to side with an employer that fires someone when they believe the company has made sincere efforts to help the person correct his or her behavior.

termination interview

A discussion between a manager and an employee about the employee's dismissal.

The **termination interview,** in which the manager discusses the company's position with the employee, is a stressful situation for both parties. Most experts believe that the immediate superior should be the one to deliver the bad news to employees. However, it is a wise precaution to have a third party, such as an HR manager, present to provide guidance and take notes on the meeting. Because announcing a termination is likely to upset the employee and occasionally leads to a lawsuit, the manager should prepare carefully. Preparation should include knowing all the facts of the situation and reviewing any documents to make sure they are consistent with the reason for the termination. During the termination interview, ethics and common sense dictate that the manager should be truthful but respectful, stating the facts and avoiding arguments.[33] Table 10.1 provides some other guidelines for conducting a termination interview.

TABLE 10.1
Advice on Termination

Do's	Don'ts
• Give as much warning as possible for mass layoffs.	• Don't leave room for confusion when firing. Tell the individual in the first sentence that he or she is terminated.
• Sit down one on one with the individual, in a private office.	• Don't allow time for debate during a termination session.
• Complete a termination session within 15 minutes.	• Don't make personal comments when firing someone; keep the conversation professional.
• Provide written explanations of severance benefits.	• Don't rush a fired employee offsite unless security is an issue.
• Provide outplacement services away from company headquarters.	• Don't fire people on significant dates, like the 25th anniversary of their employment or the day their mother died.
• Be sure the employee hears about his or her termination from a manager, not a colleague.	• Don't fire employees when they are on vacation or have just returned.
• Express appreciation for what the employee has contributed, if appropriate.	

SOURCE: Wall Street Journal. Eastern Edition by S. Alexander, "Firms Get Plenty of Practice at Lyoffs, but They Often Bungle the Firing Process," Copyright (c)1991 by Dow Jones & Company via Copyright Clearance Center.

Legal Issues and Equal Employment Opportunity   Many laws have been passed governing employment decisions and practices. They will directly affect a good part of your day-to-day work as a manager, as well as the human resource function of your organization. Most of these laws are designed to protect job candidates and employees against discrimination or sexual harassment and to establish standards of pay and hours worked for certain classes of employee. For example, the 1938 *Fair Labor Standards Act* (FLSA), among other provisions, creates two employee categories: exempt and nonexempt. Employees are normally exempt from overtime pay if they have considerable discretion in how they carry out their jobs and if their jobs require them to exercise independent judgment. Managers usually fall in this category. Nonexempt employees are usually paid by the hour and must be paid overtime if they work more than 40 hours in a week. As a manager you will almost certainly need to specify the exempt or nonexempt status of anyone you hire.

The 1964 *Civil Rights Act* prohibits discrimination in employment based on race, sex, color, national origin, and religion. Title VII of the act specifically forbids discrimination in such employment practices as recruitment, hiring, discharge, promotion, compensation, and access to training.[34] The *Americans with Disabilities Act*, passed in 1990, prohibits employment discrimination against people with disabilities. Recovering alcoholics and drug abusers, cancer patients in remission, and AIDS patients are covered by this legislation. The 1991 *Civil Rights Act* strengthened all these protections and permitted punitive damages to be imposed on companies that violate them.

Failure to comply with any of these laws may expose the organization to charges of unfair practices, expensive lawsuits, and civil and even criminal penalties in some cases. For example, Walmart recently paid $17.5 million to settle a lawsuit in which employees said the company had discriminated against African American workers seeking positions as truck drivers. According to these workers, the company had placed stiffer requirements on African American job candidates. In another case, Union Pacific Railroad paid $75,000 to settle a sex discrimination lawsuit in which a woman was not hired as system material foreman, even though she had more experience than men who applied for the position. And Nordstrom paid $292,500 to settle a lawsuit in which Florida workers said their manager had harassed them because of their race.[35]

One common reason employers are sued is **adverse impact**—when a seemingly neutral employment practice has a disproportionately negative effect on a group protected by the Civil Rights Act.[36] For example, if equal numbers of qualified men and women apply for jobs but a particular employment test results in far fewer women being hired, the test may be considered to cause an adverse impact and, therefore, be subject to challenge on that basis.

Because of the importance of these issues, many companies have established procedures to ensure compliance with labor and equal-opportunity laws. For example, companies frequently monitor and compare salaries by race, gender, length of service, and other categories to make sure employees across all groups are being fairly paid. Written policies can also help ensure fair and legal practices in the workplace, although the company may also have to demonstrate a record of actually following those procedures and making sure they are implemented. In this sense, smart and effective management practices not only help managers motivate employees to do their best work but often help provide legal protection as well. For example, managers who provide their employees with regular, specific evaluations can often prevent misunderstandings that can lead to lawsuits. And a written record of those evaluations is often useful in demonstrating fair and objective treatment.

Many other important staffing laws affect employment practices. For example, the *Age Discrimination in Employment Act* of 1967 and its amendments in 1978 and 1986 prohibit discrimination against people age 40 and over. One reason for this legislation was the common practice of dismissing older workers to replace them with younger

adverse impact

When a seemingly neutral employment practice has a disproportionately negative effect on a protected group.

workers who were not as highly paid. The *Worker Adjustment and Retraining Notification Act* of 1989, commonly known as the *WARN Act* or *Plant Closing Bill*, requires covered employers to give affected employees 60 days' written notice of plant closings or mass layoffs. Table 10.2 summarizes many of these major employment laws.

TABLE 10.2   U.S. Equal Employment Laws

Act	Major Provisions	Enforcement and Remedies
Fair Labor Standards Act (1938)	Creates exempt (salaried) and nonexempt (hourly) employee categories, governing overtime and other rules; sets minimum wage, child-labor laws.	Enforced by Department of Labor, private action to recover lost wages; civil and criminal penalties also possible.
Equal Pay Act (1963)	Prohibits gender-based pay discrimination between two jobs substantially similar in skill, effort, responsibility, and working conditions.	Fines up to $10,000, imprisonment up to 6 months, or both; enforced by Equal Employment Opportunity Commission (EEOC); private actions for double damages up to 3 years' wages, liquidated damages, reinstatement, or promotion.
Title VII of Civil Rights Act (1964)	Prohibits discrimination based on race, sex, color, religion, or national origin in employment decisions: hiring, pay, working conditions, promotion, discipline, or discharge.	Enforced by EEOC; private actions, back pay, front pay, reinstatement, restoration of seniority and pension benefits, attorneys' fees and costs.
Executive Orders 11246 and 11375 (1965)	Requires equal opportunity clauses in federal contracts; prohibits employment discrimination by federal contractors based on race, color, religion, sex, or national origin.	Established Office of Federal Contract Compliance Programs (OFCCP) to investigate violations; empowered to terminate violator's federal contracts.
Age Discrimination in Employment Act (1967)	Prohibits employment discrimination based on age for persons over 40 years; restricts mandatory retirement.	EEOC enforcement; private actions for reinstatement, back pay, front pay, restoration of seniority and pension benefits; double unpaid wages for willful violations; attorneys' fees and costs.
Vocational Rehabilitation Act (1973)	Requires affirmative action by all federal contractors for persons with disabilities; defines disabilities as physical or mental impairments that substantially limit life activities.	Federal contractors must consider hiring disabled persons capable of performance after reasonable accommodations.
Americans with Disabilities Act (1990)	Extends affirmative action provisions of Vocational Rehabilitation Act to private employers; requires workplace modifications to facilitate disabled employees; prohibits discrimination against disabled.	EEOC enforcement; private actions for Title VII remedies.
Civil Rights Act (1991)	Clarifies Title VII requirements: disparate treatment impact suits, business necessity, job relatedness; shifts burden of proof to employer; permits punitive damages and jury trials.	Punitive damages limited to sliding scale only in intentional discrimination based on sex, religion, and disabilities.
Family and Medical Leave Act (1991)	Requires 12 weeks' unpaid leave for medical or family needs: paternity, family member illness.	Private actions for lost wages and other expenses, reinstatement.

Developing the Workforce

LO 4

Today's competitive environment requires managers to continually upgrade the skills and performance of employees—and their own. Such constant improvement increases both personal and organizational effectiveness. It makes organization members more useful in their current job and prepares them to take on new responsibilities. And it helps the organization as a whole handle new challenges and take advantage of new methods and technologies that emerge. Developing the workforce in this way involves training and development activities. It also involves appraising employees' performance and giving them effective feedback so they will be motivated to perform at their best. We will discuss each of these activities in turn.

✓ **The bottom line**
Quality

Training improves employee quality.

Training and Development

U.S. businesses spend more than $55 billion to provide their employees with formal training annually. The greatest share of that spending goes to sales training, management and supervisory training, and training in information systems and information technology. Spending on training is growing fastest among companies in the health care, technology, and financial services industries.[37]

Fortune 500 companies such as General Electric and Procter & Gamble have invested heavily in training. IBM's annual training costs have at times exceeded Harvard University's annual operating expenses. But competitive pressures require that companies consider the most efficient training methods. That means traditional classroom settings are often giving way to computerized methods.

The American Society for Training and Development has argued that as a percentage of total payroll, the average organizational investment in training is too small.[38] This lack of commitment is a great concern in light of the fact that today's jobs require more education but that the education level of U.S. workers has not kept pace. What's more, companies need to ensure that employees who have survived layoffs can lead their organizations through tough times.

Cold Stone Creamery spends a portion of their training budget in developing computerized simulations to show how employee actions affect store performance. The company uses computer games because they are familiar and attractive to its young employees.

Overview of the Training Process   Although we use the general term *training* here, training sometimes is distinguished from development. **Training** usually refers to teaching lower-level employees how to perform their present jobs, while **development** involves teaching managers and professional employees broader skills needed for their present and future jobs.

Phase one of training usually starts with a **needs assessment.** Managers conduct an analysis to identify the jobs, people, and departments for which training is necessary. Job analysis and performance measurements are useful for this purpose.

