

PEARSON NEW INTERNATIONAL EDITION

Fundamentals of
Human Resource Management
Gary Dessler
Third Edition

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Managing Human Resources Today

OVERVIEW:
In this chapter,
we will cover . . .

WHAT IS HUMAN RESOURCE MANAGEMENT?

THE TRENDS SHAPING HUMAN RESOURCE MANAGEMENT

WHAT DO THE NEW HUMAN RESOURCE MANAGERS DO?

WHAT COMPETENCIES DO TODAY'S HUMAN RESOURCE MANAGERS NEED?

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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Answer the question, "What is human resource management?"
2. Explain with at least four examples why knowing HR management concepts and techniques is important to any supervisor or manager.
3. Explain with examples what trends are influencing human resource management.
4. List, with examples, 10 things today's HR managers do to deal with these trends and challenges.
5. Discuss some competencies HR managers need to deal with today's trends and challenges.

INTRODUCTION

After a worker uprising at its Foxconn iPhone assembly plant in China, Apple Inc. asked the Fair Labor Association (FLA) to survey the plant's workers. The FLA found "tons of issues."¹ Hon Hai, the Foxconn plant's owner, soon changed its plant human resource (HR) practices, for instance, raising salaries and cutting mandatory overtime. Apple and Hon Hai both know that the plant's morale and productivity depend on its human resource practices.

From Chapter 1 of *Fundamentals of Human Resource Management*, 3rd edition. Gary Dessler. Copyright © 2014 by Pearson Education, Inc. All rights reserved.

LEARNING OBJECTIVE 1

Answer the question, “What is human resource management?”

organization

A group consisting of people with formally assigned roles who work together to achieve the organization’s goals.

manager

Someone who is responsible for accomplishing the organization’s goals, and who does so by managing the efforts of the organization’s people.

managing

To perform five basic functions: planning, organizing, staffing, leading, and controlling.

management process

The five basic functions of planning, organizing, staffing, leading, and controlling.

human resource management (HRM)

The process of acquiring, training, appraising, and compensating employees, and of attending to their labor relations, health and safety, and fairness concerns.

WHAT IS HUMAN RESOURCE MANAGEMENT?

Hon Hai’s Foxconn plant is an *organization*. An **organization** consists of people (in this case, people like assembly workers and managers) with formally assigned roles who work together to achieve the organization’s goals. A **manager** is someone who is responsible for accomplishing the organization’s goals, and who does so by managing the efforts of the organization’s people. Most writers agree that **managing** involves performing five basic functions: planning, organizing, staffing, leading, and controlling. In total, these functions represent the **management process**. Some of the specific activities involved in each function include:

- **Planning.** Establishing goals and standards; developing rules and procedures; developing plans and forecasts.
- **Organizing.** Giving each subordinate a specific task; establishing departments; delegating authority to subordinates; establishing channels of authority and communication; coordinating the work of subordinates.
- **Staffing.** Determining what type of people should be hired; recruiting prospective employees; selecting employees; setting performance standards; compensating employees; evaluating performance; counseling employees; training and developing employees.
- **Leading.** Getting others to get the job done; maintaining morale; motivating subordinates.
- **Controlling.** Setting standards such as sales quotas, quality standards, or production levels; checking to see how actual performance compares with these standards; taking corrective action as needed.

In this text we will focus on one of these functions—the staffing, personnel management, or *human resource management (HRM)* function. **Human resource management** is the process of acquiring, training, appraising, and compensating employees, and of attending to their labor relations, health and safety, and fairness concerns. The topics we’ll discuss should therefore provide you with the concepts and techniques you’ll need to perform the “people” or personnel aspects of management. These include:

- *Conducting job analyses* (determining the nature of each employee’s job).
- *Planning labor needs and recruiting* job candidates.
- *Selecting* job candidates.
- *Orienting and training* new employees.
- *Managing wages and salaries* (compensating employees).
- *Providing incentives and benefits*.
- *Appraising performance*.
- *Communicating* (interviewing, counseling, disciplining).
- *Training employees, and developing managers*.
- *Building employee commitment*.

And what a manager should know about:

- Equal opportunity and affirmative action.
- Employee health and safety.
- Handling grievances and labor relations.

LEARNING OBJECTIVE 2

Explain with at least four examples why knowing HR management concepts and techniques is important to any supervisor or manager.

Why Is Human Resource Management Important to all Managers?

Perhaps it’s easier to answer this by listing some of the personnel mistakes you *don’t* want to make while managing. For example, you don’t want

- To have your employees not doing their best.
- To hire the wrong person for the job.
- To experience high turnover.
- To have your company in court due to your discriminatory actions.
- To have your company cited for unsafe practices.
- To let a lack of training undermine your department’s effectiveness.
- To commit any unfair labor practices.

IMPROVED PERFORMANCE Carefully studying this text can help you avoid mistakes like these. More important, it can help ensure that you get results—through people. Remember that you could do everything else right as a manager—lay brilliant plans, draw clear organization charts, set up modern assembly lines, and use sophisticated accounting controls—but still fail, for instance, by hiring the wrong people or by not motivating subordinates.

On the other hand, many managers—from generals to presidents to supervisors—have been successful even without adequate plans, organizations, or controls. They were successful because they had the knack for hiring the right people for the right jobs and then motivating, appraising, and developing them. Remember as you read this text that getting results is the bottom line of managing and that, as a manager, you will have to get these results through people. This fact hasn't changed from the dawn of management. As one company president summed it up:

For many years it has been said that capital is the bottleneck for a developing industry. I don't think this any longer holds true. I think it's the workforce and the company's inability to recruit and maintain a good workforce that does constitute the bottleneck for production. I don't know of any major project backed by good ideas, vigor, and enthusiasm that has been stopped by a shortage of cash. I do know of industries whose growth has been partly stopped or hampered because they can't maintain an efficient and enthusiastic labor force, and I think this will hold true even more in the future.²

YOU MAY SPEND TIME AS AN HR MANAGER Here is a third reason to study this text: you may well spend time as a human resource manager. For example, about a third of large U.S. businesses surveyed appointed non-HR managers to be their top human resource executives. Thus, Pearson Corporation (which publishes this text) promoted the head of one of its publishing divisions to chief human resource executive at its corporate headquarters. Why? Some think these people may be better equipped to integrate the firm's human resource activities (such as pay policies) with the company's strategic needs (such as by tying executives' incentives to corporate goals).³

However most top human resource executives do have prior human resource experience. About 80% of those in one survey worked their way up within HR. About 17% had the HR Certification Institute's Senior Professional in Human Resources (SPHR) designation, and 13% were certified Professionals in Human Resources (PHR). The Society for Human Resource Management (SHRM) offers a brochure describing alternative career paths within human resource management.⁴ Find it at www.shrm.org/Communities/StudentPrograms/Documents/07-0971%20Careers%20HR%20Book_final.pdf.

HR FOR ENTREPRENEURS Finally, you might end up as your own human resource manager. More than half the people working in the United States today work for small firms. Small businesses as a group also account for most of the 600,000 or so new businesses created every year.⁵ Statistically speaking, therefore, most people graduating from college in the next few years either will work for small businesses or will create new small businesses of their own. Especially if you are managing your own small firm with no human resource manager, you'll probably have to handle HR on your own. If so, you must be able to recruit, select, train, appraise, and reward employees.

Line and Staff Aspects of HRM

All managers are, in a sense, human resource managers, because they all get involved in activities such as recruiting, interviewing, selecting, and training. Yet most firms also have a separate human resource department with its own human resource manager. How do the duties of this departmental HR manager and his or her staff relate to line managers' human resource duties? Let's answer this by starting with short definitions of line versus staff authority.

Line Versus Staff Authority

Authority is the right to make decisions, to direct the work of others, and to give orders. In management, we usually distinguish between line authority and staff authority. Line authority

authority

The right to make decisions, direct others' work, and give orders.

line manager

A manager who is authorized to direct the work of subordinates and is responsible for accomplishing the organization's tasks.

staff manager

A manager who assists and advises line managers.

gives managers the right (or authority) to issue orders to other managers or employees. It creates a superior-subordinate relationship. Staff authority gives a manager the right (authority) to advise other managers or employees. It creates an advisory relationship. **Line managers** have line authority. They are authorized to give orders. **Staff managers** have staff authority. They are authorized to assist and advise line managers. Human resource managers are staff managers. They assist and advise line managers in areas like recruiting, hiring, and compensation.

LINE-STAFF HR COOPERATION HR and line managers share responsibility for most human resource activities. For example, human resource and line managers in about two-thirds of the firms in one survey shared responsibility for skills training.⁶ (Thus, the supervisor might describe what training she thinks the new employee needs, HR might design the training, and the supervisors might then ensure that the training is having the desired effect.)

Line Managers' Human Resource Management Responsibilities

All supervisors therefore spend much of their time on personnel-type tasks. Indeed, the direct handling of people always has been an integral part of every line manager's responsibility, from president down to the first-line supervisor. For example, one company outlines its line supervisors' responsibilities for effective human resource management under the following general headings:

1. Placing the right person in the right job
2. Starting new employees in the organization (orientation)
3. Training employees for jobs that are new to them
4. Improving the job performance of each person
5. Gaining creative cooperation and developing smooth working relationships
6. Interpreting the company's policies and procedures
7. Controlling labor costs
8. Developing the abilities of each person
9. Creating and maintaining departmental morale
10. Protecting employees' health and physical conditions

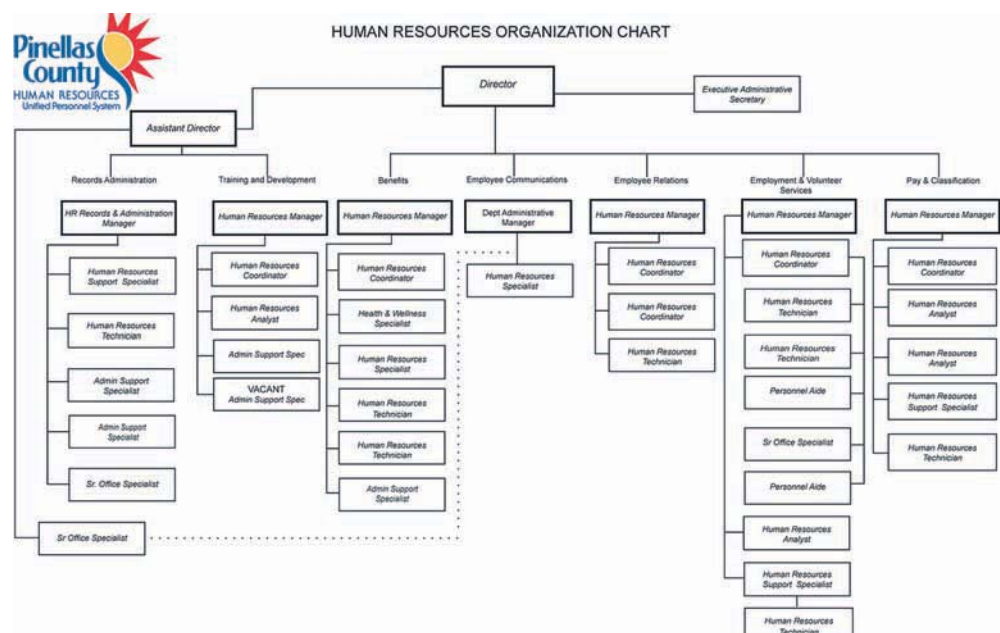
In small organizations, line managers may carry out all these personnel duties unassisted. But as the organization grows, line managers need the assistance, specialized knowledge, and advice of a separate human resource staff.

Organizing the Human Resource Department's Responsibilities

In larger firms, the *human resource department* provides such specialized assistance. Figure 1 shows human resource management jobs in one organization. Typical positions include

FIGURE 1
Human Resource Department Organization Chart Showing Typical HR Job Titles

Source: "Human resource development organization chart showing typical HR job titles," <http://www.co.pinellas.fl.us/persnl/pdf/orgchart.pdf>. Courtesy of Pinellas County Human Resources. Reprinted with permission.



compensation and benefits manager, employment and recruiting supervisor, training specialist, and employee relations executive. Examples of job duties include:

Recruiters: Maintain contact within the community and perhaps travel extensively to search for qualified job applicants.

Equal employment opportunity (EEO) representatives or affirmative action coordinators: Investigate and resolve EEO grievances, examine organizational practices for potential violations, and compile and submit EEO reports.

Job analysts: Collect and examine detailed information about job duties to prepare job descriptions.

Compensation managers: Develop compensation plans and handle the employee benefits program.

Training specialists: Plan, organize, and direct training activities.

Labor relations specialists: Advise management on all aspects of union–management relations.

REORGANIZING THE HUMAN RESOURCE MANAGEMENT FUNCTION Many employers are also taking a new look at how they organize their human resource functions. For example, J. Randall MacDonald, IBM’s senior vice president of human resources, says the traditional human resource organization divides HR activities into separate “silos” such as recruitment, training, and employee relations. This usually means there’s no one dedicated team of human resource specialists focusing on the needs of specific groups of employees, such as engineers.

MacDonald therefore took a different approach. He split IBM’s 330,000 employees into three segments for HR purposes: executive and technical, managers, and rank and file. Now separate human resource management teams (consisting of recruitment, training, and pay specialists, for instance) focus on each employee segment. Each team ensures the employees in each segment get the specialized testing, training, and rewards they require.⁷

You may also find other configurations.⁸ For example, some employers create *transactional HR teams*. These HR teams offer their human resource services through centralized call centers and through outside vendors (such as benefits advisors). They aim to provide employees with specialized support in day-to-day HR activities (such as changing benefits plans). You may also find specialized *corporate HR teams* within a company. These focus on assisting top management in top-level issues such as developing the personnel aspects of the company’s long-term strategic plan. *Embedded HR teams* have HR generalists (also known as “relationship managers” or “HR business partners”) assigned to functional departments like sales and production. They provide the selection and other assistance the departments need. *Centers of expertise* are basically specialized HR consulting firms within the company. For example, one center might provide specialized advice in areas such as organizational change to all the company’s various units.

HR IN SMALL BUSINESSES Employers usually have about one HR professional per 100 employees. Small firms (say, those with less than 100 employees) generally don’t have the critical mass required for a full-time human resource manager. Their human resource management therefore tends to be “ad hoc and informal.” For example, smaller employers tend to use recruiting practices like newspaper ads, walk-ins, and word of mouth, rather than computerized recruitment and selection programs.⁹ However, that needn’t be the case. Gaining a command of the techniques in this text should enable you to manage a small firm’s human resources more effectively.



J. Randall MacDonald and IBM reorganized its human resource management group to focus on the needs of specific groups of IBM employees.

Source: IBM

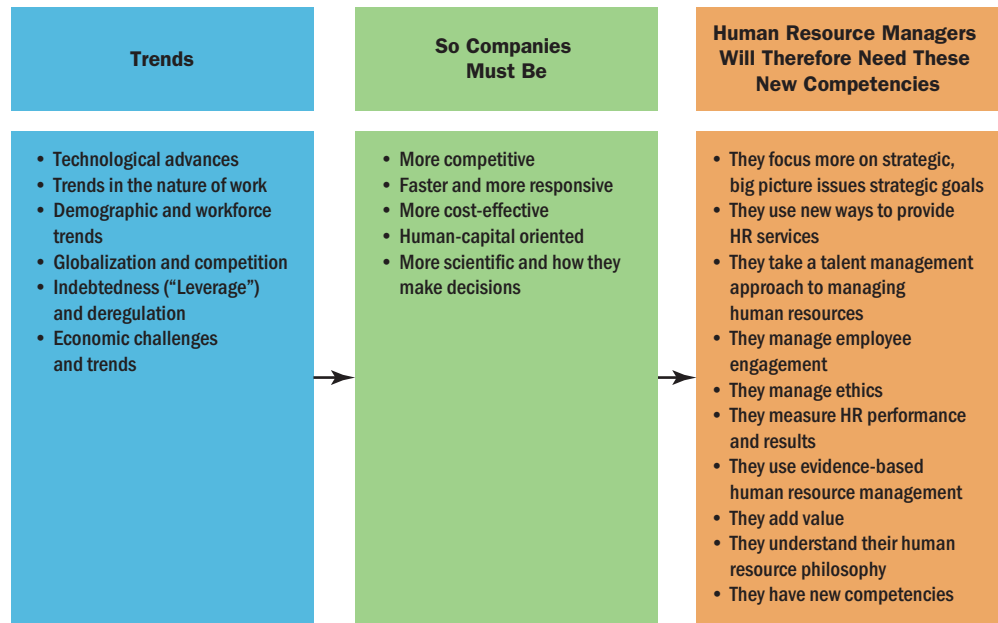
LEARNING OBJECTIVE 3

Explain with examples what trends are influencing human resource management.

THE TRENDS SHAPING HUMAN RESOURCE MANAGEMENT

Working cooperatively with line managers, human resource managers have long helped employers do things like hire and fire employees, administer benefits, and conduct appraisals. However, the human resource manager’s job is changing. Technology is one reason for this change. For

FIGURE 2
Trends Shaping Human Resource Management



instance, instead of having the human resource department help them make changes to their benefits plans, many employees today use their firms’ intranets to change their own benefits plans. Obviously that’s something they couldn’t do in pre-Internet days.¹⁰ Figure 2 sums up six big trends that are changing how employers and their HR managers do things.

Technological Advances

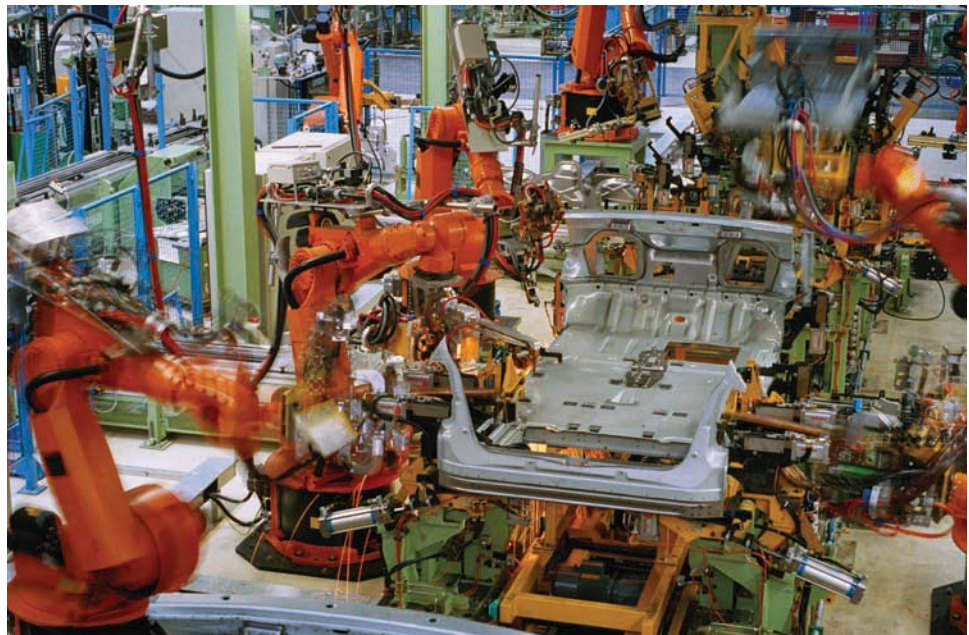
For one thing, technology dramatically changed how human resource managers do their jobs. *Facebookrecruiting* is one small example.¹¹ Employers start the process by installing the “Careers Tab” on their Facebook page. Once installed, “companies have a seamless way to recruit and promote job listings from directly within Facebook.”¹² Then, after creating a job listing, the employer can advertise its job link using Facebook. We’ll see that innovations like these have dramatically changed how human resource managers do things.¹³

Trends in the Nature of Work

Technology also changed the nature of work and therefore the skills that workers must bring to their jobs, For example, new high-tech manufacturing machines (such as three-dimensional

Technology also changed the nature of work and therefore the skills that workers must bring to their jobs. For example high-tech jobs often mean replacing manual labor with highly trained technicians.

Source: Olga Serdyuk/Alamy



printers that “print out” real products) require replacing manual labor with highly trained technicians.¹⁴ After an 18-week training course, one former college student became a team leader in a plant where the machines are automated. He and his team type commands into computerized machines that create precision parts.¹⁵ Technology-based employees like these need new skills and training to do these high-tech jobs.

SERVICE JOBS Technology is not the only trend driving the change from “brawn to brains.” Today over two-thirds of the U.S. workforce is already employed in producing and delivering services, not products. By 2020, service-providing industries are expected to account for 131 million out of 150 million (87%) of wage and salary jobs overall. So in the next few years, almost all the new jobs added in the United States will be in services, not in goods-producing industries.¹⁶

HUMAN CAPITAL For employers, trends like these translate into a growing need for “human capital.” Human capital “refers to the knowledge, skills, and abilities embedded in people.” One study recently concluded, “As the global economy becomes increasingly knowledge-based, the acquisition and development of superior human capital appears essential to firms’ profitability and success.”¹⁷ Employers will need new human resource management practices to select, train, and motivate these employees. The accompanying HR as a Profit Center illustrates how employers capitalize on human capital.

HR AS A PROFIT CENTER

Boosting Customer Service

One bank installed special software that made it easier for its customer service representatives to handle customers’ inquiries. However, the bank did not otherwise change the service reps’ jobs in any way. Here, the new software system did help the service reps handle more calls. But otherwise, this bank saw no big performance gains.¹⁸

A second bank installed the same software. But, seeking to capitalize on how the new software freed up customer reps’ time, this bank also had its human resource team upgrade the customer service representatives’ jobs. This bank taught them how to sell more of the bank’s services, gave them more authority to make decisions, and raised their wages. Here, the new computer system dramatically improved product sales and profitability, thanks to the newly trained and empowered customer service reps. Value-added human resource practices like these improve employee performance and company profitability.¹⁹

Demographic and Workforce Trends

DEMOGRAPHIC TRENDS The U.S. workforce is also becoming older and more multiethnic.²⁰ Table 1 offers a bird’s eye view. Between 1990 and 2020, the percent of the workforce that the U.S. Department of Labor classifies as “white, non-Hispanic” will drop from 77.7% to 62.3%. At the same time, the percent of the workforce that it classifies as Asian will rise from 3.7% to 5.7%, and those of Hispanic origin will rise from 8.5% to 18.6%. The percentages of younger

TABLE 1 Demographic Groups as a Percent of the Workforce, 1990–2020

Age, Race, and Ethnicity	1990	2000	2010	2020
Age: 16–24	17.9%	15.8%	13.6%	11.2%
25–54	70.2	71.1	66.9	63.7
55+	11.9	13.1	19.5	25.2
White, non-Hispanic	77.7	72.0	67.5	62.3
Black	10.9	11.5	11.6	12.0
Asian	3.7	4.4	4.7	5.7
Hispanic origin	8.5	11.7	14.8	18.6

Source: US Bureau of Labor Statistics Economic News Release 2/1/12. <http://www.bls.gov/news.release/ecopro.t01.htm>.

workers will fall, while those over 55 years of age will leap from 11.9% of the workforce in 1990 to 25.2% in 2020.²¹

Demographic trends are making finding and hiring employees more challenging. In the U.S., labor force growth is not expected to keep pace with job growth, with an estimated shortfall of about 14 million college-educated workers by 2020.²² One study of 35 large global companies' senior human resource officers said "talent management"—the acquisition, development and retention of talent to fill the companies' employment needs—ranked as their top concern.²³

"GENERATION Y" Furthermore, many younger workers may have different work values than did their parents.²⁴ These "Generation Y" employees (also called "Millennials,") were born roughly 1977 to 2002. They take the place of the labor force's previous new entrants, Generation X, those born roughly 1965 to 1976 (and who themselves were the children of the baby boomers, born roughly 1946 to 1964). Based on one study, older employees are more likely to be work-centric (to focus more on work than on family with respect to career decisions). Gen Y workers tend to be more family-centric or dual-centric (balancing family and work life).²⁵

Fortune magazine says that Millennial/Generation Y employees bring challenges and strengths. They may be "the most high maintenance workforce in the history of the world."²⁶ Employers like Lands' End and Bank of America are therefore teaching their managers to give Millennials quick feedback and recognition.²⁷ But, their ability to use information technology will also make them the most high performing.²⁸

RETIREES Many employers call "the aging workforce" their biggest demographic threat. The problem is that there aren't enough younger workers to replace the projected number of baby boom-era older workers retiring.²⁹ One survey found that 41% of surveyed employers are bringing retirees back into the workforce.³⁰

NONTRADITIONAL WORKERS At the same time, work is shifting to nontraditional workers. Nontraditional workers are those who hold multiple jobs, or who are "temporary" or part-time workers, or those working in alternative arrangements (such as a mother-daughter team sharing one clerical job). Others serve as "independent contractors" for specific projects. Almost 10% of American workers—13 million people—fit this nontraditional workforce category.

Technology facilitates alternative work arrangements. For example, www.linkedin.com enables such professionals to promote their services. Thanks to information technology, about 17 million people now work from remote locations at least once per month. "Co-working sites" are springing up. These offer freelance workers and consultants office space and access to office equipment (and the opportunity to interact with other independents) for several hundred dollars per month.³¹ We'll see that all this changes how employers manage their human resource systems.

WORKERS FROM ABROAD With projected workforce shortfalls, many employers are hiring foreign workers for U.S. jobs. The H-1B visa program lets U.S. employers recruit skilled foreign professionals to work in the United States when they can't find qualified American workers. U.S. employers bring in about 181,000 foreign workers per year under these programs. Particularly with high unemployment, such programs face opposition. One study concluded that many workers brought in under these programs actually filled jobs that didn't require specialized skills.³²

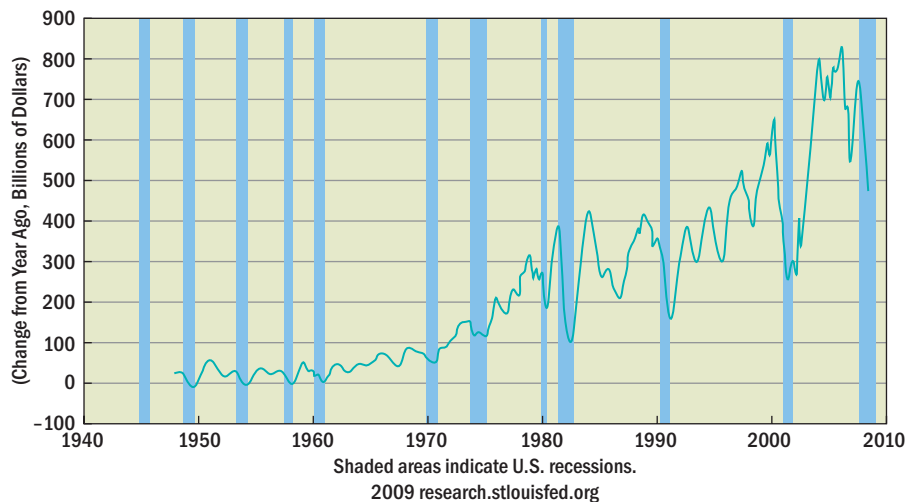
Globalization and Competition

Globalization refers to companies extending their sales, ownership, and/or manufacturing to new markets abroad. For example, Toyota builds Camrys in Kentucky, while Dell assembles PCs in China. Free trade areas—agreements that reduce tariffs and barriers among trading partners—further encourage international trade. NAFTA (the North American Free Trade Agreement) and the EU (European Union) are examples.

Globalization compels employers to be more efficient. More globalization means more competition, and more competition means more pressure to be "world class"—to lower costs, to make employees more productive, and to do things better and less expensively. Thus, when the Japanese retailer Uniglo opened its first store in Manhattan, many local competitors had to institute new testing, training, and pay practices to boost their employees' performance. The search for greater efficiencies prompts many employers to *offshore* (export jobs to lower-cost locations abroad). For example, Dell offshored some call-center jobs to India. Many employers offshore even highly skilled jobs such as sales managers, general managers—and HR managers.³³

FIGURE 3
Gross National Product, 1940–2010

Source: “Gross National Product (GNP)” by FRED Economic Data/St. Louis Fed., from Federal Reserve Bank of St. Louis.



For 50 or so years, globalization boomed. For example, the total sum of U.S. imports and exports rose from \$47 billion in 1960, to \$562 billion in 1980, to about \$4.7 trillion recently.³⁴ Changes in economic and political philosophies drove this boom. Governments dropped cross-border taxes or tariffs, formed economic free trade areas, and took other steps to encourage the free flow of trade among countries. The fundamental economic rationale was that by doing so, all countries would gain. And indeed, economies around the world did grow quickly.

Indebtedness (“Leverage”) and Deregulation

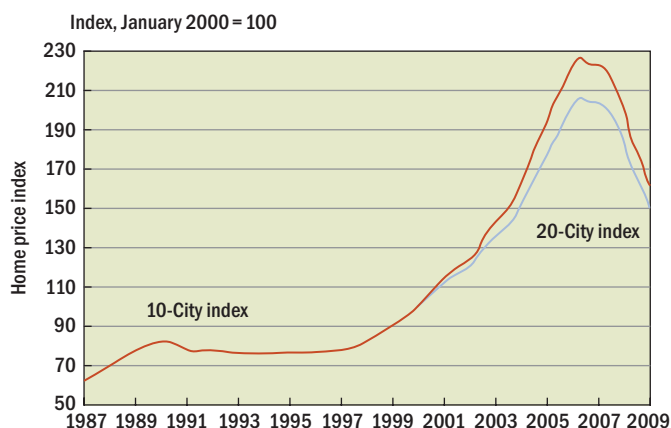
Other trends contributed to this economic boom. Many governments stripped away rules and regulations. For example, in America and Europe, the rules that prevented commercial banks from expanding into new businesses such as investment banking were relaxed. Giant, multinational “financial supermarkets” such as Citibank emerged. With fewer regulations, more businesses and consumers were soon deeply in debt. Homebuyers bought homes with little money down. Banks freely lent money to developers to build more homes. For almost 20 years, U.S. consumers spent more than they earned. The U.S. became a debtor nation. Its balance of payments (exports minus imports) went from a healthy positive \$3.5 billion in 1960, to a not-so-healthy *minus* \$19.4 billion in 1980 (imports exceeded exports), to a huge \$497 billion deficit in 2011.³⁵ The only way the country could keep buying more from abroad than it sold was by borrowing money. So, much of the boom was built on debt.

Economic Challenges and Trends

These trends occurred in a volatile economic environment. As you can see in Figure 3, Gross National Product (GNP)—a measure of the United States of America’s total output—boomed between 2001 and 2007. During this period, home prices (see Figure 4) leaped as much as 20% per year. Unemployment remained docile at about 4.7%.³⁶ Then, around 2007–2008, all these

FIGURE 4
Case-Shiller Home Price Indexes

Source: Case-Shiller Home Price Indexes. Courtesy of the Federal Reserve Bank of Cleveland. Reprinted with permission.



measures fell off a cliff. GNP fell. Home prices dropped by 10% or more (depending on city). Unemployment nationwide soon rose to more than 10%.

Why did all this happen? That is a complicated question, but for one thing, all those years of accumulating debt ran their course. Banks and other financial institutions (such as hedge funds) found themselves owning trillions of dollars of worthless loans. Governments stepped in to try to prevent their collapse. Lending dried up. Many businesses and consumers stopped buying. The economy tanked.

Economic trends will undoubtedly turn positive again, perhaps even as you read this. However, they have certainly grabbed employers' attention. After what the world went through starting in 2007–2008, it's doubtful that the deregulation, leveraging, and globalization that drove economic growth for the previous 50 years will continue unabated. That may mean slower growth for many countries, perhaps for years, and more pressure on employers and their human resource managers.

LEARNING OBJECTIVE 4

List, with examples, 10 things today's HR managers do to deal with these trends and challenges.

WHAT DO THE NEW HUMAN RESOURCE MANAGERS DO?

For much of the twentieth century, “personnel” managers focused mostly on day-to-day activities. In the earliest firms, they took over hiring and firing from supervisors, ran the payroll department, and administered benefits plans. As expertise in testing emerged, the personnel department played a bigger role in employee selection and training.³⁷ New union laws in the 1930s added, “Helping the employer deal with unions” to its list of duties. With new equal employment laws in the 1960s, employers began relying on HR for avoiding discrimination claims.³⁸

Today, employers face new challenges, such as squeezing more profits from operations. They expect their human resource managers to have what it takes to address these new challenges. Let's look at 10 things today's HR managers do to deal with these challenges.

THEY FOCUS MORE ON STRATEGIC, BIG PICTURE ISSUES First, human resource managers are more involved in helping their companies address longer-term, strategic “big picture” issues.

We see that Strategic **human resource management** means *formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims*. The basic idea behind strategic human resource management is this: In formulating human resource management policies and practices, the manager's aim should be to produce the employee skills and behaviors that the company needs to achieve its strategic aims. So, for example, if you want the CEO to focus on boosting profits, tie his or her incentive plan to the company's profitability.

We will use a model to illustrate this idea, but in brief the model follows this three-step sequence: Set the firm's strategic aims → Pinpoint the employee behaviors and skills we need to achieve these strategic aims → Decide what HR policies and practices will enable us to produce these necessary employee behaviors and skills.

THEY USE NEW WAYS TO PROVIDE HR SERVICES To free up time for their new strategic duties, today's human resource managers deliver their traditional day-to-day HR services (such as benefits administration) in new ways. For example, they use technology such as *company portals* so employees can self-administer benefits plans, *Facebook recruiting* to recruit job applicants, *online testing* to prescreen job applicants, and *centralized call centers* to answer supervisors' HR-related inquiries. IBM's employees use its own internal social network site to “create personal profiles similar to those on LinkedIn . . . share files, and gain knowledge from white papers, videos, and podcasts.”³⁹ Table 2 illustrates how employers use technology to support delivering human resource management activities.⁴⁰

THEY TAKE A TALENT MANAGEMENT APPROACH TO MANAGING HUMAN RESOURCES With employers pressing for improved performance, one survey of human resource executives found that “talent management” issues were among the most pressing ones they faced.⁴¹ **Talent management** is the *goal-oriented and integrated process of planning, recruiting, developing, managing, and compensating employees*.⁴² It involves putting in place a coordinated process for identifying, recruiting, hiring, and developing employees. For example, we saw that IBM split its

strategic human resource management

Formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

talent management

The end-to-end process of planning, recruiting, developing, managing, and compensating employees throughout the organization.

TABLE 2 Some Technological Applications to Support HR

Technology	How Used by HR
Streaming desktop video	Used to facilitate distance learning and training or to provide corporate information to employees quickly and inexpensively.
Internet- and network-monitoring software	Used to track employees' Internet and e-mail activities or to monitor their performance.
Data warehouses and computerized analytical programs	Help HR managers monitor their HR systems. For example, they make it easier to assess things like cost per hire, and to compare current employees' skills with the firm's projected strategic needs.

employees into three groups, to better coordinate how it serves the employees in each segment.

THEY MANAGE EMPLOYEE ENGAGEMENT Improved performance means you need your employees to be engaged. The Institute for Corporate Productivity defines engaged employees “as those who are mentally and emotionally invested in their work and in contributing to an employer’s success.” Unfortunately, studies suggest that less than one-third of the U.S. workforce is engaged.⁴³ Today’s human resource managers need skills to manage employee engagement.

THEY MANAGE ETHICS Regrettably, news reports today are filled with managers’ ethical misdeeds. For example, prosecutors filed criminal charges against several Iowa meatpacking plant human resource managers who allegedly violated employment law by hiring children younger than 16.⁴⁴ Behaviors like these risk torpedoing even otherwise competent managers and employers. **Ethics** means the standards someone uses to decide what his or her conduct should be. Many serious workplace ethical issues—workplace safety and employee privacy, for instance—are human resource–management related.⁴⁵

THEY MEASURE HR PERFORMANCE AND RESULTS Perhaps most notably, the pressures of global competition forced human resource managers to be more numbers oriented.

Several years ago, IBM’s Randall MacDonald needed \$100 million to reorganize its HR operations. He told top management, “I’m going to deliver talent to you that’s skilled and on time and ready to be deployed. I will be able to measure the skills, tell you what skills we have, what [skills] we don’t have [and] then show you how to fill the gaps or enhance our training.”⁴⁶

Human resource managers use performance measures (or “metrics”) to validate claims like these. For example, median HR expenses as a percentage of companies’ total operating costs average just under 1%. On average, there is about 1 human resource staff person per 100 employees.⁴⁷

To compare their own companies to others, human resource managers obtain customized benchmark comparisons from services such as the Society for Human Resource Management’s Human Capital Benchmarking Service.⁴⁸

THEY USE EVIDENCE-BASED HUMAN RESOURCE MANAGEMENT Basing decisions on such evidence is the heart of *evidence-based human resource management*. This is the use of data, facts, analytics, scientific rigor, critical evaluation, and critically evaluated research/case studies to support human resource management proposals, decisions, practices, and conclusions.⁴⁹ Put simply, evidence-based human resource management means using the best-available evidence in making decisions about the human resource management practices you are focusing on.⁵⁰ The evidence may come from *actual measurements* (such as, how did the trainees like this program?). It may come from *existing data* (such as, what happened to company profits after we installed this training program?). Or, it may come from published *research studies* (such as, what does the research literature conclude about the best way to ensure that trainees remember what they learn?).

THEY ADD VALUE The bottom line is that today’s employers want their HR managers to *add value* by boosting profits and performance. Professors Dave Ulrich and Wayne Brockbank describe this as “The HR Value Proposition.”⁵¹ They say human resource programs (such as screening tests) are just a means to an end. The human resource manager’s ultimate aim must be to add value. “Adding value” means helping the firm and its employees improve in a measurable way as a result of the human resource manager’s actions.

ethics

The principles of conduct governing an individual or a group; specifically, the standards you use to decide what your conduct should be.

We'll see in this text how human resource practices do this.

THEY UNDERSTAND THEIR HUMAN RESOURCE PHILOSOPHY Peoples' actions are always based in part on the basic assumptions they make; this is especially true in regard to human resource management. The basic assumptions you make about people—Can they be trusted? Do they dislike work? Can they be creative? Why do they act as they do? How should they be treated?—together comprise your philosophy of human resource management. And every personnel decision you make—the people you hire, the training you provide, your leadership style, and the like—reflects (for better or worse) this basic philosophy.

How do you go about developing such a philosophy? To some extent, it's preordained. There's no doubt that you will bring to your job an initial philosophy based on your experiences, education, values, assumptions, and background. But your philosophy doesn't have to be set in stone. It should and will continually evolve as you accumulate knowledge and experiences. For example, the personnel philosophy at Hon Hai's Foxconn plant seems to have softened in response to its employees' and Apple's discontent. In any case, no manager should manage others without first understanding the personnel philosophy that is driving his or her actions.

One of the things molding your own philosophy is that of your organization's top management. While it may or may not be stated, it is usually communicated by their actions and permeates every level and department in the organization. For example, here is part of the personnel philosophy of the founder of the Polaroid Corp., stated many years ago:

To give everyone working for the company a personal opportunity within the company for full exercise of his talents—to express his opinions, to share in the progress of the company as far as his capacity permits, and to earn enough money so that the need for earning more will not always be the first thing on his mind. The opportunity, in short, to make his work here a fully rewarding and important part of his or her life.⁵²

Current “best companies to work for” lists include many organizations with similar philosophies. For example, the CEO of software giant SAS has said, “We've worked hard to create a corporate culture that is based on trust between our employees and the company . . . a culture that rewards innovation, encourages employees to try new things and yet doesn't penalize them for taking chances, and a culture that cares about employees' personal and professional growth.”⁵³

Sometimes, companies translate philosophies like these into what management gurus call *high-performance work systems*, “sets of human resource management practices that together produce superior employee performance.”⁵⁴ For example, at GE's assembly plant in Durham,

The SAS Institute, Inc. is built on 200 tree-covered acres in Cary, N.C. SAS is the world's largest software company in private hands. Its 8,000 employees around the globe recently generated about \$1.1 billion in sales. The company is famous for its progressive benefits and employee relations programs.

Source: AP Photo/Karen Tam



North Carolina, highly trained employees work in autonomous self-directed teams to produce high-precision aircraft parts.

THEY HAVE NEW COMPETENCIES⁵⁵ Tasks like formulating strategic plans and making data-based decisions require new human resource manager skills. HR managers can't just be good at traditional personnel tasks like hiring and training. Instead, they must "speak the CFO's language" by defending human resource plans in measurable terms (such as return on investment).⁵⁶ To create strategic plans, the human resource manager must understand strategic planning, marketing, production, and finance.⁵⁷ (Perhaps this is why about one-third of top HR managers in Fortune 100 companies moved there from other functional areas.)⁵⁸ He or she must be able to formulate and implement large-scale organizational changes, design organizational structures and work processes, and understand how to compete in and succeed in the marketplace.⁵⁹

LEARNING OBJECTIVE 5

Discuss some competencies HR managers need to deal with today's trends and challenges.

WHAT COMPETENCIES DO TODAY'S HUMAN RESOURCE MANAGERS NEED?

Figure 5 provides one view of the competencies today's HR managers need. Professor Dave Ulrich and his colleagues say that today's human resource managers need the knowledge, skills, and competencies to be:

Strategic positioners—for instance, by helping to create the firm's strategy.

Credible activists—for instance, by exhibiting the leadership and other competencies that make them "both *credible* (respected, admired, listened to) and *active* (offers a point of view, takes a position, challenges assumptions)."⁶⁰

Capability builders—for instance, by creating a meaningful work environment and aligning strategy, culture, practices, and behavior.

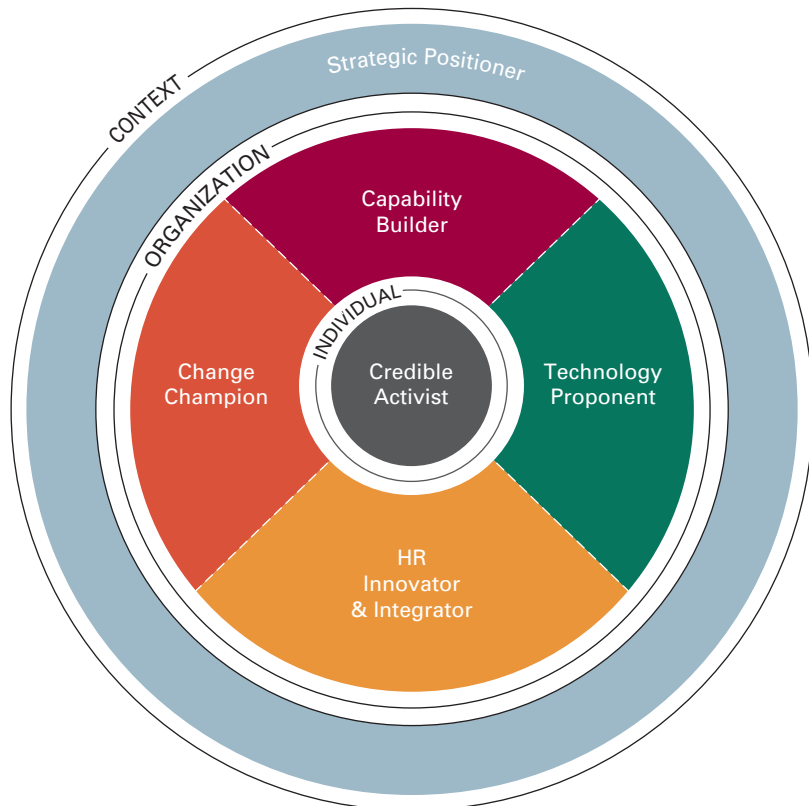
Change champions—for instance, by initiating and sustaining change.

HR innovators and integrators—for instance, by developing talent, and optimizing human capital through workforce planning and analytics.

Technology proponents—for instance, by connecting people through technology.

FIGURE 5
The Human Resource Manager's Competencies

Source: The RBL Group, © 2012.



HRCI Certification

Many HR managers use certification to show their mastery of modern human resource management knowledge. The HR Certification Institute (HRCI) is an independent certifying organization for human resource professionals (see www.hrci.org/). Through testing, HRCI awards several credentials, including Professional in Human Resources (PHR), and Senior Professional in Human Resources (SPHR). The evidence to date, while incomplete, generally suggests a positive relationship between human resource managers' competence, as reflected by PHR or SPHR certification, and the human resource managers' effectiveness, (although researchers also note that it is the person's ability to apply what he or she knows, rather than just the knowledge, that ultimately determines one's success).⁶¹ Managers can take an online HRCI practice quiz at <http://www.hrci.org/Quiz/>.⁶²

The HRCI Knowledge Base

The HRCI body of knowledge devotes roughly these percentages to the following main topic areas (PHR exam %, and SPHR exam %): Strategic Business Management, 12%–29%; Workforce Planning and Employment, 26%–17%; Human Resource Development, 17%–17%; Total Rewards, 16%–12%; Employee and Labor Relations, 22%–18%; Risk Management, 7%–7%, as well as certain Core Knowledge, for example with respect to motivation and job analysis. The space this text devotes to these topics roughly follows these HRCI suggestions.

The Knowledge Base lists about 91 specific “Knowledge of” subject areas within these main topic area groups with which those taking the test should be familiar; we use special **KNOWLEDGE BASE** icons denote coverage of HRCI knowledge topics.

To provide all future managers, not just HR managers, with the practical techniques they need, for instance to interview, train, and appraise employees, and to deal confidently with equal employment and other HR-related laws. And to cover, to the extent possible, the content in HRCI's “A Body of Knowledge” but in a relatively compact and economical 14-chapter soft cover format. **KNOWLEDGE BASE** Workforce planning and techniques

Review

MyManagementLab

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

SUMMARY

1. Staffing, personnel management, or human resource management includes activities such as recruiting, selecting, training, compensating, appraising, and developing.
2. HR management is a part of every line manager's responsibilities. These responsibilities include placing the right person in the right job and then orienting, training, and compensating the person to improve his or her job performance.
3. The HR manager and his or her department provide various staff services to line management, including assisting in the hiring, training, evaluating, rewarding, promoting, disciplining, and safety of employees at all levels.
4. Trends are requiring HR to play a more strategic role in organizations. These trends include workforce diversity, technological change, globalization, economic upheaval,

and changes in the nature of work, such as the growing emphasis on education and human capital.

5. The consequence of such changes is that HR managers' jobs are increasingly strategic in nature. HR managers must also find new ways to deliver transactional

services (such as benefits administration), focus more on providing internal consulting expertise with respect to improving employee morale and performance, build high-performance work organizations, manage talent, and be skilled at acting based on evidence and metrics.

KEY TERMS

organization

manager

managing

management process

human resource management (HRM)

authority

line manager

staff manager

strategic human resource management

talent management

ethics

DISCUSSION QUESTIONS

1. What is human resource management?
2. Explain with at least five examples why "a knowledge and proficiency in HR management concepts and techniques is important to all supervisors or managers."
3. Explain with examples what we mean by "the changing environment of human resource management."
4. Give examples of how the HR manager's duties today are different from 30 years ago.
- ★ 5. Discuss, with examples, four important issues influencing HR management today.
6. Explain HR management's role in relation to the firm's line management.
- ★ 7. Compare the authority of line and staff managers. Give examples of each.

INDIVIDUAL AND GROUP ACTIVITIES

1. Working individually or in groups, contact the HR manager of a local bank. Ask the HR manager how he or she is working as a strategic partner to manage human resources, given the bank's strategic goals and objectives. Back in class, discuss the responses of the different HR managers.
2. Working individually or in groups, interview an HR manager. Based on that interview, write a short presentation regarding HR's role today in building competitive organizations.
3. Working individually or in groups, bring several business publications such as *Bloomberg Businessweek* and the *Wall Street Journal* to class. Based on their contents, compile a list entitled "What HR Managers and Departments Do Today."
4. Based on your personal experiences, list 10 examples showing how you used (or could have used) human resource management techniques at work or school.
5. Laurie Siegel, senior vice president of human resources for Tyco International, took over her job just after numerous charges forced the company's previous board of directors and top executives to leave the firm. Hired by new CEO Edward Breen, Siegel had to tackle numerous difficult problems starting the moment she assumed office. For example, she had to help hire a new management team. She had to do something about what the outside world viewed as a culture of questionable ethics at her company. And she had to do something about the company's top management compensation plan, which many

felt contributed to the allegations by some that former company officers had used the company as a sort of private ATM.

Siegel came to Tyco after a very impressive career. For example, she had been head of executive compensation at AlliedSignal, and was a graduate of the Harvard Business School. But, as strong as her background was, she obviously had her work cut out for her when she took the senior vice president of HR position at Tyco.

- Working individually or in groups, conduct an Internet search and library research to answer the following questions: What human resource management–related steps did Siegel take to help get Tyco back on the right track? Do you think she took the appropriate steps? Why or why not? What, if anything, do you suggest she do now?
6. Working individually or in groups, develop a list showing how trends such as workforce diversity, technological trends, globalization, and changes in the nature of work have affected the college or university you are now attending or the organization for which you work.
 7. Working individually or in groups, develop several examples showing how the new HR management practices mentioned in this chapter (using technology, for instance) have or have not been implemented to some extent in the college or university you are now attending or in the organization for which you work.

APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Jack Nelson's Problem

As a new member of the board of directors for a local bank, Jack Nelson was being introduced to all the employees in the home office. When he was introduced to Ruth Johnson, he was curious about her work and asked her what her machine did. Johnson replied that she really did not know what the machine was called or what it did. She explained that she had been working there for only two months. She did, however, know precisely how to operate the machine. According to her supervisor, she was an excellent employee.

At one of the branch offices, the supervisor in charge spoke to Nelson confidentially, telling him that “something was wrong,” but she didn’t know what. For one thing, she explained, employee turnover was too high, and no sooner had one employee been put on the job than another one resigned. With customers to see and loans to be made, she explained, she had little time to work with the new employees as they came and went.

All branch supervisors hired their own employees without communication with the home office or other branches. When an opening developed, the supervisor tried to find a suitable employee to replace the worker who had quit.

After touring the 22 branches and finding similar problems in many of them, Nelson wondered what the home office should do or what action he should take. The banking firm was generally regarded as a well-run institution that had grown from 27 to 191 employees during the past eight years. The more he thought about the matter, the more puzzled Nelson became. He couldn’t quite put his finger on the problem, and he didn’t know whether to report his findings to the president.

Questions

1. What do you think is causing some of the problems in the bank’s home office and branches?
2. Do you think setting up an HR unit in the main office would help?
3. What specific functions should an HR unit carry out? What HR functions would then be carried out by the bank’s supervisors and other line managers?

Source: “Jack Nelson’s Problem,” by Claude S. George, from *Supervision In Action: The Art of Managing Others*, 4th ed., 1985. Copyright © 1985 by Pearson Education, Inc. Reprinted with permission.

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company

Introduction

A main theme of this text is that HR management—activities like recruiting, selecting, training, and rewarding employees—is not just the job of a central HR group but rather a job in which every manager must engage. Perhaps nowhere is this more apparent than in the typical small service business. Here the owner/manager usually has no HR staff on which to rely. However, the success of his or her enterprise (not to mention his or her family’s peace of mind) often depends largely on the effectiveness through which workers are recruited, hired, trained, evaluated, and rewarded. Therefore, to help illustrate and emphasize the front-line manager’s HR role, throughout this text we will use a continuing case based on an actual small business in the southeastern United States. Each chapter’s segment of the case will illustrate how the case’s main player—owner/manager Jennifer Carter—confronts and solves personnel problems each day at work by applying the concepts and techniques of that particular chapter. Here is background information you will need to answer questions that arise. (We also present a second, unrelated case incident in each chapter.)

Carter Cleaning Centers

Jennifer Carter graduated from State University in June 2005, and, after considering several job offers, decided to do what she really always planned to do—go into business with her father, Jack Carter.

Jack Carter opened his first laundromat in 1998 and his second in 2001. The main attraction of these coin laundry businesses for him was that they were capital intensive rather than labor intensive. Thus, once the investment in machinery was made, the stores could be run with just one unskilled attendant and have none of the labor problems one normally expects from being in the retail service business.

The attractiveness of operating with virtually no skilled labor notwithstanding, Jack had decided by 1999 to expand the services in each of his stores to include the dry cleaning and pressing of clothes. He embarked, in other words, on a strategy of “related diversification” by adding new services that were related to and consistent with his existing coin laundry activities. He added these in part because he wanted to better utilize the unused space in the rather large stores he currently had under lease. But he also did so because he was, as he put it, “tired of sending out the dry cleaning and pressing work that came in from our coin laundry clients to a dry cleaner 5 miles away, who then took most of what should have been our profits.” To reflect the new, expanded line of services he renamed each of his two stores Carter Cleaning Centers and was sufficiently satisfied with their performance to open four more of the same type of stores over the next five years. Each store had its own on-site manager and, on average, about seven employees and annual revenues of about \$600,000. It was this six-store cleaning centers chain that Jennifer joined upon graduating from State University.

Her understanding with her father was that she would serve as a troubleshooter and consultant to the elder Carter with the aim of both learning the business and bringing to it modern management concepts and techniques for solving the business's problems and facilitating its growth.

Questions

1. Make a list of five specific HR problems you think Carter Cleaning will have to grapple with.
2. What would you do first if you were Jennifer?

EXPERIENTIAL EXERCISE

Helping "The Donald"

Purpose: The purpose of this exercise is to provide practice in identifying and applying the basic concepts of human resource management by illustrating how managers use these techniques in their day-to-day jobs.

Required Understanding: Be familiar with the material in this chapter, and with several episodes of shows like *The Apprentice*, with developer Donald Trump.

How to Set Up the Exercise/Instructions:

1. Divide the class into teams of three to four students.
2. Read this: As you know by having watched "The Donald" as he organized his business teams for *The Apprentice*, human resource management plays an important role in what Donald Trump and the participants on his separate teams need to do to be successful. For example, Donald Trump needs to be able to appraise each of the participants. And, for their part, the leaders of each of his teams need to be able to staff his or her teams with the right participants and then provide the sorts of training, incentives, and evaluations that help their companies succeed and that therefore make the

participants themselves (and especially the team leaders) look like "winners" to Mr. Trump.

3. Watch several of these shows (or reruns of the shows), and then meet with your team and answer the following questions:
 - a. What specific HR functions (recruiting, interviewing, and so on) can you identify Donald Trump using on this show? Make sure to give specific examples.
 - b. What specific HR functions (recruiting, selecting, training, and so on) can you identify one or more of the team leaders using to help manage their teams on the show? Again, give specific examples.
 - c. Provide a specific example of how HR functions (such as recruiting, selection, interviewing, compensating, appraising, and so on) contributed to one of the participants coming across as particularly successful to Mr. Trump. Also, provide examples of how one or more of these functions contributed to Mr. Trump telling a participant "You're fired."
 - d. Present your team's conclusions to the class.

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. How do today's HR managers deal with the trends and challenges shaping contemporary HR management?
2. Discuss some competencies HR managers need to deal with today's trends and challenges.
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

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Managing Equal Opportunity and Diversity

OVERVIEW:
In this chapter,
we will cover . . .

SELECTED EQUAL EMPLOYMENT OPPORTUNITY LAWS

DEFENSES AGAINST DISCRIMINATION ALLEGATIONS

ILLUSTRATIVE DISCRIMINATORY EMPLOYMENT PRACTICES

THE EEOC ENFORCEMENT PROCESS

DIVERSITY MANAGEMENT AND AFFIRMATIVE ACTION PROGRAMS

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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Summarize the basic equal employment opportunity laws and how each impacts HR functions such as recruitment and selection.
2. Explain the basic defenses against discrimination allegations.
3. Give examples of what employers can and cannot legally do with respect to recruitment, selection, and promotion and layoff practices.
4. Explain the Equal Employment Opportunity Commission enforcement process.
5. List five strategies for successfully increasing diversity of the workforce.

INTRODUCTION

A former manager at a Panera Bread restaurant recently settled his discrimination suit against the franchise owner.¹ The manager alleged that the owner ordered him to consign minority employees to jobs that kept them out of public view, and then fired him when he refused.

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LEARNING OBJECTIVE 1

Summarize the basic equal employment opportunity laws and how each impacts HR functions such as recruitment and selection.



SELECTED EQUAL EMPLOYMENT OPPORTUNITY LAWS

Hardly a day goes by without equal opportunity lawsuits at work.² One survey of corporate general counsels found that such lawsuits were their biggest litigation fears.³ Performing day-to-day supervisory tasks like hiring employees without understanding these laws is fraught with peril. Furthermore, the HRCI Knowledge Base assumes knowledge of all the “[a]pplicable federal, state and local laws and regulations related to human resources. . .” you’ll find in this chapter, for instance Title VII and the EEOC Uniform Guidelines. Let us start with some background.

Equal employment laws aren’t new. The Fifth Amendment to the U.S. Constitution (ratified in 1791) states that “no person shall . . . be deprived of life, liberty, or property, without due process of the law.”⁴ Other laws as well as various court decisions made discrimination against minorities illegal by the early 1900s, at least in theory.⁵

But as a practical matter, Congress and presidents avoided dramatic action on implementing equal employment until the early 1960s.

Equal Pay Act of 1963

The **Equal Pay Act of 1963** (amended in 1972) was one of the first new laws Congress passed. This made it unlawful to discriminate in pay based on sex when jobs involve equal work—equivalent skills, effort, and responsibility—and are performed under similar working conditions. (Differences in pay do not violate the act if the difference is based on a seniority system, a merit system, a system that measures earnings by quantity or quality of production, or a differential based on any factor other than sex.)

Title VII of the 1964 Civil Rights Act

Title VII of the 1964 Civil Rights Act was another of the new laws. Title VII (amended by the 1972 Equal Employment Opportunity Act) says an employer cannot discriminate based on race, color, religion, sex, or national origin. Specifically, it states that it shall be an unlawful employment practice for an employer:⁶

1. *To fail or refuse to hire or to discharge an individual or otherwise to discriminate against any individual* with respect to his or her compensation, terms, conditions, or privileges of employment, because of such individual’s race, color, religion, sex, or national origin.
2. *To limit, segregate, or classify his or her employees or applicants for employment* in any way that would deprive or tend to deprive any individual of employment opportunities or otherwise adversely affect his or her status as an employee, because of such individual’s race, color, religion, sex, or national origin.

Title VII established the **Equal Employment Opportunity Commission (EEOC)**. It consists of five members, appointed by the president with the advice and consent of the Senate. Each member serves a term of 5 years. The EEOC has a staff of thousands to assist it in administering the Civil Rights law in employment settings.

Establishing the EEOC greatly enhanced the federal government’s ability to enforce equal employment opportunity laws. The EEOC receives and investigates job discrimination complaints. When it finds reasonable cause, it attempts (through conciliation) to reach an agreement. If this fails, the EEOC has the power to go to court. Under the Equal Employment Opportunity Act of 1972, discrimination charges may be filed by the EEOC on behalf of an aggrieved individual, as well as by the individuals themselves. We explain this procedure later in this chapter.

Executive Orders

Under executive orders that U.S. presidents issued years ago, most employers who do business with the U.S. government have an obligation beyond that imposed by Title VII to refrain from employment discrimination. Executive Orders 11246 and 11375 don’t just ban discrimination; they require that contractors take *affirmative action* to ensure equal employment opportunity

Equal Pay Act of 1963

The act requiring equal pay for equal work, regardless of sex.

Title VII of the 1964 Civil Rights Act

The section of the act that says an employer cannot discriminate on the basis of race, color, religion, sex, or national origin with respect to employment.

Equal Employment Opportunity Commission (EEOC)

The commission, created by Title VII, empowered to investigate job discrimination complaints and sue on behalf of complainants.

Office of Federal Contract Compliance Programs (OFCCP)

The office responsible for implementing the executive orders and ensuring compliance of federal contractors.

Age Discrimination in Employment Act (ADEA) of 1967

The act prohibiting arbitrary age discrimination and specifically protecting individuals over 40 years old.

Vocational Rehabilitation Act of 1973

The act requiring certain federal contractors to take affirmative action for disabled persons.

Pregnancy Discrimination Act (PDA)

An amendment to Title VII of the Civil Rights Act that prohibits sex discrimination based on “pregnancy, childbirth, or related medical conditions.”

Griggs v. Duke Power Company

Supreme Court case in which the plaintiff argued that his employer’s requirement that coal handlers be high school graduates was unfairly discriminatory. In finding for the plaintiff, the Court ruled that discrimination need not be overt to be illegal, that employment practices must be related to job performance, and that the burden of proof is on the employer to show that hiring standards are job related.

protected class

Persons such as minorities and women protected by equal opportunity laws, including Title VII.

(we explain affirmative action later in this chapter). These orders also established the **Office of Federal Contract Compliance Programs (OFCCP)**, which is responsible for ensuring the compliance of federal contracts.⁷

Age Discrimination in Employment Act of 1967

The **Age Discrimination in Employment Act (ADEA) of 1967**, as amended, makes it unlawful to discriminate against employees or applicants for employment who are 40 years of age or older, effectively ending most mandatory retirement.⁸ Lawyers like the ADEA. It allows jury trials and double damages to those proving “willful” discrimination.⁹ In a case called *O’Connor v. Consolidated Coin Caterers Corp.*, the U.S. Supreme Court held that employers can’t circumvent the ADEA by simply replacing employees over 40 years of age with those who are “significantly younger” but also over 40.¹⁰

Vocational Rehabilitation Act of 1973

The **Vocational Rehabilitation Act of 1973** requires employers with federal contracts over \$2,500 to take affirmative action for the employment of disabled persons. The act does not require hiring an unqualified person. It does require that an employer take steps to accommodate a disabled worker unless doing so imposes an undue hardship on the employer.

Pregnancy Discrimination Act of 1978

Congress passed the **Pregnancy Discrimination Act (PDA)** in 1978 as an amendment to Title VII. The act prohibits using pregnancy, childbirth, and related medical conditions for discrimination in hiring, promotion, discharge, or any other term or condition of employment. Basically, the act says that if an employer offers its employees disability coverage, then pregnancy and childbirth must be treated like any other disability and must be included in the plan as a covered condition. Court decisions and more working mothers are prompting more (and more successful) PDA claims.¹¹ For example, an auto dealership fired an employee after she told them she was pregnant. The reason? Allegedly, “in case I ended up throwing up or cramping in one of their vehicles . . .”¹² The bottom line is that managers should base “any [such] decision on whether an employee can do the job on medical documentation, not on a manager’s interpretation.”¹³

Federal Agency Uniform Guidelines on Employee Selection Procedures

The federal agencies charged with ensuring compliance with the aforementioned laws and executive orders—the EEOC, Civil Service Commission, Department of Labor, and Department of Justice—have adopted uniform guidelines for employers.¹⁴ These guidelines explain, for instance, how to validate a selection procedure.¹⁵ The OFCCP has its own guidelines. The American Psychological Association published its own (nonlegally binding) *Standards for Educational and Psychological Testing*.

Selected Court Decisions Regarding Equal Employment Opportunity (EEO)

Several early court decisions helped to form the courts’ interpretive foundation for EEO laws. We summarize some important decisions in this section.

GRIGGS V. DUKE POWER COMPANY *Griggs v. Duke Power Company* (1971) was a landmark case because the Supreme Court used it to define unfair discrimination. In this case, a suit was brought against the Duke Power Company on behalf of Willie Griggs, an applicant for a job as a coal handler. The company required its coal handlers to be high school graduates. Griggs claimed that this requirement was illegally discriminatory because it wasn’t related to success on the job and because it resulted in more blacks than whites being rejected for these jobs.

Griggs won the case. The decision of the Court was unanimous, and in his written opinion, Chief Justice Burger laid out three crucial guidelines affecting equal employment legislation. First, the court ruled that discrimination on the part of the employer need not be overt; in other words, the employer does not have to be shown to have intentionally discriminated against the employee or applicant—it need only be shown that discrimination took place.

Second, the court held that an employment practice (in this case requiring the high school diploma) must be shown to be *job related* if it has an unequal impact on members of a **protected class**.

In the words of Justice Burger:

The act proscribes not only overt discrimination but also practices that are fair in form, but discriminatory in operation. The touchstone is business necessity. If an employment practice which operates to exclude Negroes cannot be shown to be related to job performance the practice is prohibited.¹⁶

Third, Burger's opinion placed the burden of proof on the employer to show that the hiring practice is job related. Thus, the *employer* must show that the employment practice (in this case, requiring a high school diploma) is needed to perform the job satisfactorily if it has a disparate impact on members of a protected class.

ALBEMARLE PAPER COMPANY v. MOODY In the *Griggs* case, the Supreme Court decided that a screening tool (such as a test) had to be job related or valid—that is, performance on the test must be related to performance on the job. The 1975 *Albemarle* case is important because it helped to clarify what the employer had to do to prove that the test or other screening tools are related to or predict performance on the job. For example, the Court ruled that before using a test to screen job candidates, the performance standards for the job in question should be clear and unambiguous, so the employer can identify which employees were performing better than others (and thus whether the screening tool was effective). In arriving at its decision, the Court also cited the EEOC guidelines concerning acceptable selection procedures and made these guidelines the “law of the land.”¹⁷

The Civil Rights Act of 1991

Subsequent Supreme Court rulings in the 1980s had the effect of limiting the protection of women and minority groups. For example, in *Price Waterhouse v. Hopkins*, the court ruled that an employer's unlawful actions may not be discriminatory if *lawful* actions (such as not promoting the employee due to inferior performance) would have resulted in the same personnel decision. In response, President George H. W. Bush signed into law the new **Civil Rights Act of 1991 (CRA 1991)**. This act rolled back the clock to where it stood before the 1980s decisions and actually placed more responsibility on employers.

First, CRA 1991 addressed the issue of *burden of proof*. Today, after CRA 1991, the process of filing and responding to a discrimination charge goes something like this. The plaintiff (say, a rejected applicant) demonstrates that an employment practice (such as a test) has a disparate impact on a particular group—for instance, that a *significant disparity* exists between the proportion of (say) women in the available labor pool and the proportion hired. (**Disparate impact** means “an employer engages in an employment practice or policy that has a greater adverse impact [effect] on the members of a protected group under Title VII than on other employees, regardless of intent.”¹⁸) Requiring a college degree for a job would have an adverse impact on some minority groups, for instance.

The plaintiff need not prove discriminatory intent. Instead, he or she must show that an apparently neutral employment practice, such as “be able to lift 100 pounds,” is causing the disparity.¹⁹ Once the plaintiff shows such disparate impact, the *employer* has the *burden of proving* that the challenged practice is job related.²⁰ For example, the employer has to show that lifting 100 pounds is actually required, and that the business could not run efficiently without the requirement—that it is a business necessity.

CRA 1991 also makes it easier to sue for *money damages*. It provides that an employee who is claiming *intentional discrimination* (called **disparate treatment**) can ask for both compensatory damages and punitive damages, if he or she can show the employer engaged in discrimination “with malice or reckless indifference to the federally protected rights of an aggrieved individual.” Finally, CRA 1991 also addresses so-called “mixed motive” cases. Here employers claim that although their actions were discriminatory, other factors, such as perhaps the employee's poor performance, made the job action (such as dismissal) acceptable. Under CRA 1991, if *there is any such discriminatory motive, the practice may be unlawful.*²¹

The Americans with Disabilities Act

The **Americans with Disabilities Act (ADA)** of 1990 prohibits employers with 15 or more workers from discriminating against qualified individuals with disabilities, with regard to hiring,

Civil Rights Act of 1991 (CRA 1991)

The act that places burden of proof back on employers and permits compensatory and punitive damages.

disparate impact

An unintentional disparity between the proportion of a protected group applying for a position and the proportion getting the job.

disparate treatment

An intentional disparity between the proportion of a protected group and the proportion getting the job.

Americans with Disabilities Act (ADA)

The act requiring employers to make reasonable accommodations for disabled employees; it prohibits discrimination against disabled persons.

discharge, compensation, advancement, training, or other terms, conditions, or privileges of employment.²² And it requires employers to make “reasonable accommodations” unless doing so imposes an “undue hardship” on the business.²³

The ADA does not list specific disabilities. However, EEOC guidelines say someone is disabled when he or she has a physical or mental impairment that “substantially limits” one or more major life activity. Impairments include any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more of several body systems, or any mental or psychological disorder.²⁴ The act specifies conditions that it does *not* regard as disabilities, including homosexuality, bisexuality, voyeurism, compulsive gambling, pyromania, and certain disorders resulting from the current illegal use of drugs.²⁵ The EEOC’s position is that the ADA prohibits discriminating against people with HIV/AIDS.

MENTAL IMPAIRMENTS AND THE ADA Mental disabilities account for the greatest number of ADA claims.²⁶ “Mental impairment” includes “any mental or psychological disorder, such as . . . emotional or mental illness.” Examples include major depression, anxiety disorders, and personality disorders. The ADA also protects employees with intellectual disabilities, including those with IQs below 70–75.²⁷ Employers should be alert to the possibility that behaviors normally regarded as undesirable (such as chronic lateness) may reflect mental impairments. Reasonable accommodation might then include providing room dividers, partitions, or other barriers between work spaces.

QUALIFIED INDIVIDUAL Just being disabled doesn’t qualify someone for a job, of course. It only prohibits discrimination against *qualified individuals*—those who, with (or without) a reasonable accommodation, can carry out the *essential functions* of the job. The individual must have the requisite skills, educational background, and experience. A job function is essential when, for instance, it is the reason the position exists, or it is so highly specialized that the employer hires the person for his or her expertise or ability to perform that particular function. For example, when a worker had a seizure, his driver’s license was suspended and the employer fired him. The court ruled that he had no ADA claim because he couldn’t perform the essential functions of the job (driving).²⁸

REASONABLE ACCOMMODATION If the individual can’t perform the job as currently structured, the employer must make a “reasonable accommodation” unless doing so would present an “undue hardship.” Reasonable accommodation might include redesigning the job, modifying work schedules, or modifying or acquiring equipment or other devices (such as adding curb ramps and widening door openings).²⁹ For example, the National Federation of the Blind estimates that about 70% of working-age blind adults are unemployed or underemployed, although they are educated and excellent employees.³⁰ Existing technologies would enable most of them to work successfully in numerous jobs. For example, a screen-reading program called Jaws converts text from a computer screen into Braille while speaking it.³¹

Attorneys, employers, and the courts continue to work through what “reasonable accommodation” means.³² In one classic case, a Walmart door greeter with a bad back asked if she could sit while on duty. The store said no, and she sued. The federal court agreed with Walmart that door greeters must act in an “aggressively hospitable manner,” which can’t be done if the greeter is sitting on a stool.³³ Standing was an essential job function. As in Figure 1, you can use technology and common sense to make reasonable accommodation.



Technological innovations make it easier today for employers to accommodate disabled employees.

Source: Jim Cummins/Getty Images

FIGURE 1
Examples of How to Provide Reasonable Accommodation

- Employees with mobility or vision impairments may benefit from voice recognition software.
- Word prediction software suggests words based on context with just one or two letters typed.
- Real-time translation captioning enables employees to participate in meetings.
- Vibrating text pagers notify employees when messages arrive.
- Arizona created a disability friendly website to help link prospective employees and others to various agencies.

TRADITIONAL EMPLOYER DEFENSES Employers used to prevail in about 96% of federal appeals court ADA decisions.³⁴ A U.S. Supreme Court decision typifies why. An assembly worker sued Toyota, arguing that carpal tunnel syndrome prevented her from doing her job.³⁵ The U.S. Supreme Court ruled that the ADA covers carpal tunnel syndrome only if her impairments affect not just her job performance but also her daily living activities. The employee admitted that she could perform personal chores such as fixing breakfast. The Court said the disability must be central to the employee’s daily living (not just job).³⁶

THE “NEW” ADA The era in which employers mostly prevailed probably ended with the ADA Amendments Act of 2008 (ADAAA).³⁷ The ADAAA’s basic effect will be to make it much easier for employees to show that their disabilities are limiting. For example, the new act makes it easier for an employee to show that his or her disability is influencing the employee’s “major life activities.” It does this by adding examples like reading, concentrating, thinking, sleeping, and communicating to the list of ADA major life activities. As another example, under the new act, an employee will be considered disabled even if he or she has been able to control his or her impairments through medical or “learned behavioral” modifications. The bottom line is that employers must redouble their efforts to ensure they’re complying with the act and providing reasonable accommodations.³⁸

Many employers simply take a progressive approach. Common employer concerns about people with disabilities (for instance, that they have more accidents) are generally baseless.³⁹ So, for example, Walgreens has a goal of filling at least one-third of the jobs at its two large distribution centers with people with disabilities.⁴⁰

Figure 2 summarizes some important ADA guidelines for managers and employers.

Uniformed Services Employment and Reemployment Rights Act

Under the Uniformed Services Employment and Reemployment Rights Act (1994), employers are generally required, among other things, to reinstate employees returning from military leave to positions comparable to those they had before leaving.⁴¹

Genetic Information Nondiscrimination Act of 2008

The Genetic Information Nondiscrimination Act (GINA) prohibits discrimination by health insurers and employers based on people’s genetic information. It prohibits using genetic information in employment decisions, prohibits the intentional acquisition of genetic information about applicants and employees, and imposes strict confidentiality requirements.⁴²

Sexual Orientation

The federal Employment Non-Discrimination Act (ENDA) would prohibit workplace discrimination based on sexual orientation and gender identity if Congress passes it.⁴³ The bill protects lesbian, gay, bisexual and transgender workers from discriminatory hiring, firing, promotion or compensation practices, as well as from retaliation for reporting such practices. Meanwhile, a federal appeals court recently ruled that a homosexual man is not necessarily barred from filing a sexual discrimination claim under Title VII of the Civil Rights Act.⁴⁴ Many states already bar discrimination at work based on sexual orientation.⁴⁵

FIGURE 2
ADA Guidelines for Managers and Employers

- *Do not* deny a job to a disabled individual if the person is qualified and able to perform the essential job functions.
- *Make* a reasonable accommodation unless doing so would result in undue hardship.
- *Know* what you can ask applicants. In general, you may *not* make preemployment inquiries about a person’s disability before making an offer. However, you *may* ask questions about the person’s ability to perform essential job functions.
- *Itemize* essential job functions on the job descriptions. In virtually any ADA legal action, a central question will be, what are the essential functions of the job?
- *Do not* allow misconduct or erratic performance (including absences and tardiness), even if that behavior is linked to the disability.



State and Local Equal Employment Opportunity Laws

In addition to federal laws, all states and many local governments prohibit employment discrimination. Many cover employers (like those under 15 employees) not covered by federal legislation.⁴⁶ In Arizona, for instance, plaintiffs can bring sexual harassment claims against employers with even one employee. Some extend age discrimination, barring discrimination against not only those over 40, but also those under 17. (Here, for instance, it would be illegal to advertise for “mature” applicants, because that might discourage some teenagers from applying.)

State and local equal employment opportunity agencies (often called “human resources commissions” or “fair employment commissions”) also play a role in equal employment compliance. When the EEOC receives a discrimination charge, it usually defers it for a time to the state and local agencies that have comparable jurisdiction. If that doesn’t achieve satisfactory remedies, the charges go back to the EEOC for resolution.

Table 1 summarizes selected equal employment opportunity laws, actions, executive orders, and agency guidelines.

Sexual Harassment

Under Title VII, conduct based on sex generally qualifies as **sexual harassment** when such conduct has the purpose or effect of substantially interfering with a person’s work performance or creating an intimidating, hostile, or offensive work environment. In one recent year, the EEOC received 11,717 sexual harassment charges, about 15% of which were filed by men.⁴⁷

Under EEOC guidelines, employers have an affirmative duty to maintain workplaces free of sexual harassment and intimidation. As we noted earlier, CRA 1991 permits victims of

sexual harassment

Harassment on the basis of sex that has the purpose or effect of substantially interfering with a person’s work performance or creating an intimidating, hostile, or offensive work environment.

TABLE 1 Summary of Important Equal Employment Opportunity Actions

Action	What It Does
Title VII of 1964 Civil Rights Act, as amended	Bars discrimination because of race, color, religion, sex, or national origin; instituted EEOC
Executive orders	Prohibit employment discrimination by employers with federal contracts of more than \$10,000 (and their subcontractors); established office of federal compliance; require affirmative action programs
Federal agency guidelines	Indicate policy covering discrimination based on sex, national origin, and religion, as well as on employee selection procedures; for example, require validation of tests
Supreme Court decisions: <i>Griggs v. Duke Power Company</i> , <i>Albemarle Paper Company v. Moody</i>	Ruled that job requirements must be related to job success; that discrimination need not be overt to be proved; that the burden of proof is on the employer to prove the qualification is valid
Equal Pay Act of 1963	Requires equal pay for men and women for performing similar work
Age Discrimination in Employment Act of 1967	Prohibits discriminating against a person 40 or over in any area of employment because of age
State and local laws	Often cover organizations too small to be covered by federal laws
Vocational Rehabilitation Act of 1973	Requires affirmative action to employ and promote qualified disabled persons and prohibits discrimination against disabled persons
Pregnancy Discrimination Act of 1978	Prohibits discrimination in employment against pregnant women, or related conditions
Vietnam Era Veterans’ Readjustment Assistance Act of 1974	Requires affirmative action in employment for veterans of the Vietnam War era
Americans with Disabilities Act of 1990 and ADA Amendments Act of 2008	Strengthens the need for most employers not to discriminate and to make reasonable accommodations for disabled employees at work
Civil Rights Act of 1991	Reverses several 1980s Court decisions; places burden of proof back on employer and permits compensatory and punitive money damages for discrimination
Genetic Information Non-Discrimination Act of 2008 (GINA)	Prohibits discrimination by health insurers and employers based on people’s genetic information



Sexual harassment is unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature, including creating an intimidating, hostile, or offensive work environment.

Source: Tomas del Amo/Fotolia

intentional discrimination, including sexual harassment, to have jury trials and to collect compensatory damages for pain and suffering and punitive damages, in cases where the employer acted with “malice or reckless indifference” to the person’s rights.⁴⁸ The U.S. Supreme Court held (in *Oncale v. Sundowner Offshore Services Inc.*) that same-sex sexual harassment is also actionable under Title VII.⁴⁹

Minority women are most at risk. One study found “women experienced more sexual harassment than men, minorities experienced more ethnic harassment than whites, and minority women experience more harassment overall than majority men, minority men, and majority women.”⁵⁰

The Federal Violence Against Women Act of 1994 provides another path women can use to seek relief for violent sexual harassment. It provides that someone “who commits a crime of violence motivated by gender and thus deprives another” of her rights shall be liable to the party injured.

WHAT IS SEXUAL HARASSMENT? EEOC guidelines define sexual harassment as unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature that takes place under any of the following conditions:

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

PROVING SEXUAL HARASSMENT There are three main ways someone can prove sexual harassment.

1. **Quid pro quo.** The most direct is to prove that rejecting a supervisor’s advances adversely affected what the EEOC calls a “tangible employment action” such as hiring, firing, promotion, demotion, and/or work assignment. In one case, the employee showed that continued job success and advancement were dependent on her agreeing to the sexual demands of her supervisors.
2. **Hostile environment created by supervisors.** One need not show that the harassment had tangible consequences such as demotion. For example, in one case the court found that a male supervisor’s sexual harassment had substantially affected a female employee’s emotional and psychological ability to the point that she felt she had to quit her job. Therefore, even though the supervisor made no direct threats or promises in exchange for sexual advances, his advances interfered with the woman’s performance and created an offensive work environment. That was sufficient to prove sexual harassment. Courts generally do not interpret as sexual harassment sexual relationships that arise during the course of employment but that do not have a substantial effect on that employment.⁵¹ The U.S. Supreme Court also held that sexual harassment law doesn’t cover ordinary “intersexual flirtation.”⁵²
3. **Hostile environment created by coworkers or nonemployees.** The questionable behavior doesn’t have to come from the person’s supervisor. For example, one court held that a mandatory sexually provocative uniform led to lewd comments by customers. When the employee said she would no longer wear the uniform, they fired her. The employer couldn’t show there was a job-related necessity for requiring the uniform, and only female employees had to wear it. The court thus ruled that the employer, in effect, was responsible for the sexually harassing behavior. Such abhorrent client behavior is more likely when the clients are in positions of power, and when they think no one will penalize them.⁵³ EEOC guidelines also state that an employer is liable for the sexually harassing acts of its nonsupervisor employees if the employer knew or should have known of the harassing conduct.

WHEN IS THE ENVIRONMENT “HOSTILE”? Hostile environment sexual harassment generally means that the intimidation, insults, and ridicule were sufficiently severe to alter the working

conditions. Here courts look at several things. These include whether the discriminatory conduct is *frequent or severe*; whether it is *physically threatening* or humiliating, or a mere offensive utterance; and whether it unreasonably *interferes* with an employee's work performance.⁵⁴ Courts also consider whether the employee subjectively *perceives* the work environment as being abusive. For example, did he or she welcome the conduct or immediately show that it was unwelcome?⁵⁵

SUPREME COURT DECISIONS The U.S. Supreme Court used a case called *Meritor Savings Bank, FSB v. Vinson* to endorse broadly the EEOC's guidelines on sexual harassment. Two other Supreme Court decisions further clarified sexual harassment law.

In the first, *Burlington Industries v. Ellerth*, the employee accused her supervisor of *quid pro quo* harassment. She said her boss propositioned and threatened her with demotion if she did not respond. He did not carry out the threats, and she was promoted. In the second case, *Faragher v. City of Boca Raton*, the employee accused the employer of condoning a hostile work environment. She said she quit her lifeguard job after repeated taunts from other lifeguards. The Court ruled in favor of the employees in both cases.

IMPLICATIONS The Court's written decisions in the latter cases have two implications for employers. First, in *quid pro quo* cases it is *not* necessary for the employee to suffer a tangible job action (such as a demotion) to win the case; the threat may be sufficient.

Second, the Court laid out an important defense against harassment suits. It said the employer must show that it took "reasonable care" to prevent and promptly correct any sexually harassing behavior *and* that the employee unreasonably failed to take advantage of the employer's policy. The implication is that an employer can defend itself against sexual harassment liability by showing two things:

- First, it must show "that the employer exercised reasonable care to prevent and correct promptly any sexually harassing behavior."⁵⁶
- Second, it must demonstrate that the plaintiff "unreasonably failed to take advantage of any preventive or corrective opportunities provided by the employer." The employee's failure to use formal reporting systems would satisfy the second component.

Prudent employers promptly took steps to show they did take reasonable care.⁵⁷ Steps to take include:⁵⁸

- Take all complaints about harassment seriously.
- Issue a strong policy statement condemning such behavior. Describe the prohibited conduct, assure protection against retaliation, include a confidential complaint process, and provide impartial investigation and corrective action.
- Take steps to prevent sexual harassment. For example, communicate to employees that the employer will not tolerate sexual harassment, and take immediate action when someone complains.
- Train supervisors and managers to increase their awareness of the issues, and discipline managers and employees involved in sexual harassment.

WHEN THE LAW ISN'T ENOUGH Unfortunately, two practical considerations often trump the legal requirements.⁵⁹ First, "Women perceive a broader range of socio-sexual behaviors (touching, for instance) as harassing."⁶⁰ Sexual harassment training programs (for instance to explain these differences to male employees) and policies can reduce this problem.⁶¹

A second reason the usual precautions often aren't enough is that employees often won't use them. One study surveyed about 6,000 U.S. military employees. It turned out that reporting harassment often triggered retaliation and psychological distress. Under such conditions, the most "reasonable" thing to do was to avoid reporting. The solution is to execute zealously the antiharassment policies like those mentioned earlier.

WHAT THE EMPLOYEE CAN DO First, remember that courts generally look to whether *the harassed employee used the employer's reporting procedures to file a complaint promptly*. To quote one EEO manual, "a victim has a duty to use reasonable means to avoid or minimize his or her damages. Generally, this is satisfied if the employer had an effectively communicated complaint procedure and the victim did not utilize it, or if the victim did make a complaint but

then refused to cooperate in the investigation.”⁶² In that context, steps an employee can take include:

1. File a verbal contemporaneous complaint with the harasser and the harasser’s boss, stating that the unwanted overtures should cease.
2. If the unwelcome conduct does not cease, file verbal and written reports regarding the unwelcome conduct and unsuccessful efforts to get it to stop with the harasser’s manager and/or the human resource director.
3. If the letters and appeals to the employer do not suffice, the accuser should turn to the EEOC to file a claim. In very serious cases, the employee can also consult an attorney about suing the harasser for assault and battery, intentional infliction of emotional distress, injunctive relief, and to recover compensatory and punitive damages.

The Global Issues in HR feature addresses some international aspects of equal employment.

GLOBAL ISSUES IN HR

Applying Equal Employment Law in a Global Setting

Globalization complicates the task of complying with equal employment laws. For example, Dell recently announced big additions to its workforce in India. Are U.S. citizens working for Dell abroad covered by U.S. equal opportunity laws? Are non-U.S. citizens covered? Are non-U.S. citizens working for Dell in the United States covered?

In practice, the answers depend on U.S. laws, international treaties, and the laws of the countries in which the U.S. firms are doing business. For example, the Civil Rights Act of 1991 specifically covers U.S. employees of U.S. firms working abroad. But in practice, the laws of the country in which the U.S. citizen is working may take precedence.⁶³

Summary

Table 1 summarizes these and selected other equal employment opportunity legislation, executive orders, and agency guidelines.

DEFENSES AGAINST DISCRIMINATION ALLEGATIONS

To understand how employers defend themselves against employment discrimination claims, we should first review some basic legal terminology.

Discrimination law distinguishes between disparate *treatment* and disparate *impact*. *Disparate treatment* means intentional discrimination. It “requires no more than a finding that women (or protected minority group members)” were intentionally treated differently because they were members of a particular race, religion, gender, or ethnic group.⁶⁴ Having a rule that says “we do not hire bus drivers over 60 years of age” exemplifies this.

Disparate impact means that “an employer engages in an employment practice or policy that has a greater adverse impact (effect) on the members of a protected group under Title VII than on other employees, regardless of intent.”⁶⁵ A rule that says “employees must have college degrees to do this particular job” exemplifies this (because more white males than some minorities earn college degrees).

Disparate impact claims do not require proof of discriminatory intent. Instead, the plaintiff must show that the apparently neutral employment practice (such as requiring a college degree) creates an **adverse impact**—a significant disparity—between the proportion of (say) minorities in the available labor pool and the proportion you hire. So, the key here is to show that the employment practice caused an adverse impact. If it has, then the employer will probably have to defend itself (for instance, by arguing that there is a business necessity for the practice).

The Central Role of Adverse Impact

Showing adverse impact therefore plays a central role in discriminatory practice allegations. Employers may not institute an employment practice that has an adverse impact on a particular

adverse impact

The overall impact of employer practices that result in significantly higher percentages of members of minorities and other protected groups being rejected for employment, placement, or promotion.

class of people unless they can show that the practice is job related and necessary.⁶⁶ Under Title VII and CRA 1991, a person who believes that (1) he or she was a victim of unintentional discrimination because of an employer’s practices need only (2) establish a *prima facie* case of discrimination. This means showing, for instance, that the employer’s selection procedures (like requiring a college degree for the job) did have an adverse impact on the protected minority group.⁶⁷ Then the burden of proof shifts to the employer.

So, for example, if a minority applicant feels he or she was a victim of discrimination, the person need only show that the employer’s selection process resulted in an adverse impact (significant disparity) on his or her group. (For example, if 80% of the white applicants passed the test, but only 20% of the black applicants passed, a black applicant has a *prima facie* case proving adverse impact.) Then the burden of proof shifts to the employer. It becomes the employer’s task to prove that its test (or application blank or the like) is a valid predictor of performance on the job (and that it applied its selection process fairly and equitably to both minorities and nonminorities).



HOW CAN SOMEONE SHOW ADVERSE IMPACT? An applicant or employee can use one of the following methods to show that an employment procedure (such as a selection test) has an adverse impact on a protected group.