Phase two involves the design of training programs. Based on needs assessment, training objectives and content can be established. For example, Recreational Equipment Inc. (REI) wants its sales associates to learn how to tell whether they are being approached by a transactional customer, who simply wants to find and pay for a specific product, and a consultative customer, who wants to spend some time discussing alternative features and benefits.[39]

Phase three involves decisions about the training methods to be used and whether the training will be provided on-the-job or off-the-job. Common training methods are listed in Figure 10.4. Examples of training methods include lectures, role playing, business simulation, behavior modeling (watching a video and imitating what is observed), conferences, vestibule training (practicing in a simulated job environment),
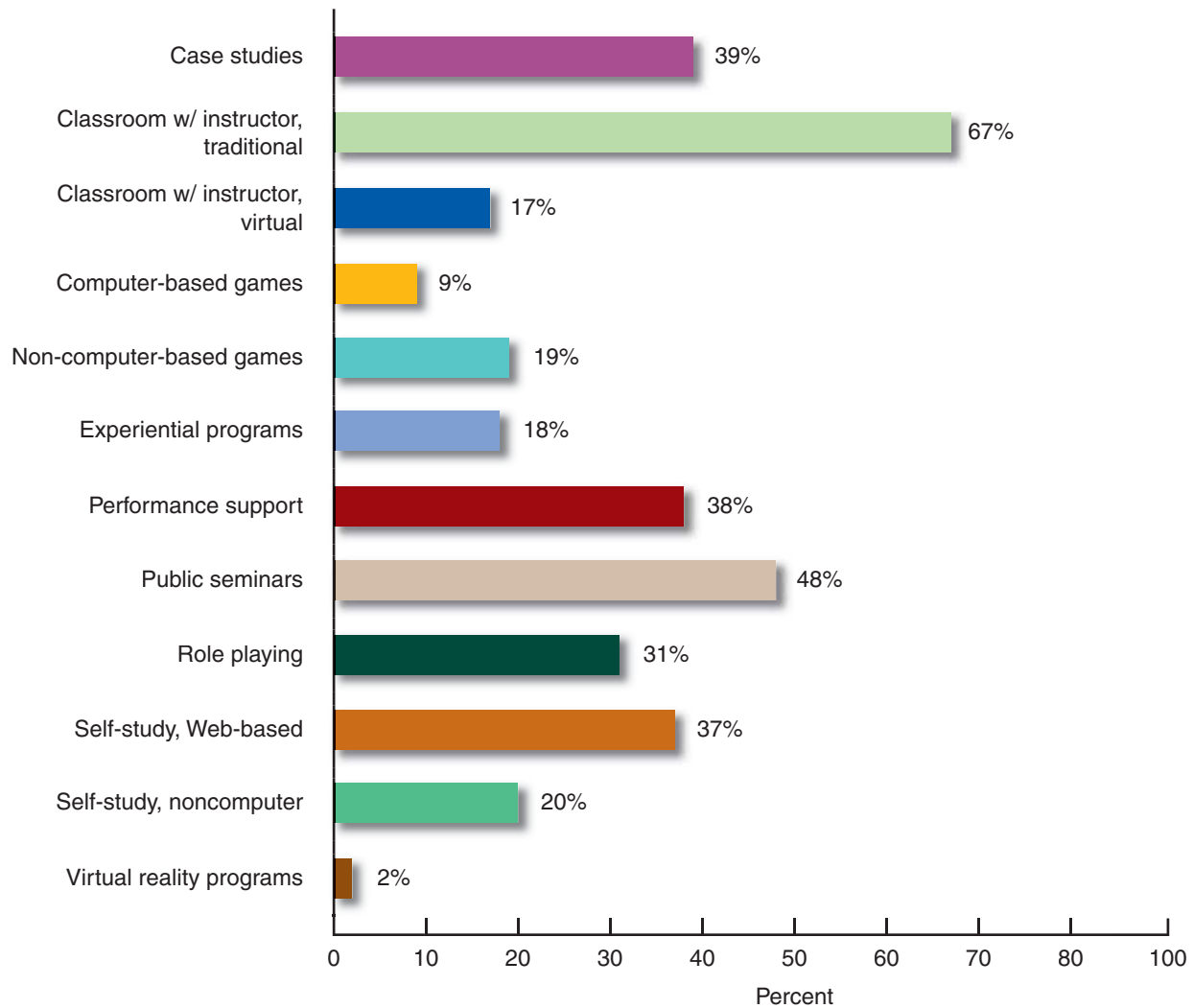
training

Teaching lower-level employees how to perform their present jobs.

development

Helping managers and professional employees learn the broad skills needed for their present and future jobs.

needs assessment

An analysis identifying the jobs, people, and departments for which training is necessary.

Training Method	Percent
Case studies	39%
Classroom w/ instructor, traditional	67%
Classroom w/ instructor, virtual	17%
Computer-based games	9%
Non-computer-based games	19%
Experiential programs	18%
Performance support	38%
Public seminars	48%
Role playing	31%
Self-study, Web-based	37%
Self-study, noncomputer	20%
Virtual reality programs	2%

SOURCE: From *Training: The Human Side of Business* by Holly Dfalezalek, *"Industry Report 2004."* Copyright © 2004 by *VNU BUS Publications* USA Reproduced with permission of VNU BUS Publications via Copyright Clearance Center.

FIGURE 10.4

Most Frequently Used Training Methods

and apprenticeships. The method should be well suited to the objectives defined in phase two. At REI, where the company wants sales associates to identify and respond to various interpersonal situations, much of the training involves role-playing, supplemented with video presentations. The Home Depot emphasizes mentoring for sales associates who work the aisles but has a more efficient computer-based training program for the cashiers, whose jobs are more routine.[40] Job rotation, where employees are assigned to different jobs in the organization to broaden their experience and improve their skills, is another popular training method. It is frequently applied to managers as well as lower-level employees. In fact, smart managers often request assignment to jobs where they can be challenged and their skills broadened.

Finally, *phase four* of training should evaluate the program's effectiveness. Measures of effectiveness include employee reactions (surveys), learning (tests), improved behavior on the job, and bottom-line results (e.g., an increase in sales or reduction in defect rates following the training program).

Types of Training   Companies invest in training to enhance individual performance and organizational productivity. Programs to improve an employee's computer,

technical, or communication skills are quite common, and some types of training have become fairly standard across many organizations. **Orientation training** is typically used to familiarize new employees with their new jobs, work units, and the organization in general. Done well, orientation training has a number of benefits, including lower employee turnover, increased morale, better productivity, and lower recruiting and training costs.

Team training has taken on more importance as organizations reorganize to facilitate individuals working together. Team training teaches employees the skills they need to work together and facilitates their interaction. After General Mills acquired Pillsbury, it used a team training program called Brand Champions to combine the marketing expertise of the two companies and share knowledge among employees handling various functions such as sales and research and development. Most of the time, trainees engaged in team exercises to analyze brands, target customers, and develop marketing messages.[41]

Diversity training focuses on building awareness of diversity issues and providing the skills employees need to work with others who are different from them. This topic is so important that the next chapter is devoted solely to managing diversity.

Today's decentralized and leaner organizations put more demands and responsibility on managers, as has an increasingly competitive environment. And as managers rise in the organization, their technical skills generally become less and less important than their ability to motivate others. For these reasons, *management training programs* have become another widely used development tool. Such programs often seek to improve managers' *people skills*—their ability to delegate effectively, increase the motivation of their subordinates, and communicate and inspire the achievement of organization goals. *Coaching*—being trained by a superior—is usually the most effective and direct management-development tool. Managers may also participate in training programs that are used for all employees, such as job rotation, or attend seminars and courses specifically designed to help them improve their supervisory skills or prepare them for future promotion.

orientation training

Training designed to introduce new employees to the company and familiarize them with policies, procedures, culture, and the like.

team training

Training that provides employees with the skills and perspectives they need to collaborate with others.

diversity training

Programs that focus on identifying and reducing hidden biases against people with differences and developing the skills needed to manage a diversified workforce.

NetApp, a data management company based in Sunnyvale, California, has an engaging approach to management training. The company hired BTS Group to develop a simulation game, modeled on NetApp's real-life business. NetApp first used the BTS simulation at a strategy meeting of its top managers. The executives were so enthusiastic and creative about the ways they solved the simulation problem that the company invited middle managers to play the game as a form of training for top posts, where strategic thinking is essential.

In the simulation, the managers were divided into five teams, bringing together managers from various functions. Each team was told to run an imaginary high-growth company named Pet-a-Toaster for three years, competing against the other teams. In the simulation, a year's worth of events were packed into one day of the training program. Each team received a booklet with details about Pet-a-Toaster, based on the market conditions that were actually facing NetApp. Teams allocated the resources they were given, selected from among possible strategies, and reacted to events posed by the game (for example, a request from a big customer). BTS's simulation software analyzed the actions and provided feedback.

At the end of the simulation, BTS reported each team's total sales and operating profits and described the impact of each team's decisions about where to invest resources. Now NetApp's middle managers have a greater appreciation for what it takes to run a company—and a heightened respect for their leaders.[42]

Performance Appraisal

LO 5

performance appraisal (PA)

Assessment of an employee's job performance.

One of the most important responsibilities you will have as a manager is **performance appraisal (PA),** the assessment of an employee's job performance. Done well, it can help employees improve their performance, pay, and chances for promotion; foster communication between managers and employees; and increase the employees' and the organization's effectiveness. Done poorly, it actually can have a negative effect—it can cause resentment, reduce motivation, diminish performance, and even expose the organization to legal action.

Performance appraisal has two basic purposes. First, appraisal serves an *administrative* purpose. It provides managers with the information they need to make salary, promotion, and dismissal decisions; helps employees understand and accept the basis of those decisions; and, if necessary, provides documentation that can justify those decisions in court. Second, and at least as important, appraisal serves a *developmental* purpose. The information gathered in the appraisal can be used to identify and plan the additional training, learning, experience, or other improvement employees require. In addition, the manager's feedback and coaching based on the appraisal help employees improve their day-to-day performance and can help prepare them for greater responsibilities in the future.