DISPARATE REJECTION RATES One shows *disparate rejection rates* by comparing rejection rates for a minority group and another group (usually the remaining nonminority applicants).⁶⁸

Federal agencies use a “4/5ths rule” to assess disparate rejection rates: “A selection rate for any racial, ethnic, or sex group which is less than four-fifths or 80% of the rate for the group with the highest rate will generally be regarded as evidence of adverse impact, while a greater than four-fifths rate will generally not be regarded as evidence of adverse impact.” For example, suppose the employer hires 60% of male applicants, but only 30% of female applicants. Four-fifths of the 60% male hiring rate would be 48%. Because the female hiring rate of 30% is less than 48%, adverse impact exists as far as these federal agencies are concerned.⁶⁹

THE STANDARD DEVIATION RULE Similarly, courts may use the *standard deviation rule* to confirm adverse impact. (The standard deviation is a statistical measure of variability. Suppose we measure the heights of every person in your management class. In simplest terms, the standard deviation helps to describe, among other things, how wide a range there is between the shortest and tallest students.) In selection, the standard deviation rule holds that as a rule of thumb, the difference between the numbers of minority candidates *we would have expected* to hire and whom *we actually hired* should be less than two standard deviations.

Consider this example. Suppose 300 applicants apply for 20 openings; 80 of the applicants are women and the other 220 are men. We use our screening processes and hire 2 females and 18 males. Did our selection process have adverse impact? To answer this, we can compute the standard deviation:

$$SD = \sqrt{\frac{(\text{Number of minority applicants})}{(\text{Number of total applicants})} \times \frac{(\text{Number of non-minority applicants})}{(\text{Number of total applicants})} \times (\text{Number of applicants selected})}$$

In our case:

$$SD = \sqrt{\left(\frac{80}{300} \times \frac{220}{300} \times 20\right)} = \sqrt{(0.2667 \times 0.7333 \times 20)} \\ = \sqrt{3.911} = SD = 1.977$$

In our example, women are 26% (80/300) of the applicant pool. We should therefore *expect* to hire 26% of 20 or about 5 women. We *actually* hired 2 women. The difference between the numbers of women we would expect to hire and whom we actually hired is 5 – 2 = 3. We can use the standard deviation rule to gauge if there is adverse (disparate) impact. In our example, the standard deviation is 1.977. Again, the standard deviation rule holds that as a rule of thumb, the difference between the numbers of minority candidates we would have expected to hire and

whom we actually hired should be less than two standard deviations. Two times 1.9777 is about 4. Since the difference between the number of women we would have expected to hire (5) and actually hired (2) is 3, the results suggest that our screening did not have adverse impact on women. (Put another way, in this case, hiring just 2 rather than 5 is not a highly improbable result.)⁷⁰

RESTRICTED POLICY The *restricted policy* approach means demonstrating that the employer’s policy intentionally or unintentionally excluded members of a protected group. Here the problem is usually obvious—such as policies against hiring bartenders shorter than 6 feet tall. Evidence of restricted policies such as these is enough to prove adverse impact and to expose an employer to litigation.

POPULATION COMPARISONS This approach compares (1) the percentage of minority/protected group and white workers in the organization with (2) the percentage of the corresponding group in the labor market. The EEOC usually defines labor market as the U.S. Census data for that Standard Metropolitan Statistical Area.

“Labor market,” of course, varies with the job. For some jobs, such as laborer or secretary, it makes sense to compare the percentage of minority employees with the percentage of minorities in the surrounding community, since they will come from that community. But for jobs such as engineer, recruiting may be nationwide. Determining whether an employer has enough black engineers might thus involve determining the number available nationwide, not in the surrounding community.

Employers use *workforce analysis* to analyze the data regarding the firm’s use of protected versus nonprotected employees in various job classifications. The process of comparing the percentage of minority employees in a job (or jobs) at the company with the number of similarly trained minority employees available in the relevant labor market is *utilization analysis*.

MCDONNELL-DOUGLAS TEST Lawyers in disparate impact cases use the previous approaches (such as population comparisons) to test whether an employer’s policies or actions have the effect of unintentionally screening out disproportionate numbers of women or minorities. Lawyers use the McDonnell-Douglas test for showing (intentional) disparate treatment, rather than (unintentional) disparate impact.

This test grew out of a case at the former McDonnell-Douglas Corporation. The applicant was qualified but the employer rejected the person and continued seeking applicants. Did this show that the hiring company intentionally discriminated against the female or minority candidate? The U.S. Supreme Court set four rules for applying the McDonnell-Douglas test:

1. That the person belongs to a protected class.
2. That he or she applied and was qualified for a job for which the employer was seeking applicants.
3. That, despite this qualification, he or she was rejected.
4. That, after his or her rejection, the position remained open and the employer continued seeking applications from persons with the complainant’s qualifications.

If the plaintiff meets all these conditions, then a *prima facie* case of disparate treatment is established. At that point, the employer must articulate a legitimate nondiscriminatory reason for its action, and produce evidence but not prove that it acted based on such a reason. If it meets this relatively easy standard, the plaintiff then has the burden of proving that the employer’s articulated reason is merely a pretext for engaging in unlawful discrimination.

DEALING WITH A CHARGE OF DISCRIMINATION: ADVERSE IMPACT EXAMPLE Assume you turn down a member of a protected group for a job with your firm. You do this based on a test score (although it could have been interview questions or something else). Further, assume that this person feels he or she was discriminated against due to being in a protected class, and decides to sue your company.

Basically, all he or she must do is show that your human resources procedure (such as the selection test) had an adverse impact on members of his or her minority group. The plaintiff can apply several approaches here. These are disparate rejection rates, the standard deviation rule, restricted policy, or population comparisons. Once the person proves adverse impact (to the court’s satisfaction), the burden of proof shifts to the employer. The employer must defend against the discrimination charges.

Note that there is nothing in the law that says that because one of your procedures has an adverse impact on a protected group, you can't use the procedure. In fact, it may well happen that some tests screen out disproportionately higher numbers of, say, blacks than they do whites. What the law does say is that once your applicant has made his or her case (showing adverse impact), the burden of proof shifts to you. Now you (or your company) must defend use of the procedure.

There are then two basic defenses employers use to justify an employment practice that has an adverse impact on members of a minority group: the bona fide occupational qualification (BFOQ) defense and the business necessity defense.

LEARNING OBJECTIVE 2

Explain the basic defenses against discrimination allegations.

bona fide occupational qualification (BFOQ)

Requirement that an employee be of a certain religion, sex, or national origin where that is reasonably necessary to the organization's normal operation. Specified by the 1964 Civil Rights Act.

Bona Fide Occupational Qualification

An employer can claim that the employment practice is a **bona fide occupational qualification (BFOQ)** for performing the job. Title VII provides that "it should not be an unlawful employment practice for an employer to hire an employee . . . on the basis of religion, sex, or national origin *in those certain instances where religion, sex, or national origin is a bona fide occupational qualification* reasonably necessary to the normal operation of that particular business or enterprise."

However, courts usually interpret the BFOQ exception narrowly. It is usually a defense to a disparate *treatment* case based upon direct evidence of *intentional* discrimination, rather than to disparate impact (unintentional) cases. As a practical matter, employers use it mostly as a defense against charges of intentional discrimination based on age.

AGE AS A BFOQ The Age Discrimination in Employment Act (ADEA) permits disparate treatment in those instances when age is a BFOQ.⁷¹ For example, age is a BFOQ when the Federal Aviation Administration sets a compulsory retirement age of 65 for commercial pilots.⁷² Actors required for youthful or elderly roles suggest other instances when age may be a BFOQ. Employers who use the BFOQ defense admit they base their personnel decisions on age. However, they seek to justify them by showing that the decisions were reasonably necessary to normal business operations (for instance, a bus line arguing its driver age requirement is necessary for safety).⁷³

RELIGION AS A BFOQ Religion may be a BFOQ in religious organizations or societies that require employees to share their particular religion. For example, religion may be a BFOQ when hiring persons to teach in a religious school. However, remember courts construe the BFOQ defense very narrowly.

GENDER AS A BFOQ Gender may be a BFOQ for positions like actor, model, and restroom attendant requiring physical characteristics possessed by one sex. However, for most jobs today, it's difficult to claim that gender is a BFOQ. For example, gender is not a BFOQ for parole and probation officers.⁷⁴ It is not a BFOQ for positions just because the positions require lifting heavy objects. A Texas man filed a discrimination complaint against Hooters of America. He alleged that one of its franchisees would not hire him as a waiter because it ". . . merely wishes to exploit female sexuality as a marketing tool to attract customers and insure profitability."⁷⁵ Hooters defended its right to hire only women before reaching a confidential settlement.

NATIONAL ORIGIN AS A BFOQ A person's country of national origin may be a BFOQ. For example, an employer who is running the Chinese pavilion at a fair might claim that Chinese heritage is a BFOQ for persons to deal with the public.

Business Necessity

Business necessity is a defense created by the courts. It requires showing that there is an overriding business purpose for the discriminatory practice and that the practice is therefore acceptable.

It's not easy to prove business necessity.⁷⁶ The Supreme Court made it clear that business necessity does not encompass such matters as avoiding an employer inconvenience, annoyance, or expense. For example, an employer can't generally discharge employees whose wages have been garnished merely because garnishment (requiring the employer to divert part of the person's wages to pay his or her debts) creates an inconvenience. The Second Circuit Court of Appeals

business necessity

Justification for an otherwise discriminatory employment practice, provided there is an overriding legitimate business purpose.

held that business necessity means an “irresistible demand.” It said the practice “must not only directly foster safety and efficiency” but also be essential to these goals.⁷⁷ Furthermore, “the business purpose must be sufficiently compelling to override any racial impact. . . .”⁷⁸

However, many employers have used the business necessity defense successfully. In an early case, *Spurlock v. United Airlines*, a minority candidate sued United Airlines. He said that its requirements that pilot candidates have 500 flight hours and college degrees were unfairly discriminatory. The court agreed that the requirements did have an adverse impact on members of the person’s minority group. But it held that in light of the cost of the training program and the huge human and economic risks in hiring unqualified candidates, the selection standards were a business necessity and were job related.⁷⁹

In general, when a job requires a small amount of skill and training, the courts closely scrutinize any preemployment standards or criteria that discriminate against minorities. There is a correspondingly lighter burden when the job requires a high degree of skill, and when the economic and human risks of hiring an unqualified applicant are great.⁸⁰

Attempts by employers to show that their selection tests or other employment practices are *valid* are examples of the business necessity defense. Here the employer must show that the test or other practice is job related—in other words, that it is a valid predictor of performance on the job. Where the employer can establish such validity, the courts have generally supported using the test or other employment practice as a business necessity. In this context, *validity* means the degree to which the test or other employment practice is related to or predicts performance on the job.

LEARNING OBJECTIVE 3

Give examples of what employers can and cannot legally do with respect to recruitment, selection, and promotion and layoff practices.



ILLUSTRATIVE DISCRIMINATORY EMPLOYMENT PRACTICES

A Note on What You Can and Cannot Do

In this section, we present several illustrations of what managers can and cannot do under equal employment laws. But before proceeding, keep in mind that most federal laws don’t expressly ban preemployment questions about an applicant’s race, color, religion, sex, age, or national origin. Similarly:

With the exception of personnel policies calling for outright discrimination against the members of some protected group, it is not really the intrinsic nature of an employer’s personnel policies or practices that the courts object to. Instead, it is the result of applying a policy or practice in a particular way or in a particular context that leads to an adverse impact on some protected group.⁸¹

For example, it is not illegal to ask a job candidate about marital status (although such a question might seem discriminatory). You can ask such a question as long as you can show either that you do not discriminate or that you can defend the practice as a BFOQ or business necessity.

In other words, illustrative inquiries and practices such as those we cover on the next few pages aren’t illegal per se. But, in practice, there are two good reasons to avoid them. First, although federal law may not bar such questions, many state and local laws do. Second, the EEOC has said that it disapproves of such practices as asking women their marital status or applicants their age. Employers who use such practices thus increase their chances of having to defend themselves against charges of discriminatory employment practices.

Recruitment

WORD OF MOUTH You cannot rely on word-of-mouth dissemination of information about job opportunities when your workforce is all (or substantially all) white or all members of some other class such as all female, all Hispanic, and so on. Doing so might reduce the likelihood that others will become aware of the jobs and thus apply for them.

MISLEADING INFORMATION It is unlawful to give false or misleading information to members of any group or to fail to refuse to advise them of work opportunities and the procedures for obtaining them.

HELP WANTED ADS “Help wanted—male” and “Help wanted—female” advertising classifieds are violations of laws forbidding sex discrimination in employment unless sex is a BFOQ for the job advertised.⁸² Similarly, you cannot advertise for a “young” man or woman.

Selection Standards

EDUCATIONAL REQUIREMENTS An educational requirement may be held illegal when (1) it can be shown that minority groups are less likely to possess the educational qualifications (such as a high school diploma), and (2) such qualifications are also not required to perform the job.

TESTS According to former Chief Justice Burger:

Nothing in the [Title VII] act precludes the use of testing or measuring procedures; obviously they are useful. What Congress has forbidden is giving these devices and mechanisms controlling force unless they are demonstrating a *reasonable measure of job performance*.

Thus, tests that disproportionately screen out minorities or women *and are not job related* are deemed unlawful by the courts.

PREFERENCE TO RELATIVES You cannot give preference to relatives of your current employees with respect to employment opportunities if your current employees are substantially nonminority.

HEIGHT, WEIGHT, AND PHYSICAL CHARACTERISTICS Maximum weight rules for employees don’t usually trigger adverse legal rulings. “Few applicants or employees will be able to demonstrate an actual weight-based disability” (in other words, they are 100% above their ideal weight or there is a physiological cause for their disability).

However, managers should be vigilant against stigmatizing obese people. First, you may adversely impact minority groups, some of whom have a higher incidence of obesity. Furthermore, studies leave little doubt that obese individuals are less likely to be hired, and more likely to receive poor customer service as customers.⁸³

RESEARCH INSIGHT A study compared the wages of women whose weights ranged from very thin to average with the wages and salaries of men. For very thin American women, gaining 25 pounds produces an average predicted decrease in salary of approximately \$15,572 per year. For women with above average weight, gaining that extra 25 pounds “costs” the women about \$13,847. Conversely, “For men, gaining 25 pounds produced a predicted increase in wages of approximately \$8,437 per year at below-average weights and a predicted increase of approximately \$7,775 per year at above-average weights [to the point of obesity].”⁸⁴

HEALTH QUESTIONS Under the ADA, “Employers are generally prohibited from asking questions about applicants’ medical history or requiring preemployment physical examinations.” However, such questions and exams can be used once the job offer has been extended to determine that the applicant can safely perform the job.⁸⁵

ARREST RECORDS Although Title VII does not prohibit employers from conducting or using criminal background checks, the EEOC recently took the position that employers may violate the law if they intentionally discriminate among employees with similar criminal histories.⁸⁶ In general, employers should not ask about or use a person’s arrest record to disqualify him or her automatically for a position. First, there is always a presumption of innocence until proof of guilt. Second, arrest records in general have not been shown valid for predicting job performance. Third, a higher percentage of minorities than nonminorities have arrest records.

APPLICATION FORMS Employment applications generally shouldn’t contain questions pertaining, for instance, to applicants’ disabilities, workers’ compensation history, age, arrest record, marital status, or U.S. citizenship. Instead, collect personal information required for legitimate reasons (such as who to contact in case of emergency) after the person has been hired.⁸⁷

Sample Discriminatory Promotion, Transfer, and Layoff Procedures

Fair employment laws protect not just job applicants but current employees.⁸⁸ Therefore, any employment practices regarding pay, promotion, termination, discipline, or benefits that (1) are

applied differently to different classes of persons, (2) have the effect of adversely affecting members of a protected group, and (3) cannot be shown to be required as a BFOQ or business necessity may be held to be illegally discriminatory. For example, the EEOC issued an enforcement guidance making it clear that employers may not discriminate against employees in connection with their benefits plans.

UNIFORMS When it comes to discriminatory uniforms and/or suggestive attire, however, courts frequently side with employees. For example, requiring female employees (such as waitresses) to wear sexually suggestive attire as a condition of employment has been ruled as violating Title VII in many cases.⁸⁹

TATOOS AND BODY PIERCINGS About 38% of millennials in one survey had tattoos as compared with 15% of baby boomers. About 23% of millennials had body piercings as compared with 1% of baby boomers. One case involved a waiter with religious tattoos on his wrists at a Red Robin Gourmet Burgers restaurant. The company insisted he cover his tattoos at work; he refused. Red Robin subsequently settled a lawsuit after the waiter claimed that covering the tattoos would be a sin based on his religion.⁹⁰

MANAGEMENT MALPRACTICE AND RETALIATION The human resource manager helps the company navigate problems like these, but the supervisor usually triggers the problem. Even telling a female candidate you'd be concerned about her safety on the job after dark might trigger a claim.

This is therefore a good point to emphasize two things. First, *management malpractice* is aberrant conduct on the part of the manager that has serious consequences for the employee's personal or physical well-being, or which "exceeds all bounds usually tolerated by society."⁹¹ In one outrageous example, the employer demoted a manager to janitor and took other steps to humiliate the person. The jury subsequently awarded the former manager \$3.4 million. Supervisors who commit management malpractice may be personally liable for paying a portion of the judgment.

Second, *retaliation* is illegal under equal rights laws. To paraphrase the EEOC, "all of the laws we enforce make it illegal to fire, demote, harass, or otherwise 'retaliate' against people because they filed a charge, complained to their employer or other covered entity about discrimination, or because they participated in a discrimination investigation or lawsuit."⁹² Retaliation charges are the most common charges filed with the EEOC.⁹³

LEARNING OBJECTIVE 4

Explain the Equal Employment Opportunity Commission enforcement process.



THE EEOC ENFORCEMENT PROCESS

There are several steps in the EEOC enforcement process.

Processing a Discrimination Charge

FILING OF CLAIM The EEOC enforcement process begins with someone filing a charge (see Figure 3). Under CRA 1991, the discrimination claim must be filed within 300 days (when there is a similar state law) or 180 days (no similar state law) after the alleged incident took place (2 years for the Equal Pay Act).⁹⁴ The filing must be in writing and under oath, by (or on behalf of) either the aggrieved person or by a member of the EEOC who has reasonable cause to believe that a violation occurred. In practice the EEOC typically defers a person's charge to the relevant state or local regulatory agency; if the latter waives jurisdiction or cannot obtain a satisfactory solution to the charge, they refer it back to the EEOC. The EEOC recently received 99,947 private-sector discrimination charges in one fiscal year.⁹⁵

EEOC INVESTIGATION After a charge is filed (or the state or local deferral period ends), the EEOC has 10 days to serve notice of the charge on the employer. The EEOC then investigates the charge to determine whether there is reasonable cause to believe it is true; it is expected to make this determination within 120 days. EEOC attorneys urge cooperating with the EEOC during this investigation.⁹⁶ If no reasonable cause is found, the EEOC must dismiss the charge, in which case the person who filed the charge has 90 days to file a suit on his or her own behalf. If reasonable cause for the charge is found, the EEOC must attempt to conciliate. If this conciliation is not satisfactory, the EEOC may bring a civil suit or issue a notice of right to sue to the person who

FIGURE 3
The EEOC Charge-Filing Process

Note: Parties may settle at any time.
 Source: Based on information at www.eeoc.gov.

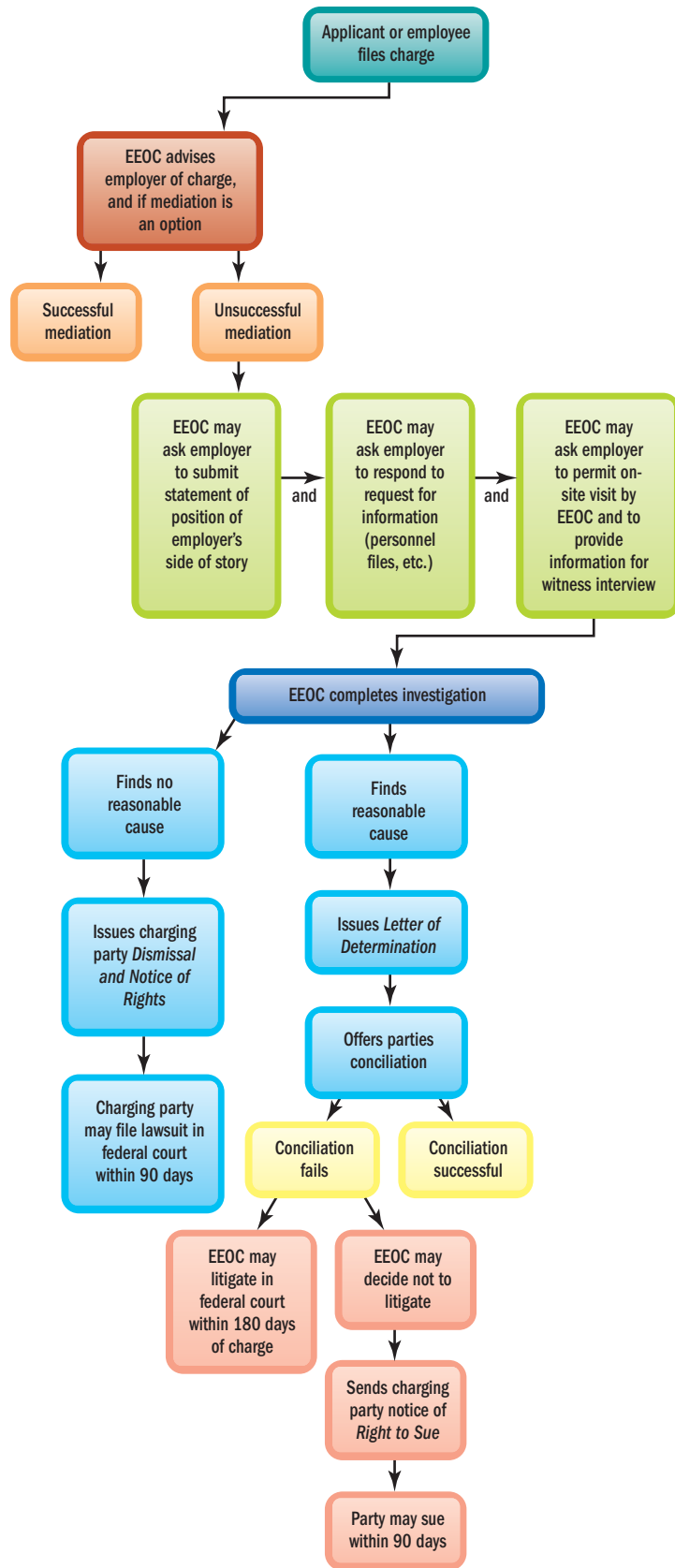


FIGURE 4**Questions to Ask When an Employer Receives Notice That EEOC Has Filed a Bias Claim**

1. Exactly what is the charge and is your company covered by the relevant statutes? (For example, Title VII and the Americans with Disabilities Act generally apply only to employees with 15 or more employees.) Did the employee file his or her charge on time, and was it processed in a timely manner by the EEOC?
2. What protected group does the employee belong to?
3. Is the EEOC claiming disparate impact or disparate treatment?
4. Are there any obvious bases upon which you can challenge and/or rebut the claim? For example, would the employer have taken the action if the person did not belong to a protected group?
5. If it is a sexual harassment claim, are there offensive comments, calendars, posters, screensavers, and so on, on display in the company?
6. In terms of the practicality of defending your company against this claim, who are the supervisors who actually took the allegedly discriminatory actions and how effective will they be as potential witnesses? Have you received an opinion from legal counsel regarding the chances of prevailing?

Source: Fair Employment Practices Summary of Latest Developments, January 7, 1983, p. 3, Bureau of National Affairs, Inc. (800-372-1033); Kenneth Sovereign, *Personnel Law* (Upper Saddle River, NJ: Prentice Hall, 1999), pp. 36–37; “EEOC Investigations—What an Employer Should Know,” Equal Employment Opportunity Commission (www.eeoc.gov/employers/investigations.html), accessed May 6, 2007; “The Charge Handling Process,” www.eeoc.gov/employers/process.cfm, accessed July 30, 2012.

filed the charge. Figure 4 summarizes important questions to ask after receiving notice from the EEOC of a bias complaint. Some employers obtain employment practices liability insurance (EPLI) against discrimination claims.⁹⁷

The Equal Employment Opportunity Commission tends to pursue initiatives (see for instance, <http://eeoc.gov/eeoc/initiatives/e-race/index.cfm>).⁹⁸ Thus, in a suit apparently prompted by its “Eradicating Racism from Employment” initiative, the EEOC charged that Walgreens used race to determine who to assign to low-performing stores in African-American communities.⁹⁹ For fiscal years 2008–2013, one initiative is Eradicating Racism And Colorism from Employment (E-RACE).

**Voluntary Mediation**

The EEOC refers about 10% of its charges to a voluntary mediation mechanism. This is “an informal process in which a neutral third party assists the opposing parties to reach a voluntary, negotiated resolution of a charge of discrimination.”¹⁰⁰ If the parties don’t reach agreement (or a party rejects participation), the EEOC processes the charge through its usual mechanisms.¹⁰¹

Faced with an offer to mediate, the employer has three options: Agree to mediate the charge; make a settlement offer without mediation; or prepare a “position statement” for the EEOC. If the employer does not mediate or make an offer, the position statement is required. It should include a robust defense, including information relating to the company’s business and the charging party’s position; a description of any rules or policies and procedures that are applicable; and the chronology of the offense that led to the adverse action.¹⁰²

Mandatory Arbitration of Discrimination Claims

Many employers, to avoid EEO litigation, require applicants and employees to agree to arbitrate such claims. The U.S. Supreme Court’s decisions (in *Gilmer v. Interstate/Johnson Lane Corp.* and similar cases) make it clear that “employment discrimination plaintiffs [employees] may be compelled to arbitrate their claims under some circumstances.”¹⁰³ Given this, employers “may wish to consider inserting a mandatory arbitration clause (called, as is traditional, an *alternative dispute resolution (ADR) program*) in their employment applications or handbooks.”¹⁰⁴ To protect such a process against appeal, the employer should institute steps to protect against arbitrator bias, allow the arbitrator to offer a claimant broad relief (including reinstatement), and allow for a reasonable amount of prehearing fact finding.

ADR plans are popular, although the EEOC generally prefers mediation for handling bias claims.¹⁰⁵ U.S. federal agencies must have ADR programs.¹⁰⁶

Figure 5 sums up guidelines employers should follow in addressing EEOC charges.

FIGURE 5

Management Guidelines for Addressing EEOC Claims

Sources: “Tips for Employers on Dealing with EEOC Investigations,” *BNA Fair Employment Practices*, October 31, 1996, p. 130; “Conducting Effective Investigations of Employee Bias Complaints,” *BNA Fair Employment Practices*, July 13, 1995, p. 81; Commerce Clearing House, *Ideas and Trends*, January 23, 1987, pp. 14–15; <http://eoc.gov/employers/investigations.html>, accessed October 4, 2009; <http://www.eoc.gov/employers/process.cfm>, accessed August 1, 2012.

During the EEOC Investigation:
Conduct your own investigation to get the facts.
 Ensure that there is information in the EEOC’s file *demonstrating lack of merit* of the charge.
Limit the information supplied to only those issues raised in the charge itself.
Get as much information as possible about the *charging party’s claim*.
Meet with the employee who made the complaint to clarify all the relevant issues. For example, what happened? Who was involved?
 Remember that *the EEOC can only ask (not compel) employers* to submit documents and ask for the testimony of witnesses under oath.
 Give the EEOC a *position statement*. It should contain words to the effect that “the company has a policy against discrimination and would not discriminate in the manner charged in the complaint.” Support the statement with documentation.

During the Fact-Finding Conference:
 Because the only official record is the notes the EEOC investigator takes, *keep your own records*.
 Bring an *attorney*.
 Make sure you are *fully informed* of the charges and facts of the case.
 Before appearing, *witnesses (especially supervisors) need to be aware* of the legal significance of the facts they will present.

During the EEOC Determination and Attempted Conciliation:
 If there is a finding of cause, *review it carefully*, and point out inaccuracies in writing to the EEOC.
 Use this letter to try again to convince the parties that the charge is *without merit*.
Conciliate prudently. If you have properly investigated the case, there may be no real advantage in settling at this stage.
 Remember: It is likely that *no suit will be filed* by the EEOC.

LEARNING OBJECTIVE 5

List five strategies for successfully increasing diversity of the workforce.



DIVERSITY MANAGEMENT AND AFFIRMATIVE ACTION PROGRAMS

Today, because many American workplaces are already diverse, the focus increasingly is on managing diversity at work.¹⁰⁷ **Diversity** means being diverse or varied, and at work means having a workforce comprised of two or more groups of employees with various racial, ethnic, gender, cultural, national origin, handicap, age, and religious backgrounds.¹⁰⁸

Diversity’s Potential Pros and Cons

Workforce diversity produces both benefits and threats for employers.

With strong top-management support, IBM created several minority task forces focusing on groups such as women and Native Americans.

Source: Joanne Ho-Young Lee/Newscom



diversity

Having a workforce comprised of two or more groups of employees with various racial, ethnic, gender, cultural, national origin, handicap, age, and religious backgrounds.

discrimination

Taking specific actions toward or against the person based on the person's group.

gender-role stereotypes

The tendency to associate women with certain (frequently nonmanagerial) jobs.

SOME DOWNSIDES Diversity can produce behavioral barriers that undermine work team collegiality and cooperation. Potential problems include:

- *Stereotyping* is a process in which someone ascribes specific behavioral traits to individuals based on their apparent membership in a group.¹⁰⁹ For example, “Older people can’t work hard.”
- *Prejudice* means a bias toward prejudging someone based on that person’s traits. For example, “We won’t hire him because he’s old.”
- *Discrimination* is prejudice in action. **Discrimination** means taking specific actions toward or against the person based on the person’s group.¹¹⁰

In the United States it is generally illegal to discriminate at work based on a person’s age, race, gender, disability, or country of national origin. But in practice, discrimination may be subtle. For example, a “glass ceiling,” enforced by an “old boys’ network” (friendships built in places like golf clubs), effectively prevents some women from reaching top management. Insofar as it reflects national origin or religious discrimination, discrimination against Muslim employees is prohibited under Title VII.¹¹¹

- *Tokenism* occurs when a company appoints a small group of women or minorities to high-profile positions, rather than more aggressively seeking full representation for that group.¹¹²
- *Ethnocentrism* is the tendency to view members of other social groups less favourably than one’s own. For example, in one study, managers attributed the performance of some minorities less to their abilities and more to help they received from others. The same managers attributed the performance of *non*minorities to their own abilities.¹¹³
- Discrimination against women goes beyond glass ceilings. Working women also confront **gender-role stereotypes**, the tendency to associate women with certain (frequently nonmanagerial) jobs.

SOME DIVERSITY BENEFITS The key is properly managing these potential threats.¹¹⁴ For example, one study found that racial discrimination was related negatively to employee commitment, but that organizational efforts to support diversity reduced such negative effects.¹¹⁵ The HR as a Profit Center feature provides another example.

HR AS A PROFIT CENTER

IBM’s Minority Task Forces

With strong top-management support, IBM created several minority task forces focusing on groups such as women and Native Americans. One effect was internal: In the 10 or so years since forming them, IBM boosted the number of U.S.-born ethnic minority executives by almost 2½ times.¹¹⁶

However, the firm’s diversity program also aided IBM’s bottom line. For example, one task force decided to focus on expanding IBM’s market among multicultural and women-owned businesses. They did this in part by providing “much-needed sales and service support to small and midsize businesses, a niche well populated with minority and female buyers.”¹¹⁷ As a direct result, this IBM market grew from \$10 million to more than \$300 million in revenue in just 3 years.

Managing Diversity

Managing diversity means maximizing diversity’s potential advantages while minimizing the potential barriers—such as prejudices and bias—that can undermine the functioning of a diverse workforce.¹¹⁸ The main aim is to make employees more sensitive to and better able to adapt to individual cultural differences.

TOP-DOWN PROGRAMS Typically, the effort starts at the top. One diversity expert says five activities are at the heart of the typical companywide diversity management program:

Provide strong leadership. Companies with exemplary reputations in managing diversity typically have CEOs who champion the cause of diversity. For example, they role model the behaviors required.

Assess the situation. Common tools for measuring a company’s diversity include equal employment hiring and retention metrics, employee attitude surveys, management and employee evaluations, and focus groups.¹¹⁹

Provide diversity training and education. Diversity management usually starts with diversity training. This aims to sensitize all employees to value cultural differences, to build self-esteem, and to create a more hospitable work environment.

Change culture and management systems. Reinforce the desired values and behaviors; for instance, change the performance appraisal process by appraising supervisors based partly on their success in reducing inter-group conflicts.

Evaluate the diversity management program. For example, use employee attitude surveys to monitor employees' attitudes toward diversity.

Equal Employment Opportunity Versus Affirmative Action

Equal employment opportunity aims to ensure that anyone, regardless of race, color, disability, sex, religion, national origin, or age, has an equal chance for a job based on his or her qualifications. **Affirmative action** goes beyond equal employment opportunity. It requires that employers make an extra effort to hire and promote those in a protected group. Affirmative action thus requires taking actions to eliminate the present effects of past discrimination. For example:

- Issue a written policy indicating that the employer is an equal employment opportunity employer, committed to affirmative action.
- Appoint a top official to direct the program.
- Survey present minority and female employment to determine where affirmative action is desirable.¹²⁰
- Develop goals and timetables.
- Develop and implement specific recruitment, selection, training, and promotion programs to achieve these goals.
- Establish internal audit and reporting systems to evaluate these programs' progress.

Affirmative Action and Reverse Discrimination

Affirmative action is still a significant workplace issue today. The incidence of major court-mandated programs is down. However, many employers still engage in voluntary programs. For example, Executive Order 11246 (issued in 1965) requires federal contractors to take affirmative action to improve employment opportunities for women and racial minorities. It covers about 22% of the U.S. workforce.

Avoiding an employee backlash to affirmative action programs is important. Here, current employees need to see that the program is fair. *Transparent selection procedures* help in this regard. Make clear that the program doesn't involve preferential selection standards. Provide details on the qualifications of all new hires (both minority and nonminority). *Justifications* for the program should emphasize redressing past discrimination and the practical value of diversity, not underrepresentation.¹²¹

Courts have been grappling with the use of quotas in hiring, and particularly with claims of *reverse discrimination* (discriminating against *nonminority* applicants and employees). In one early case, *Bakke v. Regents of the University of California* (1978), the University of California at Davis Medical School denied admission to white student Allen Bakke, allegedly because of the school's affirmative action quota system, which required that a specific number of openings go to minority applicants. In a 5-to-4 vote, the U.S. Supreme Court struck down the policy that made race the only factor in considering applications for a certain number of class openings and thus allowed Bakke's admission.

Bakke was followed by many other cases. In 2009, the U.S. Supreme Court ruled in an important reverse discrimination suit brought by New Haven, Connecticut, firefighters. In *Ricci v. DeStefano*, 19 white firefighters and one Hispanic firefighter said the city should have promoted them based on their successful test scores. The city argued that certifying the tests would have left it vulnerable to lawsuits from minorities for violating Title VII.¹²² The Court ruled in favor of the plaintiffs. The consensus of observers was that this decision would make it harder for employers to ignore the results obtained by valid tests, even if the results disproportionately impact minorities.¹²³ The bottom line seems to be that employers should emphasize the external recruitment and internal development of better-qualified minority and female employees, "while basing employment decisions on legitimate criteria."¹²⁴

affirmative action

Making an extra effort to hire and promote those in protected groups, particularly when those groups are underrepresented.

Review

MyManagementLab

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

SUMMARY

1. Legislation barring discrimination is not new. For example, the Fifth Amendment to the U.S. Constitution (ratified in 1791) states that no person shall be deprived of life, liberty, or property without due process of law.
2. Legislation barring employment discrimination includes Title VII of the 1964 Civil Rights Act (as amended), which bars discrimination because of race, color, religion, sex, or national origin; various executive orders; federal guidelines (covering procedures for validating employee selection tools, etc.); the Equal Pay Act of 1963; and the Age Discrimination in Employment Act of 1967. In addition, various Court decisions (such as *Griggs v. Duke Power Company*) and state and local laws bar various aspects of discrimination.
3. The EEOC was created by Title VII of the Civil Rights Act. It is empowered to try conciliating discrimination complaints, but if this fails, the EEOC has the power to go directly to court to enforce the law.
4. The Civil Rights Act of 1991 had the effect of revising several Supreme Court equal employment decisions and “rolling back the clock.” For example, it placed the burden of proof back on employers and held that a nondiscriminatory reason was insufficient to let an employer avoid liability for an action that also had a discriminatory motive.
5. The Americans with Disabilities Act prohibits employment discrimination against the disabled. Specifically, qualified persons cannot be discriminated against if the firm can make reasonable accommodations without undue hardship on the business.
6. A person who believes he or she has been discriminated against by a personnel procedure or decision must prove either that he or she was subjected to unlawful disparate treatment (intentional discrimination) or that the procedure in question has a disparate impact (unintentional discrimination) on members of his or her protected class. Once a *prima facie* case of disparate treatment is established, an employer must produce evidence that its decision was based on legitimate reasons (such as BFOQ). If the employer does that, the person claiming discrimination must prove that the employer’s reasons are only a pretext for letting the company discriminate. Once a *prima facie* case of disparate impact has been established, the employer must produce evidence that the allegedly discriminatory practice or procedure is job related and is based on a substantial business reason.
7. An employer should avoid various specific discriminatory human resource management practices:
 - a. *In recruitment.* An employer usually should not rely on word-of-mouth advertising or give false or misleading information to minority group members. Also (usually), an employer should not specify the desired gender in advertising or in any way suggest that applicants might be discriminated against.
 - b. *In selection.* An employer should avoid using any educational or other requirements where (1) it can be shown that minority-group members are less likely to possess the qualification and (2) such requirement is also not job related. Tests that disproportionately screen out minorities and women and that are not job related are deemed unlawful. Remember that you can use various tests and standards, but you must prove that they are job related or show that they are not used to discriminate against protected groups.
8. In practice, a person’s discrimination charge to the EEOC is often first referred to a local agency. When the EEOC finds reasonable cause to believe that discrimination occurred, it may suggest the parties try to work out a conciliation. EEOC investigators can only make recommendations. Make sure to clearly document your position (as the employer).
9. An employer can use three basic defenses in the event of a discriminatory practice allegation. One is *business necessity*. Attempts to show that tests or other selection standards are valid is one example of this defense. *Bona fide occupational qualification* is the second defense. This is applied when, for example, religion, national origin, or gender is a bona fide requirement of the job (such as for actors or actresses). A third is that the decision was made on the basis of legitimate nondiscriminatory reasons (such as poor performance) having nothing to do with the prohibited discrimination alleged.
10. Steps in an affirmative action program (based on suggestions from the EEOC) are (1) issue a written equal employment policy, (2) appoint a top official, (3) publicize the policy, (4) survey present minority and female

employees, (5) develop goals and timetables, (6) develop and implement specific programs to achieve goals, (7) establish an internal audit and reporting system, and (8) develop support of in-house and community programs.

11. Recruitment is one of the first activities to which EEOC laws and procedures are applied.

KEY TERMS

Equal Pay Act of 1963

Title VII of the 1964 Civil Rights Act

Equal Employment Opportunity Commission (EEOC)

Office of Federal Contract Compliance Programs (OFCCP)

Age Discrimination in Employment Act (ADEA) of 1967

Vocational Rehabilitation Act of 1973

Pregnancy Discrimination Act (PDA)

Griggs v. Duke Power Company

protected class

Civil Rights Act of 1991 (CRA 1991)

disparate impact

disparate treatment

Americans with Disabilities Act (ADA)

sexual harassment

adverse impact

bona fide occupational qualification (BFOQ)

business necessity

diversity

discrimination

gender-role stereotypes

affirmative action

DISCUSSION QUESTIONS

1. Present a summary of what employers can and cannot legally do with respect to recruitment, selection, and promotion and layoff practices.
2. Explain the Equal Employment Opportunity Commission enforcement process.
3. List five strategies for successfully increasing diversity of the workforce.
4. What is Title VII? What does it state?
5. What important precedents were set by the *Griggs v. Duke Power Company* case? The *Albemarle v. Moody* case?
- ★ 6. What is adverse impact? How can it be proven?
7. Explain the defenses and exceptions to discriminatory practice allegations.
- ★ 8. What is the difference between affirmative action and equal employment opportunity?

INDIVIDUAL AND GROUP ACTIVITIES

1. Working individually or in groups, respond to the following three scenarios based on what you learned in this chapter. Under what conditions (if any) do you think the following constitute sexual harassment? (a) A female manager fires a male employee because he refuses her requests for sexual favors. (b) A male manager refers to female employees as “sweetie” or “baby.” (c) A female employee overhears two male employees exchanging sexually oriented jokes.
2. Working individually or in groups, discuss how you would set up an affirmative action program.
3. Working individually or in groups, use the Web to compile examples of actual EEOC claims that have used each of the methods we discussed (such as the standard deviation rule) for showing adverse impact.
4. Working individually or in groups, write a paper entitled “What the manager should know about how the EEOC handles a person’s discrimination charge.”
5. Assume you are the manager in a small restaurant. You are responsible for hiring employees, supervising them, and recommending them for promotion. Working individually or in groups, compile a list of potentially discriminatory management practices you should avoid.
6. The HRCI Knowledge Base holds the HR professional responsible to “Ensure that workforce planning and employment activities are compliant with applicable federal, state and local laws and regulations.” Individually or in teams, draw up a matrix that lists (down the side) each law we covered in this chapter, and (across the top) each HR function (job analysis, recruiting, selection, etc.). Then, within the matrix, give an example of how each law impacts each HR function.



APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

An Accusation of Sexual Harassment in Pro Sports

The jury in a sexual harassment suit brought by a former high-ranking New York Knicks basketball team executive recently awarded her over \$11 million in punitive damages. They did so after hearing testimony during what the *New York Times* called a “sordid four-week trial.” Officials of the Madison Square Garden (which owns the Knicks) said they would appeal the verdict. However, even if they were to win on appeal (which one University of Richmond Law School professor said was unlikely), the case still exposed the organization and its managers to a great deal of unfavorable publicity.

The federal suit pitted Anucha Browne Sanders, the Knicks’ senior vice president of marketing and business operations (and former Northwestern University basketball star), against the team’s owner, Madison Square Garden, and its president, Isiah Thomas. The suit charged them with sex discrimination and retaliation. Ms. Browne Sanders accused Mr. Thomas of verbally abusing and sexually harassing her over a 2-year period, and says the Garden fired her about a month after she complained to top management about the harassment. “My pleas and complaints about Mr. Thomas’ illegal and offensive actions fell on deaf ears,” she said. At the trial, the Garden cited numerous explanations for the dismissal, saying she had “failed to fulfill professional responsibilities.” At a news conference, Browne Sanders said that Thomas “refused to stop his demeaning and repulsive behavior and the Garden refused to intercede.” For his part, Mr. Thomas vigorously insisted he was innocent, and said, “I will not allow her or anybody, man or woman, to use me as a pawn for their financial gain.” According to one report of the trial, her claims of harassment and verbal abuse had little corroboration from witnesses, but neither

did the Garden’s claims that her performance had been subpar. After the jury decision came in favor of the plaintiff, Browne Sanders’ lawyers said, “this [decision] confirms what we’ve been saying all along, that [Browne Sanders] was sexually abused and fired for complaining about it.” The Garden’s statement said, in part, that “We look forward to presenting our arguments to an appeals court and believe they will agree that no sexual harassment took place.”

Questions

1. Do you think Ms. Browne Sanders had the basis for a sexual harassment suit? Why or why not?
2. From what you know of this case, do you think the jury arrived at the correct decision? If not, why not? If so, why?
3. Based on the few facts that you have, what steps if any could Garden management have taken to protect themselves from liability in this matter?
4. Aside from the appeal, what would you do now if you were the Garden’s top management?
5. “The allegations against the Madison Square Garden in this case raise ethical questions with regard to the employer’s actions.” Explain whether you agree or disagree with this statement, and why.