> "A leader is best when people barely know he exists. Not so good when people obey and acclaim him. Worse when they despise him. But of a good leader who talks little when his work is done, his aim fulfilled, they will say 'We did it ourselves.'"
>
> —Lao-tse

What Do You Appraise?

Performance appraisals can assess three basic categories of employee performance: traits, behaviors, and results. *Trait appraisals* involve subjective judgments about employee characteristics related to performance. They contain dimensions such as initiative, leadership, and attitude, and they ask raters to indicate how much of each trait an employee possesses. Usually the manager will use a numerical *ratings scale* to specify the extent to which an employee possesses the particular traits being measured. For example, if the measured trait is "attitude," the employee might be rated anywhere from 1 (very negative attitude) to 5 (very positive attitude). Trait scales are quite common, because they are simple to use and provide a standard measure for all employees. But they are often not valid as performance measures. Because they tend to be ambiguous as well as highly subjective—does the employee really have a bad attitude, or is he or she just shy?—they often lead to personal bias and may not be suitable for providing useful feedback.

Behavioral appraisals, while still subjective, focus more on observable aspects of performance. They were developed in response to the problems of trait appraisals. These scales focus on specific, prescribed behaviors that can help ensure that all parties understand what the ratings are really measuring. Because they are less ambiguous, they also can help provide useful feedback. Figure 10.5 contains an example of a behaviorally anchored rating scale (BARS) for evaluating quality.

Another common behaviorally focused approach is the *critical incident* technique. In this technique, the manager keeps a regular log and records each significant behavior by the subordinate that reflects the quality of his or her performance. ("Juanita impressed the client with her effective presentation today." "Joe was late with his report.") This approach can be subjective as well as time-consuming, and it may give some employees the feeling that everything they do is being recorded. But it does have the advantage of reminding managers in advance of a performance review what the employee actually did.

Results appraisals tend to be more objective and can focus on production data such as sales volume (for a salesperson), units produced (for a line worker), or profits (for

Performance Dimension: Total Quality Management. This area of performance concerns the extent to which a person is aware of, endorses, and develops proactive procedures to enhance product quality, ensure early disclosure of discrepancies, and integrate quality assessments with cost and schedule performance measurement reports to maximize client's satisfaction with overall performance.

OUTSTANDING	7	Uses measures of quality and well-defined processes to achieve project goals. Defines quality from the client's perspective.
	6	Look for/identifies ways to continually improve the process.
	5	Clearly communicates quality management to others. Develops a plan that defines how the team will participate in quality.
		Appreciates TQM as an investment.
AVERAGE	4	Has measures of quality that define tolerance levels.
	3	Views quality as costly. Legislates quality.
	2	Focuses his/her concerns only on outputs and deliverables, ignoring the underlying processes.
POOR	1	Blames others for absence of quality. Gives lip service only to quality concerns.

SOURCE: Landy, Jacobs, and Associates. Used with permission.

FIGURE 10.5
Example of BARS Used for Evaluating Quality

a manager). One approach to results appraisals—called **management by objectives (MBO)**—involves a subordinate and a supervisor agreeing *in advance* on specific performance goals (objectives). They then develop a plan that describes the time frame and criteria for determining whether the objectives have been reached. The aim is to agree on a set of objectives that are clear, specific, and reachable. For example, an objective for a salesperson might be "Increase sales by 25 percent during the following year." An objective for a computer programmer might be "Complete two projects within the next six months."

MBO has several important advantages. First, it avoids the biases and measurement difficulties of trait and behavioral appraisals. At the end of the review period, the employee either has or has not achieved the specified objective. The employee is judged on actual job performance. Second, because the employee and manager have agreed on the objective at the outset, the employee is likely to be more committed to the outcome, and there is less chance for misunderstanding. Third, because the employee is directly responsible for achieving the objective, MBO can be useful when managers want to empower employees to adapt their behavior to achieve the desired results. But the approach has disadvantages as well. It can result in unrealistic objectives being set, frustrating the employee and the manager. The objectives can also be too rigid, leaving the employee with insufficient flexibility should circumstances change. Finally, MBO often focuses too much on short-term achievement at the expense of long-term goals.

management by objectives (MBO)

A process in which objectives set by a subordinate and a supervisor must be reached within a given time period.

None of these performance appraisal systems is easy to conduct properly, and all have drawbacks that must be guarded against. In choosing an appraisal method, the following guidelines may prove helpful:

1. Base performance standards on job analysis.
2. Communicate performance standards to employees.
3. Evaluate employees on specific performance-related behaviors rather than on a single global or overall measure.
4. Document the PA process carefully.
5. If possible, use more than one rater (discussed in the next section).
6. Develop a formal appeal process.
7. Always take legal considerations into account.[43]

Who Should Do the Appraisal?

Just as multiple methods can be used to gather performance appraisal information, several different sources can provide PA information. *Managers* and *supervisors* are the traditional source of appraisal information because they are often in the best position to observe an employee's performance. However, companies are also turning to peers and team members to provide input to the performance appraisal. *Peers* and *team member*s often see different dimensions of performance and are often best at identifying leadership potential and interpersonal skills.

One increasingly popular source of appraisal is a person's subordinates. Appraisal by *subordinates* has been used by companies such as Xerox and IBM to give superiors feedback on how their employees view them. Often this information is given in confidence to the manager, and not shared with superiors. Even so, this approach can make managers uncomfortable initially, but the feedback they get is often extremely useful and can help them significantly improve their management style. Because this process gives employees power over their bosses, it is generally used for development purposes only, and not for salary or promotion decisions.

Internal and external customers also are used as sources of performance appraisal information, particularly for companies, such as Ford and Honda, that are focused on total quality management. External customers have been used for some time to appraise restaurant employees, but internal customers can include anyone inside the organization who depends on an employee's work output. Finally, it is usually a good idea for employees to evaluate their own performance. Although *self-appraisals* may be biased upward, the process of self-evaluation helps increase the employee's involvement in the review process and is a starting point for establishing future goals.

Because each source of PA information has some limitations, and because different people may see different aspects of performance, Shell, Eastman Kodak, and many other companies have used approaches that involve more than one source for appraisal information. In a process known as **360-degree appraisal,** feedback is obtained from subordinates, peers, and superiors—every level involved with the employee. Often the person being rated can select the appraisers, subject to a manager's approval, with the understanding that the individual appraisals are kept confidential; returned forms might not include the name of the appraiser, for example, and the results may be consolidated for each level.

The 360-degree appraisal offers many advantages. It provides a much fuller picture of the employee's strengths and weaknesses, and it often captures qualities other appraisal methods miss. For example, an employee may have a difficult relationship with his or her supervisor yet be highly regarded by peers and subordinates. The approach can lead to significant improvement, with employees often very motivated to improve their ratings. Improvements in management performance following 360-degree appraisals have been observed in various countries, but cultural differences can affect the impact of this method. Using the cultural measures defined by

360-degree appraisal

Process of using multiple sources of appraisal to gain a comprehensive perspective on one's performance.

Geert Hofstede (described in Chapter 6), researchers found that 360-degree appraisals were most effective with managers in cultures that were individualistic and had relatively low power distance.[44] On the downside, employees are often unwilling to rate their colleagues harshly, so a certain uniformity of ratings may result. In addition, the 360-degree appraisal is less useful than more objective criteria, like financial targets, in measuring performance. Its objective is usually the employee's development, not to provide a basis for administrative decisions like raises. For those, appraisal methods like MBO are more appropriate.[45]

How Do You Give Employees Feedback?

Appraisals are most effective when they are based on an ongoing relationship with employees, and not just a top-down formal judgment issued once a year. Managers of sports teams do not wait until the season is over to perform an appraisal. Instead, they work with team members throughout the season, and with the team as a whole, to improve the team's performance. Similarly, in high-functioning regular organizations informal appraisal and feedback are constantly taking place. Managers discuss the goals of the organization regularly and often to create a shared understanding of the job performance those goals require. They try to create an atmosphere in which they and their employees are working together on a common agenda. And they communicate with their employees on a day-to-day basis, praising or coaching as appropriate and together assessing progress toward goals. When managers and employees have open communication and employees feel fairly and effectively managed, the kind of appraisal they receive should rarely come as a surprise to them.

Giving PA feedback can be a stressful task for both managers and subordinates. The purposes of PA conflict to some degree. Providing growth and development requires understanding and support; however, the manager must be impersonal and be able to make tough decisions. Employees want to know how they are doing, but typically they are uncomfortable about getting feedback. Finally, the organization's need to make HR decisions conflicts with the individual employee's need to maintain a positive image.[46] These conflicts often make a PA interview difficult; therefore, managers should conduct such interviews thoughtfully.

There is no one "best" way to do a PA interview. In general, appraisal feedback works best when it is *specific* and *constructive*—related to clear goals or behaviors and clearly intended to help the employee rather than simply criticize. Managers have an interest not just in rating performance but in raising it, and effective appraisals take that into account. In addition, the appraisal is likely to be more meaningful and satisfying when the manager gives the employee an opportunity to discuss his or her performance and respond to the appraisal.

✓ **The bottom line**
Quality
Effective feedback raises employee performance.

One of the most difficult interviews takes place with an employee who is performing poorly. Here is a useful PA interview format to use when an employee is performing below acceptable standards:

1. Summarize the employee's specific performance. Describe the performance in behavioral or outcome terms, such as sales or absenteeism. Don't say the employee has a poor attitude; rather, explain which employee behaviors indicate a poor attitude.
2. Describe the expectations and standards, and be specific.
3. Determine the causes for the low performance; get the employee's input.
4. Discuss solutions to the problem, and have the employee play a major role in the process.
5. Agree to a solution. As a supervisor, you have input into the solution. Raise issues and questions, but also provide support.
6. Agree to a timetable for improvement.
7. Document the meeting.