Sources: “Jury Awards \$11.6 Million to Former Executive of Pro Basketball Team in Harassment Case,” *BNA Bulletin to Management*, October 9, 2007, p. 323; Richard Sandomir, “Jury Finds Knicks and Coach Harassed a Former Executive,” *The New York Times*, www.nytimes.com/2007/10/03/sports/basketball/03garden.html?em&ex=1191556800&en=41d47437f805290d&ei=5087%0A, accessed November 13, 2007; “Thomas Defiant in Face of Harassment Claims,” <http://espn.com>, accessed November 13, 2007.

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company

A Question of Discrimination

One of the first problems Jennifer faced at her father’s Carter Cleaning Centers concerned the inadequacies of the firm’s current HR management practices and procedures.

One problem that particularly concerned her was the lack of attention to equal employment matters. Virtually all hiring was handled independently by each store manager, and the managers themselves had received no training regarding such fundamental matters as the types of questions that should not be asked of job applicants. It was therefore not unusual—in fact, it was routine—for female applicants to be asked questions such as, “Who’s going to take care of your children while you are at work?” and for minority applicants to be asked questions about arrest records and credit histories. Nonminority applicants—three store managers were white males and three were white females, by the way—were not asked these questions, as Jennifer discerned from her interviews with the managers. Based on discussions with her father,

Jennifer deduced that part of the reason for the laid-back attitude toward equal employment stemmed from (1) her father’s lack of sophistication regarding the legal requirements and (2) the fact that, as Jack Carter put it, “Virtually all our workers are women or minority members anyway, so no one can really come in here and accuse us of being discriminatory, can they?”

Jennifer decided to mull that question over, but before she could, she was faced with two serious equal rights problems. Two women in one of her stores privately confided to her that their manager was making unwelcome sexual advances toward them, and one claimed he had threatened to fire her unless she “socialized” with him after hours. And during a fact-finding trip to another store, an older man—he was 73 years old—complained of the fact that although he had almost 50 years of experience in the business, he was being paid less than people half his age who were doing the very same job. Jennifer’s review of the stores resulted in the following questions.

Questions

1. Is it true, as Jack Carter claims, that “we can’t be accused of being discriminatory because we hire mostly women and minorities anyway”?
2. How should Jennifer and her company address the sexual harassment charges and problems?
3. How should she and her company address the possible problems of age discrimination?
4. Given the fact that each of its stores has only a handful of employees, is her company in fact covered by equal rights legislation?
5. And finally, aside from the specific problems, what other human resource management matters (application forms, training, and so on) have to be reviewed given the need to bring them into compliance with equal rights laws?

EXPERIENTIAL EXERCISE

The Interplay of Ethics and Equal Employment

If one accepts the proposition that equal employment is at least partly an ethical matter, then we should expect that real employers recognize and emphasize that fact, for instance, on their websites. Some do. For example, the Duke Energy Company (which, when known as Duke Power many years ago, lost one of the first and most famous equal employment cases) posts the following on its website:

Equal Employment Opportunity: Duke Energy’s Code of Business Ethics Duke Energy seeks and values diversity.

The dignity of each person is respected, and everyone’s contributions are recognized. We expect Duke Energy employees to act with mutual respect and cooperation toward one another. We do not tolerate discrimination in the workplace.

We comply with laws concerning discrimination and equal opportunity that specifically prohibit discrimination on the basis of certain differences. We will recruit, select, train and compensate based on merit, experience and other work-related criteria.

Our Responsibilities Duke Energy employees are expected to treat others with respect on the job and comply with equal employment opportunity laws, including those related to discrimination and harassment.

Duke Energy employees must not:

- Use any differences protected by law as a factor in hiring, firing, or promotion decisions.
- Use any differences protected by law when determining terms or conditions of employment, such as work assignments, employee development opportunities, vacation, or overtime.

- Retaliate against a person who makes a complaint of discrimination in good faith, reports suspected unethical conduct, violations of laws, regulations, or company policies, or participates in an investigation.

Source: www.duke-energy.com/corporate-governance/code-of-business-ethics/equal-employment-opportunity.asp, accessed May 28, 2010. © Duke Energy Corporation. All Rights Reserved.

Purpose: Ethical decision making is an important HR-related personal competency. The purpose of this exercise is to increase your understanding of how ethics and equal employment are interrelated.

Required Understanding: Be thoroughly familiar with the material presented in this chapter.

How to Set Up the Exercise/Instructions:

1. Divide the class into groups of three to five students.
2. Each group should use the Internet to identify and access at least five companies that emphasize how ethics and equal employment are interrelated.
3. Next, each group should develop answers to the following questions:
 - a. Based on your Internet research, how much importance do employers seem to place on emphasizing the ethical aspects of equal employment?
 - b. What seem to be the main themes these employers emphasize with respect to ethics and equal employment?
 - c. Given what you’ve learned, explain how you would emphasize the ethical aspects of equal employment if you were creating an equal employment training program for new supervisors.

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Summarize the basic equal employment opportunity laws regarding age, race, sex, national origin, religion, and handicap discrimination.
2. Explain the basic defenses against discrimination allegations.
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

ENDNOTES

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2. For example, see eeoc.gov/eeoc/newsroom/index.cfm. As another example, in a recent conciliation agreement between FedEx Corp. and the Department of Labor's Office of Federal Contract Compliance Programs, FedEx agreed to pay \$3 million and amend its practices to settle charges that it discriminated against thousands of applicants. "FedEx to pay \$3 million, amend practices to settle OFCCP charges of bias in hiring," *Bloomberg BNA Bulletin to Management*, March 27, 2012, p. 97.
3. Betsy Morris, "How Corporate America Is Betraying Women," *Fortune*, January 10, 2005, pp. 64–70.
4. Note that private employers are not bound by the U.S. Constitution.
5. Based on or quoted from *Principles of Employment Discrimination Law, International Association of Official Human Rights Agencies*, Washington, D.C. See also Bruce Feldacker, *Labor Guide to Labor Law* (Upper Saddle River, NJ: Prentice Hall, 2000); and "EEOC Attorneys Highlight How Employers Can Better Their Nondiscrimination Practices," *BNA Bulletin to Management*, July 20, 2008, pp. 233; and www.eeoc.gov, accessed June 27, 2009. Employment discrimination law is a changing field, and the appropriateness of the rules, guidelines, and conclusions in this chapter may also be affected by factors unique to the employer's operation. They should be reviewed by the employer's attorney before implementation.
6. The Equal Employment Opportunity Act of 1972, Subcommittee on Labor or the Committee of Labor and Public Welfare, United States Senate, March 1972, p. 3.
7. "Restructured, Beefed Up OFCCP May Shift Policy Emphasis, Attorney Says," *BNA Bulletin to Management*, August 18, 2009, p. 257.
8. Note that the U.S. Supreme Court (in *General Dynamics Land Systems Inc. v. Cline*, 2004) held that the ADEA does not protect younger workers from being treated worse than older ones. "High Court: ADEA Does Not Protect Younger Workers Treated Worse Than Their Elders," *BNA Bulletin to Management* 55, no. 10 (March 4, 2004), pp. 73–80. The U.S. Supreme Court recently held that the plaintiff must show that age was the determining factor in the employer's personnel action. See "Justices, 5-4, Reject Burden Shifting," *BNA Bulletin to Management*, June 23, 2009, p. 199.
9. <http://www.eeoc.gov/laws/statutes/adea.cfm>, accessed October 3, 2011.
10. "High Court: ADEA Does Not Protect Younger Workers Treated Worse Than Their Elders," *BNA Bulletin to Management* 55, no. 10 (March 4, 2004), pp. 73–80. See also D. Aaron Lacy, "You Are Not Quite as Old as You Think: Making the Case for Reverse Age Discrimination Under the ADEA," *Berkeley Journal of Employment and Labor Law* 26, no. 2 (2005), pp. 363–403; Nancy Ursel and Marjorie Armstrong-Stassen, "How Age Discrimination in Employment Affects Stockholders," *Journal of Labor Research* 17, no. 1 (Winter 2006), pp. 89–99; and <http://www.eeoc.gov/laws/statutes/adea.cfm>, accessed October 3, 2011.
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12. Nancy Woodward, "Pregnancy Discrimination Grows," *HR Magazine*, July 2005, p. 79.
13. "Pregnancy Claims Rising; Consistent Procedures Paramount," *BNA Bulletin to Management*, November 23, 2010, p. 375.
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15. *Ibid.*
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be expected to hire (5) and whom we actually hired (1) would rise to 4. Hiring just one less woman might then trigger adverse impact issues, because twice the standard deviation is also about 4. However, realistically, it probably would not trigger such concerns, because with such small numbers, one person makes such a difference. The point is that tools like the 4/5ths rule and the standard deviation rule are only rules of thumb. They do not themselves determine if the employer's screening process is discriminatory. This fact may work both for and against the employer. As the Uniform Guidelines (www.uniformguidelines.com/qandaprint.html) put it, "Regardless of the amount of difference in selection rates, unlawful discrimination may be present, and may be demonstrated through appropriate evidence . . ."

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Human Resource Strategy and Analysis

OVERVIEW:
In this chapter,
we will cover . . .

THE STRATEGIC MANAGEMENT PROCESS

STRATEGIC HUMAN RESOURCE MANAGEMENT

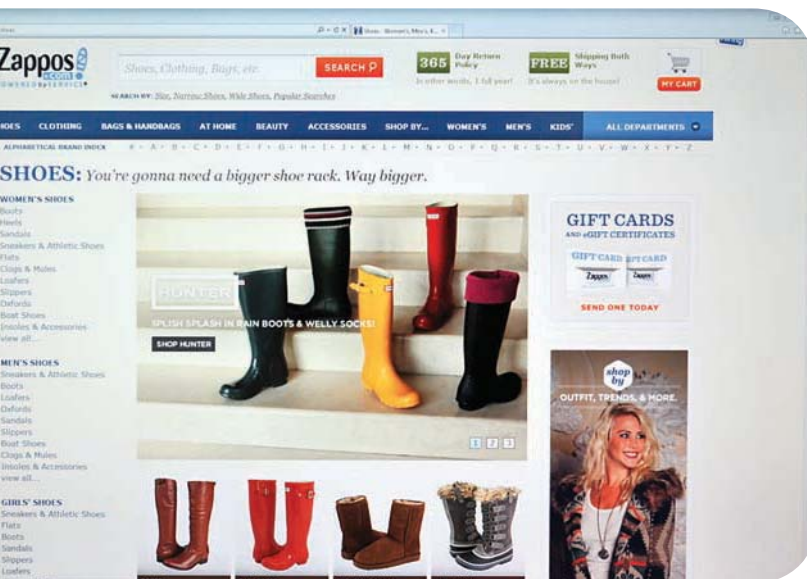
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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Explain why strategic planning is important to all managers.
2. Explain with examples each of the seven steps in the strategic planning process.
3. List with examples the main generic types of corporate strategies and competitive strategies.
4. Define strategic human resource management and give an example of strategic human resource management in practice.
5. Briefly describe three important strategic human resource management tools.
6. Explain with examples why metrics are important for managing human resources.

INTRODUCTION

When your strategy involves selling shoes online to people who can't try them on, you need employees who make customers feel secure about what they're buying.¹ That's why Zappos's founders knew they needed special methods for hiring, developing, and retaining employees.

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Strategic human resource management means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims. The accompanying Strategic Context feature illustrates what that means for Zappos.com.

THE STRATEGIC CONTEXT

The Zappos Way

Zappos’s founders knew they needed special ways to hire and motivate employees. As their website (<http://about.zappos.com/meet-zappos-family/zapposcom-inc/human-resources>) says, “This ain’t your mama’s HR! Recruiting, benefits, and employee relations keep this cruise ship afloat with fun, inventive ways of getting employees motivated and educated about the Zappos Family of companies, their benefits, and the other fun stuff going on around here!”²

While they may not appeal to everyone, these “inventive, fun techniques” include interviewing job applicants in a room resembling a talk show set, asking employees to submit their own designs for Steve Madden shoes, and (during their annual “Bald & Blue Day,”) having some employees volunteer to have coworkers shave their heads or dye their hair blue.³ The bottom line is that selling products such as expensive shoes online calls for employees with special traits and skills. Management therefore put in place special HR practices to cultivate the necessary employee behaviors, traits and skills.

THE STRATEGIC MANAGEMENT PROCESS

In this chapter, we look at how managers formulate and implement human resource and other plans, and how they analyze and evaluate their results. We start with an overview of the basic management planning process.

Goal-Setting and the Management Planning Process

The basic managerial *planning process* involves setting objectives, making basic planning forecasts, reviewing alternative courses of action, evaluating which options are best, and then choosing and implementing your plan. A *plan* shows the course of action for getting from where you are to the goal. *Planning* is always “goal-directed” (such as, “Double sales revenue to \$16 million in fiscal year 2012”).

THE HIERARCHY OF GOALS In companies, it is traditional to view the goals from the top of the firm down to front-line employees as a chain or *hierarchy of goals*. Figure 1 illustrates this. At the top, the president sets long-term or “strategic” goals (such as “double sales revenue to

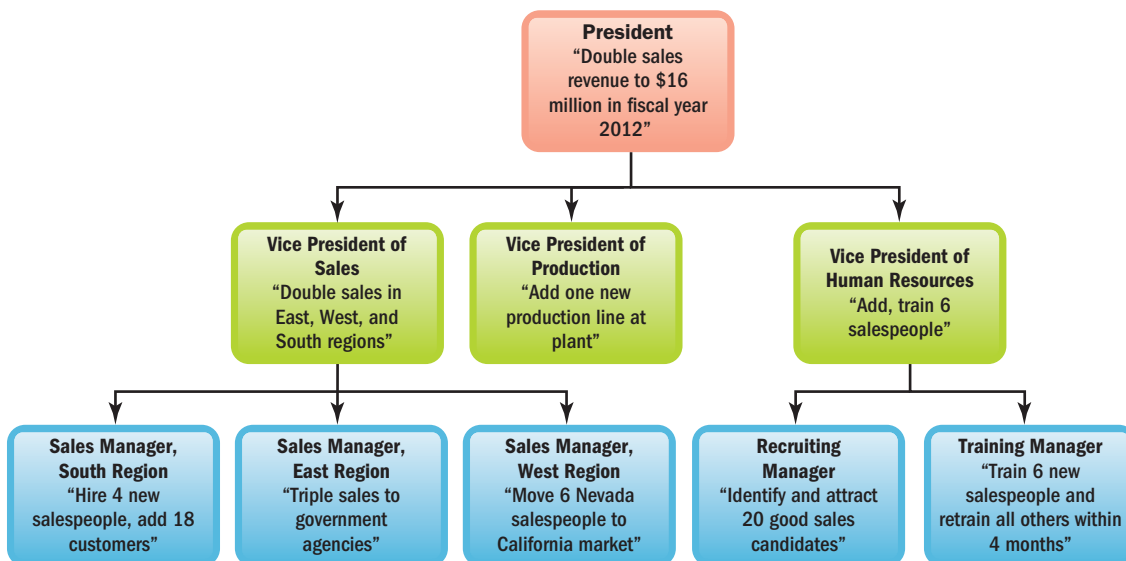


FIGURE 1
Sample Hierarchy of Goals Diagram for a Company

\$16 million in fiscal year 2012”). His or her vice presidents then set goals that flow from and make sense in terms of accomplishing the president’s goal. Then the vice presidents’ subordinates set their own goals, and so on down the chain of command.⁴ The planning process thus starts with formulating top-level, long-term strategic plans and goals.



POLICIES AND PROCEDURES In practice, managers translate their plans and goals into actionable policies and procedures. Policies and procedures provide the day-to-day guidance employees need to do their jobs in a manner that is consistent with the company’s plans and goals. Policies set broad guidelines delineating how employees should proceed. For example, “It is the policy of this company to comply with all laws, regulations, and principles of ethical conduct. Each employee must observe this policy.” *Procedures* spell out what to do if a specific situation arises. For example,

Any employee who has reason to believe this policy has been violated must report this belief to the employee’s immediate supervisor. If that is not practical, the employee should file a written report with the Director of Human Resources. There is to be no retaliation in any form against any employee who in good faith reports a violation.⁵

Employers write their own policies and procedures, or adapt ones from existing sources (or both). For example, most employers have an employee manual listing the company’s policies and procedures regarding various HR matters. A Google search would produce vendors such as <http://store.bizmanualz.com/Human-Resources-Policies-and-Procedures-p/abr41m.htm>. These offer prepackaged HR policies manuals covering appraisal, compensation, equal employment compliance, and other policies and procedures.

LEARNING OBJECTIVE 1

Explain why strategic planning is important to all managers



Strategic Planning

Before a hierarchy of goals can be set or policies and practices formulated, the manager should put in place a strategic plan. A **strategic plan** is the company’s overall plan for how it will match its internal strengths and weaknesses with external opportunities and threats in order to maintain a competitive advantage. The strategic planner asks, “Where are we now as a business, where do we want to be, and how should we get there?” He or she then formulates a strategic plan to take the company from where it is now to where he or she wants it to be. When Yahoo! tries to figure out whether to sell its search business to concentrate on offering content, it is engaged in strategic planning.

Strategic plans are similar to but not quite the same as *business models*. Those investing in a business will ask top management, “What’s your business model?” A business model “is a company’s method for making money in the current business environment.” It pinpoints who the company serves, what products or services it provides, what differentiates it, its competitive advantage, how it provides its product or service, and, most importantly, how it makes money.⁶ For example, Google doesn’t make money by requiring people to pay for searches; it makes money by offering targeted paid advertisements based on what you’re searching for.

A **strategy** is a course of action. If Yahoo! decides it must raise money and focus more on applications like Yahoo! Finance, one strategy might be to sell Yahoo! Search. **Strategic management** is the process of identifying and executing the organization’s strategic plan, by matching the company’s capabilities with the demands of its environment.

strategic plan

The company’s plan for how it will match its internal strengths and weaknesses with external opportunities and threats in order to maintain a competitive advantage.

strategy

A course of action the company can pursue to achieve its strategic aims.

strategic management

The process of identifying and executing the organization’s strategic plan, by matching the company’s capabilities with the demands of its environment.

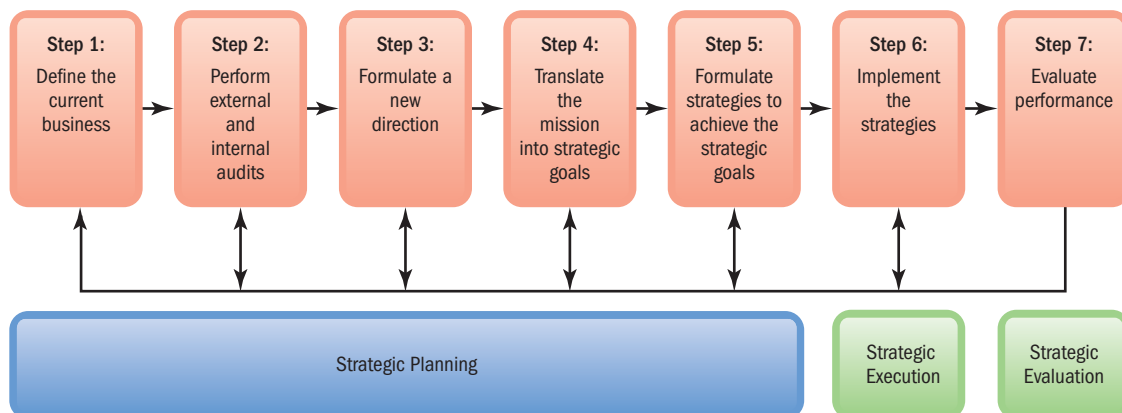


FIGURE 2
The Strategic Management Process

LEARNING OBJECTIVE 2

Explain with examples each of the seven steps in the strategic planning process.



Figure 2 sums up the strategic management process. This process entails (1) defining the business and developing a mission, (2) evaluating the firm’s internal and external strengths, weaknesses, opportunities, and threats, (3) formulating a new business direction, (4) translating the mission into strategic goals, and (5) formulating strategies or courses of action. Step (6) and step (7) entail implementing and then evaluating the strategic plan. Let’s look at each step.

Step 1 Define your current business The logical place to start is by defining one’s current business. Specifically ask, what products do we sell, where do we sell them, and how do our products or services differ from our competitors’?

Step 2 Perform external and internal audits The next step is to ask, “Are we heading in the right direction given the challenges that we face?”

To answer this, managers need to audit or study both the firm’s environment, and the firm’s internal strengths and weaknesses. The *environmental scan worksheet* in Figure 3 is a guide for compiling information about the company’s environment. As you can see, this includes the economic, competitive, and political trends that may affect the company. The *SWOT chart* in Figure 4 is

FIGURE 3
Worksheet for Environmental Scanning

Economic Trends
(such as recession, inflation, employment, monetary policies)

Competitive and Market Trends
(such as market/customer trends, entry/exit of competitors, new products from competitors)

Political Trends
(such as legislation and regulation/deregulation)

Technological Trends
(such as introduction of new production/distribution technologies, rate of product obsolescence, trends in availability of supplies and raw materials)

Social Trends
(such as demographic trends, mobility, education, evolving values)

Geographic Trends
(such as opening/closing of new markets, factors affecting current plant/office facilities location decisions)

FIGURE 4
SWOT Matrix, with
Generic Examples



<p>Potential Strengths</p> <ul style="list-style-type: none"> • Market leadership • Strong research and development • High-quality products • Cost advantages • Patents 	<p>Potential Opportunities</p> <ul style="list-style-type: none"> • New overseas markets • Failing trade barriers • Competitors failing • Diversification • Economy rebounding
<p>Potential Weaknesses</p> <ul style="list-style-type: none"> • Large inventories • Excess capacity for market • Management turnover • Weak market image • Lack of management depth 	<p>Potential Threats</p> <ul style="list-style-type: none"> • Market saturation • Threat of takeover • Low-cost foreign competition • Slower market growth • Growing government regulation

the 800-pound gorilla of strategic planning; everyone uses it. Managers use it to compile and organize the company strengths, weaknesses, opportunities, and threats. The manager's aim is to create a strategic plan that makes sense in terms of the company's strengths, weaknesses, opportunities, and threats.

Step 3 Formulate a new direction The question now is, based on the environmental scan and SWOT analysis, what should our new business be, in terms of what we sell, where we will sell it, and how our products or services differ from competitors' products?

Managers may formulate a vision statement to summarize how they see the essence of their business down the road. The **vision statement** is a general statement of the firm's intended direction; it shows, in broad terms, "what we want to become."⁷ PepsiCo's vision is "Performance with Purpose." CEO Indra Nooyi says her company's executives choose which businesses to be in based on Performance with Purposes' three pillars of human sustainability, environmental sustainability, and talent sustainability.⁸

Whereas vision statements describe in broad terms what the business should be, the company's **mission statement** summarizes what the company's main tasks are today. Several years ago, Ford adapted what was for several years a powerful Ford mission statement—making "Quality Job One."

Step 4 Translate the desired new direction into strategic goals Next, translate the desired new direction into strategic goals. At Ford, for example, what exactly did making "Quality Job One" mean for each department in terms of how they would boost quality? The answer was laid out in goals such as "no more than 1 initial defect per 10,000 cars."

Step 5 Formulate strategies to achieve the strategic goals Next, the manager chooses strategies—courses of action—that will enable the company to achieve its strategic goals. For example, how should Ford pursue its goal of no more than 1 initial defect per 10,000 cars? Perhaps open two new high-tech plants, and put in place new more rigorous employee selection, training, and performance appraisal procedures.

Step 6 Implement the strategies *Strategy execution* means translating the strategies into action. This means actually hiring (or firing) people, building (or closing) plants, and adding (or eliminating) products and product lines.

Step 7 Evaluate performance Things don't always turn out as planned. Like all companies, Ford should continually assess both the wisdom and the progress of their strategic decisions.

vision statement

A general statement of the firm's intended direction that shows, in broad terms, "what we want to become."

mission statement

Summarizes the answer to the question, "What business are we in?"



Improving Productivity through HRIS

Using Computerized Business Planning Software

Managers use business planning software packages to assist in writing strategic plans. Thus CheckMATE (www.checkmateplan.com) uses strategic planning tools such as SWOT analysis to enable even users with no prior planning experience to develop sophisticated strategic plans.⁹

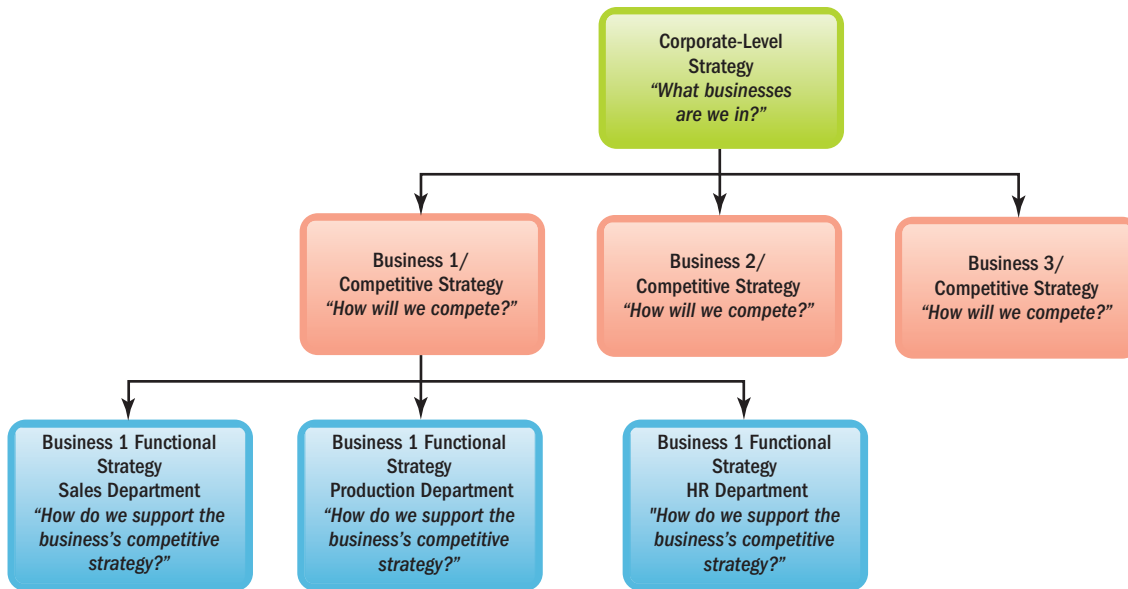


FIGURE 5
Type of Strategy at Each Company Level

Business Plan Pro from Palo Alto Software contains all the information and planning aids required to create a business plan. For example, it contains 30 sample plans, step-by-step instructions (with examples) for creating each part of a plan (executive summary, market analysis, and so on), and financial planning spreadsheets.

LEARNING OBJECTIVE 3

List with examples the main generic types of corporate strategies and competitive strategies.

Types of Strategies

In practice, managers engage in *corporatwide* strategic planning, business unit (or *competitive*) strategic planning, and *functional* (or departmental) strategic planning (see Figure 5).

CORPORATE STRATEGY The corporate strategy answers the question, How many and what kind of businesses should we be in? A company’s **corporate-level strategy** identifies the portfolio of businesses that, in total, comprise the company and how these businesses relate to each other.

- For example, with a *concentration* (single-business) corporate strategy, the company offers one product or product line, usually in one market. WD-40 Company (which makes a spray hardware lubricant) is one example.
- A *diversification* corporate strategy means the firm will expand by adding new product lines. PepsiCo is diversified. For example, over the years, PepsiCo added Frito-Lay chips and Quaker Oats.
- A *vertical integration* strategy means the firm expands by, perhaps, producing its own raw materials, or selling its products direct. Thus, Apple opened its own Apple stores.
- With a *consolidation* strategy, the company reduces its size.
- With *geographic expansion*, the company grows by entering new territorial markets, for instance, by taking the business abroad.

COMPETITIVE STRATEGY Next, on what basis will each of our businesses compete? Within a company like PepsiCo, each of its businesses (such as Pepsi and Frito Lay) should have a *business-level/competitive strategy*. A **competitive strategy** identifies how to build and strengthen the business’s long-term competitive position in the marketplace.¹⁰ It answers the question, for instance, how should Pizza Hut compete with Papa John’s, or how should Walmart compete with Target?

Managers build their competitive strategies around their businesses’ competitive advantages. **Competitive advantage** means any factors that allow a company to differentiate its product or service from those of its competitors to increase market share. The competitive advantage needn’t be tangible, such as high-tech machines. For example, at a GE airfoils plant in Greenville, South Carolina, teams of highly trained empowered workers run computer-controlled machines, interview prospective team members, and adjust assembly lines themselves.¹¹ For

corporate-level strategy

Type of strategy that identifies the portfolio of businesses that, in total, comprise the company and the ways in which these businesses relate to each other.

competitive strategy

A strategy that identifies how to build and strengthen the business’s long-term competitive position in the marketplace.

competitive advantage

Any factors that allow an organization to differentiate its product or service from those of its competitors to increase market share.

At a GE airfoils plant in Greenville, South Carolina, teams of highly trained empowered workers run computer-controlled machines, interview prospective team members, and adjust assembly lines themselves. Their training makes them a source of competitive advantage for GE.

Source: Monty Rakusen/Glow Images



GE, the workers' knowledge, skills, and dedication (their "human capital") produce the quality that makes GE an aerospace leader.

Managers use several standard competitive strategies to achieve competitive advantage:

- *Cost leadership* means becoming the low-cost leader in an industry. Walmart is a classic example.
- *Differentiation* is a second possible competitive strategy. In a differentiation strategy, the firm seeks to be unique in its industry along dimensions that are widely valued by buyers.¹² Thus, Volvo stresses the safety of its cars, Papa John's stresses fresh ingredients, and GE stresses the reliability of its Greenville plant's aircraft parts.
- *Focusers* carve out a market niche (like Ferrari). They offer a product or service that their customers cannot get from generalist competitors (such as Toyota).

functional strategy

A department's functional strategy identifies what the department must do in terms of specific departmental policies and practices to help the business accomplish its competitive goals.

FUNCTIONAL STRATEGY Finally, **functional strategies** identify what each department must do in order to help the business accomplish its competitive goals. As an example, a hotel might want to differentiate itself with exceptional service. Therefore, its human resources department must put in place policies and practices that will enable the hotel to select and train employees who are exceptionally customer oriented.

Managers' Roles in Strategic Planning

Devising a strategic plan is top management's responsibility. However, few top executives would formulate strategic plans without the input of lower-level managers. Few people know as much about the firm's competitive pressures, vendor capabilities, product and industry trends, and employee capabilities and concerns than do the company's department managers.

For example, the human resource manager is in a good position to supply "competitive intelligence"—information on what competitors are doing. Details regarding competitors' incentive plans, employee opinion surveys that elicit information about customer complaints and information about pending legislation such as labor laws are examples. Human resource managers should also be the masters of information about their own firms' employees' strengths and weaknesses.

In practice, devising the firm's overall strategic plan involves frequent meetings and discussions among and between top and lower-level managers. The top managers then use the information from these interactions to hammer out their strategic plan.


**KNOWLEDGE
BASE**

EXAMPLE: IMPROVING MERGERS AND ACQUISITIONS Mergers and acquisitions are among the most important strategic decisions companies make. When mergers and acquisitions fail, it's often not due to financial or technical issues but to personnel-related ones. These may include employee resistance, mass exits by high-quality employees, and declining morale and productivity.¹³

Human resource professionals can therefore play crucial roles in planning and implementing mergers and acquisitions. Critical human resource merger or acquisition tasks include choosing the top management, communicating changes effectively to employees, merging the firms' cultures, and retaining key talent.¹⁴ Human resource consulting companies, such as Towers Perrin, assist firms with merger-related human resource management services. For example, they identify potential pension shortfalls, identify key talent and then develop suitable retention strategies, help clients plan how to combine payroll systems, and help determine which employee is best for which role in the new organization.¹⁵

LEARNING OBJECTIVE 4

Define strategic human resource management and give an example of strategic human resource management in practice.


**KNOWLEDGE
BASE**
**strategic human resource
management**

Formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

STRATEGIC HUMAN RESOURCE MANAGEMENT

Managers formulate corporate strategies, and then competitive strategies for each of their businesses. Then, we've seen that once a business decides how it will compete, it turns to formulating functional (departmental) strategies to support its competitive aims. One of those departments is human resource management and its functional strategies are *human resource management strategies*.

What Is Strategic Human Resource Management?

Every company needs its human resource management policies and activities to make sense in terms of its broad strategic aims. For example, a high-end retailer such as Neiman-Marcus will have different employee selection, training, and pay policies than will Walmart. **Strategic human resource management** means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims. The following Strategic Context feature illustrates this.

THE STRATEGIC CONTEXT

The Shanghai Portman Hotel

Several years ago, the Ritz-Carlton Company took over managing the Portman Hotel in Shanghai China. The new management reviewed the Portman's strengths and weaknesses, and its fast-improving local competitors. They decided that to be more competitive, they had to improve the hotel's level of service. Achieving that in turn meant formulating human resource management plans, for hiring, training, and rewarding hotel employees. It meant putting in place a new human resource strategy for the Portman Hotel, one aimed at improving customer service.

At the Shanghai Portman, the strategic human resource management process involved taking these steps:

- *Strategically*, they set the goal of making the Shanghai Portman outstanding by offering superior customer service.
- To achieve this, Shanghai Portman employees would have to exhibit new *skills and behaviors*, for instance, in terms of how they treated and responded to guests.
- To produce these employee skills and behaviors, management formulated new human resource management plans, policies, and procedures. For example, they introduced the Ritz-Carlton Company's *human resource system* to the Portman. "Our selection [now] focuses on talent and personal values because these are things that can't be taught ... it's about caring for and respecting others."¹⁸

Management's efforts paid off. Their new human resource plans and practices produced the employee behaviors required to improve the Portman's level of service, thus attracting new guests. Travel publications were soon calling it the "best employer in Asia," "overall best business hotel in Asia," and "best business hotel in China." Profits soared, in no small part due to effective strategic human resource management.

FIGURE 6
The HR Strategy Model



At the Shanghai Portman Hotel, management’s new human resource plans and practices produced the employee behaviors required to improve the Portman’s level of service, thus attracting new guests and improving the hotel’s profitability.

Source: FEATURECHINA/XIANG SHEREN/FEATURECHINA/Newscom

The basic idea behind strategic human resource management is this: In formulating human resource management policies and activities, the aim must be to produce the employee skills and behaviors that the company needs to achieve its strategic goals.

Figure 6 graphically outlines this idea. First, management formulates *strategic plans* and goals. In turn, executing these plans and achieving these goals depends on having the right mix of *employee competencies and behaviors*. And finally, to produce these required employee competencies and behaviors, the human resource manager must put in place the right mix of recruitment, selection, training, and other *HR policies and practices*.

Human Resource Strategies and Policies

Managers call the specific human resource management policies and practices *human resource strategies*.¹⁶ For example, several years ago, Newell Rubbermaid changed its emphasis from manufacturing and selling housewares such as Rubbermaid and Levelor Blinds to mostly marketing them. Implementing this plan called for new personnel competencies and behaviors. Its human resource management team began by benchmarking the firm’s big marketing competitors to see what their best human resource practices were. They then met with the heads of each of Newell Rubbermaid’s divisions, for example, to develop new training programs and a plan for adjusting each division’s staffing needs.¹⁷ The Strategic Context feature discussing the Shanghai Portman Hotel presented another example.

LEARNING OBJECTIVE 5

Briefly describe three important strategic human resource management tools.

strategy map

A strategic planning tool that shows the “big picture” of how each department’s performance contributes to achieving the company’s overall strategic goals.

HR scorecard

A process for assigning financial and nonfinancial goals or metrics to the human resource management–related chain of activities required for achieving the company’s strategic aims and for monitoring results.

Strategic Human Resource Management Tools

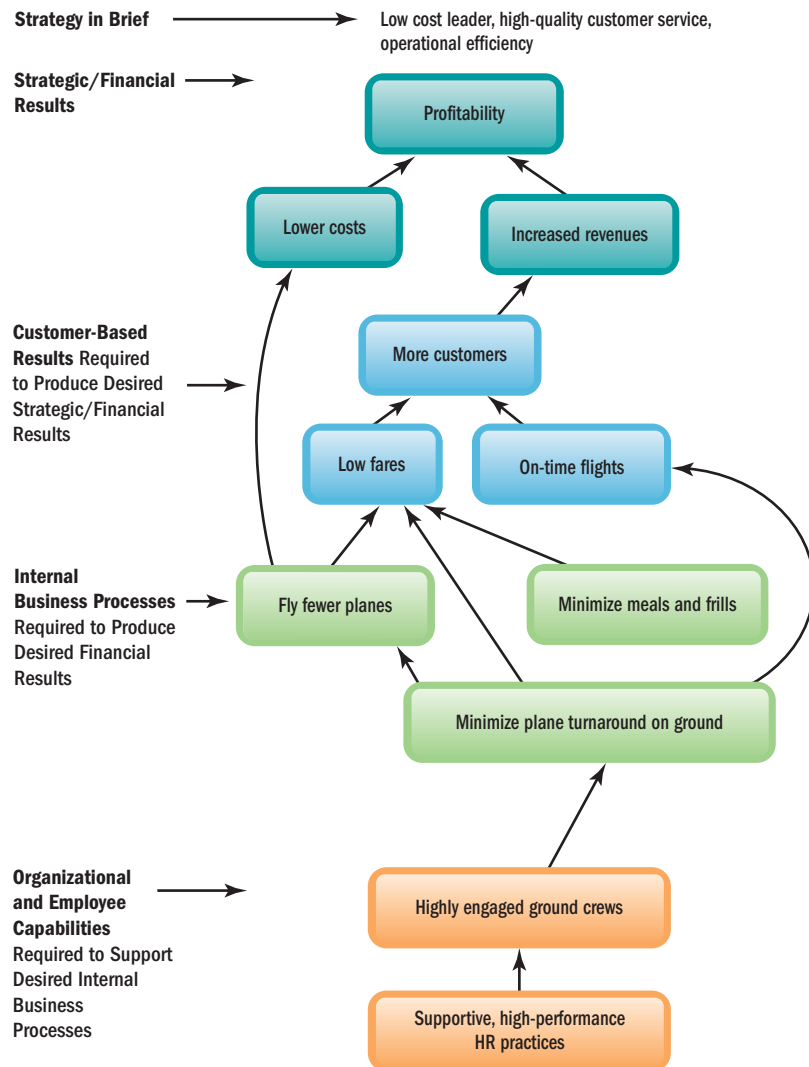
Exactly what human resource strategies do we need? Managers use several tools to translate the company’s broad strategic goals into human resource management policies and practices. Three important tools include the strategy map, the HR scorecard, and the digital dashboard.

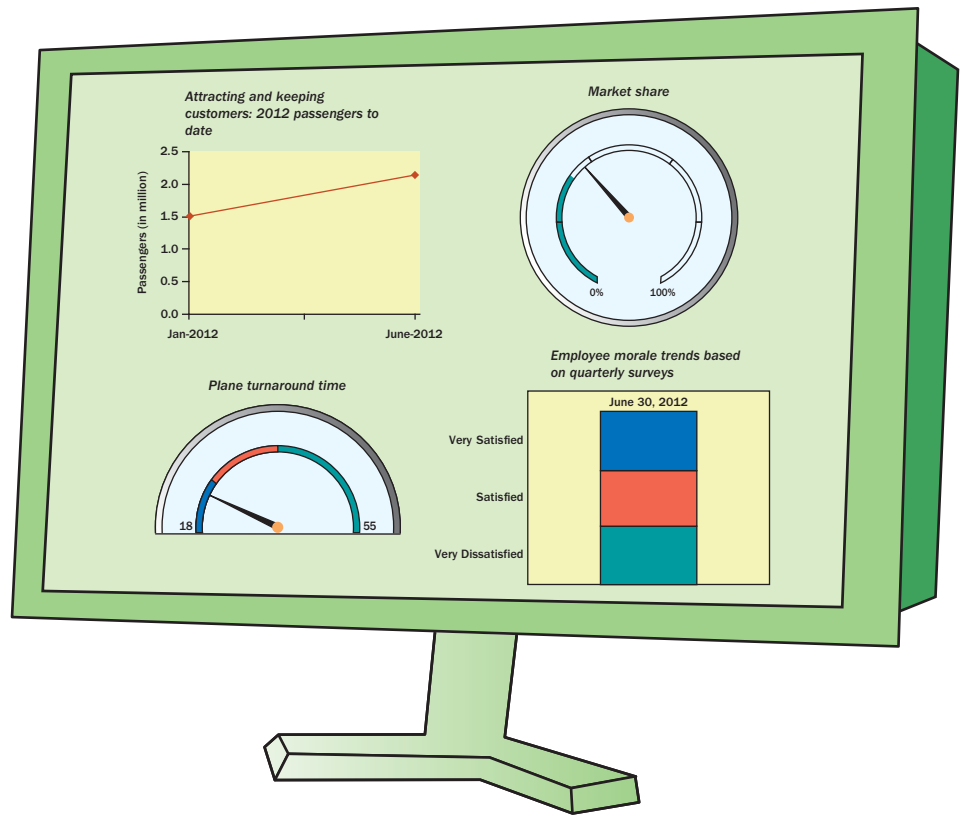
STRATEGY MAP The **strategy map** summarizes how each department’s performance contributes to achieving the company’s overall strategic goals. It helps the manager and each employee visualize and understand the role his or her department plays in achieving the company’s strategic plan. Management gurus sometimes say that the map clarifies employees’ “line of sight,” by linking their efforts with the company’s ultimate goals.¹⁹

Figure 7 presents a strategy map example for Southwest Airlines. The top-level activity is achieving its strategic financial goals. Then the strategy map shows the chain of activities that help Southwest Airlines achieve these goals. Southwest has a low-cost leader strategy. So, for example, to boost revenues and profitability Southwest must fly fewer planes (to keep costs down), maintain low prices, and maintain on-time flights. In turn (further down the strategy map), on-time flights and low prices require fast turnaround. This, in turn, requires motivated ground and flight crews. The strategy map thereby helps each department understand what it needs to do to support Southwest’s low-cost strategy.²⁰ For example, what steps must Southwest’s human resource team take to boost the motivation and dedication of its ground crews?

THE HR SCORECARD Many employers quantify and computerize the strategy map’s activities. The HR scorecard helps them to do so. The **HR scorecard** is not a scorecard. It refers to a process

FIGURE 7
Strategy Map for Southwest Airlines





for assigning financial and nonfinancial goals or metrics to the human resource management–related strategy map chain of activities required for achieving the company’s strategic aims.²¹ (Metrics for Southwest might include airplane turnaround time, percent of on-time flights, and ground crew productivity.) The idea is to take the strategy map and to quantify it.

Managers use special scorecard software to facilitate this. The computerized scorecard process helps the manager quantify the relationships between (1) the HR activities (amount of testing, training, and so forth), (2) the resulting employee behaviors (customer service, for instance), and (3) the resulting firmwide strategic outcomes and performance (such as customer satisfaction and profitability).²²

DIGITAL DASHBOARDS The saying “a picture is worth a thousand words” explains the purpose of the digital dashboard. A **digital dashboard** presents the manager with desktop graphs and charts, showing a computerized picture of how the company is doing on all the metrics from the HR Scorecard process. As in the illustration above, a top Southwest Airlines manager’s dashboard might display real-time trends for various strategy map activities, such as fast turnarounds and on-time flights. This enables the manager to take corrective action. For example, if ground crews are turning planes around slower today, financial results tomorrow may decline unless the manager takes action.

Figure 8 summarizes the three strategic planning tools.

digital dashboard

Presents the manager with desktop graphs and charts, and so a computerized picture of where the company stands on all those metrics from the HR Scorecard process.

Strategy Map
Graphical tool that summarizes the chain of activities that contribute to a company’s success, and so shows employees the “big picture” of how their performance contributes to achieving the company’s overall strategic goals.

HR Scorecard
A process for assigning financial and nonfinancial goals or metrics to the human resource management–related chain of activities required for achieving the company’s strategic aims and for monitoring results.

Digital Dashboard
Presents the manager with desktop graphs and charts, so he or she gets a picture of where the company has been and where it’s going, in terms of each activity in the strategy map.