> "Outstanding leaders go out of their way to boost the self-esteem of their personnel. If people believe in themselves, it's amazing what they can accomplish."
>
> —Sam Walton

Follow-up meetings may be needed. Here are some guidelines for giving feedback to an average employee:

1. Summarize the employee's performance, and be specific.
2. Explain why the employee's work is important to the organization.
3. Thank the employee for doing the job.
4. Raise any relevant issues, such as areas for improvement.
5. Express confidence in the employee's future good performance.

If all goes well, PA interviews will result in improved outlook and performance. But what if an employee has an addiction to drugs or alcohol, exhibits dangerous behavior, or is volatile? The manager must still give feedback. About 500 million work days are lost each year due to alcoholism, and about 80 percent of alcoholics are employed either full- or part-time. Instead of looking the other way, many firms today try to offer help. Because of privacy and discrimination laws, it is often difficult for a manager to point out the problem directly. "Managers can't identify the problem, even if they are sure, because that would mean they are making a diagnosis, and they aren't qualified to do that," explains Bill Arnold, corporate director of substance abuse counseling services for Quad/Graphics. Human resource experts advise managers to treat the situation as a job-performance issue instead, referring to lost productivity, missed meetings, and the like—and help the employee make plans for improvement.[47]

A potentially violent employee is another situation that needs feedback. Workers who shout threats or have angry outbursts "must be taken seriously," says Carmeline Procaccini, vice president of human resources at Pegasystems, a software company. "We've trained our managers not to take any chances," she continues. She advises supervisors to contact HR staff and executives immediately about any employee who seems overly upset or potentially violent. The appropriate manager can recommend counseling or other assistance, but in the end, the firm must act in the best interests of its other employees.[48]

Designing Reward Systems

LO 6

Another major set of HRM activities involves reward systems. Most of this section will be devoted to monetary rewards such as pay and fringe benefits. (We discuss other motivational tools in Chapter 13.) Although traditionally pay has been the primary monetary reward considered, in recent years benefits have received increased attention. Benefits currently make up a far greater percentage of the total payroll than they did in past decades.[49] The typical employer today pays about 30 percent of payroll costs in benefits. Throughout most of the past two decades, benefits costs have risen faster than wages and salaries, fueled by the rapidly rising cost of medical care. Accordingly, employers are attempting to reduce benefits costs, even as their value to employees is rising. Benefits are also receiving more management attention because of their increased complexity. Many new types of benefits are now available, and tax laws affect myriad fringe benefits, such as health insurance and pension plans.
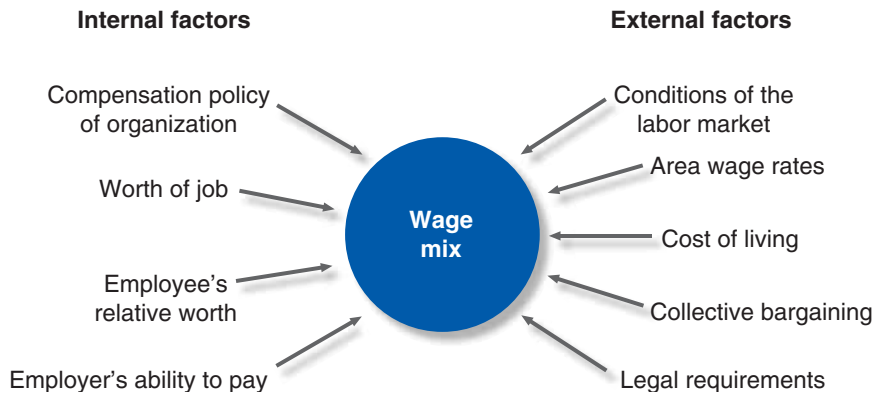
$ The bottom line
COST

Organizations today seek new ways to reduce benefits costs.

Pay Decisions

Reward systems can serve the strategic purposes of attracting, motivating, and retaining people. The wages paid to employees are based on a complex set of forces. Beyond the body of laws governing compensation, a number of basic decisions must be made in choosing the appropriate pay plan. Figure 10.6 illustrates some of the factors that influence the wage mix.

Internal factors   **External factors**

Compensation policy
of organization

Conditions of the
labor market

Worth of job

Area wage rates

**Wage
mix**

Cost of living

Employee's
relative worth

Collective bargaining

Employer's ability to pay

Legal requirements

FIGURE 10.6
Factors Affecting the Wage
Mix

SOURCE: From George Bohlander, Scott Snell, and Arthur Sherman, *Managing Human Resources,* 12th ed. Copyright © 2001. Reprinted by permission of South-Western, a division of Thomson Learning, www.thomsonrights.com. Fax 800 730-2215.

Three types of decisions are crucial for designing an effective pay plan: pay level, pay structure, and individual pay.

Pay level refers to the choice of whether to be a high-, average-, or low-paying company. Compensation is a major cost for any organization, so low wages can be justified on a short-term financial basis. But being the high-wage employer—the highest-paying company in the region—ensures that the company will attract many applicants. Being a wage leader may be important during times of low unemployment or intense competition.

These chefs from Tersiguel's French Country Restaurant in Maryland have a reason to be smiling: their employer offers reward systems that include employer-matched 401(k), profit sharing, and health benefits.

The *pay structure* decision is the choice of how to price different jobs within the organization. Jobs that are similar in worth usually are grouped together into job families. A pay grade, with a floor and a ceiling, is established for each job family. Figure 10.7 illustrates a hypothetical pay structure.

Finally, *individual pay decisions* concern different pay rates for jobs of similar worth within the same family. Differences in pay within job families are decided in two ways. First, some jobs are occupied by individuals with more seniority than others. Second, some people may be better performers who are therefore deserving of a higher level of pay. Setting an individual's pay lower than that of coworkers—like choosing an overall low pay level—may become more difficult for employers to sustain in the future, as more employees use online resources such as Salary.com and PayScale.com to check whether their pay is above or below the average amount for similar job titles.[50]

Unlike many other types of decisions in organizations, decisions about pay, especially at the individual level, often are kept confidential. Is that practice advantageous for organizations? Surprisingly, there is little evidence about this practice even though it affects almost every private-sector employee.[51] Some possible ways the organization may benefit from keeping pay decisions secret are by avoiding conflicts, protecting individuals' privacy, and reducing the likelihood that employees will leave to seek better pay if they are earning less than the average for their position. However, if decisions about pay are kept secret, employees may worry that decisions are unfair and may be less motivated because the link between performance and pay is unclear. Also,
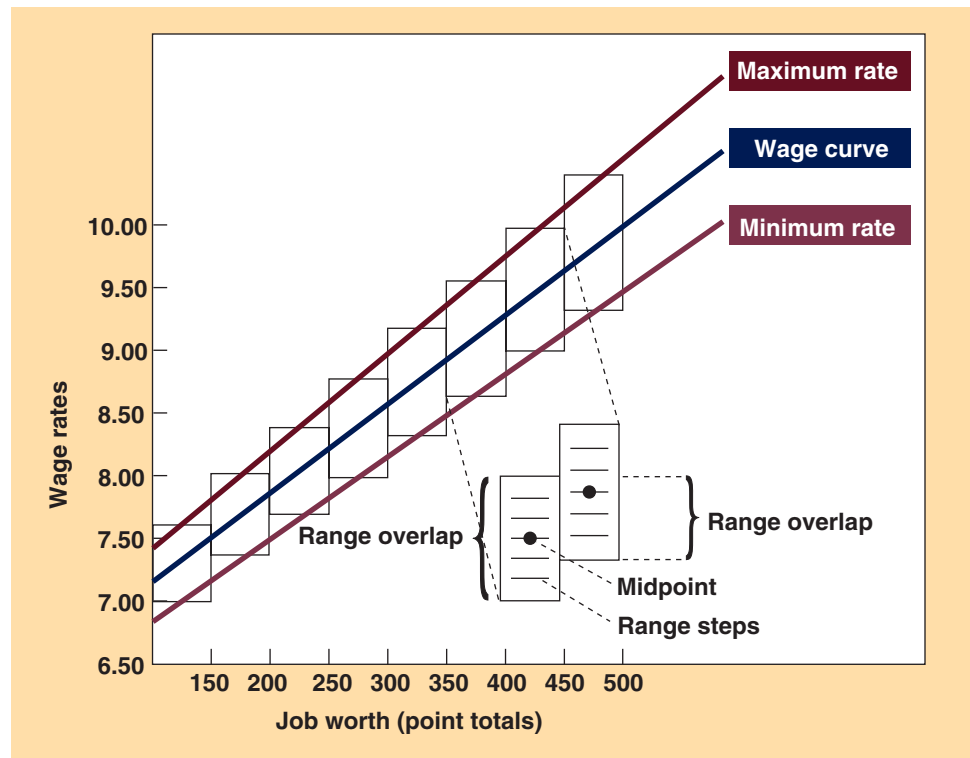
FIGURE 10.7
Pay Structure

SOURCE: From *Managing Human Resources,* 11th ed., by Bohlander, Snell, and Sherman. Copyright © 1998. Reprinted with permission of South-Western, a division of Thomson Learning, www.thomsonrights.com. Fax 800 730-2215.

in an economic sense, labor markets are less efficient when information is unavailable, which can reduce organizations' ability to get the best workers at the optimum rate of pay. Given these possible pros and cons of pay secrecy, do you think this practice is wise? Is it ethical? And what about you—do you want to know how much your coworkers earn?

Incentive Systems and Variable Pay

Various incentive systems have been devised to encourage and motivate employees to be more productive.[52] (See Chapter 13 for more discussion of rewarding performance.) *Individual incentive plans* are the most common type of incentive plan. An individual incentive system consists of an objective standard against which a worker's performance is compared. Pay is determined by the employee's performance. Individual incentive plans are used frequently in sales jobs—for example, a salesperson will receive extra compensation for exceeding a sales target. Another widely used individual incentive tool is management bonuses. If effectively designed, individual incentive plans can be highly motivating. Some companies, including Walmart, are even beginning to apply them for nonmanagers. Walmart hopes that using bonuses to reward hourly employees for meeting sales, profit, and inventory targets at their stores each quarter will build employees' job satisfaction and reduce turnover.[53]

Several types of group incentive plans, in which pay is based on group performance, are increasingly used today. The idea behind these plans is to give employees a sense of shared participation and even ownership in the performance of the firm. *Gainsharing plans* concentrate on rewarding employees for increasing productivity or saving money in areas under their direct control.[54] For example, if the usual waste allowance in a production line has been 5 percent and the company wants production employees to try to reduce that number, the company may offer to split any savings gained with the employees.

Incentives can help raise all aspects of organization performance.

Profit-sharing plans are usually implemented in the division or organization as a whole, although some incentives may still be tailored to unit performance. In most companies, the profit-sharing plan is based on a formula for allocating an annual amount to each employee if the company exceeds a specified profit target. One disadvantage of profit-sharing plans is that they do not reward individual performance. However, they do give all employees a stake in the company's success and motivate efforts to improve the company's profitability. In the "Management Close-Up: Taking Action" feature, consider how profit sharing at Enterprise Rent-A-Car supports the company's strategy and dovetails with its recruiting goals.

Management Close-Up | TAKING ACTION

The rise in air travel in the 1960s and 1970s helped the car-rental industry grow, with competitors like Hertz and Avis locating rental offices within airports to serve travelers. But Enterprise founder Jack Taylor pursued an entirely different business model. Recognizing that travel is not the only reason to rent a car, he established Enterprise branches within local communities, targeting customers who needed transportation while their own vehicle was in the shop. Not only was his a low-cost strategy, but it also proved to be a significant differentiator that created a huge competitive advantage for Enterprise.

Recruiting at Enterprise is a broad-based function. About 225 recruiters visit nearly a thousand universities and colleges looking for new prospects. Since college students appreciate both high-tech and high-touch recruiting methods, recruiters reach out to job candidates through meetings and phone calls, as well as through an award-winning interactive Web site that includes video clips and testimonials from current trainees.

For several years, Enterprise has led the nation's employers in college recruiting, including the recruiting of women and minorities. In recent years it has hired as many as 8,000 college graduates for entry-level positions, and it offers paid internships to an additional 2,000 students.

Enterprise's decentralized management system gives branch managers great latitude to shape their business to fit the wants and needs of their local market. Managers are given the authority and responsibility for their own success. An incentive pay system allows local offices to share in the profits they have generated. Employees receive promotions based on their performance. The arrangement is especially attractive to employees with an entrepreneurial streak; Enterprise branch managers are highly motivated to prove themselves.[55]

- Enterprise president and COO Pam Nicholson began her career path at the company like thousands of other recent college grads do each year: as a management trainee in a local branch. How do Enterprise's recruiting system and decentralized management style contribute to employees' successes? How do they help the company?
- Today, Enterprise's workforce is a blend of baby boomers, Generation Xers, and others. As president and COO, how can Nicholson ensure that Enterprise continues to provide its workforce with the right rewards to keep them engaged and productive?

Aon, a large insurance and consulting firm with 47,000 employees in 500 offices around the world, recently instituted a compensation program for its top and middle managers based on three areas of performance: the individual business unit's performance, the geographic region's performance, and the performance of the company as a whole. The breakdown of payments—cash, stock, and the amount—varies depending on the level of the manager. In addition, lower-level employees receive matching contributions to their 401(k) retirement accounts if the company does well.[56]

When objective performance measures are not available but the company still wants to base pay on performance, it uses a *merit pay system*. Individuals' pay raises and bonuses are based on the merit rating they receive from their boss. In Rochester, Minnesota, the school superintendent's bonus is an example of merit pay. The school board rates the superintendent's performance in several predetermined areas, such as promoting teamwork between the board and school district staff and supporting the board in developing a strategic plan. In a recent year, the superintendent received an average score of 3 on a four-point scale, so the board awarded him three-quarters of the maximum bonus.[57]

Executive Pay and Stock Options

In recent years the issues of executive pay and stock options, particularly for CEOs, have become major sources of controversy. One reason is that the gap between the pay of top executives and the average pay of employees has widened considerably. In the 1980s CEOs made less than 40 times the average worker's pay. By the next decade, CEOs were earning 140 times more, and the multiple has now reached 500 times the average worker's pay. This gap is considerably wider in the United States than it is abroad. For example, the average CEO of a large British company earns roughly 130 times that of a U.K. worker, and the average top executive in Australia earns about 50 times more than the average Australian worker. In Japan, where the details of executive pay are less public, executive pay has risen relatively slowly, and companies avoid huge income gaps between the top and bottom of the organization, out of concern for employee morale and teamwork.[58]

Besides the difference between executive and average-worker pay, the sheer size and growth of CEO compensation has also contributed to criticism by shareholders and the general public. Top-earning CEOs today can make tens of millions of dollars a year. Still, it's important to keep in mind that the huge awards that make headlines are not necessarily typical. In a recent year, CEOs of companies in the Standard & Poor's stock index earned on average $4.5 million, but the median was $2.5 million, because a few executives with far higher earnings pushed the average higher. Also, if we consider only the biggest companies, those in the Standard & Poor's 500, CEO pay averaged $9 million because CEOs of the biggest companies tend to earn more than most CEOs.[59]

Even with these considerations, $9 million or even $2.5 million is a lot of money to earn in one year, and the amount of compensation paid to top executives is growing. While salaries and bonuses have risen at a moderate pace, the fastest-growing part of executive compensation comes from stock grants and *stock options*. Such options give the holder the right to purchase shares of stock at a specified price. For example, if the company's stock price is $8 a share, the company may award a manager the right to purchase a specific number of shares of company stock at that price. If the price of the stock rises to, say, $10 a share after a specified holding period—usually three years or more—the manager can *exercise* the option. He or she can purchase the shares from the company at $8 per share, sell the shares on the stock market at $10, and keep the difference. (Of course, if the stock price never rises above $8, the options will be worthless.) For many top managers, large option grants, along with sharply rising share prices on the stock market, became a major source of additional compensation. Nearly one-third of CEOs' compensation (and more than one-fourth of non-CEO executives' compensation) comes in the form of stock options.[60] Adding to the scrutiny over this practice is the striking number of situations in which options were dated just before the company's stock price rose, increasing their value—and the suspicion that at least some of these options were backdated to unethically make them more valuable, rather than give executives the incentive to improve the company's performance in the stock market.[61]

Companies issue options to managers to align their interests with those of the company's owners, the shareholders. The assumption is that managers will become even more focused on making the company successful, leading to a rise in its stock price. Assuming that the executives continue to own their stock year after year, the amount of their wealth that is tied to the company's performance—and their incentive to work hard for the company—should continually increase.[62] However, many critics have suggested that excessive use of options encouraged executives to focus on short-term results to drive up the price of their stock, at the expense of their firm's long-run competitiveness. Others suggested that lucrative options motivated questionable or even unethical behavior, as we mentioned in Chapter 2. More recently, a plunging stock market highlighted another problem with stock options: many options became essentially worthless, so they failed to reward employees.[63] While it makes business sense to give employees an incentive to contribute to their company's value, few if any employees could have prevented a widespread global economic downturn. In the future, employees may be wary about accepting stock options in lieu of less risky forms of pay.

Traditionally, companies incurred no expense when they issued stock options. This was another reason options were considered an attractive incentive tool and were sometimes even issued to nonmanagers. However, because of corporate scandals and to curb excessive use of options, the rules were changed in 2004 so that options have to be treated as an expense by companies that issue them. This means that compensation committees have to focus more on whether options motivate executives to focus on what is important for the company's future.
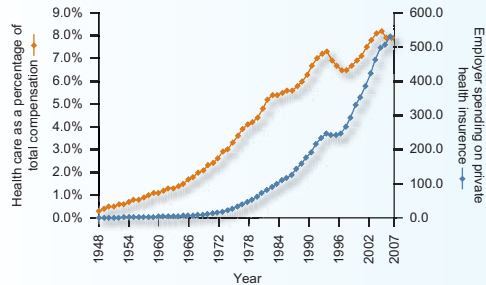
Employee Benefits

Like pay systems, employee benefit plans are subject to regulation. Employee benefits are divided into those required by law and those optional for an employer.

The three basic required benefits are workers' compensation, Social Security, and unemployment insurance. *Workers' compensation* provides financial support to employees suffering a work-related injury or illness. *Social Security*, as established in the Social Security Act of 1935, provides financial support to retirees; in subsequent amendments, the act was expanded to cover disabled employees. The funds come from payments made by employers, employees, and self-employed workers. *Unemployment insurance* provides financial support to employees who are laid off for reasons they cannot control. Companies that have terminated fewer employees pay less into the unemployment insurance fund; thus, organizations have an incentive to keep terminations at a minimum.

A large number of benefits are not required to be employer-provided. The most common are pension plans and medical and hospital insurance. Both of these are undergoing significant change. One major reason is that in a global economy they have put U.S. firms at a competitive disadvantage. For example, U.S. employers spend an average of $9,000 for each employee with health insurance.[64] Overseas firms generally do not bear these costs, which are usually government funded, and so are able to compete more effectively on price. As a result, with U.S. medical costs rising rapidly, companies have reduced health benefits or asked employees to share more of their cost. A growing share of U.S. companies (more than one-third) offer no medical benefits at all, or they staff more positions with part-time workers and offer coverage only to full-time employees. At the same time, retirement benefits have been shifting away from guaranteed pension payments. While a promised monthly payout used to be the norm, almost no company offers this approach to new employees today.[65] Instead, in many companies, the employer, and perhaps the employee, may contribute to an individual retirement account or 401(k) plan, which is invested. When the employee retires, he or she gets the total amount that has accumulated in the account.