FIGURE 8
Three Important Strategic HR Tools

LEARNING OBJECTIVE 6

Explain with examples why metrics are important for managing human resources.



HR METRICS AND BENCHMARKING

We've seen that strategic human resource management means formulating HR policies and practices that produce the employee competencies and behaviors that the company needs to achieve its strategic goals. Being able to measure what you are doing is an essential part of this process. For example, it would have been futile for the Portman Shanghai's management to set "better customer service" as a goal, if they couldn't measure customer service.²³ At the Portman Shanghai, the measures might include, for instance, "hours of training per employee," "productivity per employee," and (via customer surveys) "customer satisfaction."

Types of Metrics

Human resource managers use many such measures. For example, there is (on average) one human resource employee per 100 company employees for firms with 100–249 employees. The HR employee-to-employee ratio drops to about 0.79 for firms with 1,000–2,499 employees and to 0.72 for firms with more than 7,500 employees.²⁴ Figure 9 illustrates other human resource management metrics, such as employee tenure, cost per hire, and annual overall turnover rate.²⁵

Benchmarking and Needs Analysis

Measuring how one is doing (for instance in terms of employee turnover or productivity) is rarely enough for deciding what to change. Instead, one must know "How are we doing?" *in*



FIGURE 9

Metrics for the SHRM® 2011–2012 Customized Human Capital Benchmarking Report

Source: Reprinted with permission from the Society for Human Resource Management. All rights reserved.

FIGURE 10
SHRM Customized Human Capital Benchmarking Report

Source: “HR Expense Data,” from *SHRM Customized Human Capital Benchmarking Report*. Reprinted with permission from the Society for Human Resource Management. All rights reserved. http://www.shrm.org/Research/benchmarks/Documents/sample_human_capital_report.pdf.

Tuition/Education Data					
	n	25th Percentile	Median	75th Percentile	Average
Maximum reimbursement allowed for tuition/education expenses per year	32	\$1,000	\$5,000	\$7,500	\$6,000
Percentage of employees participating in tuition/education reimbursement programs	32	1.0%	3.0%	5.0%	4.0%

relation to something. For example, are our accident rates rising or falling? You may also want to *benchmark* your results—compare high-performing companies to your own, to understand what makes them better.²⁶

The Society for Human Resource Management’s (SHRM’s) benchmarking service enables employers to compare their own HR metrics with those of other companies. The employer can request comparable (benchmark) figures not just by industry, but by employer size, company revenue, and geographic region. (See <http://shrm.org/research/benchmarks/>.)

Figure 10 illustrates one of SHRM’s many sets of comparable benchmark measures. It shows how much employers are spending for tuition reimbursement programs.

Strategy and Strategy-Based Metrics

Benchmarking provides only one perspective on how your company’s human resource management system is performing.²⁷ It shows how your human resource management system’s performance compares to the competition. However it may *not* show the extent to which your firm’s HR practices are supporting its strategic goals. For example, if the strategy calls for doubling profits by improving customer service, to what extent are our new training practices helping to improve customer service?

Managers use *strategy-based metrics* to answer such questions. **Strategy-based metrics** focus on measuring the activities that contribute to achieving a company’s strategic aims.²⁸ Thus, for the Portman Shanghai, the strategic HR metrics might include 100% employee testing, 80% guest returns, incentive pay as a percent of total salaries, and sales up 50%. If changes in HR practices such as increased training and better incentives have their intended effects, then strategic metrics like guest returns and guest compliments should also rise.

Workforce/Talent Analytics and Data Mining

Workforce analytics (or “talent analytics”) means using special software applications to analyze human resources data and to draw conclusions from it.²⁹ For example, a talent analytics team at Google analyzed data on employee backgrounds, capabilities, and performance. The team was able to identify the factors (such as an employee feeling underutilized) likely to lead to the employee leaving. In a similar project, Google analyzed data on things like employee survey feedback and performance management scores to identify the attributes of successful Google managers. Microsoft identified correlations among the schools and companies that the employees arrived from and the employee’s subsequent performance. This enabled Microsoft to improve its recruitment and selection practices.³⁰ Software company SAS’s employee retention program sifts through employee data on traits like skills, tenure, performance, education, and friendships. Their program can predict which high-value employees are more likely to quit in the near future.³¹ Alliant Techsystems created a “flight risk model” to calculate the probability an employee would leave. This enabled it to predict high turnover and to take corrective action.³² IBM uses workforce analytics to identify employees who are “idea leaders” to whom other employees frequently turn for advice (for instance based on e-mail “mentions” by colleagues).

DATA MINING Such efforts employ data mining techniques. Data mining sifts through huge amounts of employee data to identify correlations that employers then use to improve their employee selection and other practices. *Data mining* is “the set of activities used to find new,

strategy-based metrics
 Metrics that specifically focus on measuring the activities that contribute to achieving a company’s strategic aims.

The HR as a Profit Center feature on this page explains that Best Buy used talent analytics to determine that a 0.1% increase in employee engagement led to a more than \$100,000 rise in a Best Buy store annual operating income.

Source: Philip Scalia/Alamy



hidden, or unexpected patterns in data.”³³ Data mining systems use tools like statistical analysis to sift through data looking for relationships. Department stores often use data mining. For example, Macy’s data mining reveals which customers come in to redeem “20% off” coupons, and what they buy.

Managers use data mining–based talent analytics to discover patterns and to make predictions. The accompanying HR as a Profit Center presents examples.

HR AS A PROFIT CENTER

Using Workforce/Talent Analytics

Talent analytics can produce striking profitability results. For example, Best Buy used talent analytics to determine that a 0.1% increase in employee engagement led to a more than \$100,000 rise in a Best Buy store annual operating income.³⁴ Employers are using talent analytics to answer six types of talent management questions:³⁵

Human capital facts. For example, “What are the key indicators of my organization’s overall health?” JetBlue found that a key measure of employee engagement correlated with financial performance.

Analytical HR. For example, “Which units, departments, or individuals need attention?” Lockheed Martin collects performance data in order to identify units needing improvement.

Human capital investment analysis. For example, “Which actions have the greatest impact on my business?” By monitoring employee satisfaction levels, Cisco was able to improve its employee retention rate from 65% to 85%, saving the company nearly \$50 million in recruitment, selection, and training costs.

Workforce forecasts. Dow Chemical uses a computerized model. This predicts future required headcount for each business unit based on predictions for things like sales trends.

Talent value model. For example, “Why do employees choose to stay with—or leave—my company?” For example, Google was able to anticipate when an employee felt underutilized and was preparing to quit, thus reducing turnover costs.

Talent supply chain. For example, “How should my workforce needs adapt to changes in the business environment?” Thus, retail companies can use special analytical models to predict daily store volume and release hourly employees early.



HR audit

An analysis by which an organization measures where it currently stands and determines what it has to accomplish to improve its HR function.

What Are HR Audits?

Human resource managers often collect data on matters such as employee turnover and safety via *human resource audits*. One practitioner calls an **HR audit** “an analysis by which an organization measures where it currently stands and determines what it has to accomplish to improve its HR function.”³⁶ The HR audit generally involves reviewing the company’s human resource function (recruiting, testing, training, and so on), usually using a checklist, as well as ensuring that the firm is adhering to regulations, laws, and company policies.

In conducting the HR audit, managers often benchmark their results to comparable companies’. Sample measures (metrics) might include the ratio of HR professionals per company employee. HR audits vary in scope and focus. Typical areas audited include the following:³⁷

1. Roles and head count (including job descriptions, and employees categorized by exempt/nonexempt and full- or part-time).
2. Compliance with federal, state, local employment–related legislation.
3. Recruitment and selection (including use of selection tools, background checks, and so on).
4. Compensation (policies, incentives, survey procedures, and so on).
5. Employee relations (union agreements, performance management, disciplinary procedures, employee recognition).
6. Mandated benefits (Social Security, unemployment insurance, workers’ compensation, and so on).
7. Group benefits (insurance, time off, flexible benefits, and so on).
8. Payroll (such as legal compliance).
9. Documentation and record keeping. For example, do our files contain information including résumés and applications, offer letters, job descriptions, performance evaluations, benefit enrollment forms, payroll change notices and documentation related to personnel actions such as employee handbook acknowledgments?³⁸
10. Training and development (new employee orientation, workforce development, technical and safety, career planning, and so on).
11. Employee communications (employee handbook, newsletter, recognition programs).
12. Termination and transition policies and practices.

Evidence-Based HR and the Scientific Way of Doing Things

In this chapter, we’ve seen that decision making based on an objective review of the situation is important. Managers have a name for this: *Evidence-based human resource management* means using data, facts, analytics, scientific rigor, critical evaluation, and critically evaluated research/case studies to support human resource management proposals, decisions, practices, and conclusions.³⁹

You may sense that being evidence-based is similar to being scientific, and if so, you are correct. A recent *Harvard Business Review* article even argues that managers must become more scientific and to “think like scientists” when making business decisions.⁴⁰

HOW TO BE SCIENTIFIC But how can managers do this? Here, keep several things in mind. First, in gathering evidence, scientists (or managers) need to be *objective*, or there’s no way to trust their conclusions. For example, a medical school disciplined several of its professors. These doctors had failed to reveal that they were on the payroll of the drug company who supplied the drugs, the results of which the doctors were studying. Who could trust their objectivity—or their conclusions?

Being scientific also requires *experimentation*. An experiment is a test the manager sets up in such a way as to ensure that he or she understands the reasons for the results obtained. For example, in their *Harvard Business Review* article, “A Step-by-Step Guide to Smart Business Experiments,” the authors argue that if you want to judge a new incentive plan’s impact on corporate profits don’t start by implementing the plan with all employees. Instead, implement it with an “experimental” group (which gets the incentive plan), *and* with a “control” group (a group that does *not* get the incentive plan). Doing so will help you gauge if any performance improvement stemmed from the incentive or from some other cause (such as a new companywide training program).⁴¹ And, it will enable you to *predict* how changing the incentive plan will affect performance. Objectivity, experimentation, and prediction are at the heart of what it means to be scientific.

For managers in companies such as Sears and Home Depot, the point of being “scientific” is to make better decisions by forcing the managers to gather the facts. For example, “Is our employee sales incentive plan really boosting appliance sales?”

Source: Blend Images/Alamy



For managers, the point of being “scientific” is to make better decisions by forcing you to gather the facts. The problem is that what’s “intuitively obvious” can be misleading. “Is this sales incentive plan really boosting sales?” “We’ve spent \$40,000 in the past 5 years on our tuition-refund plan; what (if anything) did we get out of it?” What’s the evidence?

WHAT ARE HIGH-PERFORMANCE WORK SYSTEMS?

One reason to measure, benchmark, and scientifically analyze human resource management practices is to promote high-performance work practices. A **high-performance work system (HPWS)** is a set of human resource management policies and practices that together produce superior employee performance.

What are these practices? One study looked at 17 manufacturing plants, some of which adopted high-performance work system practices. The high-performance plants paid more (median wages of \$16 per hour compared with \$13 per hour for all plants), trained more, used more sophisticated recruitment and hiring practices (tests and validated interviews, for instance), and used more self-managing work teams.⁴² Those with the high-performance HR practices performed significantly better than did those without such practices. Because they emphasize customer service, service companies (such as hotels) particularly gain from having high-performance work systems and practices, by the way.⁴³

High-Performance Human Resource Policies and Practices

What exactly are these high-performance work practices? Studies show that high-performance work systems’ policies and practices do differ from less productive ones. Table 1 illustrates this. For example, in terms of HR practices, high-performing companies recruit more job candidates, use more selection tests, and spend many more hours training employees.

Table 1 illustrates four things.

First, it presents examples of **human resource metrics**, such as hours of training per employee, or qualified applicants per position. (In Table 1, the metric for “Number of qualified applicants per position” is 37 in the high-performing companies.) Managers use such metrics to assess their companies’ HR performance and to compare one company’s performance with another’s.⁴⁴

high-performance work system

A set of human resource management policies and practices that promote organizational effectiveness.

human resource metric

The quantitative gauge of a human resource management activity such as employee turnover, hours of training per employee, or qualified applicants per position.

TABLE 1 Examples Selected from Several Studies of how Recruitment, Selection, Training, Appraisal, Pay and Other Practices Differ in High-Performance and Low-Performance Companies

	Lower-Performance Companies' HR Practice Averages (Company Performance for Instance in Terms of Sales/Employee, Innovation, and Employee Retention)*	Higher-Performance Companies' HR Practice Averages (Company Performance for Instance in Terms of Sales/Employee, Innovation, and Employee Retention)*
Recruitment: Average number of qualified applicants per position	8	37
Selection: Average percentage of employees hired based on a validated <i>selection</i> test	4%	30%
Training: Average number of hours of <i>training</i> for new employees	35 Hours	117 Hours
Appraisal: Average percentage of employees receiving a regular <i>performance appraisal</i>	41%	95%
Pay Practices: Average percentage of the workforce eligible for <i>incentive pay</i>	28%	84%
Use of Teams: Average percentage of the workforce routinely working in all teams, semi-autonomous, cross functional, or project teams.	11%	42%
Self-Directed Teams: Percent of Companies With <i>Semi-Autonomous or Autonomous</i> Work Teams	9%	70%
Operational Information Sharing Employees Receive Relevant Operating Performance Information	62%	82%
Financial Information Sharing: Employees Receive Relevant Financial Performance Information	43%	66%

*Findings rounded.

Source: Based on "Comparison of HR Practices in High-Performance and Low-Performance Companies," by B.E. Becker, et al., from *The HR Scorecard: Linking People, Strategy and Performance* (Boston: Harvard Business School Press, 2001); Barry Macy, Gerard Farias, Jean-Francois Rosa, and Curt Moore, "Built To Change: High-Performance Work Systems and Self-Directed Work Teams—A longitudinal Field Study," *Research in Organizational Change and Development*, V 16, pp339-418, 2007; James Gathrie, Wenchuan Liu, Patrick Flood, and Sarah MacCurtain, "High Performance Work Systems, Workforce Productivity, and Innovation: A Comparison of MNCs and Indigenous Firms," *The Learning, Innovation and Knowledge (LINK) Research Centre Working Paper Series*, WP 04-08, 2008.

Second, it illustrates *what employers must do* to have high-performance systems. For example, hire based on validated selection tests, and extensively train employees.

Third, the table shows that high-performance work practices usually *aspire to help workers to manage themselves*. In other words, the point of such recruiting, screening, training, and other human resources practices here is to foster an empowered and self-motivated workforce.⁴⁵

Fourth, Table 1 highlights *the measurable differences* between the human resource management systems in high-performance and low-performance companies. For example, high-performing companies have more than four times the number of qualified applicants per job than do low performers.

Review

MyManagementLab

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

SUMMARY

1. Strategic planning is important to all managers. All managers' personnel and other decisions should be consistent with the goals that cascade down from the firm's overall strategic plan. Those goals form a hierarchy, starting with the president's overall strategic goals (such as double sales revenue to \$16 million) and filtering down to what each individual manager needs to do in order to support that overall company goal.
2. Because each manager needs to make his or her decisions within the context of the company's plans, it's important for all managers to understand management planning. The management planning process includes setting an objective, making forecasts, determining what your alternatives are, evaluating your alternatives, and implementing and evaluating your plan.
3. Again, because all managers operate within the framework of their company's overall plans, it's important for all managers to be familiar with the strategic management process.
 - A strategic plan is the company's plan for how it will match its internal strengths and weaknesses with external opportunities and threats in order to maintain a competitive advantage. A strategy is a course of action.
 - Strategic management is the process of identifying and executing the organization's strategic plan. Basic steps in the strategic management process include defining the current business, performing an external and internal audit, formulating a new direction, translating the mission into strategic goals, formulating strategies to achieve the strategic goals, implementing strategies, and evaluating performance.
 - We distinguished among corporate-level, competitive-level, and functional strategies. Corporate strategies include, among others, diversification strategies, vertical integration, horizontal integration, geographic expansion, and consolidation. The main competitive strategies include cost leadership, differentiation, and focuser. Functional strategies reflect the specific departmental policies that are necessary for executing the business's competitive strategies.
4. Each function or department in the business needs its own functional strategy, and strategic human resource management means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims. Human resource strategies are the specific human resource management policies and practices managers use to support their strategic aims. Important and popular strategic human resource management tools include the strategy map, the HR scorecard, and digital dashboards.
5. The manager will want to gather and analyze data prior to making decisions. A high-performance work system is a set of human resource management policies and practices that promote organizational effectiveness. Human resource metrics (quantitative measures of some human resource management activities such as employee turnover) are critical in creating high-performance human resource policies and practices. This is because they enable managers to benchmark their own practices against those of successful organizations. A high-performance work system is a set of human resource management policies and practices that together produce superior employee performance.

KEY TERMS

strategic plan
strategy
strategic management
vision statement

mission statement
corporate-level strategy
competitive strategy
competitive advantage

functional strategies
 strategic human resource management
 strategy map
 HR scorecard
 digital dashboard

strategy-based metrics
 HR audit
 high-performance work system
 human resource metric

DISCUSSION QUESTIONS

- ★ 1. Give an example of hierarchical planning in an organization.
2. Define and give at least two examples of the cost leadership competitive strategy and the differentiation competitive strategy.
- ★ 3. What is a high-performance work system? Provide several specific examples of the typical practices in a high-performance work system.
4. Explain why strategic planning is important to all managers.
5. Explain with examples each of the seven steps in the strategic planning process.
6. List with examples the main generic types of corporate strategies and competitive strategies.
7. Define strategic human resource management and give an example of strategic human resource management in practice.

INDIVIDUAL AND GROUP ACTIVITIES

1. With three or four other students, form a strategic management group for your college or university. Your assignment is to develop the outline of a strategic plan for the college or university. This should include such things as mission and vision statements; strategic goals; and corporate, competitive, and functional strategies. In preparing your plan, make sure to show the main strengths, weaknesses, opportunities, and threats the college faces, and which prompted you to develop your particular strategic plans.
2. Using the Internet or library resources, analyze the annual reports of five companies. Bring to class examples of how those companies say they are using their HR processes to help them achieve their strategic goals.
3. Interview an HR manager and write a short report entitled “The Strategic Roles of the HR Manager at XYZ Company.”
4. Using the Internet or library resources, bring to class and discuss at least two examples of how companies are using an HR scorecard to help create HR systems that support the company’s strategic aims. Do all managers seem to mean the same thing when they refer to HR scorecards? How do they differ?
5. Possibly in teams of several students, choose a company for which you will develop an outline of a strategic HR plan. What seem to be this company’s main strategic aims? What is the firm’s competitive strategy? What would the strategic map for this company look like? How would you summarize your recommended strategic HR policies for this company?
6. The PHR and SPHR Knowledge Base appendix lists the knowledge someone studying for the HRCI certification exam needs to have in each area of human resource management (such as in strategic management, workforce planning, and human resource development). In groups of four to five students, do four things: (1) review that appendix now; (2) identify the material in this chapter that relates to the required knowledge the appendix lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team’s questions in front of the class, so the students in other teams can take each others’ exam questions.



APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Siemens Builds a Strategy-Oriented HR System

Siemens is a 150-year-old German company, but it’s not the company it was even a few years ago. Until recently, Siemens focused on producing electrical products. Today the firm has diversified into software, engineering, and services. It is also global, with more than 400,000 employees working in 190 countries. In other

words, Siemens became a world leader by pursuing a corporate strategy that emphasized diversifying into high-tech products and services, and doing so on a global basis.

With a corporate strategy like that, human resource management plays a big role at Siemens. Sophisticated engineering and

services require more focus on employee selection, training, and compensation than in the average firm, and globalization requires delivering these HR services globally. Siemens sums up the basic themes of its HR strategy in several points. These include:

1. **A living company is a learning company.** The high-tech nature of Siemens' business means that employees must be able to learn on a continuing basis. Siemens uses its system of combined classroom and hands-on apprenticeship training around the world to help facilitate this. It also offers employees extensive continuing education and management development.
2. **Global teamwork is the key to developing and using all the potential of the firm's human resources.** Because it is so important for employees throughout Siemens to feel free to work together and interact, employees have to understand the whole process, not just bits and pieces. To support this, Siemens provides extensive training and development. It also ensures that all employees feel they're part of a strong, unifying corporate identity. For example, HR uses

cross-border, cross-cultural experiences as prerequisites for career advances.

3. **A climate of mutual respect is the basis of all relationships—within the company and with society.** Siemens contends that the wealth of nationalities, cultures, languages, and outlooks represented by its employees is one of its most valuable assets. It therefore engages in numerous HR activities aimed at building openness, transparency, and fairness, and supporting diversity.

Questions

1. Based on the information in this case, provide examples for Siemens of at least four strategically required organizational outcomes (for example customer service), and four required workforce competencies and behaviors.
2. Identify at least four strategically relevant HR policies and activities that Siemens has instituted in order to help human resource management contribute to achieving Siemens' strategic goals.
3. Provide a brief illustrative outline of a strategy map for Siemens.

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company

The High-Performance Work System

As a recent graduate and as a person who keeps up with the business press, Jennifer is familiar with the benefits of programs such as total quality management and high-performance work systems.

Jack has actually installed a total quality program of sorts at Carter, and it has been in place for about 5 years. This program takes the form of employee meetings. Jack holds employee meetings periodically, but particularly when there is a serious problem in a store—such as poor-quality work or machine breakdowns. When problems like these arise, he meets with all the employees in that store. Hourly employees get extra pay for these meetings. The meetings have been useful in helping Jack to identify and rectify several problems. For example, in one store all the fine white blouses were coming out looking dingy. It turned out that the cleaner/spotter had been ignoring the company rule that required cleaning (“boiling down”) the perchloroethylene cleaning fluid before washing items

like these. As a result, these fine white blouses were being washed in cleaning fluid that had residue from other, earlier washes.

Jennifer now wonders whether these employee meetings should be expanded to give the employees a bigger role in managing the Carter stores' quality. “We can't be everywhere watching everything all the time,” she said. “Yes, but these people earn only about \$8 to \$15 per hour. Will they really want to act like mini-managers?” Jack replied.

Questions

1. Would you recommend that the Carters expand their quality program? If so, specifically what form should it take?
2. Assume the Carters want to institute a high-performance work system as a test program in one of their stores. Write a one-page outline summarizing important HR practices you think they should focus on.

EXPERIENTIAL EXERCISE

Developing an HR Strategy for Starbucks

Several years ago, Starbucks was facing serious challenges. Sales per store were stagnant or declining, and its growth rate and profitability were down. Many believed that its introduction of breakfast foods had diverted its “baristas” from their traditional jobs as coffee-preparation experts. McDonald's and Dunkin' Donuts were introducing lower-priced but still high-grade coffees. Starbucks' former CEO stepped back into the

company's top job. You need to help him formulate a new direction for his company.

Purpose: The purpose of this exercise is to give you experience in developing an HR strategy, in this case, by developing one for Starbucks.

Required Understanding: You should be thoroughly familiar with the material in this chapter.

How to Set Up the Exercise/Instructions: Set up groups of three or four students for this exercise. You are probably already quite familiar with what it's like to have a cup of coffee or tea in a Starbucks coffee shop, but if not, spend some time in one prior to this exercise. Meet in groups and develop an outline for an HR strategy for Starbucks Corp. Your outline should include four basic

elements: a basic business/competitive strategy for Starbucks, workforce requirements (in terms of employee competencies and behaviors) this strategy requires, specific HR policies and the activities necessary to produce these workforce requirements, and suggestions for metrics to measure the success of the HR strategy.

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. What is the difference between a strategy, a vision, and a mission? Give one example of each.
2. Explain how human resource management can be instrumental in helping a company create a competitive advantage.
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

Appendix: Basic Budgeting Concepts

INTRODUCTION



Formulating a strategy and setting a hierarchy of goals provides only the skeleton of a plan for the company's managers. In practice, the manager will translate those goals and plans into financial terms. It is usually those financial manifestations of the plans—the bottom line—that provides the managers' actual day-to-day guidance. Furthermore, top management expects all managers to defend their plans in financial terms. Therefore no managers (including human resource managers) can do their jobs or, (to quote the HRCI Knowledge Base) “Participate as a contributing partner in the organization's strategic planning process” without understanding budgeting.

The HRCI Knowledge Base recognizes this. It lists “knowledge of budgeting and accounting concepts,” “develop and manage the HR budget in a manner consistent with the organization's strategic goals, objectives and values,” and “provide information for the development and monitoring of the organization's overall budget.” This appendix therefore presents a brief overview of the budgeting process.

THE BASIC BUDGETING PROCESS

Budgets are formal financial expressions of a manager's plans. They show targets for things such as sales, cost of materials, production levels, and profit, expressed in dollars. These planned

targets are the standards against which the manager compares and controls his or her unit's actual financial performance. The first step in budgeting is generally to develop a sales forecast and sales budget. The **sales budget** shows the planned sales activity for each period (usually in units per month) and the revenue expected from the sales.

The manager can then produce various operating budgets. **Operating budgets** show the expected sales and/or expenses for each of the company's departments for the planning period in question. For example, the machinery department's operating budget shows what the company plans to spend for materials, labor, electricity, and so forth in order to fulfill the requirements of the sales budget (see Figure A.1). Each manager, from first-line supervisor to HR manager to company president, usually has an operating budget to use as a performance standard.

The manager then combines all of these departmental operating budgets into a profit plan for the coming year. This profit plan is the budgeted **income statement** (or “pro forma income statement.”) It shows companywide expected sales, expected expenses, and expected income or profit for the year. In practice, cash from sales usually doesn't flow into the firm in such a way as to coincide precisely with cash disbursements. (Some customers may take 35 days to pay their bills, for instance, but employees expect paychecks every week.) The **cash budget** or plan shows, for each month, the amount of cash the company can expect to receive and the amount it can expect to disperse. The manager can use it to anticipate his or her cash needs and to arrange for short-term loans, if need be.

Operating Budget for Machinery Department, June 2012	
BUDGETED EXPENSES	BUDGET
Direct Labor	\$2,107
Supplies	\$3,826
Repairs	\$ 402
Overhead (electricity, etc.)	\$ 500
Total Expenses	\$6,835

FIGURE A.1
Example of a Budget

The company will also have a budgeted **balance sheet**. The budgeted balance sheet shows managers, owners, and creditors what the company’s projected financial picture should be at the end of the year. It shows assets (such as cash and equipment), *liabilities* (such as long-term debt), and *net worth* (the excess of assets over other liabilities).

The firm’s accountants compile the financial information and feed it back to the appropriate managers. As in Figure A.2, the resulting performance report shows budgeted or planned targets. Next to these numbers, it shows the department’s actual performance numbers. **Variiances** show the differences between budgeted and actual amounts. The report may provide a space for the manager to explain any variances. After reviewing the performance report, management can take corrective action.

The firm’s accountants also periodically audit the firm’s financial statements. An **audit** is a systematic process that involves three steps: (1) objectively obtain and evaluate evidence regarding the firm’s performance; (2) judge the accuracy and validity of the data; and (3) communicate the results to interested users, such as the board of directors and the company’s banks. The purpose of the audit is to certify that the firm’s financial statements accurately reflect its performance.

RATIO ANALYSIS AND RETURN ON INVESTMENT

Managers also use financial ratio analysis to diagnose performance and maintain control. **Financial ratios** compare one financial measure on a financial statement to another. The rate of return on investment (ROI) is one such ratio. ROI equals net

profit divided by total investment; it is a gauge of overall company performance. Rather than measuring net profit as an absolute figure, it shows profit in relation to the total investment in the business. This is often a more informative figure. For example, a \$1 million profit is more impressive with a \$10 million investment than with a \$100 million investment. Figure A.3 lists some financial ratios.

FINANCIAL RESPONSIBILITY CENTERS

In most firms, some or most managers are responsible for specific sets of financial targets. This makes it easier for top management to evaluate each manager’s performance. It also makes it easier for the manager to see how the firm will evaluate his or her performance. When the manager has an operating budget tied to specific financial performance targets, we say the manager is in charge of a financial responsibility center. **Financial responsibility centers** are units that are responsible for and measured by a specific set of financial activities.

There are several types. **Profit centers** are responsibility centers whose managers the company holds accountable for profit. (Profit is a measure of the difference between the revenues generated and the cost of generating those revenues.) **Revenue centers** are responsibility centers whose managers are accountable for generating revenues. Thus, firms generally measure sales managers in terms of the sales produced by their revenue centers/departments. Managers of **expense centers** are responsible for accomplishing their goals within a preset target of expenses. The human resource department is typically an expense center, although (as we’ve seen) it is transitioning to profit center status.

Performance Report for Machinery Department, June 2012				
	Budget	Actual	Variance	Explanation
Direct Labor	\$2,107	\$2,480	\$373 over	Had to put workers on overtime.
Supplies	\$3,826	\$4,200	\$374 over	Wasted two crates of material.
Repairs	\$ 402	\$ 150	\$252 under	
Overhead (electricity, etc.)	\$ 500	\$ 500	0	
Total	\$6,835	\$7,330	\$495 over	

FIGURE A.2
Example of a Performance Report

FIGURE A.3
Widely Used Financial Ratios

Name of Ratio	Formula	Industry Norm (As Illustration)
1. Liquidity Ratios (measuring the ability of the firm to meet its short-term obligations)		
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	2.6
Acid-test ratio	$\frac{\text{Cash and equivalent}}{\text{Current liability}}$	1.0
Cash velocity	$\frac{\text{Sales}}{\text{Cash and equivalent}}$	12 times
Inventory to net working capital	$\frac{\text{Inventory}}{\text{Current assets} - \text{Current liabilities}}$	85%
2. Leverage Ratios (measures the contributions of financing by owners compared with financing provided by creditors)		
Debt to equity	$\frac{\text{Total debt}}{\text{Net worth}}$	56%
Coverage of fixed charges	$\frac{\text{Net profit before fixed charges}}{\text{Fixed charges}}$	6 times
Current liability to net worth	$\frac{\text{Current liability}}{\text{Net worth}}$	32%
Fixed assets to net worth	$\frac{\text{Fixed assets}}{\text{Net worth}}$	60%
3. Activities Ratios (measures the effectiveness of the employment of resources)		
Inventory turnover	$\frac{\text{Sales}}{\text{Inventory}}$	7 times
Net working capital turnover	$\frac{\text{Sales}}{\text{Net working capital}}$	5 times
Fixed-assets turnover	$\frac{\text{Sales}}{\text{Fixed assets}}$	6 times
Average collection period	$\frac{\text{Receivables}}{\text{Average sales per day}}$	20 days
Equity capital turnover	$\frac{\text{Sales}}{\text{Net worth}}$	3 times
Total capital turnover	$\frac{\text{Sales}}{\text{Total assets}}$	2 times
4. Profitability Ratios (indicates degree of success in achieving desired profit levels)		
Gross operating margin	$\frac{\text{Gross operating profit}}{\text{Sales}}$	30%
Net operating margin	$\frac{\text{Net operating profit}}{\text{Sales}}$	6.5%
Sales (profit) margin	$\frac{\text{Net profit after taxes}}{\text{Sales}}$	3.2%
Productivity of assets	$\frac{\text{Gross income} - \text{taxes}}{\text{Total assets}}$	10%
Return on investment	$\frac{\text{Net profit after taxes}}{\text{Total investment}}$	7.5%
Net profit on working capital	$\frac{\text{Net operating profit}}{\text{Net working capital}}$	14.5%

PERSONNEL	2012	2013	2014
Partner	\$144,000	\$175,000	\$200,000
Consultants	\$ 0	\$ 50,000	\$ 63,000
Editorial/graphic	\$ 18,000	\$ 22,000	\$ 26,000
VP Marketing	\$ 20,000	\$ 50,000	\$ 55,000
Salespeople	\$ 0	\$ 30,000	\$ 33,000
Office Manager	\$ 7,500	\$ 30,000	\$ 33,000
Secretarial	\$ 5,250	\$ 20,000	\$ 22,000
Total Payroll	\$194,750	\$377,000	\$432,000
Total Headcount	7	14	16
Fringe Benefits	\$ 27,265	\$ 52,780	\$ 60,480
Total Payroll Expenditures	\$222,015	\$429,780	\$492,480

FIGURE A.4
Personnel Salary Plan

THE PERSONNEL PLAN

How does the manager know how much money he or she should budget for running the HR department and staffing the company? There are many considerations. The SHRM Human Capital Benchmarking Service provides comparative HR expense data. Then, strategic and hiring plans are big considerations. Sales projections will translate into a personnel hiring plan. For example, a consulting company’s projected number of clients

will help determine how many consultants it needs at each stage of the plan. Figure A.4 summarizes a personnel salary plan. (Some managers accompany this with a schedule showing specific job titles for which they’ll be hiring and when.) In addition, the human resource manager will factor into his or her plan various other expenses, such as for expected training, special safety, and EEOC compliance efforts.

VIDEO CASES APPENDIX

Video Title: Human Resource Management (Patagonia)

SYNOPSIS

The mission at Patagonia is to build the best product possible, cause no unnecessary environmental harm, and inspire solutions to the environmental crisis. The benefits to employees working for Patagonia are considerable. Although the pay is slightly below the industry average, employees are given time off work to try out the wetsuits the company produces, and employees are encouraged to put the needs of their families first. Employees can work flexible hours to accommodate this company value. Employees are also offered a period of 60 days in which they can work for a nonprofit environmental organization and still receive their full pay. Much thought is put into the hiring of

new employees at Patagonia; ambitious, mission-driven people, with whom the core values of Patagonia resonate, are selected to fill open positions within this unique company.

Discussion Questions

1. How does the mission of Patagonia differ from most other companies?
2. Patagonia has often been selected as one of the country’s best places to work. What Patagonia HR practices and employee benefits do you think help Patagonia earn this honor?
3. What characteristics would you use to describe a candidate likely to be hired by Patagonia? How do these characteristics reflect and support Patagonia’s strategy?

Video Title: Equal Employment (UPS)

SYNOPSIS

Gary Wheeler, a former HR director for UPS and now the president of “The Virtual HR Director,” gives some perspective on what diversity means, and what its value can be to a company. Employees of a wide variety of backgrounds are intrinsically valuable to a company in the varied perspectives that they bring to the table, and can help a company find creative solutions to new problems that it has not encountered before.

In a diverse workplace, where employees come from a variety of backgrounds and ethnicities, there is always the possibility of harassment between employees. The video addresses the value of diversity sensitivity training in its capacity to help prevent incidence of employee harassment. Effective and constructive corrective measures for incidents of harassment are also discussed.

Discussion Questions

- ★ 1. What does Gary Wheeler think a diverse workforce can contribute to a company?
- ★ 2. What typical avenues are open to an employee who feels he or she is being harassed, in order to make sure it is dealt with properly? Do you see any room for improvement based on our discussion in this chapter?
- ★ 3. What does Gary Wheeler report is most often the basis of reported claims of harassment, and how are these cases dealt with?
- ★ 4. What else would you do to deal with employees who are hostile to the idea of diversity?
- ★ 5. To what extent do you believe that harassment, such as sexual harassment, is usually primarily a communications problem? Why?
- ★ 6. In this video Mr. Wheeler focuses mostly on diversity and on sexual harassment. Discuss five other important aspects of equal employment opportunity.

Video Title: Strategic Management (Joie de Vivre Hospitality)

SYNOPSIS

Chip Conley is the founder of Joie de Vivre (JDV) Hospitality, a collection of boutique hotels, restaurants, and spas in California. The kitschy atmosphere of the boutiques allows JDV to differentiate itself from both the luxury and the chain hotels. Customer loyalty is so great that JDV relies primarily on word-of-mouth advertising and spends little on traditional advertising methods.

Discussion Questions

- ★ 1. How does Joie de Vivre Hospitality differentiate its boutique hotels from other hotel offerings in the area?
- ★ 2. How did Chip Conley and Joie de Vivre Hospitality demonstrate great strategic flexibility during the dot-com crash and post-9/11 industry recession?
- ★ 3. What is Joie de Vivre’s philosophy on advertising for its hotels? How does this support the firm’s strategic aims?
- ★ 4. Similarly, list five specific human resource management practices that you would suggest JDV use in order to produce the employee behaviors required to achieve JDV’s strategic aims.

ENDNOTES

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Job Analysis and Talent Management

Job Analysis and Talent Management

OVERVIEW:
In this chapter,
we will cover . . .

THE TALENT MANAGEMENT PROCESS

THE BASICS OF JOB ANALYSIS

METHODS FOR COLLECTING JOB ANALYSIS INFORMATION

WRITING JOB DESCRIPTIONS

WRITING JOB SPECIFICATIONS

USING MODELS AND PROFILES IN TALENT MANAGEMENT

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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Explain why talent management is important.
2. Explain how to conduct a job analysis, including what it is and how it's used.
3. Use at least three methods of collecting job analysis information, including interviews, questionnaires, and observation.
4. Write job descriptions, including summaries and job functions, using the Internet and traditional methods.
5. Identify the essential functions of a job.
6. Write a job specification.
7. Explain competency-based job analysis, including what it means and how it's done in practice.

INTRODUCTION

Daimler-Benz managers faced a dilemma before opening their new Alabama assembly plant. They couldn't hire, train, or pay workers without knowing what each worker's job was. But in this plant, self-managing teams would assemble the vehicles, and each employee's duties might therefore change every day. How do you list job duties when duties change so often?¹

LEARNING OBJECTIVE 1

Explain why talent management is important.



THE TALENT MANAGEMENT PROCESS

In this section we get to the heart of human resource management—including recruitment, selection, training, appraisal, career planning, and compensation.

The traditional way to view these activities is as a series of steps:

1. Decide what positions to fill, through *job analysis*, *personnel planning*, and *forecasting*.
2. Build a pool of job candidates, by *recruiting* internal or external candidates.
3. Have candidates complete *application forms* and perhaps undergo initial screening interviews.
4. Use *selection tools* like tests, interviews, background checks, and physical exams to identify viable candidates.
5. Decide to whom to *make an offer*.
6. *Orient, train, and develop employees* to provide them with the competencies they need to do their jobs.
7. *Appraise employees* to assess how they're doing.
8. *Reward and compensate* employees to maintain their motivation.

This linear view makes sense. For example, the employer needs job candidates before selecting whom to hire. However, the step-by-step view also tends to mask how much the activities are interrelated. For example, employers don't just train employees and appraise how they're doing; the appraisal also loops back to shape the employee's subsequent training. Therefore, employers increasingly view all these staff—train—reward activities as part of a single integrated *talent management* process.²

What Is Talent Management?

Talent management is the *goal-oriented* and *integrated* process of *planning, recruiting, developing, managing, and compensating* employees.³ When a manager takes a talent management perspective, he or she:

1. **Understands that the talent management tasks** (including recruiting, training, and paying employees) are parts of a single interrelated talent management process. For example, having employees with the right skills depends as much on recruiting, training, and compensation as it does on applicant testing.
2. **Makes sure talent management decisions such as staffing, training, and pay are goal-directed.** Managers should always be asking, "What recruiting, testing, or other actions should I take to *produce the employee competencies we need to achieve our strategic goals?*"
3. **Consistently uses the same "profile" of competencies, traits, knowledge, and experience for formulating recruitment plans for a job as for making selection, training, appraisal, and payment decisions for it.** For example, ask selection interview questions to determine if the candidate has the knowledge and skills to do the job, and then train and appraise the employee based on whether he or she shows mastery of that knowledge and skills.
4. **Actively segments and manages employees.** A talent management approach requires that employers *proactively manage* their employees' recruitment, selection, development, and rewards. For example, employers pinpoint their "mission-critical" employees, and then manage their development and rewards separately from the firms' other employees.
5. **Integrates/coordinates all the talent management functions.** Finally, an effective talent management process *integrates the underlying talent management activities* such as recruiting, developing, and compensating employees. HR managers might simply meet as a team to visualize and discuss how to coordinate activities like testing, appraising, and training. (For instance, making sure the firm uses the same skills profile to recruit, select, train, and appraise employees for a particular job.) Or, they can use information technology to integrate these activities. As one example, Talent Management Solutions' (www.talent-management101.com) talent management suite includes e-recruiting software, employee performance management, a learning management system, and compensation management. This suite of programs ensures "that all levels of the organization are aligned—all working for the same goals."⁴

talent management

The goal-oriented and integrated process of planning, recruiting, developing, managing, and compensating employees.

LEARNING OBJECTIVE 2

Explain how to conduct a job analysis, including what it is and how it's used.



job analysis

The procedure for determining the duties and skill requirements of a job and the kind of person who should be hired for it.

job descriptions

A list of a job's duties, responsibilities, reporting relationships, working conditions, and supervisory responsibilities—one product of a job analysis.

job specifications

A list of a job's "human requirements," that is, the requisite education, skills, personality, and so on—another product of a job analysis.

THE BASICS OF JOB ANALYSIS

Talent management begins with understanding what jobs need to be filled, and the human traits and competencies employees need to do those jobs effectively. **Job analysis** is the procedure through which you determine the duties of the jobs you are analyzing and the characteristics of the people to hire for them.⁵ Job analysis produces information for writing **job descriptions** (a list of what duties the job entails) and **job** (or "person") **specifications** (what kind of people to hire for the job). Virtually every personnel-related action you take—interviewing applicants, and training and appraising employees, for instance—depends on knowing what the job entails and what human traits and skills one needs to do the job well.⁶

The supervisor or human resources specialist normally collects one or more of the following types of information via the job analysis:

- **Work activities.** First, he or she collects information about the job's actual work activities, such as cleaning, selling, teaching, or painting. This list may also include how, why, and when the worker performs each activity.
- **Human behaviors.** Information about human behaviors the job requires, like sensing, communicating, lifting weights, or walking long distances.
- **Machines, tools, equipment, and work aids.** Information regarding tools used, materials processed, knowledge dealt with or applied (such as finance or law), and services rendered (such as counseling or repairing).
- **Performance standards.** Information about the job's performance standards (in terms of quantity or quality levels for each job duty, for instance).
- **Job context.** Information about things like working conditions, work schedule, incentives, and, for instance, the number of people with whom the employee would normally interact.
- **Human requirements.** Information such as knowledge or skills (education, training, work experience) and required personal attributes (aptitudes, personality, interests).

As Figure 1 summarizes, job analysis is important because managers use it to support just about all their human resource management activities. For example, they use it to decide what sorts of people to recruit for a job, and for what traits and competencies to test and train them.

Conducting a Job Analysis

There are six steps in doing a job analysis, as follows.



Step 1: Decide how you'll use the information Some data collection techniques—like interviewing the employee—are good for writing job descriptions. Other techniques, like the position analysis questionnaire we describe later, provide numerical ratings for each job; these can be used to compare jobs for compensation purposes.