Rapidly rising medical costs have made health care coverage an expensive part of employers' benefits packages.[66] Some employers—especially small ones—have coped by dropping health insurance altogether.

Because of the wide variety of possible benefits and the considerable differences in employee preferences and needs, companies often use **cafeteria** or **flexible benefit programs.** In this type of program, employees are given credits that they "spend" on benefits they desire. Then employees use their credits toward individualized packages of benefits—medical and dental insurance, dependent care, life insurance, and so on.

cafeteria benefit program

An employee benefit program in which employees choose from a menu of options to create a benefit package tailored to their needs.

flexible benefit programs

Benefit programs in which employees are given credits to spend on benefits that fit their unique needs.

comparable worth

Principle of equal pay for different jobs of equal worth.

Legal Issues in Compensation and Benefits

Several laws affect employee compensation and benefits. We have already mentioned the FLSA, which in addition to distinguishing between exempt and nonexempt employees also sets minimum wage, maximum hour, and child labor provisions.[67] The *Equal Pay Act (EPA)* of 1963, now enforced by the EEOC, prohibits unequal pay for men and women who perform equal work. Equal work means jobs that require equal skill, effort, and responsibility and are performed under similar working conditions. The law does permit exceptions in which the difference in pay is due to a seniority system, a merit system, an incentive system based on quantity or quality of production, or any other factor other than sex, such as market demand. Although equal pay for equal work may sound like common sense, many employers have fallen victim to this law by rationalizing that men, traditionally the "breadwinners," deserve more pay than women or by giving equal jobs different titles (senior assistant versus office manager) as the sole basis for pay differences.

One controversy concerns male and female pay differences within the same company. **Comparable-worth** doctrine implies that women who perform *different* jobs of *equal* worth as those performed by men should be paid the same wage.[68] In contrast to the equal-pay-for-equal-work notion, comparable worth suggests that the jobs need *not* be the same to require the same pay. For example, nurses (predominantly female) were found to be paid considerably less than skilled craftworkers (predominantly male), even though the two jobs were found to be of equal value or worth.[69] Under the Equal Pay Act, this would not constitute pay discrimination because the jobs are very different. But under the comparable-worth concept, these findings would indicate discrimination because the jobs are of equal worth.

To date, no federal law requires comparable worth, and the Supreme Court has made no decisive rulings about it. However, some states have considered developing comparable-worth laws, and others already have implemented comparable-worth changes, raising the wages of female-dominated jobs. For example, Minnesota passed a comparable-worth law for public-sector employees after finding that women on average were paid 25 percent less than men. Several other states, including Iowa, Idaho, New Mexico, Washington, and South Dakota, have comparable-worth laws for public-sector employees.[70]

Some laws influence mostly benefit practices. The *Pregnancy Discrimination Act* of 1978 states that pregnancy is a disability and qualifies a woman to receive the same benefits that she would with any other disability. The *Employee Retirement Income Security Act (ERISA)* of 1974 protects private pension programs from mismanagement. ERISA requires that retirement benefits be paid to those who vest or earn a right

to draw benefits and ensures retirement benefits for employees whose companies go bankrupt or who otherwise cannot meet their pension obligations.

Health and Safety

The *Occupational Safety and Health Act (OSHA)* of 1970 requires employers to pursue workplace safety. Employers must maintain records of injuries and deaths caused by workplace accidents and submit to onsite inspections. Large-scale industrial accidents and nuclear power plant disasters worldwide have focused attention on the importance of workplace safety.

Coal mining is one of many industries that benefit from safety laws. Mining is one of the five most dangerous jobs to perform, according to the U.S. Bureau of Labor Statistics. Nearly every coal miner can name a friend or family member who has been killed, maimed, or stricken with black lung disease. "You die quick or you die slow," reports one mine worker. Mine safety tragically returned to American consciousness in January 2006, when 12 miners died after being trapped by an explosion in the International Coal Group (ICG) mine in Sago, West Virginia. Critics of ICG's safety practices noted that more than 200 safety citations had been issued against the mine in the previous year, but fines totaled only $24,000.[71] However, according to the Mine Safety and Health Administration, mines have become safer. In the 1960s, hundreds of coal miners died in mine accidents every year; in 1986, 89 miners died (4.8 percent of coal miners), and even with the Sago tragedy in 2006, 47 miners (3.9 percent) died that year.[72]

Another area of concern is the safety of young workers, who may lack the confidence to speak up if they see health or safety problems. A recent study of teenage workers found that many were exposed to hazards and used equipment that should have been off-limits to teens under federal regulations. For example, almost half of teenaged grocery store employees said they had performed prohibited tasks such as using box crushers and dough mixers.[73]

Labor Relations

LO 7

labor relations

The system of relations between workers and management.

Labor relations is the system of relations between workers and management. Labor unions recruit members, collect dues, and ensure that employees are treated fairly with respect to wages, working conditions, and other issues. When workers organize for the purpose of negotiating with management to improve their wages, hours, or working conditions, two processes are involved: unionization and collective bargaining. These processes have evolved since the 1930s in the United States to provide important employee rights.[74]

Labor Laws

Try to imagine what life would be like with unemployment at 25 percent. Pretty grim, you would say. Legislators in 1935 felt that way too. Therefore, organized labor received its Magna Carta with the passage of the National Labor Relations Act.

The *National Labor Relations Act* (also called the *Wagner Act* after its legislative sponsor) ushered in an era of rapid unionization by (1) declaring labor organizations legal, (2) establishing five unfair employer labor practices, and (3) creating the National Labor Relations Board (NLRB). Prior to the act, employers could fire workers who favored unions, and federal troops were often provided to put down strikes. Today, the NLRB conducts unionization elections, hears complaints of unfair labor practices, and issues injunctions against offending employers. The Wagner Act greatly assisted the growth of unions by enabling workers to use the law and the courts to organize and

These protestors in Fontana, California, accuse Walmart of paying low wages, offering no health care or benefits, and trying to prevent employees from forming unions. The protest resulted in seven arrests. How might the retail giant respond to these accusations?

collectively bargain for better wages, hours, and working conditions. Many of the improvements all of us take for granted in the workplace, including minimum wages, health benefits, maternity leave, the 35-hour work-week, and worker protections in general were largely the result of collective bargaining over many years by unions.

Public policy began on the side of organized labor in 1935, but over the next 25 years, the pendulum swung toward the side of management. The *Labor-Management Relations Act*, or *Taft-Hartley Act* (1947), protected employers' free-speech rights, defined unfair labor practices by unions, and permitted workers to decertify (reject) a union as their representative.

Finally, the *Labor-Management Reporting and Disclosure Act*, or *Landrum-Griffin Act* (1959), swung the public policy pendulum midway between organized labor and management. By declaring a bill of rights for union members, establishing control over union dues increases, and imposing reporting requirements for unions, Landrum-Griffin was designed to curb abuses by union leadership and rid unions of corruption.

Unionization

How do workers join unions? Through a union organizer or local union representative, workers learn what benefits they may receive by joining.[75] The union representative distributes authorization cards that permit workers to indicate whether they want an election to be held to certify the union to represent them. The National Labor Relations Board will conduct a certification election if at least 30 percent of the employees sign authorization cards. Management has several choices at this stage: to recognize the union without an election, to consent to an election, or to contest the number of cards signed and resist an election.

If an election is warranted, an NLRB representative will conduct the election by secret ballot. A simple majority of those voting determines the winner. Thus, apathetic workers who do not show up to vote in effect support the union. If the union wins the election, it is certified as the bargaining unit representative.

During the campaign preceding the election, management and the union each try to persuade the workers how to vote. Most workers, though, are somewhat resistant to campaign efforts, having made up their minds well before the NLRB appears on the scene. If the union wins the election, management and the union are legally required to bargain in good faith to obtain a collective bargaining agreement or contract.

Why do workers vote for a union? The four factors that play a significant role are presented in Figure 10.8.[76] First, economic factors are important, especially for workers in low-paying jobs; unions attempt to raise the average wage rate for their members. Second, job dissatisfaction encourages workers to seek out a union. Poor supervisory practices, favoritism, lack of communication, and perceived unfair or arbitrary discipline and discharge are specific triggers of job dissatisfaction. Third, the belief that the union can obtain desired benefits can generate a pro-union vote. Finally, the image of the union can determine whether a dissatisfied worker will seek out the union. Headline stories of union corruption and dishonesty can discourage workers from unionization.
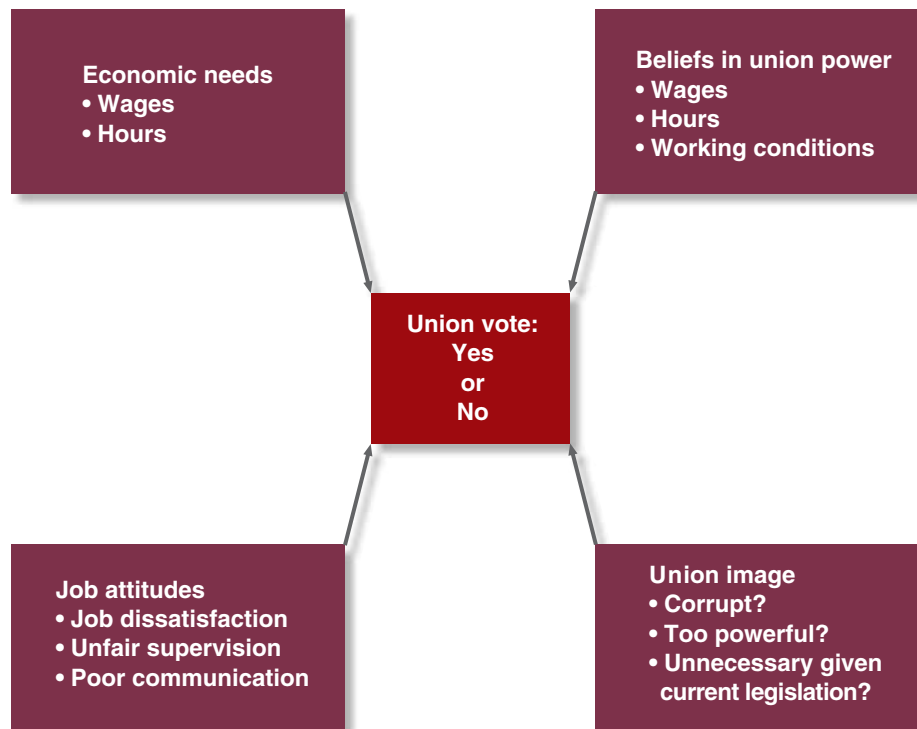
FIGURE 10.8
Determinants of Union Voting Behavior

Collective Bargaining

In the United States, management and unions engage in a periodic ritual (typically every three years) of negotiating an agreement over wages, benefits, hours, and working conditions. Two types of disputes can arise during this process. First, before an agreement is reached, the workers may go on strike to compel agreement on their terms. Such an action is known as an *economic strike* and is permitted by law. However, today strikes are less likely to be used as a bargaining tool, although they sometimes do still occur as a last resort. Strikers are not paid if they are on strike, and few workers want to undertake this hardship unnecessarily. In addition, managers may legally hire replacement workers during a strike, offsetting some of the strike's effect. Finally, workers are as aware as managers of the tougher competition companies face today, and if treated fairly, they will usually share management's interest in coming to an agreement.

Once an agreement is signed, management and the union sometimes disagree over *interpretation* of the agreement. Usually they settle their disputes through arbitration. **Arbitration** is the use of a neutral third party, typically jointly selected, to resolve the dispute. The United States uses arbitration while an agreement is in effect to avoid *wildcat strikes* (in which workers walk off the job in violation of the contract) or unplanned work stoppages.

What does a collective bargaining agreement contain? In a **union shop,** a union security clause specifies that workers must join the union after a set period of time. **Right-to-work** states, through restrictive legislation, do not permit union shops; that is, workers have the right to work without being forced to join a union. The southern United States has many right-to-work states. The wage component of the contract spells out rates of pay, including premium pay for overtime and paid holidays. Individual rights usually are specified in terms of the use of seniority to determine pay increases, job bidding, and the order of layoffs.

arbitration

The use of a neutral third party to resolve a labor dispute.

union shop

An organization with a union and a union security clause specifying that workers must join the union after a set period of time.

right-to-work

Legislation that allows employees to work without having to join a union.

A feature of any contract is the grievance procedure. Through the grievance procedure, unions perform a vital service for their membership by giving workers a voice in what goes on during contract negotiations and administration.[77] In about 50 percent of discharge cases that go to arbitration, the arbitrator overturns management's decision and reinstates the worker.[78] Unions have a legal duty of fair representation, which means they must represent all workers in the bargaining unit and ensure that workers' rights are protected.

What Does the Future Hold?

In recent years union membership has declined to about 12 percent of the U.S. labor force—down from a peak of more than 33 percent at the end of World War II. Increased automation eliminated many of the types of manufacturing jobs that used to be union strongholds. Employees in today's white-collar office jobs are less interested in joining unions and are also more difficult to organize. Tough global competition has made managers much less willing to give in to union demands, and as a result, the benefits of unionization are less clear to many workers—particularly young, skilled workers who no longer expect to stay with one company all their lives. Some people applaud unions' apparent decline. Others hope for an eventual reemergence. Unions may play a different role in the future, one that is less adversarial and more cooperative with management. Unions are adapting to changing workforce demographics; they are paying more attention to women, older workers, government employees, and people who work at home. Elimination of inefficient work rules, the introduction of profit sharing, and a guarantee of no layoffs were seen as big steps toward a fundamentally different, cooperative long-term relationship.

What seems clear is that when companies recognize that their success depends on the talents and energies of employees, the interests of unions and managers may begin to converge. Rather than one side exploiting the other, unions and managers can find common ground in developing, valuing, and involving employees. Particularly in knowledge-based companies, the balance of power is shifting toward employees. Individuals, not companies, own their own human capital. And these employees are free, within limits, to leave the organization, taking their human capital with them. This leaves organizations in a particularly vulnerable position if they manage poorly. To establish a strong competitive capability, organizations are searching for ways to obtain, retain, and engage their most valuable resources: human resources. The processes and practices outlined in this chapter form the foundation for effective people management. In the next chapter, we discuss one particularly important people-related issue: managing a diverse workforce.

Management Close-Up

ASSESSING OUTCOMES AND SEIZING OPPORTUNITIES

When Pam Nicholson was named president of Enterprise Rent-A-Car in 2008, one of her first responsibilities was to complete the integration of her company's 2007 acquisition of Tulsa-based Vanguard Car Rental, owner of Alamo and National car rentals. Acquiring the Alamo and National brands has helped Enterprise penetrate other market segments. Alamo targets vacationers, and National caters to frequent business travelers. Both firms operate chiefly in airports. Pursuing its strategy of locating in communities, Enterprise did not begin locating rental branches in airports until 1995, opening its first such office in Denver. Since then, the company has also discovered that the revenue stream from local rental branches is smoother than that from airport locations, where business can be cyclical.

Operating a total fleet of 1.1 million rental vehicles—the world's largest—Enterprise takes its environmental responsibility seriously. To reduce its environmental impact, the company aims to buy wisely. Enterprise has the world's largest fleet of fuel-efficient cars: more than 440,000 vehicles that get better than 28 miles to the gallon on the highway. Its fleet includes 5,000 hybrid vehicles and 73,000 "flex-fuel" cars—vehicles that can operate on E85 fuel, a combination of 85 percent ethanol and 15 percent gasoline. Enterprise typically places the flex-fuel vehicles near gas stations that sell E85.

In another nod to the environment, Enterprise offers hourly car rentals and recently launched its nationwide WeCar program for vehicle sharing in corporations and at universities and colleges. These short-term rentals reduce the need for car purchases by companies and college students.

Recently, the Taylor family gave $25 million to create the Enterprise Rent-A-Car Institute for Renewable Fuels, to research alternative fuels that reduce dependency on fossil fuels and cut greenhouse gas emissions. That same year, it pledged to plant 1 million trees in America for the next 50 years to reduce carbon dioxide in the atmosphere. The company already uses recycled paper products in much of its operations. Enterprise also became the first major car-rental company to offer a carbon-offset program. Under the optional program, customers can elect to pay $1.25 to offset the pollution created by their rental vehicle. Enterprise matches customers' payments dollar for dollar to $1 million. About a thousand customers a day buy the carbon offset, and Enterprise plans to extend the program to the United Kingdom. Next on Enterprise's "to do" list is finding a way to mitigate the environmental impact of the waste generation and electricity and water use in its 8,000 offices worldwide.[79]

- Enterprise Rent-A-Car differentiated itself from its largest competitors by locating primarily where people live and work. But now the company has expanded to airport rentals. What can president and COO Pam Nicholson do to ensure that Enterprise branch offices continue to mirror their local communities? How might its environmental programs play a part in those local efforts?
- According to a recent survey of the rental-car industry, customer satisfaction with airport car rentals declined for the second consecutive year. Yet, for the fifth year running, Enterprise ranks first among car-rental companies in customer satisfaction. In your opinion, how does this rating relate to the human resource management policies and practices at Enterprise? How should Nicholson use such survey findings?

KEY TERMS

Adverse impact, p. 355

Arbitration, p. 373

Assessment center, p. 351

Cafeteria benefit programs, p. 370

Comparable worth, p. 370

Development, p. 357

Diversity training, p. 359

Employment-at-will, p. 353

Flexible benefit programs, p. 370

Human capital, p. 341

Human resources management (HRM), p. 340

Job analysis, p. 346

Labor relations, p. 371

Management by objectives (MBO), p. 361

Needs assessment, p. 357

Orientation training, p. 359

Outplacement, p. 353

Performance appraisal (PA), p. 360

Recruitment, p. 346

Reliability, p. 352

Right-to-work, p. 373

Selection, p. 348

Structured interview, p. 349

360-degree appraisal, p. 362

Team training, p. 359

Termination interview, p. 354

Training, p. 357

Union shop, p. 373

Validity, p. 352

SUMMARY OF LEARNING OBJECTIVES

Now that you have studied Chapter 10, you should be able to:

LO 1   Discuss how companies use human resources management to gain competitive advantage.

To succeed, companies must align their human resources to their strategies. Effective planning is necessary to make certain that the right number and type of employees are available to implement a company's strategic plan. It is clear that hiring the most competent people is a very involved process. Companies that compete on cost, quality, service, and so on also should use their staffing, training, appraisal, and reward systems to elicit and reinforce the kinds of behaviors that underlie their strategies.

LO 2   Give reasons companies recruit both internally and externally for new hires.

Some companies prefer to recruit internally to make certain that employees are familiar with organizational policies and values. In other instances, companies prefer to recruit externally, such as through employee referrals, job boards, newspaper advertising, and campus visits, to find individuals with new ideas and fresh perspectives. External recruiting is also necessary to fill positions when the organization is growing or needs skills that do not exist among its current employees.

LO 3   Identify various methods for selecting new employees.

There are myriad selection techniques from which to choose. Interviews and reference checks are the most common. Personality tests and cognitive ability tests measure an individual's aptitude and potential to do well on the job. Other selection techniques include assessment centers and integrity tests. Background and reference checks verify that the information supplied by employees is accurate. Regardless of the approach used, any test should be able to demonstrate reliability (consistency across time and different interview situations) and validity (accuracy in predicting job performance). In addition, selection methods must comply with equal opportunity laws, which are intended to ensure that companies do not discriminate in any employment practices.

LO 4   Evaluate the importance of spending on training and development.

People cannot depend on a set of skills for all of their working lives. In today's changing, competitive world, old skills quickly become obsolete, and new ones become essential for success. Refreshing or updating an individual's skills requires a great deal of continuous training, designed with measurable goals and methods that will achieve those goals. Companies understand that gaining a competitive edge in quality of service depends on having the most talented, flexible workers in the industry.