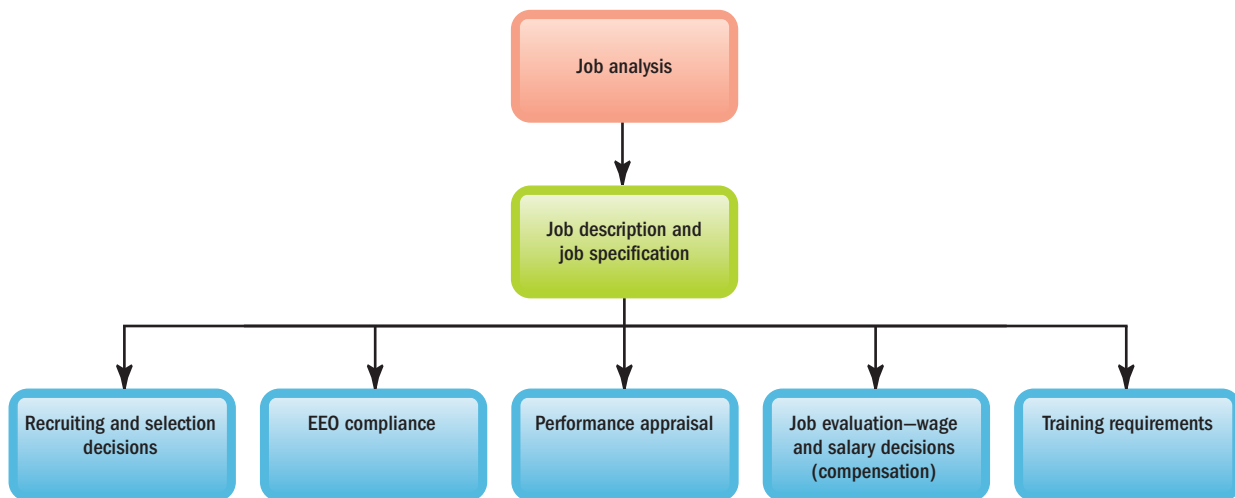
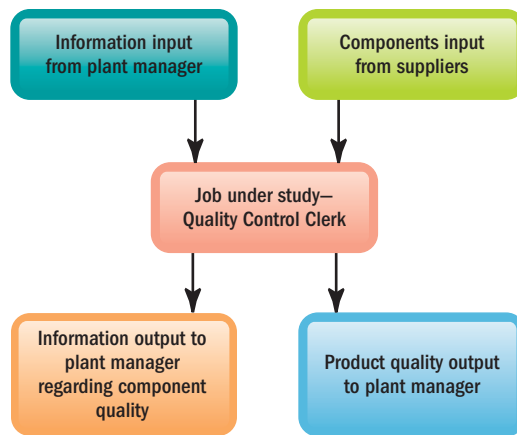


FIGURE 1
Uses of Job Analysis Information

FIGURE 2
Process Chart for Analyzing a Job's Workflow

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organization chart

A chart that shows the organization-wide distribution of work, with titles of each position and interconnecting lines that show who reports to and communicates with whom.

process chart

A workflow chart that shows the flow of inputs to and outputs from a particular job.

workflow analysis

A detailed study of the flow of work from job to job in a work process.

business process reengineering

Redesigning business processes, usually by combining steps, so that small multifunction process teams using information technology do the jobs formerly done by a sequence of departments.

Step 2: Review relevant background information such as organization charts, process charts, and job descriptions⁷ Organization charts show the organization-wide division of work, and where the job fits in the overall organization. The chart should show the title of each position and, by means of interconnecting lines, who reports to whom and with whom the job incumbent communicates. A **process chart** provides a more detailed picture of the workflow, particularly the flow of inputs to and outputs from the job you're analyzing. (In Figure 2, the quality control clerk reviews components from suppliers, checks components going to the plant managers, and gives information regarding component's quality to these managers.) Finally, the existing job description, if there is one, usually provides a starting point for building the revised job description.

WORKFLOW ANALYSIS AND JOB REDESIGN Job analysis tasks such as reviewing current job descriptions enable the manager to list what a job's duties and demands are now. Job analysis does *not* answer questions such as "Should this job even exist?" To answer such questions, one must conduct a *workflow analysis*. You may then deem it necessary to redesign the job. **Workflow analysis** is a detailed study of the flow of work from job to job in a work process. Usually, the analyst focuses on one identifiable work process (such as processing an insurance claim), rather than on how the company gets all its work done. The accompanying HR as a Profit Center feature illustrates workflow analysis.

HR AS A PROFIT CENTER

Boosting Productivity through Work Redesign

The Atlantic American insurance company in Atlanta conducted a workflow analysis to identify inefficiencies in how it processes insurance claims: "We followed the life of a claim to where it arrived in the mail and where it eventually ended up" in order to find ways to improve the process.⁸

The firm's workflow analysis prompted several productivity-boosting changes. The company reduced from four to one the number of people opening mail, replacing three people with a machine that does it automatically. A new date stamping machine lets staff stamp 20 pages at a time rather than 1. A new software program adds bar codes to each claim automatically, rather than manually. In sum, Atlantic American used workflow analysis to view the process's "big picture" and to automate work, redesign jobs, boost labor productivity, and redeploy claims processing employees.

In conducting such a workflow analysis, the manager may use a *flow process chart*; this lists in order each step of the process. The manager may convert this step-by-step flow process chart into a diagrammatic *process chart*. This lays out, with arrows and circles, each step in the process from beginning to end.

BUSINESS PROCESS REENGINEERING American Atlantic's use of workflow analysis also illustrates *business process reengineering*. **Business process reengineering** means redesigning business processes, usually by combining steps, so that small multifunction teams using information technology do the jobs formerly done by a sequence of departments. The basic approach is to:

1. Identify a business process to be redesigned (such as approving a mortgage application).
2. Measure the performance of the existing process.

3. Identify opportunities to improve this process.
4. Redesign and implement a new way of doing the work.
5. Assign ownership of sets of formerly separate tasks to an individual or a team that uses new computerized systems to support the new arrangement.

As an example, one bank reengineered its mortgage approval process by replacing the sequential operation with a multifunction mortgage approval team. Loan originators in the field now enter the mortgage application directly into wireless laptop computers, where software checks it for completeness. The information then goes electronically to regional production centers. Here, specialists (like credit analysts and loan underwriters) convene electronically, working as a team to review the mortgage together—at once. After they formally close the loan, another team of specialists takes on the task of servicing the loan.

JOB REDESIGN As at Atlantic American and at this bank, reengineering usually requires redesigning individual jobs. **Job enlargement** means assigning workers additional same-level activities. Thus, the worker who previously only bolted the seat to the legs might attach the back as well. **Job rotation** means systematically moving workers from one job to another.

Psychologist Frederick Herzberg argued that the best way to motivate workers is through job enrichment. **Job enrichment** means redesigning jobs in a way that increases the opportunities for the worker to experience feelings of responsibility, achievement, growth, and recognition. It does this by *empowering* the worker—for instance, by giving the worker the skills and authority to inspect the work, instead of having supervisors do that. Herzberg said empowered employees would do their jobs well because they wanted to, and quality and productivity would rise. That philosophy, in one form or another, is the theoretical basis for the team-based self-managing jobs in many companies around the world today.

Step 3: Select representative positions Whether or not the manager decides to redesign jobs, the next step in job analysis is to decide on which positions to focus the job analysis. For example, it is usually unnecessary to analyze the jobs of 200 assembly workers when a sample of 10 jobs will do.

Step 4: Actually analyze the job—by collecting data on job activities, working conditions, and human traits and abilities needed to perform the job In brief, actually “analyzing” the job involves several steps. Specifically, greet employees; briefly explain the job analysis process and the employees’ roles in this process; spend about 15 minutes interviewing the employees to get agreement on a basic summary of the job; identify the job’s broad areas of responsibility, such as “calling on potential clients”; and identify duties/tasks within each area interactively with the employees.⁹ We address methods for collecting job analysis information in the following section.

Step 5: Verify the job analysis information with the worker performing the job and with his or her immediate supervisor This will help confirm that the information you’ve compiled (for instance regarding the job’s main duties) is correct and complete, and may help gain employees’ acceptance of your conclusions.

Step 6: Develop a job description and job specification The *job description* describes the job’s duties, activities and responsibilities, as well as its important features, such as working conditions. The *job specification* summarizes the personal qualities, traits, skills, and background workers require for getting the job done.

job enlargement

Assigning workers additional same-level activities.

job rotation

Systematically moving workers from one job to another.

job enrichment

Redesigning jobs in a way that increases the opportunities for the worker to experience feelings of responsibility, achievement, growth, and recognition.

LEARNING OBJECTIVE 3

Use at least three methods of collecting job analysis information, including interviews, questionnaires, and observation.



METHODS FOR COLLECTING JOB ANALYSIS INFORMATION

We’ll see that there are various ways (interviews or questionnaires, for instance) to collect information on a job’s duties, responsibilities, and activities. The basic rule is to use those that best fit your purpose. Thus, an interview might be best for creating a list of job duties. The more quantitative *position analysis questionnaire* may be best for quantifying each job’s relative worth for pay purposes.

The Interview

Job analysis interviews range from unstructured interviews (“Tell me about your job”) to highly structured interviews containing hundreds of specific job items to check off.

Managers may conduct individual interviews with each employee, group interviews with groups of employees who have the same job, and/or supervisor interviews with one or more supervisors who know the job. They use group interviews when a large number of employees are performing similar or identical work, since this can be a quick and inexpensive way to gather information. As a rule, the workers' immediate supervisor attends the group session; if not, you can interview the supervisor separately.

Whichever type of interview you use be sure the interviewee fully understands the reason for the interview. There's a tendency for workers to view such interviews, rightly or wrongly, as "efficiency evaluations." If so, interviewees may hesitate to describe their jobs accurately.

TYPICAL QUESTIONS Some typical interview questions include the following:

What is the job being performed?

What are the major duties of your position? What exactly do you do?

What physical locations do you work in?

What are the education, experience, skill, and [where applicable] certification and licensing requirements?

In what activities do you participate?

What are the job's responsibilities and duties?

What are the basic accountabilities or performance standards that typify your work?

What are your responsibilities? What are the environmental and working conditions involved?

What are the job's physical demands? The emotional and mental demands?

What are the health and safety conditions?

Are you exposed to any hazards or unusual working conditions?

STRUCTURED INTERVIEWS Many managers use a structured format to guide the interview. Figure 3 presents one example, a job analysis information sheet. It includes questions regarding matters like the overall purpose of the job; supervisory responsibilities; job duties; and education, experience, and skills required.

Structured lists are not just for interviews. Job analysts who collect information by personally observing the work or by using questionnaires—two methods explained later—can also use structured lists.¹⁰

INTERVIEWING GUIDELINES To get the best information possible, keep several things in mind when conducting job analysis interviews.

- Quickly establish rapport with the interviewee. Know the person's name, speak understandably, briefly review the interview's purpose, and explain how the person was chosen for the interview.
- Use a structured guide that lists questions and provides space for answers. This ensures you'll identify crucial questions ahead of time and that all interviewers (if more than one) cover all the required questions. (But also ask, "Was there anything we didn't cover with our questions?")
- You do not want to overlook crucial but infrequently performed activities—like a nurse's occasional emergency room duties. Therefore do not just focus on duties the worker performs repeatedly, several times a day. Instead, ask the worker about all his or her duties and have the person rank the duties in order of importance and frequency of occurrence.
- After completing the interview, review the information with the worker's immediate supervisor and with the interviewee.

Questionnaires

Having employees fill out questionnaires to describe their job-related duties and responsibilities is another popular way to obtain job analysis information.

Some questionnaires are very structured checklists. Here each employee gets an inventory of perhaps hundreds of specific duties or tasks (such as "change and splice wire"). He or she is

FIGURE 3

**Job Analysis
Questionnaire for
Developing Job
Descriptions**

Source: "Job Analysis Questionnaire for Developing Job Descriptions," from HR.BLR.COM. Copyright © 2007 by BLR. Reprinted with permission.

Job Analysis Information Sheet

Job Title _____ Date _____

Job Code _____ Dept. _____

Superior's Title _____

Hours Worked _____ AM to _____ PM

Job Analyst's Name _____

1. What is the job's overall purpose?

2. If the incumbent supervises others, list them by job title; if there is more than one employee with the same title, put the number in parentheses following.

3. Check those activities that are part of the incumbent's supervisory duties.
 - Training
 - Performance appraisal
 - Inspecting work
 - Budgeting
 - Coaching and/or counseling
 - Others (please specify) _____
4. Describe the type and extent of supervision received by the incumbent.

5. **JOB DUTIES:** Describe briefly WHAT the incumbent does and, if possible, HOW he/she does it. Include duties in the following categories:
 - a. daily duties (those performed on a regular basis every day or almost every day)

 - b. periodic duties (those performed weekly, monthly, quarterly, or at other regular intervals)

 - c. duties performed at irregular intervals

6. Is the incumbent performing duties he/she considers unnecessary? If so, describe.

7. Is the incumbent performing duties not presently included in the job description? If so, describe.

8. **EDUCATION:** Check the box that indicates the educational requirements for the job (not the educational background of the incumbent).

<input type="checkbox"/> No formal education required	<input type="checkbox"/> Eighth grade education
<input type="checkbox"/> High school diploma (or equivalent)	<input type="checkbox"/> 2-year college degree (or equivalent)
<input type="checkbox"/> 4-year college degree (or equivalent)	<input type="checkbox"/> Graduate work or advanced degree
	Specify: _____
<input type="checkbox"/> Professional license	
Specify: _____	

(Continued)

asked to indicate whether he or she performs each task and, if so, how much time is normally spent on each. At the other extreme, the questionnaire may simply ask, "describe the major duties of your job."

In practice, the best questionnaires often do both. As illustrated in Figure 3, a typical job analysis questionnaire might include several open-ended questions (such as "What is the job's overall purpose?") as well as structured questions (concerning, for instance, education required).

FIGURE 3 (Continued)

9. **EXPERIENCE:** Check the amount of experience needed to perform the job.

<input type="checkbox"/> None	<input type="checkbox"/> Less than one month
<input type="checkbox"/> One to six months	<input type="checkbox"/> Six months to one year
<input type="checkbox"/> One to three years	<input type="checkbox"/> Three to five years
<input type="checkbox"/> Five to ten years	<input type="checkbox"/> More than ten years

10. **LOCATION:** Check location of job and, if necessary or appropriate, describe briefly.

<input type="checkbox"/> Outdoor	<input type="checkbox"/> Indoor
<input type="checkbox"/> Underground	<input type="checkbox"/> Excavation
<input type="checkbox"/> Scaffold	<input type="checkbox"/> Other (specify)

11. **ENVIRONMENTAL CONDITIONS:** Check any objectionable conditions found on the job and note afterward how frequently each is encountered (rarely, occasionally, constantly, etc.).

<input type="checkbox"/> Dirt	<input type="checkbox"/> Dust
<input type="checkbox"/> Heat	<input type="checkbox"/> Cold
<input type="checkbox"/> Noise	<input type="checkbox"/> Fumes
<input type="checkbox"/> Odors	<input type="checkbox"/> Wetness/humidity
<input type="checkbox"/> Vibration	<input type="checkbox"/> Sudden temperature changes
<input type="checkbox"/> Darkness or poor lighting	<input type="checkbox"/> Other (specify)

12. **HEALTH AND SAFETY:** Check any undesirable health and safety conditions under which the incumbent must perform and note how often they are encountered.

<input type="checkbox"/> Elevated workplace	<input type="checkbox"/> Mechanical hazards
<input type="checkbox"/> Explosives	<input type="checkbox"/> Electrical hazards
<input type="checkbox"/> Fire hazards	<input type="checkbox"/> Radiation
<input type="checkbox"/> Other (specify)	

13. **MACHINES, TOOLS, EQUIPMENT, AND WORK AIDS:** Describe briefly what machines, tools, equipment, or work aids the incumbent works with on a regular basis:

14. Have concrete work standards been established (errors allowed, time taken for a particular task, etc.)? If so, what are they?

15. Are there any personal attributes (special aptitudes, physical characteristics, personality traits, etc.) required by the job?

16. Are there any exceptional problems the incumbent might be expected to encounter in performing the job under normal conditions? If so, describe.

17. Describe the successful completion and/or end results of the job.

18. What is the seriousness of error on this job? Who or what is affected by errors the incumbent makes?

19. To what job would a successful incumbent expect to be promoted?

[Note: This form is obviously slanted toward a manufacturing environment, but it can be adapted quite easily to fit a number of different types of jobs.]

All questionnaires have pros and cons. A questionnaire is a quick and efficient way to obtain information from a large number of employees; it's less costly than interviewing hundreds of workers, for instance. However, developing the questionnaire and testing it (perhaps by making sure the workers understand the questions) can be time-consuming. And as with interviews, employees may distort their answers.

Managers use direct observation with jobs that consist mainly of observable physical activity, such as assembly-line worker

Source: Blend Images/Alamy



Observation

Direct observation is especially useful when the job consists mainly of observable physical activities—assembly-line worker and accounting clerk are examples. On the other hand, observation is not as useful when the job entails a lot of mental activity (lawyer, design engineer). Nor is it useful if the employee only occasionally engages in important activities, such as a nurse who handles emergencies. And *reactivity*—the worker’s changing what he or she normally does because you are watching—also can be a problem.

Managers often use direct observation and interviewing together. One approach is to observe the worker on the job during a complete work cycle. (The *cycle* is the time it takes to complete the job; it could be a minute for an assembly-line worker or an hour, a day, or longer for complex jobs.) Here you take notes of all the job activities. Then, ask the person to clarify points not understood and to explain what other activities he or she performs that you didn’t observe.

Participant Diary/Logs

Another method is to ask workers to keep a **diary/log** of what they do during the day. For every activity engaged in, the employee records the activity (along with the time) in a log.

Some firms give employees pocket dictating machines and pagers. Then at random times during the day, they page the workers, who dictate what they are doing at that time. This can avoid requiring workers to remember what they did hours earlier when they complete their logs at the end of the day.

Quantitative Job Analysis Techniques

Qualitative methods like interviews and questionnaires are not always suitable. For example, if your aim is to compare jobs for pay purposes, a mere listing of duties may not suffice. You may need to say that, in effect, “Job A is twice as challenging as Job B, and so is worth twice the pay.” To do this, it helps to have *quantitative* ratings for each job. The position analysis questionnaire explained next and the Department of Labor approach are quantitative methods for doing this.

POSITION ANALYSIS QUESTIONNAIRE The **position analysis questionnaire (PAQ)** is a very popular quantitative job analysis tool, consisting of a questionnaire containing 194 items (see Figure 4 for a sample).¹¹ The 194 items (such as “written materials”) each represent a basic element that may play a role in the job. The items each belong to one of five PAQ basic activities: (1) having decision-making/communication/social responsibilities, (2) performing skilled

diary/log

Daily listings made by workers of every activity in which they engage along with the time each activity takes.

position analysis questionnaire (PAQ)

A questionnaire used to collect quantifiable data concerning the duties and responsibilities of various jobs.

FIGURE 4

Portion of a Completed Page from the Position Analysis Questionnaire

The 194 PAQ elements are grouped into five activities, and this figure illustrates the “information input” questions or elements. Other PAQ pages contain questions regarding mental processes, work output, relationships with others, job context, and other job characteristics.

Information Input																
1 Information Input																
1.1 Sources of Job Information																
Rate each of the following items in terms of the extent to which it is used by the worker as a source of information in performing his job.																
		<table> <thead> <tr> <th colspan="2">Extent of Use (U)</th> </tr> </thead> <tbody> <tr> <td>NA</td> <td>Does not apply</td> </tr> <tr> <td>1</td> <td>Nominal/very infrequent</td> </tr> <tr> <td>2</td> <td>Occasional</td> </tr> <tr> <td>3</td> <td>Moderate</td> </tr> <tr> <td>4</td> <td>Considerable</td> </tr> <tr> <td>5</td> <td>Very substantial</td> </tr> </tbody> </table>	Extent of Use (U)		NA	Does not apply	1	Nominal/very infrequent	2	Occasional	3	Moderate	4	Considerable	5	Very substantial
Extent of Use (U)																
NA	Does not apply															
1	Nominal/very infrequent															
2	Occasional															
3	Moderate															
4	Considerable															
5	Very substantial															
1.1.1 Visual Sources of Job Information																
1	4	Written materials (books, reports, office notes, articles, job instructions, signs, etc.)														
2	2	Quantitative materials (materials which deal with quantities or amounts, such as graphs, accounts, specifications, tables of numbers, etc.)														
3	1	Pictorial materials (pictures or picture-like materials used as <i>sources</i> of information, for example, drawings, blueprints, diagrams, maps, tracing, photographic films, x-ray films, TV pictures, etc.)														
4	1	Patterns/related devices (templates, stencils, patterns, etc., used as <i>sources</i> of information when <i>observed</i> during use; do not include here materials described in item 3 above)														
5	2	Visual displays (dials, gauges, signal lights, radarscopes, speedometers, clocks, etc.)														
6	5	Measuring devices (rulers, calipers, tire pressure gauges, scales, thickness gauges, pipettes, thermometers, protractors, etc., used to obtain visual information about physical measurements; do not include here devices describe in item 5 above)														
7	4	Mechanical devices (tools, equipment, machinery, and other mechanical devices which are <i>sources</i> of information when observed during use of operation)														
8	3	Materials in process (parts, material, objects, etc., which are sources of information when being modified, worked on, or otherwise processed, such as bread dough being mixed, workpiece being turned in a lathe, fabric being cut, shoe being resoled, etc.)														
9	4	Materials not in process (parts, materials, objects, etc., not in the process of being changed or modified, which are <i>sources</i> of information when being inspected, handled, packaged, distributed, or selected, etc., such as items or materials in inventory, storage, or distribution channels, items being inspected, etc.)														
10	3	Features of nature (landscapes, fields, geological samples, vegetation, cloud formations, and other features of nature which are observed or inspected to provide information)														
11	2	Man-made features of environment (structures, buildings, dams, highways, bridges, docks, railroads, and other “man-made” or altered aspects of the indoor environment which are observed or inspected to provide job information; do not consider equipment, machines, etc., that an individual uses in his work, as covered by item 7)														

activities, (3) being physically active, (4) operating vehicles/equipment, and (5) processing information (Figure 4 illustrates this last activity). The final PAQ “score” shows the job’s rating on each of these five activities. The job analyst decides if each of the 194 items plays a role and, if so, to what extent. In Figure 4, for example, “written materials” received a rating of 4. Since the scale ranges from 1 to 5, a 4 suggests that written materials (such as books and reports) do play a significant role in this job. The analyst can use an online version of the PAQ (see www.paq.com) for each job he or she is analyzing.

The PAQ’s strength is in helping to assign jobs to job classes for pay purposes. With ratings for each job’s decision-making, skilled activity, physical activity, vehicle/equipment operation,

and information-processing characteristics, you can quantitatively compare jobs relative to one another,¹² and then group and classify jobs for pay purposes.¹³

Internet-Based Job Analysis

Methods such as questionnaires and interviews can be time-consuming. And collecting the information from geographically dispersed employees can be challenging.¹⁴

Conducting the job analysis via the Internet is an obvious solution.¹⁵ Most simply, the human resource department can distribute standardized job analysis questionnaires to geographically dispersed employees via their company intranets, with instructions to complete the forms and return them by a particular date.

Of course, the instructions should be clear, and it's best to test the process first. Without a job analyst actually sitting there with the employee or supervisor, there's always a chance that the employees won't cover important points or that misunderstandings will cloud the results.

Job Analysis Guidelines

Before actually analyzing the job, keep several things in mind.

- Make the job analysis a *joint effort by a human resources manager, the worker, and the worker's supervisor*. The human resource manager might observe the worker doing the job, and have both the supervisor and worker fill out job questionnaires. Based on that, he or she lists the job's duties and required human traits. The supervisor and worker then review and verify the HR manager's list of job duties.
- *Make sure the questions and the process are both clear* to the employees. (For example, some might not know what you mean when you ask about the job's "mental demands.")
- *Use several different job analysis tools*. Do not rely just on a questionnaire, for instance, but supplement your survey with a short follow-up interview. (The questionnaire might miss a task the worker performs just occasionally.)

LEARNING OBJECTIVE 4

Write job descriptions, including summaries and job functions, using the Internet and traditional methods.



WRITING JOB DESCRIPTIONS

The most important product of job analysis is the job description. A job description is a written statement of what the worker actually does, how he or she does it, and what the job's working conditions are. You use this information to write a job specification; this lists the knowledge, abilities, and skills required to perform the job satisfactorily.

There is no standard format for writing a job description. However, most descriptions contain sections that cover the following:

1. Job identification
2. Job summary
3. Responsibilities and duties
4. Authority of incumbent
5. Standards of performance
6. Working conditions
7. Job specification

Figures 5 and 6 present two sample forms of job descriptions.

Job Identification

As in Figure 5, the job identification section (on top) contains several types of information.¹⁶ The *job title* specifies the name of the job, such as telesales representative, or inventory control clerk. The Fair Labor Standards Act (FLSA) status section identifies the job as exempt or nonexempt. (Under the FLSA, certain positions, primarily administrative and professional, are exempt from the act's overtime and minimum wage provisions.) *Date* is the date the job description was approved.

There may also be a space to indicate who approved the description and perhaps a space showing the location of the job in terms of its facility/division and department. This section might also include the immediate supervisor's title and information regarding salary and/or pay

JOB TITLE: Telesales Representative	JOB CODE: 100001
RECOMMENDED SALARY GRADE:	EXEMPT/NONEXEMPT STATUS: Nonexempt
JOB FAMILY: Sales	EEOC: Sales Workers
DIVISION: Higher Education	REPORTS TO: District Sales Manager
DEPARTMENT: In-House Sales	LOCATION: Boston
	DATE: April 2012

SUMMARY (Write a brief summary of job.)

The person in this position is responsible for selling college textbooks, software, and multimedia products to professors, via incoming and outgoing telephone calls, and to carry out selling strategies to meet sales goals in assigned territories of smaller colleges and universities. In addition, the individual in this position will be responsible for generating a designated amount of editorial leads and communicating to the publishing groups product feedback and market trends observed in the assigned territory.

SCOPE AND IMPACT OF JOB

Dollar responsibilities (budget and/or revenue)

The person in this position is responsible for generating approximately \$2 million in revenue, for meeting operating expense budget of approximately \$4000, and a sampling budget of approximately 10,000 units.

Supervisory responsibilities (direct and indirect)

None

Other

REQUIRED KNOWLEDGE AND EXPERIENCE (Knowledge and experience necessary to do job)

Related work experience

Prior sales or publishing experience preferred. One year of company experience in a customer service or marketing function with broad knowledge of company products and services is desirable.

Formal education or equivalent

Bachelor's degree with strong academic performance or work equivalent experience.

Skills

Must have strong organizational and persuasive skills. Must have excellent verbal and written communications skills and must be PC proficient.

Other

Limited travel required (approx 5%)

(Continued)

FIGURE 5

Sample Job Description, Pearson Education

Source: Printed and Electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

PRIMARY RESPONSIBILITIES (List in order of importance and list amount of time spent on task.)

Driving Sales (60%)

- Achieve quantitative sales goal for assigned territory of smaller colleges and universities.
- Determine sales priorities and strategies for territory and develop a plan for implementing those strategies.
- Conduct 15–20 professor interviews per day during the academic sales year that accomplishes those priorities.
- Conduct product presentations (including texts, software, and website); effectively articulate author’s central vision of key titles; conduct sales interviews using the PSS model; conduct walk-through of books and technology.
- Employ telephone selling techniques and strategies.
- Sample products to appropriate faculty, making strategic use of assigned sampling budgets.
- Close class test adoptions for first edition products.
- Negotiate custom publishing and special packaging agreements within company guidelines.
- Initiate and conduct in-person faculty presentations and selling trips as appropriate to maximize sales with the strategic use of travel budget. Also use internal resources to support the territory sales goals.
- Plan and execute in-territory special selling events and book-fairs.
- Develop and implement in-territory promotional campaigns and targeted email campaigns.

Publishing (editorial/marketing) 25%

- Report, track, and sign editorial projects.
- Gather and communicate significant market feedback and information to publishing groups.

Territory Management 15%

- Track and report all pending and closed business in assigned database.
- Maintain records of customer sales interviews and adoption situations in assigned database.
- Manage operating budget strategically.
- Submit territory itineraries, sales plans, and sales forecasts as assigned.
- Provide superior customer service and maintain professional bookstore relations in assigned territory.

Decision-Making Responsibilities for This Position:

Determine the strategic use of assigned sampling budget to most effectively generate sales revenue to exceed sales goals.
 Determine the priority of customer and account contacts to achieve maximum sales potential.
 Determine where in-person presentations and special selling events would be most effective to generate the most sales.

Submitted By: Jim Smith, District Sales Manager	Date: April 10, 2012
Approval:	Date:
Human Resources:	Date:
Corporate Compensation:	Date:

FIGURE 5 (Continued)

scale. There might also be space for the grade/level of the job, if there is such a category. For example, a firm may classify programmers as programmer II, programmer III, and so on.

Job Summary

The job summary should summarize the essence of the job, and include only its major functions or activities. Thus (in Figure 5), the telesales rep “is responsible for selling college textbooks. . . .” For the job of mailroom supervisor, “the mailroom supervisor receives, sorts, and delivers all incoming mail properly, and he or she handles all outgoing mail including the accurate and timely posting of such mail.”¹⁷

While it's common to do so, include general statements like “performs other assignments as required” with care. Some experts state unequivocally that “one item frequently found that should never be included in a job description is a ‘cop-out clause’ like ‘other duties, as assigned,’”¹⁸ since this leaves open the nature of the job. Finally, make it clear in the summary that the employer expects the employee to carry out his or her duties efficiently, attentively, and conscientiously.

Relationships

There may be a “relationships” statement (not in Figure 5) that shows the jobholder’s relationships with others inside and outside the organization. For a human resource manager, such a statement might look like this:¹⁹

Reports to: Vice president of employee relations.

Supervises: Human resource clerk, test administrator, labor relations director, and one secretary.

Works with: All department managers and executive management.

Outside the company: Employment agencies, executive recruiting firms, union representatives, state and federal employment offices, and various vendors.²⁰

Responsibilities and Duties

This is the heart of the job description. It should present a list of the job’s significant responsibilities and duties. As in Figure 5, list each of the job’s major duties separately, and describe it in a few sentences. In the figure, for instance, the job’s duties include “achieve quantitative sales goal . . .” and “determine sales priorities. . . .” Typical duties for other jobs might include making accurate postings to accounts payable, maintaining favorable purchase price variances, and repairing production-line tools and equipment.

This section may also define the limits of the jobholder’s authority. For example, the jobholder might have authority to approve purchase requests up to \$5,000, grant time off or leaves of absence, discipline department personnel, recommend salary increases, and interview and hire new employees.

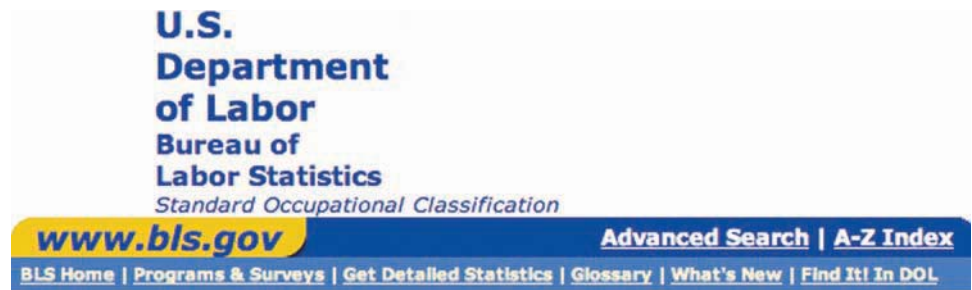
How does one determine what the job’s duties are and should be? The answer first is, from the *job analysis*; this should reveal what the employees on each job are doing now. Then (second), to determine what other duties this job might be expected to include, the manager can review various sources of standardized job description information. For example, the **Standard Occupational Classification (SOC)** (www.bls.gov/soc/socguide.htm) classifies all workers into one of 23 major groups of jobs, such as “Management Occupations” and “Healthcare Occupations.” These, in turn, contain 96 minor groups of jobs, which, in turn, include 821 detailed occupations, such as the marketing manager description in Figure 6. The employer can use standard job descriptions like these to identify a job’s duties and responsibilities, such as “Determine the demand for products.” (The accompanying Managing the New Workforce feature addresses some legal aspects.) The employer

Standard Occupational Classification (SOC)

Classifies all workers into one of 23 major groups of jobs that are subdivided into minor groups of jobs and detailed occupations.

FIGURE 6
Marketing Manager Description from Standard Occupational Classification

Source: U.S. Department of Labor, Bureau of Labor Statistics.



11-2021 Marketing Managers

Determine the demand for products and services offered by a firm and its competitors and identify potential customers. Develop pricing strategies with the goal of maximizing the firm's profits or share of the market while ensuring the firm's customers are satisfied. Oversee product development or monitor trends that indicate the need for new products and services.

may also use other popular sources of job description information, such as www.jobdescription.com. O*NET online is another option for finding job duties. We'll turn to this in a moment.

LEARNING OBJECTIVE 5

Identify the essential functions of a job.

KNOWLEDGE BASE

MANAGING THE NEW WORKFORCE

Writing Job Descriptions That Comply with the ADA

The list of job duties is crucial to employers' efforts to comply with the Americans with Disabilities Act (ADA). Under the ADA, the individual must have the requisite skills, educational background, and experience to perform the job's essential functions. The EEOC says, "Essential functions are the basic job duties that an employee must be able to perform, with or without reasonable accommodation."²¹ Factors to consider in determining if a function is essential include:

- Whether the position exists to perform that function.
- The number of other employees available to perform the function.
- The degree of expertise or skill required to perform the function.

Thus, for a receptionist's job, answering calls and directing visitors to the proper offices might be essential functions. The EEOC says it will consider the employer's judgment about which functions are essential, and a written job description prepared before advertising or interviewing for a job as evidence of essential functions. Other evidence includes the actual work experience of present or past employees in the job, the time spent performing a function, and the consequences of not requiring that an employee perform a function. If the disabled individual can't perform the job as currently structured, the employer is required to make a "reasonable accommodation," unless doing so would present an "undue hardship." According to the EEOC, reasonable accommodation may include:

- Acquiring or modifying equipment or devices.
- Job restructuring.
- Part-time or modified work schedules.
- Reassignment to a vacant position.
- Adjusting or modifying examinations, training materials, or policies.
- Providing readers and interpreters.
- Making the workplace readily accessible to and usable by people with disabilities.

Standards of Performance and Working Conditions

A standards of performance section lists the standards the company expects the employee to achieve for each of the job description's main duties and responsibilities. Setting standards is

The ADA requires that employers list a job's essential functions, to make it clear what tasks the employee must accomplish, and also what accommodations might be possible.

Source: auremar/Fotolia



never easy. However, just telling subordinates to “do your best” usually does not provide enough guidance. One straightforward way to set standards is to finish the statement, “I will be completely satisfied with your work when. . . .” This sentence, if completed for each listed duty, should result in a usable set of performance standards. Here is an example:

Duty: Accurately Posting Accounts Payable

1. Post all invoices received within the same working day.
2. Route all invoices to proper department managers for approval no later than the day following receipt.
3. Allow an average of no more than three posting errors per month.

The job description may also list the working conditions involved on the job. These might include conditions such as noise level, hazardous conditions, or heat.

Using the Internet for Writing Job Descriptions

More employers are turning to the Internet for their job descriptions. One site, www.jobdescription.com, illustrates why. The process is simple. Search by alphabetical title, keyword, category, or industry to find the desired job title. This leads you to a generic job description for that title—say, “Computers & EDP Systems Sales Representative.” You can then use the wizard to customize the generic description for this position. For example, you can add specific information about your organization, such as job title, job codes, department, and preparation date. And you can indicate whether the job has supervisory abilities, and choose from a number of possible desirable competencies and experience levels.

O*NET The U.S. Department of Labor’s occupational information network, called O*NET, is an increasingly popular Web tool (you’ll find it at <http://online.onetcenter.org>). It allows users (not just managers, but workers and job seekers) to see the most important characteristics of various occupations, as well as the experience, education, and knowledge required to do each job well. Both the Standard Occupational Classification and O*NET list many occupations’ specific tasks. O*NET also lists skills for each occupation, including *basic skills* such as reading and writing, *process skills* such as critical thinking, and *transferable skills* such as persuasion and negotiation.²² We will also see that an O*NET job listing includes information on worker requirements (required knowledge, for instance), occupation requirements (such as compiling, coding, and categorizing data, for instance), and experience requirements (including education and job training). You can also use O*NET to check the job’s labor market characteristics, such as employment projections and earnings data.²³

HOW TO USE O*NET Many managers and small business owners use O*NET when doing job analyses and writing job descriptions. We’ll focus here on how to write a job description using O*NET (www.onetonline.org).²⁴

Step 1: Decide on a plan. Ideally, the jobs you need should flow from your departmental or company plans. Therefore, you may want to review your plan. What do you expect your sales to be next year, and in the next few years? What areas or departments do you think will have to be expanded or reduced? What kinds of new positions will you need?

Step 2: Develop an organization chart. Perhaps write an organization chart. Start with the organization as it is now. Then (depending upon how far you’re planning), produce a chart showing how you’d like your chart to look in the future (say, in a year or two). Microsoft’s MS Word includes an organization charting function. Software packages include *OrgPublisher* from TimeVision.²⁵

Step 3: Use a job analysis questionnaire. Next, gather information about the job’s current duties. (You can use job analysis questionnaires, such as those shown in Figure 3 and Figure 7.)

Step 4: Obtain job duties from O*NET. The list of job duties you uncovered in the previous step may or may not be complete. We’ll therefore use O*NET to compile a more complete list.

Start by going to www.onetonline.org (A). Here, click on *Find Occupations*. Assume you want to create job descriptions for a retail salesperson. Type *Retail*

Sales in the Keyword drop-down box. This brings you to the Occupations matching the job family “retail sales” page (B).

Clicking on the *Retail Salespersons* summary produces the job summary and specific occupational duties for retail salespersons (C). For a small store, you might want to combine the duties of the “retail salesperson” with those of “first-line supervisors/managers of retail sales workers.”

Step 5: List the job’s human requirements from O*NET. Next, return to the summary for *Retail Salesperson* (C). Here, click, for example, Knowledge, Skills, and

Source: Reprinted by permission of O*NET Online

A



B



C



Abilities. Use this information to help develop a job specification for your job. Use this information for recruiting, selecting, and training your employees.

Step 6: Finalize the job description. Finally, perhaps using Figure 7 as a guide, write an appropriate job summary for the job. Then use the information obtained previously in steps 3, 4 and 5 to create a complete listing of the tasks, duties, and human requirements of each of the jobs you will need to fill.

FIGURE 7

Simple Job Description Questionnaire

Source: “Simple job description questionnaire” from HR.BLR.COM. Copyright © 2007 by BLR. Reprinted with permission.

Instructions: Distribute copies of this questionnaire to supervisors, managers, personnel staff members, job analysts, and others who may be involved in writing job descriptions. Ask them to record their answers to these questions in writing.

1. What is the job title? _____
2. Summarize the job's more important, regularly performed/duties in a job summary. _____
3. In what department is the job located? _____
4. What is the title of the supervisor or manager to whom the job holder must report?
5. Does the job holder supervise other employees? If so, give their job titles and a brief description of their responsibilities.

Position Supervised	Responsibilities

6. What essential function duties does the job holder perform regularly? List them in order of importance.

Duty	Percentage of Time Devoted to This Duty
1.	
2.	
3.	
4.	
5.	
6.	

7. Does the job holder perform other duties periodically? Infrequently? If so, please list, indicating frequency.
8. What are the working conditions? List such items as noise, heat, outside work, and exposure to bad weather.
9. How much authority does the job holder have in such matters as training or guiding other people?
10. How much education, experience, and skill are required for satisfactory job performance?
11. At what stage is the job holder's work reviewed by the supervisor?
12. What machines or equipment is the job holder responsible for operating?
13. If the job holder makes a serious mistake or error in performing required duties, what would be the cost to management?

LEARNING OBJECTIVE 6

Write a job specification.



WRITING JOB SPECIFICATIONS

The job specification takes the job description and answers the question, “What human traits and experience are required to do this job effectively?” It shows the hiring criteria for the job, in terms of what kind of person to recruit and for what qualities you should test that person. It may be one section of the job description, or a separate document. Often—as in Figure 5—the employer makes it part of the job description.²⁶

Specifications for Trained versus Untrained Personnel

Writing job specifications for trained employees is straightforward. Here your job specifications might focus mostly on traits like length of previous service, quality of relevant training, and previous job performance.

The problems are more complex when you’re filling jobs with untrained people (with the intention of training them on the job). Here you must specify qualities such as physical traits, personality, interests, or sensory skills that imply some potential for performing or for being trained to do the job.

For example, suppose the job requires detailed manipulation in a circuit board assembly line. Here you might want to ensure that the person scores high on a test of finger dexterity. Employers identify such human requirements either through a subjective, judgmental approach or through statistical analysis (or both). Let’s examine both approaches.

Specifications Based on Judgment

Most job specifications come from the educated guesses of people like supervisors and human resource managers. The basic procedure here is to ask, “What does it take in terms of education, intelligence, training, and the like to do this job well?”

There are several ways to get these “educated guesses.” You could review the job’s duties, and deduce from those what human traits and skills the job requires. You can also choose them from the competencies listed in Web-based job descriptions like those at www.jobdescription.com. (For example, a typical job description there lists competencies like “Generates creative solutions” and “Manages difficult or emotional customer situations.”) O*NET online is another source. Job listings there include lists of required education and other experience and skills.

USE COMMON SENSE In any case, use common sense when compiling your list. Don’t ignore the behaviors that may apply to almost any job but that might not normally surface through a job analysis.

Industriousness is an example. Who wants an employee who doesn’t work hard? One researcher collected supervisor ratings and other information from 18,000 employees in 42 different hourly entry-level jobs in predominantly retail settings.²⁷ Regardless of the job, here are the work behaviors (with examples) that he found to be important to all jobs:

Job-Related Behavior	Some Examples
Industriousness	Keeps working even when other employees are standing around talking.
Thoroughness	Notices merchandise out of place and returns it to the proper area.
Schedule flexibility	Offers to stay late when the store is extremely busy.
Attendance	Arrives at work on time; maintains good attendance.
Off-task behavior (reverse)	Conducts personal business during work time.
Unruliness (reverse)	Does not cooperate with other employees.
Theft (reverse)	Under-rings the price of merchandise for a friend; allows nonemployees in unauthorized areas.
Drug misuse (reverse)	Comes to work under the influence of alcohol or drugs.

Job Specifications Based on Statistical Analysis

Basing job specifications on statistical analysis is the more legally defensible approach, but it’s also more difficult. The aim here is to determine statistically the relationship between (1) some

predictor (human trait, such as height, intelligence, or finger dexterity), and (2) some indicator or *criterion* of job effectiveness, such as performance as rated by the supervisor.

The procedure has five steps: (1) analyze the job and decide how to measure job performance; (2) select personal traits like finger dexterity that you believe should predict successful performance; (3) test candidates for these traits; (4) measure these candidates' subsequent job performance; and (5) statistically analyze the relationship between the human trait (finger dexterity) and job performance. Your objective is to determine whether the former predicts the latter.

This method is more defensible than the judgmental approach. For example, hiring standards that discriminate based on sex, race, religion, national origin, or age may have to be shown to predict job performance. Ideally, you do this with a statistical validation study, as in the five-step approach outlined above. But in practice, most employers probably rely more on judgmental approaches.

Using Task Statements

Although employers traditionally use job descriptions and job specifications to summarize what their jobs entail, *task statements* are increasingly popular.²⁸ Each of a job's **task statements** shows *what* the worker does on one particular job task, *how* the worker does it, the *knowledge, skills, and aptitudes required* to do it, and the *purpose of the task*.²⁹

The first step is to write a task statement for each of the job's tasks. Thus, one task for a dry-cleaning store counter person might be "taking in new orders". The task statement here might say, "accepts an order of clothes from a customer and places it into a laundry bag and provides the customer with a receipt, in order to ensure that the customer's clothes items are together and identifiable and that the store and customer have an accurate record of the transaction." (In contrast, the traditional job duty might say, "accepts orders of clothes from customers and places them in laundry bags; gives customers receipts).

For each task, also *identify the knowledge, skills, abilities, and other* characteristics (KSAOs) needed to do each task. For the sample task above, the counter person should know how to operate the computerized cash register, be skilled at identifying fabrics so proper prices can be charged, and have the ability (for instance, cognitive ability or physical ability) to perform arithmetic computations and lift heavy laundry bags. Most jobs also require certain "other" human characteristics. For example, "conscientiousness" might be important for this and most other jobs.

Second, the job analyst takes the resulting 12 or 15 task statements (including their KSAOs) for the job's say, 12-15 specific tasks, and groups them into four or five *main job duties*. Thus, the four main counter person job duties might include accepts and returns customer's clothes, handles the cash register, fills in for the cleaner/spotter when he or she is absent, and supervises the tailor and assistant counter person.

Finally, the job analyst compiles all this information in a "job requirements matrix" for this job. This matrix lists the following information in 5 columns: each of the four or five main job duties in column 1; all the task statements associated with each main job duty in column 2; the relative importance of each main job duty, and the time spent on each main job duty in columns 3 and 4; and the knowledge, skills, ability, and other characteristics or competencies related to each main job duty in column 5.³⁰

Such a job requirements matrix provides a more comprehensive picture of what the worker does and how and why he or she does it than does a conventional job description. For instance, it clarifies each task's purpose. And, including the required knowledge, skills, abilities, and other characteristics for each duty provides critical information for making selection, training, and appraisal decisions. Modeling and profiling, to which we turn next, is another way to compile information on the knowledge, skills, ability, and other characteristics a job requires of its incumbents.

Task statement

A brief summary of what the worker does on one particular job task, how the worker does it, the knowledge, skills, and aptitudes required to do it, and the purpose of the task.



USING MODELS AND PROFILES IN TALENT MANAGEMENT

Most people still think of a "job" as a set of specific duties someone carries out for pay, but the concept of job is changing. In many situations you don't want employees viewing themselves as locked into doing only a specific set of duties. For example, teamwork often requires doing multiple jobs. In situations like these, the worker's "job" may change from day-to-day. Therefore, relying on a list of static job duties that itemizes specific things you expect the worker to do can be meaningless.³¹

In many or most work situations today, employees may not have single jobs, but instead work on teams in which their duties may change continuously. In such situations, it may be more useful to list the competencies someone must have to do the job(s) well, rather than to list a static set of job duties.

Source: Bloomberg via Getty Images



In such situations, the better option to using a job description may be to use what managers call competency models or job profiles (we'll use the terms interchangeably). Such models or profiles list the knowledge, skills, abilities, and other characteristics that employees must be able to exhibit to get their multiple jobs done.³² The assumption is that if the new team member has the necessary skills and competencies, he or she will be able to do whatever duties the job requires.

In general, the aim of writing a job profile or competency model is to summarize what a person requires for exceptional performance, usually in terms of four things: *competencies* (basically, necessary skills or behaviors), *personal attributes* (personality traits, etc.), *knowledge* (technical and/or professional), and *experience* (educational and work achievements). Figure 8 presents one example of a competency model.

The job's profile then becomes the anchor or template for recruiting, selecting, training, evaluating, and developing employees for each job.³³ For instance, the manager *hires* new employees using tests that measure the profile's list of competencies, *trains* employees with courses aimed to develop these competencies, and *appraises* performance by assessing the worker's competencies.

A Closer Look at Competencies

Competencies are observable and measurable human behaviors that make performance possible. To determine what a job's required competencies are, ask, "In order to perform this job competently, what should the employee be able to do?" Competencies are typically skills. Examples of competencies include "program in HTML," "produce a lesson plan," and "engineer the struts for a bridge." Competencies for the job of systems engineer might include the following:

- Design complex software applications, establish protocols, and create prototypes.
- Establish the necessary platform requirements to efficiently and completely coordinate data transfer.³⁴

Similarly, for a corporate treasurer, competencies might include:

- Formulate trade recommendations by studying several computer models for currency trends.
- Recommend specific trades and when to make them.³⁵

How to Write Competencies Statements

Uncovering the job's required competencies and writing them up is similar in most respects to traditional job analysis. In other words, you might interview job incumbents and their supervisors, ask open-ended questions regarding job responsibilities and activities, and perhaps identify critical incidents that pinpoint success on the job. However, instead of compiling lists of job duties, your aim is to



FIGURE 8
Example of Competency Model/Job Profile for Human Resource Manager

finish the statement (as noted above), “*In order to perform this job competently, the employee should be able to. . .*” Use your knowledge of the job to answer this, or the worker’s or supervisor’s insights, or use information from a source such as O*NET. There are also off-the-shelf competencies databanks. One example is that of the Department of Labor’s Office of Personnel Management (see www.opm.gov).

In practice, a useful competency statement for each of a job’s competencies includes three elements:³⁶

The *name and a brief description* of the competency, such as “project management: the art of creating accurate and effective schedules with a well-defined scope”;

A *description of the observable behaviors* that represent proficiency in the competency, such as “personally accountable for the project’s execution and invested in the success of the project; continuously manage risks and dependencies by making timely decisions”;

Proficiency levels. For example:³⁷

- Project Management Proficiency Level 1. Identifies risks and dependencies and communicates routinely to stakeholders.
- Proficiency Level 2. Develops systems to monitor risks and dependencies and report changes.
- Proficiency Level 3. Anticipates changing conditions and impact to risks and dependencies and takes preventive action.
- Proficiency Level 4. Proactively identifies implications of related internal and external business conditions to risks and dependencies.

BP EXAMPLE Several years ago, British Petroleum’s (BP’s) exploration division executives decided their unit should be organized more efficiently.³⁸ To help accomplish this, they believed

FIGURE 9
Skills Matrix

Source: Copyright Gary Dessler PhD

Note: This is an example of a skills matrix for technical/engineering/product development employees. The blue boxes show the level required for each skill for these product development employees. An accompanying key would provide specific examples for each level of each skill, with difficulty increasing for each skill level starting at Level 1. For example, level 1 for Technical Expertise/Skills might say “has or is in process of acquiring the basic knowledge necessary to do this type of job,” while level 6 might say, “Capable of conducting and supervising highly complex analytical tasks requiring advanced technical know-how and skills”.

Level 6	6	6	6	6	6
Level 5	5	5	5	5	5
Level 4	4	4	4	4	4
Level 3	3	3	3	3	3
Level 2	2	2	2	2	2
Level 1	1	1	1	1	1
	Technical Expertise/Skills	Decision Making and Problem Solving Skills	Interpersonal Skills	Leadership Skills	Commercial Awareness Skills

they had to shift employees from a job duties-oriented “that’s-not-my-job” attitude to one that motivated the employees to obtain the skills required to accomplish their broader responsibilities.

Their solution was a skills matrix like that shown in Figure 9. BP created skills matrices for each job or job family (such as drilling managers). As in Figure 9, each matrix listed (1) the types of skills required to do that job (such as technical expertise) and (2) the minimum level of each skill required for that job or job family.

Note that this effort also supported the exploration division’s talent management efforts. Talent management efforts in this unit could now focus on recruiting, hiring, training, appraising, and rewarding employees based on the competencies they need to perform their current jobs and also more advanced jobs, with the overall aim of creating a more flexible and efficient workforce.

Review

MyManagementLab

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

SUMMARY

- Employers today often view all the staff–train–reward activities as part of a single integrated *talent management* process. We defined talent management as the *goal-oriented* and *integrated* process of *planning, recruiting, developing, managing, and compensating* employees. When a manager takes a talent management perspective, he or she should keep in mind that the talent management tasks are parts of a single interrelated talent management process, make sure talent management decisions such as staffing and pay are goal-directed, consistently use the same “profile” for formulating recruitment plans for a job as you do for making selection, training, appraisal, and payment decisions for it, actively segment and manage employees, and integrate/coordinate all the talent management functions.
- All managers need to be familiar with the basics of job analysis.
 - Job analysis is the procedure through which you determine the duties of the department’s positions and the characteristics of the people to hire for them.
 - Job descriptions are a list of what the job entails, while job specifications identify what kind of people to hire for the job.
 - The job analysis itself involves collecting information on matters such as work activities; required human behaviors; and machines, tools, and equipment used.
 - Managers use job analysis information in recruitment and selection, compensation, training, and performance appraisal.

- The basic steps in job analysis include deciding the use of the job analysis information, reviewing relevant background information including organization charts, analyzing the job, verifying the information, and developing job descriptions and job specifications.
3. There are various methods for collecting job analysis information. These include interviews, questionnaires, observation, participant diary/logs, and quantitative techniques such as position analysis questionnaires. Employers increasingly collect information from employees via the Internet.
 4. Managers should be familiar with the process for writing job descriptions. While there is no standard format, most descriptions contain sections that cover job identification, a job summary, a listing of responsibilities and duties, the job incumbent's authority, and performance standards. The job description may also contain information regarding the job's working conditions, and the job specifications. Many employers use Internet sources such as www.jobdescription.com to facilitate writing job descriptions.
 5. In writing job specifications, it's important to distinguish between specifications for trained versus untrained personnel. For trained employees, the process is relatively straightforward, because you're looking primarily for traits like experience. For untrained personnel, it's necessary to identify traits that might predict success on the job. Most job specifications come from the educated guesses of people like supervisors, and are based mostly on judgment. Some employers use statistical analyses to identify predictors or human traits that are related to success on the job.
 6. Employers traditionally use job descriptions and job specifications to summarize what their jobs entail, but task statements are increasingly popular. Each of a job's task statements shows what the worker does on one particular job task, how the worker does it, the knowledge, skills, and aptitudes required to do it, and the purpose of the task.
 7. Employers are creating models or profiles for each of their jobs. The aim of creating such profiles is to create detailed descriptions of what is required for exceptional performance in a given role or job, in terms of required competencies, personal attributes, knowledge, and experience. Each job's profile then becomes the anchor for creating recruitment, selection, training, and evaluation and development plans for each job.

KEY TERMS

talent management
 job analysis
 job description
 job specifications
 organization chart
 process chart
 workflow analysis
 business process reengineering

job enlargement
 job rotation
 job enrichment
 diary/log
 position analysis questionnaire (PAQ)
 Standard Occupational Classification (SOC)
 task statement

DISCUSSION QUESTIONS

1. Explain to the head of a company how he or she could use the talent management approach to improve his or her company's performance.
2. What items are typically included in the job description?
- ★ 3. What is job analysis? How can you make use of the information it provides?
4. We discussed several methods for collecting job analysis data—questionnaires, the position analysis questionnaire, and so on. Compare and contrast these methods, explaining what each is useful for and listing the pros and cons of each.
5. Describe the types of information typically found in a job specification.
6. Explain how you would conduct a job analysis.
- ★ 7. In a company with only 25 employees, is there less of a need for job descriptions? Why or why not?
8. Explain how you would write a task statement, say for a police officer.
9. How does one identify the essential functions of a job?

INDIVIDUAL AND GROUP ACTIVITIES

1. Working individually or in groups, obtain copies of job descriptions for clerical positions at the college or university where you study, or the firm where you work. What types of information do they contain? Do they give you enough information to explain what the job involves and how to do it? How would you improve on the description?
2. Working individually or in groups, use O*NET to develop a job description for a position of your choosing—perhaps an accounting clerk, or your professor in this class. Based on that, use your judgment to develop a job specification. Compare your conclusions with those of other students or groups. Were there any significant differences? What were they? What do you think accounted for the differences?
3. PHR and SPHR Knowledge Base lists the knowledge someone studying for the HRCI certification exam needs

to have in each area of human resource management (such as in strategic management, workforce planning, and human resource development). For this chapter, those include,

for instance, knowledge listed under *Workforce Planning and Employment*.

Individually or in groups of four to five students, do four things: (1) review that appendix now; (2) identify the material in this chapter that relates to the required knowledge in the appendix lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so the students in other teams can take each others' exam questions.



APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Optima Air Filter Company: The Flood

In May 2011, Mississippi River flooding hit Vicksburg, Mississippi, and the Optima Air Filter Company. Many employees' homes were devastated, and the firm found that it had to hire almost three completely new crews, one for each of its shifts. The problem was that the "old-timers" had known their jobs so well that no one had ever bothered to draw up job descriptions for them. When about 30 new employees began taking their places, there was general confusion about what they should do and how they should do it.

The flood quickly became old news to the firm's out-of-state customers, who wanted filters, not excuses. Phil Mann, the firm's president, was at his wits' end. He had about 30 new employees, 10 old-timers, and his original factory supervisor, Maybelline. He decided to meet with Linda Lowe, a consultant from the local

university's business school. She immediately had the old-timers fill out a job questionnaire that listed all their duties. Arguments ensued almost at once: Both Phil and Maybelline thought the old-timers were exaggerating to make themselves look more important, and the old-timers insisted that the lists faithfully reflected their duties. Meanwhile, the customers clamored for their filters.

Questions

1. Should Phil and Linda ignore the old-timers' protests and write the job descriptions as they see fit? Why? Why not? How would you go about resolving the differences?
2. How would you have conducted the job analysis? What should Phil do now?

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company: The Job Description

Based on her review of the stores, Jennifer concluded that one of the first matters she had to attend to involved developing job descriptions for her store managers.

As Jennifer tells it, her lessons regarding job descriptions in her basic management and HR management courses were insufficient to fully convince her of the pivotal role job descriptions actually play in the smooth functioning of an enterprise. Many times during her first few weeks on the job, Jennifer found herself asking one of her store managers why he was violating what she knew to be recommended company policies and procedures. Repeatedly, the answers were either "Because I didn't know it was my job" or "Because I didn't know that was the way we were supposed to do it." Jennifer knew that a job description, along with a set of

standards and procedures that specified what was to be done and how to do it, would go a long way toward alleviating this problem.

In general, the store manager is responsible for directing all store activities in such a way that quality work is produced, customer relations and sales are maximized, and profitability is maintained through effective control of labor, supply, and energy costs. In accomplishing that general aim, a specific store manager's duties and responsibilities include quality control, store appearance and cleanliness, customer relations, bookkeeping and cash management, cost control and productivity, damage control, pricing, inventory control, spotting and cleaning, machine maintenance, purchasing, employee safety, hazardous waste removal, human resource administration, and pest control.

The questions that Jennifer had to address follow.

Questions

1. What should be the format and final form of the store manager's job description?
2. Is it practical to specify standards and procedures in the body of the job description, or should these be kept separate?
3. How should Jennifer go about collecting the information required for the standards, procedures, and job description?
4. What, in your opinion, should the store manager's job description look like and contain?

EXPERIENTIAL EXERCISE

The Instructor's Job Description

Purpose: The purpose of this exercise is to give you experience in developing a job description, by developing one for your instructor.

Required Understanding: You should understand the mechanics of job analysis and be thoroughly familiar with the job analysis questionnaires in this chapter.

How to Set Up the Exercise/Instructions: Set up groups of four to six students for this exercise. The groups should be separated and should not converse with each other. Half of the groups in the class will develop the job description using the job analysis questionnaire (Figure 3), and the other half of the groups will develop it using the job description questionnaire (Figure 7). Each student should review his or her questionnaire (as appropriate) before joining his or her group.

1. Each group should do a job analysis of the instructor's job: Half of the groups will use the Figure 3 job

analysis questionnaire for this purpose, and half will use the Figure 7 job description questionnaire.

2. Based on this information, each group will develop its own job description and job specification for the instructor.
3. Next, each group should choose a partner group, one that developed the job description and job specification using the alternate method. (A group that used the job analysis questionnaire should be paired with a group that used the job description questionnaire.)
4. Finally, within each of these new combined groups, compare and critique each of the two sets of job descriptions and job specifications. Did each job analysis method provide different types of information? Which seems superior? Does one seem more advantageous for some types of jobs than others?

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Why, in summary, should managers think of staffing, training, appraising, and paying employees as a talent management process?
2. Do you think companies can really do without detailed job descriptions? Why or why not?
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

Appendix: Enrichment Topics in Job Analysis

ADDITIONAL JOB ANALYSIS METHODS

JOB ANALYSIS RECORD SHEET You may encounter several other job analysis methods. Thus the U.S. Civil Service Commission has a standardized procedure for comparing and classifying jobs. Information is compiled on a *job analysis*

record sheet. Information (such as job title) and a brief summary of the job are listed first. Next list the job's tasks in order of importance. Then, for each task, specify such things as the knowledge required (for example, the principles the worker must be acquainted with to do his or her job), skills required (for example, the skills needed to operate machines), and abilities required (for example, mathematical, reasoning or interpersonal abilities).

U.S. DEPARTMENT OF LABOR PROCEDURE *The U.S. Department of Labor (DOL) procedure aims to provide a standardized method for quantitatively comparing different jobs. The heart of this analysis is a rating of each job in terms of data, people, and things. As illustrated in Table A.1, a set of basic activities called worker functions describes what a worker can do with respect to data, people, and things. With respect*

to data for instance, the basic functions include synthesizing, coordinating, and copying. Note also that each worker function has been assigned an importance level. Thus “coordinating” is 1, and “copying” is 5. If you were analyzing the job of a receptionist/clerk, for example, you might label the job 5, 6, 7, which would represent copying data, speaking/signaling people, and handling things.

TABLE A.1 Basic U.S. Department of Labor (DOL) Procedure Worker Functions

	Data	People	Things
Basic Activities	0 Synthesizing	0 Mentoring	0 Setting up
	1 Coordinating	1 Negotiating	1 Precision working
	2 Analyzing	2 Instructing	2 Operating/controlling
	3 Compiling	3 Supervising	3 Driving/operating
	4 Computing	4 Diverting	4 Manipulating
	5 Copying	5 Persuading	5 Tending
	6 Comparing	6 Speaking/signaling	6 Feeding/offbearing
		7 Serving	7 Handling
	8 Taking instructions/helping		

Note: Determine employee’s job “score” on data, people, and things by observing his or her job and determining, for each of the three categories, which of the basic functions illustrates the person’s job. “0” is high; “6,” “8,” and “7” are lows in each column.

Source: Basic U.S. Department of Labor (DOL) Procedure Worker Functions.

ENDNOTES

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- (Upper Saddle River, NJ: Pearson Education, 2012), pp. 89–95.
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Personnel Planning and Recruiting

Personnel Planning and Recruiting

OVERVIEW:
In this chapter,
we will cover . . .

WORKFORCE PLANNING AND FORECASTING

THE NEED FOR EFFECTIVE RECRUITING

INTERNAL SOURCES OF CANDIDATES

SOURCES OF OUTSIDE CANDIDATES

RECRUITING A MORE DIVERSE WORKFORCE

DEVELOPING AND USING APPLICATION FORMS

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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. List the steps in the recruitment and selection process.
2. Explain the main techniques used in employment planning and forecasting.
3. Explain and give examples of the need for branding in effective recruiting.
4. Name and describe the main internal sources of candidates.
5. List and discuss the main sources of outside candidates.
6. Explain how to analyze recruiting effort effectiveness.
7. Explain how to recruit a more diverse workforce.

INTRODUCTION

A lot of people want to work for Facebook, so the company doesn't have to do much employee recruiting. There's one exception, though. If you're one of the "rock-star engineers" that Facebook wants to hire, CEO Mark Zuckerberg may personally recruit you.¹ Candidates who've received the "Zuckerberg treatment" tell a similar story. Zuckerberg surprises them with an email suggesting they meet at his office. From there he takes them up a hiking trail to a Silicon Valley lookout. Then Mr. Zuckerberg explains why they should come to work for Facebook.



Source: Mandoga Media/Alamy

LEARNING OBJECTIVE 1

List the steps in the recruitment and selection process.

Job analysis identifies the duties and human requirements for each of the company's jobs. Next, we must decide which of these jobs to fill, and to recruit and select employees for them. Managers traditionally view *recruitment and selection* as a series of hurdles (Figure 1):

1. Decide what positions to fill, through *workforce/personnel planning and forecasting*.
2. Build a pool of candidates for these jobs, by *recruiting* internal or external candidates.
3. Have candidates complete *application forms* and perhaps undergo initial screening interviews.
4. Use *selection tools* like tests, background investigations, and physical exams to identify viable candidates.
5. Decide who to make an offer to, by having the supervisor and perhaps others *interview* the candidates.

This chapter focuses on personnel planning and on recruiting employees.



workforce (or employment or personnel) planning

The process of deciding what positions the firm will have to fill, and how to fill them.

WORKFORCE PLANNING AND FORECASTING

Recruitment and selection should start with workforce planning. After all, if you don't know what your employment needs will be in the next few months, why should you be hiring?

Workforce (or employment or personnel) planning is the process of deciding what positions the firm will have to fill, and how to fill them. It embraces all future positions, from maintenance clerk to CEO. However, most firms call the process of deciding how to fill executive jobs *succession planning*.

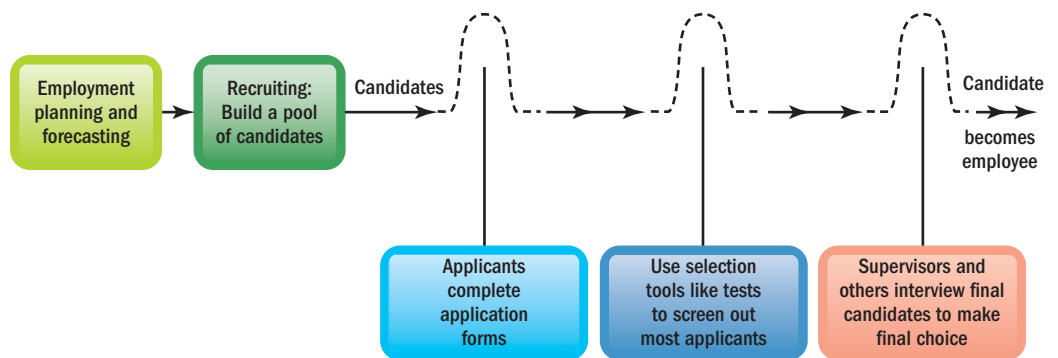
Strategy and Workforce Planning

In either case, employment planning should reflect the firm's strategic plans. Thus plans to enter new businesses or reduce costs all influence the types of positions you'll need to fill (or eliminate). Strategic issues are always crucial.

In the short term, there's not much employers can do about recessions, housing bubbles, or changes in consumer spending. However, employers should control their strategies. So, knowing that the firm plans, say, to expand abroad, means making personnel plans for hiring in the firm's international division. The accompanying Strategic Context feature illustrates this.

FIGURE 1

Steps in Recruitment and Selection Process



The recruitment and selection process is a series of hurdles aimed at selecting the best candidate for the job.

THE STRATEGIC CONTEXT

IBM

IBM has been transitioning from supplying mostly computers to supplying software and consulting. Therefore (as its HR head put it), in terms of IBM's strategic workforce needs, "in three years, 22% of our workforce will have obsolete skills . . ."2 At IBM, workforce and succession planning therefore starts with thinking through the skills and competencies the firm needs to execute its strategy. To do this IBM's human resource executives review with finance and other executives what sorts of skills and competencies they'll need to execute IBM's strategic plans.3 That gives the human resource team to information it needs to formulate specific recruitment and training plans.

Figure 2 summarizes the link between strategic and personnel planning. Like all plans, personnel plans require forecasts or future estimates, in this case, of three things: *personnel needs*, the *supply of inside* candidates, and the likely *supply of outside* candidates. The basic workforce planning process is (1) to forecast the employer's demand for labor and supply of labor; then (2) identify supply–demand gaps, and (3) develop action plans to fill the projected gaps.

We'll start with forecasting personnel needs.

LEARNING OBJECTIVE 2

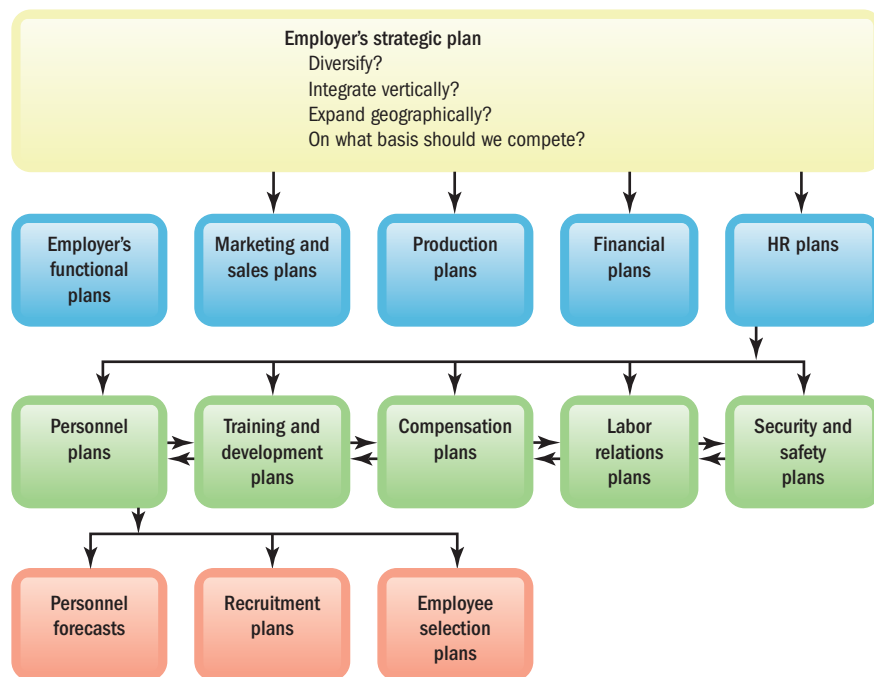
Explain the main techniques used in employment planning and forecasting.

Forecasting Personnel Needs (Labor Demand)

How many people will we need? A firm's staffing needs reflect demand for its products or services, adjusted for changes the firm plans to make in its strategic goals and for changes in its turnover rate and productivity.4 Forecasting workforce demand therefore starts with estimating what the demand will be for your products or services. Short term, management should be concerned with daily, weekly, and seasonal forecasts.5 For example, retailers track daily sales trends because they know, for instance, that Mother's Day produces a jump in business and a need for more staff. Seasonal forecasts are critical for firms such as landscaping and air-conditioning vendors. Looking out beyond a year isn't so easy. Managers will follow industry publications and economic forecasts closely, for instance from the *Conference Board*. Predicting a rise or fall in business activity a year or two in the future isn't precise. However, the planning process may help you to anticipate potential changes in demand.

The basic process of forecasting personnel needs is to forecast revenues first. Then estimate the size of the staff required to support this sales volume. However, managers must also consider other factors. These include projected turnover, decisions to upgrade (or downgrade) products or services, productivity changes, and financial resources. Several simple tools facilitate projecting personnel needs, as follows.

FIGURE 2
Linking Employer's Strategy to Personnel Plans



trend analysis

Study of a firm's past employment needs over a period of years to predict future needs.

ratio analysis

A forecasting technique for determining future staff needs by using ratios between, for example, sales volume and number of employees needed.

scatter plot

A graphical method used to help identify the relationship between two variables.

TREND ANALYSIS Trend analysis means studying variations in the firm's employment levels over the last few years. For example, you might compute and plot the number of employees at the end of each of the last 5 years (or perhaps the number in each subgroup like sales, production, and administrative). The aim is to identify trends that might continue.

Trend analysis can provide an initial estimate of future staffing needs, but employment levels rarely depend just on the passage of time. Other factors (like productivity, workforce demographics, and voluntary withdrawals) can help reveal impending labor force needs.

RATIO ANALYSIS Another simple approach, ratio analysis means making forecasts based on the historical ratio between (1) some causal factor (like sales volume) and (2) the number of employees required (such as number of salespeople). For example, suppose a salesperson traditionally generates \$500,000 in sales. If the sales revenue to salespeople ratio remains the same, you would require six new salespeople next year (each of whom produces an extra \$500,000) to produce a hoped-for extra \$3 million in sales.

Like trend analysis, ratio analysis assumes that productivity remains about the same. However, if, say, sales productivity were to rise or fall, the ratio of sales to salespeople would change.

THE SCATTER PLOT A scatter plot shows graphically how two variables—such as sales and your firm's staffing levels—are related. If they are, then if you can forecast the business activity (like sales), you should also be able to estimate your personnel needs.

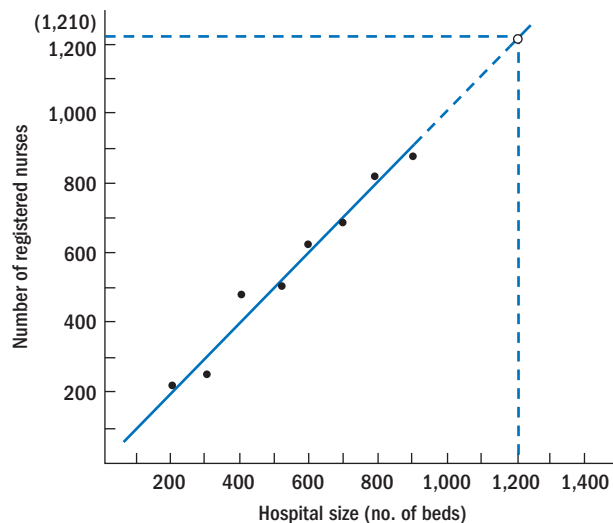
For example, suppose a 500-bed hospital expects to expand to 1,200 beds over the next 5 years. The human resource director wants to forecast how many registered nurses they'll need. The human resource director realizes she must determine the relationship between size of hospital (in terms of number of beds) and number of nurses required. She calls eight hospitals of various sizes and gets the following figures:

Size of Hospital (Number of Beds)	Number of Registered Nurses
200	240
300	260
400	470
500	500
600	620
700	660
800	820
900	860

Figure 3 shows hospital size on the horizontal axis. It shows number of nurses on the vertical axis. If these two factors are related, then the points you plot (from the data above) will tend to fall along a straight line, as they do here. If you carefully draw in a line to minimize

FIGURE 3
Determining the Relationship Between Hospital Size and Number of Nurses

Note: After fitting the line, you can project how many employees you'll need, given your projected volume.



Workforce planning begins with forecasting workforce needs. For example, if a hospital administrator expects to expand a 500-bed hospital to 1,200 beds over the next 5 years, forecasting how many registered nurses they'll need is critical.

Source: Drew Myers/Corbis/Glow Images



the distances between the line and each one of the plotted points, you will be able to estimate the number of nurses needed for each hospital size. Thus, for a 1,200-bed hospital, the human resource director would assume she needs about 1,210 nurses.

Whichever forecasting tool you use, managerial judgment should play a big role. It's rare that any historical trend, ratio, or relationship will simply continue. You will therefore have to modify any forecast based on subjective factors—such as the feeling that more employees may leave.



Improving Productivity through HRIS

Computerized Personnel Forecasting

Computerized forecasts enable managers to build more variables into their personnel projections.⁶ Thus, at Chelan County Public Utility District, the development manager built a statistical model encompassing such things as age, tenure, turnover rate, and time to train new employees. This model helped them quickly identify five employment “hotspots” among 33 occupational groups at their company. This, in turn, prompted them to focus more closely on creating plans to retain and hire, for instance, more systems operators.⁷

With such programs, employers can more accurately translate projected productivity and sales levels into personnel needs. Many firms particularly use computerized employee forecasting systems for estimating short-term needs. In retailing, for instance, labor scheduling systems help employers estimate required staffing needs based on sales forecasts and estimated store traffic.⁸



Forecasting the Supply of Inside Candidates

Knowing your staffing *needs* satisfies only half the staffing equation. Next, you have to estimate the likely *supply* of both inside and outside candidates. Most firms start with the inside candidates.

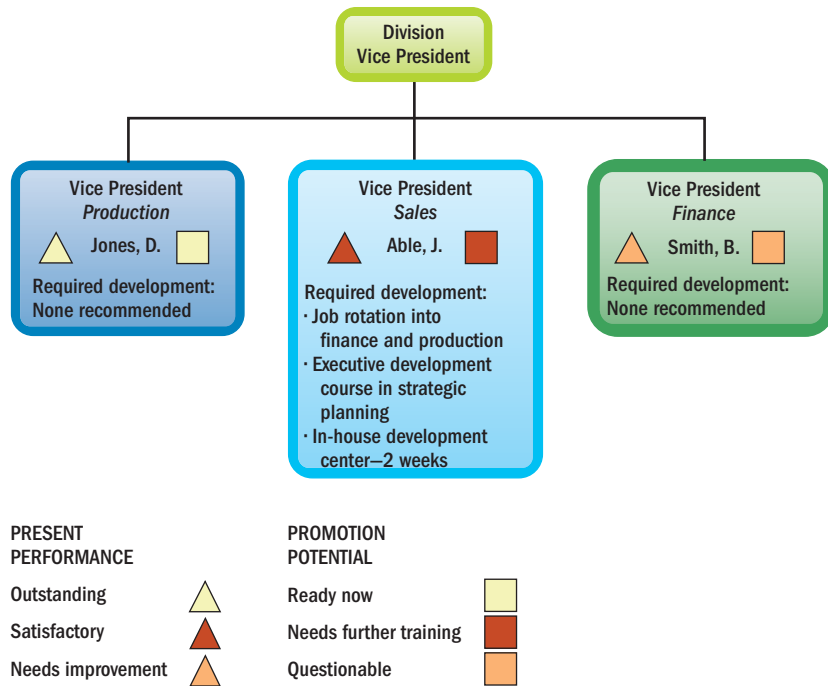
The main task here is determining which current employees are qualified for the projected openings. For this, you need to know current employees' skills sets—their current qualifications. Some employers—especially smaller ones—do this informally. Others turn to formal **qualifications (or skills) inventories**. These contain data on employees' performance records, educational background, and promotability. Whether manual or computerized, these help managers determine which employees are available for promotion or transfer.

MANUAL SYSTEMS AND REPLACEMENT CHARTS Department managers or owners of smaller firms often use manual devices to track employee qualifications. Thus a *personnel inventory*

qualifications (or skills) inventories

Manual or computerized records listing employees' education, career and development interests, languages, special skills, and so on, to be used in selecting inside candidates for promotion.

FIGURE 4
Management Replacement Chart Showing Development Needs of Potential Future Divisional Vice Presidents



personnel replacement charts

Company records showing present performance and promotability of inside candidates for the most important positions.

position replacement card

A card prepared for each position in a company to show possible replacement candidates and their qualifications.

and development record form compiles qualifications information on each employee. The information includes education, company-sponsored courses taken, career and development interests, languages, desired assignments, and skills. **Personnel replacement charts** (Figure 4) are another option, particularly for the firm’s top positions. They show the present performance and promotability for each position’s potential replacement. As an alternative, you can develop a **position replacement card**. For this you create a card for each position, showing possible replacements as well as their present performance, promotion potential, and training.

COMPUTERIZED EMPLOYEE SKILLS INVENTORIES Larger firms obviously can’t track the qualifications of hundreds or thousands of employees manually. They therefore computerize this information, using various packaged software systems such as SurveyAnalytics’s Skills Inventory Software (<http://www.surveyanalytics.com/>) or <http://www.perceptyx.com/home/about/solutions/skills-inventories/>.

Such programs help management anticipate human resource shortages, and facilitate making employment recruitment and training plans.⁹

The usual process is for the employee, the supervisor, and human resource manager to enter information about the employee’s background, experience, and skills via the system. Then, when a manager needs a person for a position, he or she uses key words to describe the position’s specifications (for instance, in terms of education and skills). The computerized system then produces a list of qualified candidates. Computerized employee skills inventory data typically include items like *work experience codes*, *product knowledge*, the employee’s *level of familiarity* with the employer’s product lines or services, the person’s *industry experience*, and *formal education*.



KEEPING THE INFORMATION PRIVATE The employer should secure all its employee data.¹⁰ Much data is personal (such as illnesses). Legislation gives employees legal rights regarding who has access to information about them. The legislation includes the Federal Privacy Act of 1974 (applies to federal workers), the New York Personal Privacy Act of 1985, HIPAA (regulates use of medical records), and the Americans with Disabilities Act. Employers should keep their manual records under lock and key.

Internet access makes it relatively easy for more people to access the firm’s computerized files.¹¹ One solution is to incorporate an access matrix in the database management system. These define the rights of users (such as “read only” or “write only”) to each database element. (So, those in accounting might *read only* information such as an employee’s address.) Figure 5 summarizes some suggestions for keeping employee data safe. A growing problem is that peer-to-peer

FIGURE 5

Keeping Data Safe

Source: Taken from an interview with Linda Foley, co-founder of the ITRC. Published in “Safeguarding HR Information” by Dan Caterinicchia, in *HR Magazine*, November 2005. Copyright © 2005 by the Society for Human Resource Management, Alexandria, VA.

Since intruders can strike from outside an organization or from within, HR departments can help screen out potential identity thieves by following four basic rules:

- Perform background checks on anyone who is going to have access to personal information.
- If someone with access to personal information is out sick or on leave, don’t hire a temporary employee to replace him or her. Instead, bring in a trusted worker from another department.
- Perform random background checks such as random drug tests. Just because someone passed 5 years ago doesn’t mean their current situation is the same.
- Limit access to information such as SSNs, health information, and other sensitive data to HR managers who require it to do their jobs.

file-sharing applications jump firewalls and give outsiders quick access. Pfizer Inc. lost personal data on about 17,000 current and former employees this way.¹²

Forecasting the Supply of Outside Candidates

If there won’t be enough inside candidates to fill the anticipated openings (or you want to go outside for another reason), you will turn to outside candidates.

Forecasting the availability of outside labor (the external labor supply) depends first on the manager’s own sense of what’s happening in the economy and in his or her industry and locale. He or she may then supplement these observations with formal labor market analyses, for instance, from the U.S. Bureau of Labor Statistics and from O*NET. For example, unemployment rates around 7.8% in the United States in 2012 signaled to HR managers that finding good candidates would be easier.

Information like this is easy to find, both online and in print format. For example, look for economic projections online, for instance, from the U.S. Congressional Budget Office (www.cbo.gov/showdoc.cfm?index=1824&sequence=0) and the Bureau of Labor Statistics (www.bls.gov/news.release/ecopro.toc.htm). For hard-copy formats, *Bloomberg Businessweek* presents a weekly snapshot of the economy on its Outlook page, as well as a yearly forecast in December.

Your planning may also require forecasting specific occupations such as nurse or teacher. Recently, for instance, there has been an undersupply of nurses. O*NET includes projections for most occupations. The U.S. Bureau of Labor Statistics publishes annual occupational projections both online and in the *Monthly Labor Review* and in *Occupational Outlook Quarterly*. Beyond specific occupations, the emphasis on technologically advanced jobs means many will lack basic skills such as communication, creativity, and teamwork.¹³

Talent Management and Predictive Workforce Monitoring

Traditionally, employers do formal workforce planning perhaps every year or so. However, this will not always suffice. For instance, having failed to do much such planning for years, one firm, Valero Energy, almost didn’t have sufficient time to gear up its new employee hiring and development plan.

Taking a talent management approach to workforce planning requires being more proactive. Specifically, it requires *paying continuous attention* to workforce planning issues. Managers call this continuous workforce planning approach *predictive workforce monitoring*. Some examples follow.

INTEL CORPORATION EXAMPLE Intel conducts semiannual Organization Capability Assessments. The staffing department works with the firm’s business heads twice a year to assess workforce needs—both immediate and up to 2 years in the future.¹⁴

AMERADA HESS EXAMPLE Amerada Hess uses its Organizational Capability (OC) group to monitor workforce attrition (such as retirement age, experience with Hess, education, etc.) and prospective talent requirements. It “then works with the lines of business to better prepare them for meeting changing global talent demands. The group considers how each line of business is evolving, examines what jobs at Hess will look like in the future, identifies sources for procuring the best talent, and assists in developing current and newly hired employees.”¹⁵

VALERO ENERGY EXAMPLE Valero Energy created a *labor supply chain* for monitoring steps in recruiting and hiring. This includes a statistical tool that predicts Valero’s labor needs based on past experience. It also includes computer screen “dashboards”. These show how components in the chain, such as ads placed on job boards, are performing according to cost, speed, and quality. In 2002, it required 41 forms to hire an employee and more than 120 days to fill a position. Each hire cost about \$12,000. Now, with the new labor supply chain tools, Valero’s human resource recruiters need few paper forms to bring an employee on board, and the time-to-fill-an-open-position figure fell to below 40 days and cost per hire dropped to \$2,300.¹⁶

Developing an Action Plan to Match Projected Labor Supply and Labor Demand

Workforce planning should logically culminate in a workforce action plan. This lays out the employer’s projected workforce demand–supply gaps, as well as staffing plans for filling the necessary positions. The staffing plan should identify the positions to be filled, potential internal and external sources for these positions, the required training, development, and promotional activities moving people into the positions will entail, and the resources that implementing the staffing plan will require. Resources might include, for instance, advertising costs, recruiter fees, relocation costs, and travel and interview expenses.¹⁷

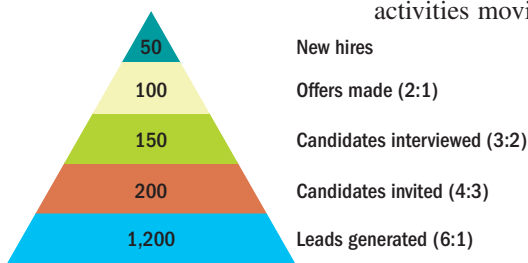


FIGURE 6
Recruiting Yield Pyramid

recruiting yield pyramid
The historical arithmetic relationships between recruitment leads and invitees, invitees and interviews, interviews and offers made, and offers made and offers accepted.

employee recruiting
Finding and/or attracting applicants for the employer’s open positions.

The Recruiting Yield Pyramid

The manager should recognize that filling a relative handful of positions might require recruiting dozens or hundreds of candidates. Employers therefore use a staffing or **recruiting yield pyramid** as shown in Figure 6 to gauge the dimensions of the staffing issues it needs to address. In Figure 6, the company knows it needs 50 new entry-level accountants next year. From experience, the firm also knows the following:

- The ratio of offers made to actual new hires is 2 to 1.
- The ratio of candidates interviewed to offers made is 3 to 2.
- The ratio of candidates invited for interviews to candidates interviewed is about 4 to 3.
- Finally, the firm knows that of six leads that come in from all its recruiting sources, it typically invites only one applicant for an interview—a 6-to-1 ratio.

Given these ratios, the firm knows it must generate about 1,200 leads to be able to invite 200 viable candidates to its offices for interviews. It will interview about 150 of those invited, and so on.

THE NEED FOR EFFECTIVE RECRUITING

Assuming the company authorizes you to fill a position, the next step is to build up, through recruiting, an applicant pool. **Employee recruiting** means finding and/or attracting applicants for the employer’s open positions.

Why Recruiting Is Important

It’s hard to overemphasize the importance of effective recruiting. If only two candidates apply for two openings, you may have little choice but to hire them. But if 10 or 20 applicants appear, you can use techniques like interviews and tests to screen out all but the best.

High unemployment doesn’t mean recruiting is easy. For instance, even with unemployment rates still high in 2012, many employers found it challenging getting qualified applicants. One survey found that about two thirds of the manufacturing executives surveyed faced a “moderate to severe shortage of skilled labor.”¹⁸ The head of a media and web design company with 85 employees in New York said he had 10 openings because he couldn’t find enough qualified applicants.¹⁹ He ended up hiring virtual independent contractors, who worked, for instance from Greece. Other employers, such as a group of manufacturers near Fort Worth, Texas banded together to create a nine week course to train prospective employees in computer numeric control for machinists.²⁰ The bottom line is that finding and attracting qualified candidates is never easy, and as the economy picks up it will only become more challenging.


**KNOWLEDGE
BASE**
LEARNING OBJECTIVE 3

Explain and give examples of the need for branding in effective recruiting.

Developing the Brand

Even during periods of economic recession, some companies will find it easier to recruit applicants than will others. Compensation and benefits are two big draws. Employers such as software vendor SAS offer extraordinary work-life and other benefits and these benefits assumedly translate into more applicants.

The employer should build its brand or reputation amongst potential applicants. At the extreme, it is futile to spend a lot of money on recruiting if the employer's reputation is that it's an awful place to work. Branding requires a multipronged approach, starting with what the "brand" should be. How does the employer want others to see it as a place to work? The branding often focuses on what it's like to work at the company, particular company values, and the work environment the employer fosters.²¹ GE for instance stresses innovation (hiring "bright, interesting people working together on new and exciting projects").²² Word-of-mouth communications is important, and so the best branding starts in-house, by creating an environment in which employees like to work. Being a good community citizen, for instance by encouraging employees to involve themselves in community projects is another example.

The Supervisor's Role

The human resource manager charged with filling an open position is seldom very familiar with the position. Someone must explain what the position entails, and what to look for. Only the position's supervisor can do this. For example, in addition to what the job entails now and its job specifications, the recruiter might want to know about the supervisor's leadership style and about the work group—is it a tough group to get along with, for instance?


**KNOWLEDGE
BASE**
LEARNING OBJECTIVE 4

Name and describe the main internal sources of candidates.

INTERNAL SOURCES OF CANDIDATES

Recruiting typically brings to mind LinkedIn, employment agencies, and classified ads. However internal sources—in other words, current employees or "hiring from within"—are often the best source of candidates.