LO 5   Explain alternatives for who appraises an employee's performance.

Many companies are using multiple sources of appraisal because different people see different sides of an employee's performance. Typically, a superior is expected to evaluate an employee, but peers and team members are often well positioned to see aspects of performance that a superior misses. Even an employee's subordinates are being asked more often today to give their input to get yet another perspective on the evaluation. Particularly in companies concerned about quality, internal and external customers also are surveyed. Finally, employees should evaluate their own performance, if only to get them thinking about their own performance, as well as to engage them in the appraisal process.

LO 6   Describe the fundamental aspects of a reward system.

Reward systems include pay and benefits. Pay systems have three basic components: pay level, pay structure, and individual pay determination. To achieve an advantage over competitors, executives may want to pay a generally higher wage to their company's employees, but this decision must be weighed against the need to control costs (pay-level decisions often are tied to strategic concerns such as these). To achieve internal equity (paying people what they are worth relative to their peers within the company), managers must look at the pay structure, making certain that pay differentials are based on knowledge, effort, responsibility, working conditions, seniority, and so on. Individual pay determination is often based on merit or the different contributions of individuals. In these cases, it is important to make certain that men and women receive equal pay for equal work, and managers may wish to base pay decisions on the idea of comparable worth (equal pay for an equal contribution). Also, the Occupational Safety and Health Act requires that employees have a safe and healthy work environment.

LO 7   Summarize how unions and labor laws influence human resources management.

Labor relations involve the interactions between workers and management. One mechanism by which this relationship is conducted is unions. Unions seek to present a collective voice for workers, to make their needs and wishes known to management. Unions negotiate agreements with management regarding a range of issues such as wages, hours, working conditions, job security, and health care. One important tool that unions can use is the grievance procedure established through collective bargaining. This mechanism gives employees a way to seek redress for wrongful action on the part of management. In this way, unions make certain that the rights of all employees are protected. Labor laws seek to protect the rights of both employees and managers so that their relationship can be productive and agreeable.

DISCUSSION QUESTIONS

1. How will changes in the labor force affect HRM practices for the next decade?

2. Describe the major regulations governing HRM practices.

3. Define job analysis. Why is job analysis relevant to each of the six key HRM activities discussed in the chapter (i.e., planning, staffing, training, performance appraisal, reward systems, labor relations)?

4. What are the various methods for recruiting employees? Why are some better than others? In what sense are they better?

5. What is a "test"? Give some examples of tests used by employers.

6. What purpose does performance appraisal serve? Why are there so many different methods of appraisal?

7. What are some key ideas to remember when conducting a performance interview?

8. How would you define an effective reward system? What role do benefits serve in a reward system?

9. Why do workers join unions? What implications would this have for an organization that wishes to remain nonunion?

10. Discuss the advantages and disadvantages of collective bargaining for the employer and the employee.

CONCLUDING CASE

The University of Dissension

This is a case about unions.

This case involves one of the divisions of the workforce of a state university near you. The personnel of that university are structured like many others around the country, with four distinct divisions of labor. *Administrators* include the president, a number of vice presidents, and many other executive-level administrative assistants positioned throughout the various departments. *Faculty* make up the second tier, and include assistant, associate, and full professors. *Professional associates* are the "white-collar" support staff; most of these individuals have a college education and work as middle managers, day-to-day operations administrators, technical support staff, and so on. *Operating staffers* are the "blue-collar" workers; they include administrative assistants, clerical workers, physical plant and grounds maintenance people, and custodians.

Operating staffers represent the largest and lowest-paid division of the workforce. Most of those individuals have no education or formal training beyond high school. Their pay scale ranges from minimum wage to $12–$15 per hour. Their benefit package includes some provisions for health and life insurance and retirement. It is far less comprehensive than the other three divisions and is considered to be somewhat comparable to employees in similar positions in the surrounding area.

The operating staffers have always maintained a central committee made up of a cross-representation of the various departments around campus. The committee was originally established to serve as a liaison between labor and management for communication purposes. In reality, it has functioned almost exclusively as a fundraising and community service arm for that group. The operating staffers have always been the most generous division on campus when it comes to community outreach volunteers and for the annual fundraising drives of the traditional nonprofit community service organizations.

For the first time ever, the central committee finds itself talking about unions. Operating staffers have begun to show up for the meetings in growing numbers to voice their displeasure about changes in working conditions and to encourage the committee to go ahead and take a serious look at unionizing.

During the past few years, administrative assistants, groundskeepers, maintenance workers, and custodians have not been replaced as positions become vacant. Supervisors have simply asked existing workers to "pick up the slack" because "the school cannot afford to fill those vacant positions." In addition, operating staffers have been required to contribute more of their paychecks each year to cover an increasing percentage of their health care costs, while the extent of their health care coverage has diminished.

Administrators claim that "times are tough, outside funding is down, and we must all share in the burden of maintaining our school." In the meantime, wages and benefits of administrators and faculty continue to increase, as do student enrollments. The increase in student enrollments also means more work for operating staffers.

The situation is beginning to "heat up" on both sides. Operating staffers have held public rallies on campus that include speeches by disgruntled workers and posters and banners depicting wages, working conditions, and prounion slogans. The central committee was able to organize a "bitch session" with the president as the result of an aggressive and relentless push for that meeting. The president listened quietly to the concerns and demands of the group and finally thanked them for their dedication to the school.

Supervisors and administrators have "informally encouraged" workers to give up the idea of unionizing. Many conversations are taking place off the record. Those conversations warn workers about the very real possibility of losing their jobs to outside vendors who are eager for the opportunity to provide their services to the school.

QUESTIONS

1. What steps would you take as a school administrator to resolve this issue and avoid unionization of the operating staffers?

2. If unionization appears imminent, what position and actions would you take to work through the process in the most collaborative and least disruptive manner?

3. Consider the labor force/supply in your area. Would subcontracting and/or outside recruiting be a means to quell this union movement?

EXPERIENTIAL EXERCISES

10.1 The "Legal" Interview

OBJECTIVES

1. To introduce you to the complexities of employment law.
2. To identify interview practices that might lead to discrimination in employment.

INSTRUCTIONS

1. Working alone, review the text material on interviewing and discrimination in employment.
2. In small groups, complete the "Legal" Interview Worksheet.
3. After the class reconvenes, group spokespersons present group findings.

"Legal" Interview Worksheet

The employment interview is one of the most critical steps in the employment selection process. It also may be an occasion for discriminating against individual employment candidates.

The following represents questions that interviewers often ask job applicants. Identify the legality of each question by circling *L* (legal) or *I* (illegal) and briefly explain your decision.

Interview Question	Legality	Explanation
1. Could you provide us with a photo for our files?	L I	_____
2. Have you ever used another name (previous married name or alias)?	L I	_____
3. What was your maiden name?	L I	_____
4. What was your wife's maiden name?	L I	_____
5. What was your mother's maiden name?	L I	_____
6. What is your current address?	L I	_____
7. What was your previous address?	L I	_____
8. What is your social security number?	L I	_____
9. Where was your place of birth?	L I	_____
10. Where were your parents born?	L I	_____
11. What is your national origin?	L I	_____
12. Are you a naturalized citizen?	L I	_____
13. What languages do you speak?	L I	_____
14. What is your religious/church affiliation?	L I	_____
15. What is your racial classification?	L I	_____
16. How many dependents do you have?	L I	_____
17. What are the ages of your dependent children?	L I	_____
18. What is your marital status?	L I	_____
19. How old are you?	L I	_____
20. Do you have proof of your age (birth certificate or baptismal record)?	L I	_____
21. Whom do we notify in case of an emergency?	L I	_____
22. What is your height and weight?	L I	_____
23. Have you ever been arrested?	L I	_____
24. Do you own your own car?	L I	_____
25. Do you own your own house?	L I	_____
26. Do you have any charge accounts?	L I	_____
27. Have you ever had your salary garnished?	L I	_____
28. To what organizations do you belong?	L I	_____
29. Are you available to work on Saturdays and Sundays?	L I	_____
30. Do you have any form of disability?	L I	_____

10.2 The Pay Raise

OBJECTIVES

1. To further your understanding of salary administration.
2. To examine the many facets of performance criteria, performance criteria weighting, performance evaluation, and rewards.

INSTRUCTIONS

1. Working in small groups, complete the Pay Raise Worksheet.
2. After the class reconvenes, group spokespersons present group findings.

Pay Raise Worksheet

April Knepper is the new supervisor of an assembly team. It is time for her to make pay raise allocations for her subordinates. She has been budgeted $30,000 to allocate among her seven subordinates as pay raises. There have been some ugly grievances in other work teams over past allocations, so Knepper has been advised to base the allocations on objective criteria that can be quantified, weighted, and computed in numerical terms. After she makes her allocations, Knepper must be prepared to justify her decisions. All of the evaluative criteria available to Knepper are summarized as follows:

Employee	Seniority	Output Rating*	Absent Rate	Supervisory Ratings			
				Skills	Initiative	Attitude	Personal
David Bruce	15 yrs.	0.58	0.5%	Good	Poor	Poor	Nearing retirement. Wife just passed away. Having adjustment problems.
Eric Cattalini	12 yrs.	0.86	2.0	Excellent	Good	Excellent	Going to night school to finish his BA degree.
Chua Li	7 yrs.	0.80	3.5	Good	Excellent	Excellent	Legally deaf.
Marilee Miller	1 yr.	0.50	10.0	Poor	Poor	Poor	Single parent with three children.
Victor Munoz	3 yrs.	0.62	2.5	Poor	Average	Good	Has six dependents. Speaks little English.
Derek Thompson	11 yrs.	0.64	8.0	Excellent	Average	Average	Married to rich wife. Personal problems.
Sarah Vickers	8 yrs.	0.76	7.0	Good	Poor	Poor	Women's activist. Wants to create a union.

*Output rating determined by production rate less errors and quality problem.