Using Internal Sources: Pros and Cons

Filling open positions with inside candidates has several advantages. First, there is really no substitute for knowing a candidate's *strengths and weaknesses*, as you should after working with them for some time. Current employees may also be more *committed* to the company. *Morale* may rise if employees see promotions as rewards for loyalty and competence. And inside candidates should require *less orientation* and (perhaps) training than outsiders.

However, hiring from within can also backfire. Rejections breed discontent; telling them why you rejected them and what remedial actions they might take is crucial. And many employers require managers to post job openings and interview all inside candidates. Yet the manager often knows whom he or she wants to hire. Requiring him or her to interview a stream of unsuspecting inside candidates can be a waste of time for everyone. *Inbreeding* is another potential drawback. Here there may be a tendency to maintain the status quo, when a new direction is required.

Finding Internal Candidates

Hiring from within ideally relies on job posting and the firm's skills inventories. **Job posting** means publicizing the open job to employees (usually by literally posting it on company intranets or bulletin boards). These postings list the job's attributes, like qualifications, supervisor, work schedule, and pay rate. *Qualifications skills banks* may reveal persons who have the right skill sets for the open job.

Rehiring

Rehiring separated employees has pros and cons. On the plus side, former employees are known quantities and are already familiar with how you do things. On the other hand, employees who you let go may return with negative attitudes. A recent survey found that about 26% of employers who had laid people off recently planned to bring some back.²³

job posting

Publicizing an open job to employees (often by literally posting it on bulletin boards) and listing its attributes, like qualifications, supervisor, working schedule, and pay rate.

In any event, you can reduce adverse reactions. After employees have been back on the job for a while, credit them with the years of service they had accumulated before they left. In addition, inquire (before rehiring them) about how they feel about returning: “You don’t want someone coming back who feels they’ve been mistreated,” said one manager.²⁴

Succession Planning

succession planning

The ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance.

Hiring from within is particularly important when it involves filling the employer’s top positions. Doing so requires **succession planning**—the ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance.²⁵ About 36% of employers have formal succession planning programs.²⁶ Succession planning should conform to basic talent management principles. In particular, the key is to create a profile of the competencies that the firm’s strategy will require the new CEO to have. Then use that profile to formulate an integrated development/appraisal/selection package for potential candidates.

In any case, the basic process is to identify key needs, develop candidates, and assess and choose those to fill the key positions.²⁷

IDENTIFY KEY NEEDS First, based on the company’s strategic and business plans, top management and the HR director identify what the company’s future key position needs will be. Matters to address at this stage include defining key positions, defining “high potentials,” enlisting top management support, and reviewing the company’s current talent. (Thus, plans to expand abroad may suggest bulking up the international division.)²⁸

DEVELOP INSIDE CANDIDATES After identifying future key positions, management turns to creating candidates for these jobs. “Creating” means providing the inside or outside candidates you identify with the developmental experiences they require to be viable candidates. Employers develop high-potential employees through internal training and cross-functional experiences, job rotation, external training, and global/regional assignments.²⁹

ASSESS AND CHOOSE Finally, succession planning requires assessing these candidates and selecting those who will actually fill the key positions.³⁰



Improving Productivity through HRIS

Succession and Talent Planning Systems

More large employers use software to facilitate succession planning and talent management. These systems “[c]apture and search for information about employee competencies, skills, certifications, and experience . . . [and] [a]ssess employees on key areas of leadership potential, job performance, and risk of leaving; [and] [t]arget employees for future roles.”³¹ As the user of one such system said, “The [SumTotal] platform allows us to track and assess the talent pool and promote people within the company. Our latest metrics show that 75% of key openings are fulfilled by internal candidates. The succession module helps us to identify who the next senior managers could be and build development plans to help them achieve their potential.”³²

Succession planning is part of talent management. When a new president took over at Dole Food Co., his strategy involved reducing redundancies and centralizing certain activities, including succession planning.³³

Technology helped Dole do this. It contracted with application system providers (ASPs) to handle things like payroll management. For succession management, Dole chose software from Pilat NAI, which keeps all the data on its own servers for a monthly fee. Dole’s managers access the program via the Web using a password. They fill out online résumés, including competencies and career interests, and note geographic restrictions.

Once the manager provides his or her input, the program notifies that manager’s boss. The latter then assesses the subordinate and indicates whether the person should be promoted. Dole’s head of human resources uses the information to create career development plans for each manager.³⁴



SOURCES OF OUTSIDE CANDIDATES

Firms can’t always get all the employees they need from their current staff, and sometimes they just don’t want to. Often, they turn to outside candidates.

LEARNING OBJECTIVE 5

List and discuss the main sources of outside candidates.

Recruiting via the Internet

For most employers and for most jobs, Internet-based recruiting is by far the recruiting source of choice.³⁵ For example, restaurant chain The Cheesecake Factory gets about a third of its management applicants via the Web. Most employers recruit through their own websites or use job boards. Figure 7 highlights some top online recruiting job boards. Job boards account for about 12% of recent hires. Other major sources include company websites, and referrals, plus others such as temp to hire, rehires, and employment agencies. Increasingly, employers also use niche job boards such as jobsinsports.com and vetjobs.com.³⁶

One problem is that many job board applicants don't meet the job's qualifications. One recruiter said, "[R]ecruiters had to put in all this extra time to read [useless] applications." This company now has recruiters dig through social websites (like LinkedIn) and competitors' publications to find applicants.³⁷ (Twenty-eight percent of applicants recently surveyed *found* their most recent job through word of mouth, 19% through online job boards, 16% from direct approaches

FIGURE 7
Some Top Online Recruiting Job Boards

Source: www.quintcareers.com/top_10_sites.html, accessed April 28, 2009. Used with permission of QuintCareers.com.

The screenshot shows the Quintessential Careers website interface. At the top, it says "QUINTESSENTIAL CAREERS™ Your Job Search Starts Here". Below this is a navigation bar with options: "I am a...", "Student", "Job-Seeker", "Career-Changer", "Coach-Counselor", and "Other Visitor".

On the left side, there are sections for "Job-Hunting Tools:", "Career Tools:", and "Other Navigation:". The "Job-Hunting Tools" section includes links for "Search for Jobs" and "Post Your Resume". The "Career Tools" section includes links for "Career Resources", "Career Articles", "Career Tutorials", "College Planning", "Free Career Newsletter", "Job-Career Resources", "Job-Search Samples", and "Search This Site".

The main content area is titled "The Top 10 Other Job Web Sites for Job-Seekers". It includes a search box for "Quintessential Job Search:" with fields for "What (job, keywords, company)", "Where (city, state, zip code)", and a "Find Jobs!" button. Below the search box is a list of 10 job sites with their logos:

- YAHOO! HotJobs
- JobCentral.com
- CollegeRecruiter
- CareerBuilder
- Monster.com
- Hound
- Career.com
- Indeed.com
- Simply Hired
- Net-Temps.com

At the bottom of the page, there is a small advertisement for "Great Careers in hair, skin & nails" from "empire beauty schools" with a "Find your school here!" button.

from employers and employment services, 7% through print ads, and only 1% through social media sites. Yet 22% said they still use sites like LinkedIn to search for jobs).³⁸

In any event, employers are pursuing other online options. The CareerBuilder.com iPhone app offers a unique way to search nearly 2 million jobs on CareerBuilder.com, the largest U.S. job site.³⁹ Users can search for jobs by keyword, read job descriptions and salaries, save jobs to a list of favorites, and e-mail job links to anyone on their contact list. Users may direct it to search only for jobs near where they are located, and the application displays a map of where each job is located.

Recruiting for professionals and managers is shifting from job boards to social networking sites such as Facebook, Twitter, and LinkedIn.⁴⁰ For example, Science Applications International Corp. cut the job boards it uses. Now its recruiters search for candidates on professional social networks instead. One Massachusetts staffing firm uses its Facebook and LinkedIn pages to announce openings. Other firms use Twitter to announce job openings to jobseekers who subscribe to their Twitter feeds.⁴¹ LinkedIn facilitates developing personal relationships for networking and referrals.⁴²

As another example, accountants Deloitte Touche Tohmatsu Ltd. asked employees to make short videos describing their experiences with Deloitte, and posted the best on YouTube.⁴³ Monster has a tool that helps employers integrate streaming video into their job postings.⁴⁴ Facebook makes it easy to start a company networking site, which many employers use for recruiting purposes.⁴⁵

ResumePal, from the career site JobFox (www.jobfox.com/), is another recruiting innovation. ResumePal is an online standard universal job application. Jobseekers submit it to participating employers, who can then use the standardized application's keywords to identify viable candidates more easily.⁴⁶ McDonald's Corp. posted a series of employee testimonials on social networking sites like Second Life as a way to attract applicants.⁴⁷ Other employers simply screen through job boards' résumé listings.⁴⁸

TEXTING Some employers use text messaging to build an applicant pool. For example, at one conference, Hewitt Associates asked attendees to text message *hewdiversity* to a specific number. Each person texting became part of Hewitt's "mobile recruiting network," periodically receiving text messages regarding Hewitt openings.⁴⁹

THE DOT-JOBS DOMAIN The *dot-jobs* domain gives job seekers a one-click conduit for finding jobs at the employers who register at www.goto.jobs. For example, applicants seeking a job at Disneyland can go to www.Disneyland.jobs. This takes them to Disney's Disneyland recruiting website.

VIRTUAL JOB FAIRS Virtual (fully online) job fairs are another option. For example, the magazine *PR Week* organized such a fair for about a dozen public relations employers. At a virtual job fair, online visitors see a setup very similar to a regular job fair. They can listen to presentations, visit booths, leave résumés and business cards, participate in live chats, and get contact information from recruiters, HR managers, and even hiring managers.⁵⁰

TRENDS IN ONLINE RECRUITING By some estimates, U.S. employers' outlays on online recruitment could exceed \$10 billion per year by 2016. Employers and vendors are therefore working hard to optimize online recruiting's results.⁵¹

Modern online recruiting trends fall into three basic categories. The first is the *virtual office tour*. In China, for instance the local office of Accountants Deloitte Touche Tohmatsu Ltd. posted a virtual office tour on Weibo, which is similar to Twitter's messaging service. People visiting the site can virtually enter each of the company's offices in Asia, for instance walking through meeting rooms and talking virtually with local employees, to get a feel for what working in that office is like. Also in China, Marriott International is launching a *career interests* social game on Renren (similar to Facebook). The aim here is to give prospective entry-level employees a better feel for what it's like to actually run a hospitality business.

Intelligent automated résumé screening is the third category. As we will see, employers have long used online applicant tracking software to identify likely candidates based on résumé keywords or phrases (such as "chemical engineer"). However, basic keyword screens like these won't necessarily zero in on potential candidates who are the best fit for the hiring employer and job. Start-up websites as well as established recruiting companies such as

monster.com are therefore taking automated résumé screening to the next level. For example, rather than just trying to find a match based on keywords, monster.com's new 6Sense résumé search tool aims to better "understand" the applicant's job preferences (based on things such as the person's job history,) and to thereby better match applicants with available jobs. Other services (as noted) such as Jobfox, have applicants and employers complete detailed questionnaires so that (as with online dating sites) there's hopefully a better potential match, for instance in terms of work life preferences.

ONLINE RECRUITING PROS AND CONS Web-based recruiting generates more responses quicker and for a longer time at less cost than just about any other method. But, it has two big potential problems.

First, fewer older people and some minorities use the Internet, so online application gathering may inadvertently exclude disproportionate numbers of older applicants (and certain minorities).⁵²

The second problem is a deluge of résumés. The key is getting qualified applicants. Job applicants view ads with more specific job information as more attractive and more useful.⁵³ The Cheesecake Factory lists detailed job duties, so those not interested need not apply. Another approach is to have job seekers complete a short online prescreening questionnaire. They then use these to identify those who may proceed in the hiring process.⁵⁴ Most employers also use applicant tracking systems, to which we now turn.

applicant tracking systems

Online systems that help employers attract, gather, screen, compile, and manage applicants.

USING APPLICANT TRACKING Online ads tend to generate so many applicants that most firms use applicant tracking systems to support their on- and offline recruiting efforts. **Applicant tracking systems** (from firms such as Taleo Corp. and iTrack Solutions) are online systems that help employers attract, gather, screen, compile, and manage applicants.⁵⁵ They also provide other services, including requisitions management (for monitoring the firm's open jobs), applicant data collection (for scanning applicants' data into the system), and reporting (to create various recruiting-related reports such as cost per hire and hire by source).⁵⁶ Most are from *application service providers* (ASPs). The latter are companies that provide employers with online services by enabling the employer's applicants or employees to use the ASP's servers as if they're using the employer's own. For example, applicants who apply or log on to take a test at the employer are actually applying and taking the test at the ASP's site.⁵⁷ Major suppliers of e-recruiting services include Automatic Data Processing (ADP.com), HRSmart (hrsmart.com), Silkroad Technology (silkroad.com), and Monster (monster.com).⁵⁸

IMPROVING ONLINE RECRUITING EFFECTIVENESS Again, attracting qualified applicants is crucial. Most Standard & Poor's 500 companies place employment information one click away from their home pages.⁵⁹ Applicants can submit their résumés online at almost all *Fortune* 500 firms' websites. Fewer companies give job seekers the option of completing online applications, although that's what most applicants prefer.⁶⁰

One survey of 256 alumni from graduate business schools showed why many firms' Web-based recruiting turned them off:

- Job openings lacked relevant information (such as job descriptions).
- Difficulty in posting résumés in the form required.
- Many respondents expressed concerns about the privacy of the information.
- Slow feedback from the employers (in terms of follow-up responses and receiving online applications) was annoying.⁶¹

Furthermore, the best Web ads don't just transpose newspaper ads to the Web. As one specialist put it, "[G]etting recruiters out of the 'shrunken want ad mentality' is a big problem." Figure 8 is an example of recycling a print ad to the Web. The ineffective Web ad has needless abbreviations, and doesn't say much about why the job seeker should want that job.⁶²

Now look at the effective Web ad in Figure 8. It uses compelling keywords such as "make this a better world." It provides good reasons to work for this company. It starts with an attention-grabbing heading and uses the extra space to provide more specific job information. Many employers often include the entire job description.⁶³ Ideally, an ad also should provide a way (such as a checklist of the job's human requirements) for potential applicants to gauge if the job is a good fit.⁶⁴

FIGURE 8
Ineffective and Effective
Web Ads

Ineffective Ad, Recycled from Magazine to the Web	Effective Web Ad (Space Not an Issue)
Process Engineer Pay: \$65k–\$85k/year	Do you want to help us make this a better world?
Immediate Need in Florida for a Wastewater Treatment Process Engineer. Must have a min. 4–7 years Industrial Wastewater exp. Reply KimGD@WatersCleanX.com	We are one of the top wastewater treatment companies in the world, with installations from Miami to London to Beijing. We are growing fast and looking for an experienced process engineer to join our team. If you have at least 4–7 years' experience designing processes for wastewater treatment facilities and a dedication to make this a better world, we would like to hear from you. Pay range depending on experience is \$65,000–\$85,000. Please reply in confidence to KimGD@WatersCleanX.com

Advertising

While online recruiting is replacing help wanted ads, a glance at almost any paper or business or professional magazine will confirm that print ads are still popular. To use help wanted ads successfully, employers should address two issues: the advertising medium and the ad's construction.

THE MEDIA The best medium—the local paper, the *Wall Street Journal*, the Web (or some other)—depends on the position. For example, the local newspaper is often a good source for local blue-collar help, clerical employees, and lower-level administrative employees. On the other hand, if recruiting for workers with special skills, such as furniture finishers, you'd probably want to advertise in places with many furniture manufacturers, such as the Carolinas, even if your plant is in Tennessee. The point is to target your ads where they'll reach your prospective employees.

For specialized employees, you can advertise in trade and professional journals like *American Psychologist*, *Sales Management*, *Chemical Engineering*, and *Women's Wear Daily*. Help wanted ads in papers like the *Wall Street Journal* and the *International Herald Tribune* can be good sources of middle- or senior-management personnel. Most of these print outlets now include online ads with the purchase of print help wanted ads.

In addition to using YouTube recruiting videos, Electronic Arts (EA), a video game publisher, uses its products to help solicit applicants.⁶⁵ EA includes information about its internship program on the back of its video game manuals. It then uses tracking software to identify applicants with specific skills, and to facilitate ongoing e-mail communications with everyone in its database.

CONSTRUCTING (WRITING) THE AD Experienced advertisers use the guide AIDA (attention, interest, desire, action) to construct ads. First you must attract attention to the ad. Figure 9 shows an ad. Why does this ad attract attention? The phrase “next key player” helps. Employers usually advertise key positions in display ads like this.

Next, you can create interest with lines such as “Are you looking to make an impact?” or use other aspects of the job, such as its location.

Create desire by spotlighting words such as *travel* or *challenge*. As an example, having a graduate school nearby may appeal to engineers and professional people.

Finally, the ad should prompt action with a statement like “call today.” (Of course, the ad should also comply with equal employment laws, avoiding features like “man wanted.”)

If the job has big drawbacks, then consider a realistic ad. When the New York City Children's Services Administration was having problems with employee retention, it began using these ads: “Wanted: men and women willing to walk into strange buildings in dangerous neighborhoods, [and] be screamed at by unhinged individuals. . . .” Realism reduces applicants, but improves employee retention.⁶⁶

FIGURE 9

Help Wanted Ad That Draws Attention

Source: Giombetti Associates, Hampden, MA. Reprinted with permission.

Are You Our Next Key Player?

PLANT CONTROLLER

Northern New Jersey

Are you looking to make an impact? Can you be a strategic business partner and team player, versus a classic, "bean counter"? Our client, a growing **Northern New Jersey** manufacturer with two locations, needs a high-energy, self-initiating, technically competent Plant Controller. Your organizational skills and strong understanding of general, cost, and manufacturing accounting are a must. We are not looking for a delegator, this is a hands-on position. If you have a positive can-do attitude and have what it takes to drive our accounting function, read on!

Responsibilities and Qualifications:

- Monthly closings, management reporting, product costing, and annual budget.
- Accurate inventory valuations, year-end physical inventory, and internal controls.
- 4-year Accounting degree, with 5–8 years experience in a manufacturing environment.
- Must be proficient in Microsoft Excel and have general computer skills and aptitude.
- Must be analytical and technically competent, with the leadership ability to influence people, situations, and circumstances.

If you have what it takes to be our next key player, tell us in your cover letter, "Beyond the beans, what is the role of a Plant Controller?" **Only cover letters addressing that question will be considered. Please indicate your general salary requirements in your cover letter and email or fax your resume and cover letter to:**

Ross Giombetti
Giombetti Associates
 2 Allen Street, P.O. Box 720
 Hampden, MA 01036
 Email: Rossgiomibetti@giombettiassoc.com
 Fax: (413) 566-2009



Employment Agencies

There are three main types of employment agencies: (1) public agencies operated by federal, state, or local governments; (2) agencies associated with nonprofit organizations; and (3) privately owned agencies.

PUBLIC AND NONPROFIT AGENCIES Every state has a public, state-run employment service agency. The U.S. Department of Labor supports these agencies, through grants and through other

Every state has a public, state-run employment service agency.

Source: Mark Buckner/MCT/Newscom



assistance such as a nationwide computerized job bank. The National Job Bank enables agency counselors to advise applicants about available jobs in other states as well.

Some employers have mixed experiences with public agencies. For one thing, applicants for unemployment insurance are required to register and to make themselves available for job interviews. Some of these people are not interested in returning to work, so employers can end up with applicants who have little desire for immediate employment. And fairly or not, employers probably view some of these local agencies as lethargic in their efforts to fill area employers' jobs.

Yet these agencies are useful. Counselors will visit an employer's work site, review the employer's job requirements, and even assist the employer in writing job descriptions. Most states have turned their local state employment service agencies into "one-stop" shops—neighborhood training/employment/educational services centers.⁶⁷ One user said, "I've made this place like a second home."⁶⁸ At Oregon State's centers, job seekers use "iMatch" skills assessment software, while employers use the center's online recruitment tools.⁶⁹ More employers should be taking advantage of these centers (formerly the "unemployment offices" in many cities).

Most (nonprofit) professional and technical societies, such as the Institute for Electrical and Electronic Engineers (IEEE), have units that help members find jobs. Many special public agencies place people who are in special categories, such as those who are disabled.

PRIVATE AGENCIES Private employment agencies are important sources of clerical, white-collar, and managerial personnel. They charge fees (set by state law and posted in their offices) for each applicant they place. Most are "fee-paid" jobs, in which the employer pays the fee.

Reasons to use such agencies include:

1. Your firm doesn't have its own human resources department and feels it can't do a good job recruiting and screening.
2. You must fill an opening quickly.
3. There is a perceived need to attract more minority or female applicants.
4. You want to reach currently employed individuals, who might feel more comfortable dealing with agencies than with competing companies.
5. You want to reduce the time you devote to recruiting.⁷⁰

Yet using employment agencies requires avoiding the potential pitfalls. For example, the employment agency's screening may let poor applicants go directly to the supervisors responsible for hiring, who may in turn naively hire them. Conversely, improper screening at the agency could block potentially successful applicants.

To help avoid problems:

1. Give the agency an accurate and complete job description.
2. Make sure tests, application blanks, and interviews are part of the agency's selection process.
3. Periodically review EEOC data on candidates accepted or rejected by your firm, and by the agency.
4. Screen the agency. Check with other managers to find out which agencies have been the most effective at filling the sorts of positions you need filled. Review the Internet and classified ads to discover the agencies that handle the positions you seek to fill.
5. Supplement the agency's reference checking by checking at least the final candidate's references yourself.

Temp Agencies and Alternative Staffing

Employers increasingly supplement their permanent workforces by hiring contingent or temporary workers, often through temporary help employment agencies. Also known as *part-time* or *just-in-time workers*, the contingent workforce is big and growing. Recently, about 26% of all jobs private-sector employers added were temporary positions, two to three times the comparable figures for the last two recessions.

Several things contribute to the trend toward using more temporary employees. One is continuing weak economic confidence among employers. Another is the trend towards organizing around short-term projects. For example, Makino, which manufactures machine tools, now out-sources the installation of large machines to contract firms, who in turn hire temps to do the

installations. Flexibility is another concern, with more employers wanting to quickly reduce employment levels if the economic turnaround proves short-lived.⁷¹

The contingent workforce isn't limited to clerical or maintenance staff. It includes thousands of engineering, science, or management support occupations, such as temporary chief financial officers, human resource managers, and chief executive officers.

Employers can hire temp workers either through direct hires or through temporary staff agencies. Direct hiring involves simply hiring workers and placing them on the job. The employer usually pays these people directly, as it does all its employees, but classifies them separately, as casual, seasonal, or temporary employees, and often pays few if any benefits.⁷² The other approach is to have a temp agency supply the employees. Here the agency handles all the recruiting, screening, and payroll administration for the temps. Thus, Nike hired Kelly Services to manage Nike's temp needs.

When working with temporary agencies, ensure that basic policies and procedures are in place.⁷³ For example, with temps, the time sheet is not just a verification of hours worked. It's usually also an agreement to pay the agency's fees. What is the policy if the client wants to hire one of the agency's temps as a permanent employee? How does the agency plan to recruit employees? Did you get a document from the agency stating the agency doesn't discriminate when filling temp orders? Checking a temporary agency's references and its listing with the Better Business Bureau is advisable.⁷⁴

LEGAL AND OTHER TEMP GUIDELINES Several years ago, federal agents rounded up about 250 illegal "contract" cleaning workers in 60 Walmart stores. The raid underscores the need to understand the status of the contract employees who work on your premises.⁷⁵ The fact that they actually work for a temp company is no excuse. With certain exceptions, employees of temporary staffing firms working in an employer's workplace will be considered employees both of the agency and of the employer (who thus become "co-employers").⁷⁶ Is the employer liable? This basically comes down to the degree to which its supervisors control the temp employee's activities. So, for example, have the staffing agency handle training and set pay rates and time-off policies.

Employers can take other steps to minimize contingent worker risks. For example, require the staffing agency to follow the hiring employer's background checking process and to assume the legal risks if the employer and agency are found to be co-employers. Keep a careful count of how many temporary employees and independent contractors the company actually has. Screen and supervise temporary employees with an understanding that they may have access to your firm's intellectual property and computer systems.⁷⁷

WHAT SUPERVISORS SHOULD KNOW ABOUT TEMPORARY EMPLOYEES' CONCERNS To make temporary relationships successful, managers supervising temps should understand these employees' main concerns. In one survey, five key concerns emerged. Temporary workers said they were:

1. Treated by employers in a dehumanizing way.
2. Insecure about their employment and pessimistic about the future.
3. Worried about their lack of insurance and pension benefits.
4. Misled about their job assignments and whether temporary assignments were likely to become full time.
5. "Underemployed" (particularly those trying to return to the full-time labor market).⁷⁸

ALTERNATIVE STAFFING Temporary employees are examples of **alternative staffing**—basically, the use of nontraditional recruitment sources. Other alternative staffing arrangements include "in-house temporary employees" (people employed directly by the company, but on an explicit short-term basis) and "contract technical employees" (highly skilled workers like engineers, who are supplied for long-term projects under contract from an outside technical services firm).

Offshoring and Outsourcing Jobs

Rather than bringing people in to do the company's jobs, outsourcing and offshoring send the jobs out. *Outsourcing* means having outside vendors supply services (such as benefits management, market research, or manufacturing) that the company's own employees previously did in-house. *Offshoring* is a narrower term. It means having outside vendors or employees *abroad* supply services that the company's own employees previously did in-house.

alternative staffing

The use of nontraditional recruitment sources.

Outsourcing and offshoring are both contentious. Particularly in challenging economic times, employees, unions, legislators, and even many business owners feel that “shipping jobs out” (particularly overseas) is ill-advised. That notwithstanding, employers are sending more jobs out, and not just blue-collar jobs. For example, GE’s transportation division announced that it was shifting 17 mid-level drafting jobs from Pennsylvania to India.⁷⁹

Sending out jobs, particularly overseas, presents employers with some special challenges. There is the potential for political unrest. Others include the likelihood of cultural misunderstandings (such as between your home-based customers and the employees abroad); security and information privacy concerns; the need to deal with foreign contract, liability, and legal systems issues; and the fact that the offshore employees need special training (for instance, in using pseudonyms like “Jim” without discomfort). Rising overseas wages, higher oil prices, and quality issues are prompting more U.S. employers to bring jobs back home.⁸⁰ The bottom line is that outsourcing and offshoring don’t always produce the savings one hopes for.

Executive Recruiters

Executive recruiters (also known as *headhunters*) are special employment agencies employers retain to seek out top-management talent for their clients. The percentage of your firm’s positions filled by these services might be small. However, these jobs include key executive and technical positions. For executive positions, headhunters may be your only source of candidates. The employer always pays the fees.

There are two types of executive recruiters—contingent and retained. Members of the Association of Executive Search Consultants usually focus on executive positions paying \$150,000 or more, and on “*retained* executive search.” They are paid regardless of whether the employer hires the executive through the search firm’s efforts. *Contingency-based recruiters* tend to handle junior- to middle-level management job searches in the \$50,000 to \$150,000 range. Whether retained or contingent, fees are dropping from the usual 30% or more of the executive’s first-year pay.⁸¹ Top recruiters (all retained) include Heidrick and Struggles, Egon Zehnder International, Russell Reynolds, and Spencer Stuart.⁸²

Executive recruiters are using more technology. The challenging part of recruiting has always been finding potential candidates—to find, say, “a sales manager with experience in chemical engineered products.” Internet-based databases now dramatically speed up such searches. Executive recruiters are also becoming more specialized. The large ones are creating new businesses aimed at specialized functions (such as sales) or industries (such as oil products). So, it’s advisable to look first for a specialist.

PROS AND CONS Recruiters bring a lot to the table. They have many contacts and are especially adept at finding qualified employed candidates who aren’t actively looking to change jobs. They can keep your firm’s name confidential until late into the search process. The recruiter can save top management’s time by finding and screening an applicant pool. The recruiter’s fee might actually turn out to be small when you compare it to the executive time saved.

The big issue is ensuring that the recruiter really understands your needs and then delivers properly vetted candidates who fill the bill. The employer must explain completely what sort of candidate is required—and why. Some recruiters also may be more interested in persuading you to hire a candidate than in finding one who will really do the job. Understand that one or two of the “final candidates” may actually just be fillers to make the recruiter’s one “real” candidate look better.

GUIDELINES In choosing a recruiter, guidelines include:⁸³

1. Make sure the firm is capable of conducting a thorough search. Under their ethics code, a recruiter can’t approach the executive talent of a former client for a period of 2 years after completing a search for that client. Since former clients are off-limits for 2 years, the recruiter must search from a constantly diminishing pool.⁸⁴
2. Meet the individual who will actually handle your assignment.
3. Make sure to ask how much the search firm charges. Get the agreement in writing.⁸⁵
4. Make sure the recruiter and you see eye to eye on what sort of person you need for the position.
5. *Never* rely solely on the executive recruiter (or other search professional, such as employment agency) to do all the reference checking. Certainly let them check the candidates’ references, but get notes of these references in writing from the recruiter (if possible). And, in any event, check at least the final candidate’s references yourself.

on-demand recruiting services (ODRS)

Services that provide short-term specialized recruiting to support specific projects without the expense of retaining traditional search firms.

college recruiting

Sending an employer's representatives to college campuses to prescreen applicants and create an applicant pool from the graduating class.

On-Demand Recruiting Services

On-demand recruiting services (ODRS) provide short-term specialized recruiting assistance to support specific projects without the expense of retaining traditional search firms. They are paid by the hour or project, instead of a percentage fee. For example, when the human resource manager for a biotech firm had to hire several dozen people with scientific degrees and experience in pharmaceuticals, she used an ODRS firm. A traditional recruiting firm might charge 20% to 30% of each hire's salary, a prohibitive amount for a small company. The ODRS firm charged by time, rather than per hire. It handled recruiting and prescreening, and left the client with a short list of qualified candidates.⁸⁶

College Recruiting

College recruiting—sending an employer's representatives to college campuses to prescreen applicants and create an applicant pool from the graduating class—is an important source of management trainees and professional and technical employees. One study several years ago concluded, for instance, that new college graduates filled about 38% of all externally filled jobs requiring a college degree.⁸⁷

The problem is that on-campus recruiting is expensive and time-consuming. Schedules must be set well in advance, company brochures printed, interview records kept, and much time spent on campus. And recruiters themselves are sometimes ineffective. Some recruiters are unprepared, show little interest in the candidate, and act superior. Many don't screen candidates effectively. Employers need to train recruiters in how to interview candidates, how to explain what the company has to offer, and how to put candidates at ease. And even more than usual, the recruiter needs to be personable.⁸⁸ GE hires 800 to 1,000 students each year from about 40 schools, and uses teams of employees and interns to build GE's brand at each school. Similarly, IBM has 10 recruiting staff who focus on improving the results of IBM's on-campus recruiting efforts.⁸⁹



The campus recruiter has two main goals. One is to determine if a candidate is worthy of further consideration. The other is to attract good candidates.

Source: Yuri Arcurs/Shutterstock

ON-CAMPUS RECRUITING GOALS The campus recruiter has two main goals. One is to determine if a candidate is worthy of further consideration. Usual traits to assess include communication skills, education, experience, and interpersonal skills. The other aim is to attract good candidates. A sincere and informal attitude, respect for the applicant, and prompt follow-up letters can help sell the employer to the interviewee. Employers who send effective recruiters to campus and build relationships with opinion leaders such as career counselors and professors have better recruiting results.⁹⁰

Building close ties with a college's career center can help employers achieve these goals. Doing so provides recruiters with useful feedback regarding things like labor market conditions and the effectiveness of one's on- and offline recruiting ads.⁹¹ Shell Oil reduced the list of schools its recruiters visit, using factors such as quality of academic program, number of students enrolled, and diversity of the student body.⁹²

THE ON-SITE VISIT Employers generally invite good candidates to the office or plant for an on-site visit. The invitation should be warm but businesslike, and should give the person a choice of dates to visit. Have someone meet the applicant, preferably at the airport or at his or her hotel, and act as host. A package containing the applicant's schedule as well as other information regarding the company—such as annual reports and employee benefits—should be waiting for the applicant at the hotel.

Plan the interviews and adhere to the schedule. Avoid interruptions; give the candidate the undivided attention of each person with whom he or she interviews. Have another recently hired graduate host the candidate's lunch. Make any offer as soon as possible, preferably at the visit. If this is not possible, tell the candidate when to expect a decision. Frequent follow-ups to "find out how the decision process is going" may help to tilt the applicant in your favor.

A study of 96 graduating students reveals some other things to watch out for. For example, 53% said "on-site visit opportunities to meet with people in positions similar to those applied

for, or with higher-ranking persons” had a positive effect. Fifty-one percent mentioned, “Impressive hotel/dinner arrangements and having well-organized site arrangements.” “Disorganized, unprepared interviewer behavior, or uninformed, useless answers” turned off 41%. Forty percent mentioned “unimpressive cheap hotels, disorganized arrangements, or inappropriate behavior of hosts” as negatives.⁹³

INTERNSHIPS Many college students get their jobs through college internships. Internships can be win–win situations. For students, it may mean being able to hone business skills, learn more about potential employers, and discover their career likes (and dislikes). And employers can use the interns to make useful contributions while evaluating them as possible full-time employees. Recently, about 60% of internships turned into job offers.⁹⁴ Unfortunately, with the recent recession, many unemployed grads have taken unpaid internships, only to find they are doing little more than cleaning office closets and getting managers lunches.⁹⁵

Referrals and Walk-Ins

Employee referral campaigns are an important recruiting option. Here the employer posts announcements of openings and requests for referrals on its website, bulletin board, and/or wall-boards. It often offers prizes or cash awards for referrals that lead to hiring. For example, health care giant Kaiser Permanente says, “Our employee referral program encourages you to introduce your talented friends, family members, or former colleagues to career opportunities at Kaiser Permanente.” Referring someone for one of its “award-eligible positions” can produce bonuses of \$3,000 or more.⁹⁶ The Container Store uses a successful variant of the employee referral campaign. They train their employees to recruit new employees from among the firm’s customers.

PROS AND CONS The big advantage here is that referrals tend to generate “more applicants, more hires, and a higher yield ratio (hires per applicants).”⁹⁷ Current employees will usually provide accurate information about the job applicants they are referring, since they’re putting their own reputations on the line. The new employees may also come with a more realistic picture of what the firm is like. A survey by the Society for Human Resource Management (SHRM) found that of 586 employer respondents, 69% said employee referral programs are more cost-effective than other recruiting practices, and 80% specifically said they are more cost-effective than employment agencies.⁹⁸

There are a few things to avoid. If morale is low, you probably should address that prior to asking for referrals. And if you don’t hire someone, explain to your employee referrer why you did not hire his or her candidate. And, as we saw, relying on referrals might be discriminatory.

WALK-INS Particularly for hourly workers, walk-ins—direct applications made at your office—are a big source of applicants. From a practical point of view, simply posting a “Help

The Container Store trains its employees to recruit new employees from among the firm’s customers.

Source: David Paul Morris/Getty Images, Inc. Liaison



Wanted” sign outside the door may be the most cost-effective way of attracting good local applicants. Treat walk-ins courteously and diplomatically, for both the employer’s community reputation and the applicant’s self-esteem. Many employers give every walk-in a brief interview, even if it is only to get information on the applicant “in case a position should be open in the future.” Particularly in challenging times, you’ll also receive many unsolicited application letters from professional and white-collar applicants. These can be good sources of leads. Good business practice requires answering all letters of inquiry from applicants promptly and courteously.

Telecommuters

Telecommuters are another option. For example, JetBlue Airways uses at-home agents to handle its reservation needs. These JetBlue employee “crewmembers” live in the Salt Lake City area and work out of their homes. They use JetBlue-supplied computers and technology, and receive JetBlue training.⁹⁹

Military Personnel

Returning and discharged U.S. military personnel provide an excellent source of trained recruits. Several military branches have programs to facilitate soldiers finding jobs. For example, the U.S. Army’s Partnership for Youth Success enables someone entering the Army to select a post-Army corporate partner for an employment interview as a way to help soldiers find a job after leaving the Army.¹⁰⁰

Recruiting Source Use and Effectiveness

Research reveals several guidelines employers can use to improve their recruiting efforts’ effectiveness (see Table 1). For example, referrals from current employees yield applicants who are less likely to leave and more likely to perform better.¹⁰¹

TABLE 1 Recruitment: Practical Guidelines for Managers

Recruitment Research Finding ^a	Practical Guidelines for Managers
The recruitment source affects the characteristics of applicants you attract.	Use sources such as referrals from current employees.
Recruitment materials have a more positive impact if they contain more specific information.	Provide applicants with information on aspects of the job that are important to them, such as salary, location, and diversity.
Organizational image influences applicants’ initial reactions.	Ensure all communications provide a positive message regarding the attractiveness of the organization as a place to work.
Applicants with a greater number of job opportunities are more attentive to early recruitment activities.	Ensure initial recruitment activities (e.g., website, brochure, on-campus recruiting) are attractive to candidates.
Realistic job previews that highlight both the advantages and the disadvantages of the job reduce subsequent turnover.	Provide applicants with a realistic picture of the job and organization, not just the positives.
Applicants will infer (perhaps erroneous) information about the job and company if the information is not clearly provided by the company.	Provide clear, specific, and complete information in recruitment materials so that applicants do not make erroneous inferences about the job.
Recruitment source also has a significant effect on reducing turnover.	Individuals recruited through personal recruitment sources such as employee referral programs are less likely to terminate their employment early.

^aSelected research principles from M. S. Taylor and C. J. Collins (2000), *Strategic Recruitment*, in C. L. Cooper & E. A. Locke. (Eds.) *I/O Psychology: Practice and Theory Book*. Oxford: Blackwell. Source: “Attracting and Selecting: What Psychological Research Tells Us” by Ann Marie Ryan and Nancy Tippins, from *Human Resource Management*, Winter 2004, Volume 43(4). Copyright © 2004 by Wiley Periodicals, Inc. Reprinted with permission of Wiley, Inc.


**KNOWLEDGE
BASE**
LEARNING OBJECTIVE 6

Explain how to analyze recruiting effort effectiveness.

Evidenced-Based HR: Measuring Recruiting Effectiveness

Is it more cost-effective for us to advertise for applicants on the Web or in Sunday's paper? Should we use this employment agency or that one? One survey found that only about 44% of the 279 firms surveyed formally evaluated their recruitment efforts.¹⁰²

Quantitative analysis is imperative. Recruiting metrics include applicants generated through each recruitment source,¹⁰³ new-hire job performance, new-hire failure rate, new-hire turnover, training success, vacancy rates (open positions divided by all positions), time to fill (days between when the vacancy was posted and the position was filled), cost per hire of hiring one position, selection ratios (number of the group selected divided by total number recruited), and turnover rates (number of employees leaving the firm divided by total number of positions in the company).¹⁰⁴

One problem is that more applicants are not always better. Someone hiring five engineers probably won't be twice as selective with 20,000 applicants as with 10,000. An Internet ad may generate thousands of applicants, many unqualified. The employer needs qualified, hireable applicants, not just applicants. Even with computerized prescreening and applicant tracking software, Internet recruiting still means more applicants to screen.¹⁰⁵ The applicant tracking system should help compare recruiting sources, but many do not.¹⁰⁶ The accompanying HR as a Profit Center illustrates the role human resources can play in boosting profitability.

HR AS A PROFIT CENTER

GE Medical Recruitment Process Outsourcing (RPO) Example

GE Medical hires about 500 technical workers a year to make sophisticated medical devices such as CT scanners. GE Medical must compete for talent with the likes of Microsoft. However, it has cut its hiring costs by 17%, reduced time to fill the positions by 20% to 30%, and cut in half the percentage of new hires who don't work out.¹⁰⁷

GE Medical's HR team accomplished this in part by applying some of its purchasing techniques to its dealings with recruiters. For example, it called a meeting and told 20 recruiters that it would work with only the 10 best. To measure "best," the company created measurements inspired by manufacturing techniques, such as "percentage of résumés that result in interviews" and "percentage of interviews that lead to offers." Similarly, GE Medical discovered that current employees are very effective as references. For instance, GE Medical interviews just 1% of applicants whose résumés it receives, while 10% of employee referrals result in actual hires. So GE Medical took steps to double the number of employee referrals. It simplified the referral forms, eliminated bureaucratic submission procedures, and added a small reward like a Sears gift certificate for referring a qualified candidate. GE also upped the incentive—\$2,000 if someone referred is hired, and \$3,000 if he or she is a software engineer.¹¹³

GE is also moving to cut costs by using recruitment process outsourcers. *Recruitment process outsourcers* (RPOs) are special vendors that handle all or most of an employer's recruiting tasks and needs. RPOs became more popular during the recent recession. Employers were understandably reluctant to hire employees or to keep the in-house recruiters needed to do such recruiting. RPOs usually sign short-term contracts with the employer, and receive a basic monthly fee that varies with the amount of actual recruiting the employer needs done. Employers like GE can therefore easily ramp up or ramp down its recruiting expenses, rather than pay the relatively fixed costs of an in-house recruitment office.¹⁰⁸



Improving Productivity through HRIS

An Integrated Approach to Recruiting

Ideally, the employer's integrated computerized recruitment system should include several elements: a *requisition management system*, which handles requisition, routing, approval, and posting of job openings; a *recruiting solution*, to handle job advertisements, recruitment marketing, applicant tracking, and online recruitment vendor management, aimed at improving applicant pool quality; *screening services*, such as skills and behavioral testing services; and *hiring management* software to capture and manage candidate information.¹⁰⁹

LEARNING OBJECTIVE 7

Explain how to recruit a more diverse workforce.

RECRUITING A MORE DIVERSE WORKFORCE

Recruiting a diverse workforce isn't just socially responsible. Given the increase in minority, older worker, and women candidates, it is a necessity. The recruiting tools we have described to this point are certainly useful for minority and other applicants, too. However, recruiting a more diverse workforce requires several special steps, to which we now turn.¹¹⁰

Single Parents

Recently, about 65% of single mothers with children at home were in the workforce, while about 80% of single fathers were similarly employed. Being a single parent isn't easy. Recruiting them requires understanding the problems they face in balancing work and family life.¹¹¹ In one survey,

Many described falling into bed exhausted at midnight without even minimal time for themselves. . . . They often needed personal sick time or excused days off to care for sick children. As one mother noted, "I don't have enough sick days to get sick."¹¹²

Given such concerns, the first step in attracting (and keeping) single parents is to make the workplace user friendly.¹¹³ This includes supportive supervisors.¹¹⁴ Many firms have family-friendly programs that aren't extensive enough for single parents. For example, *flextime* programs provide employees some flexibility (such as 1-hour windows at the beginning or end of the day) around which to build their workdays. The problem is that for many single parents this may not be enough. CNN even offered a Work/Life Balance Calculator (www.cnn.com/2008/LIVING/worklife/06/04/balance.calculator/) to assess how far out of balance one's life may be.¹¹⁵

Flexible work schedules and child care benefits are thus just two big single-parent magnets. In addition, a supportive supervisor can make the single parent's work-home balancing act more bearable.

Older Workers

When it comes to hiring older workers, employers don't have much choice.¹¹⁶ Over the next few years, the fastest-growing labor force segment will be those from 45 to 64 years old. Those ages 25 to 34 will decline by almost 3 million, reflecting fewer births in the late 1960s and early 1970s. On the positive side, a survey by AARP and SHRM concluded that older workers tend to have lower absenteeism rates, more reliability, and better work habits than younger workers.¹¹⁷ Firms like Home Depot capitalize on this by hiring older employees, who "serve as a powerful draw to baby boomer shoppers by mirroring their knowledge and perspective."¹¹⁸

It therefore makes sense for employers to encourage older workers to stay (or to come to work for the company). Doing so involves several things. The big one is to provide opportunities for flexible (and often abbreviated) work schedules. One survey found that flexibility was the main concern for 71% of baby boomers, with those who continue working preferring to do so part time.¹¹⁹ At one company, workers over 65 can progressively shorten their work schedules; another company uses "mini-shifts" to accommodate those interested in working less than full time. Other suggestions include:

- Phased retirement that allows workers to ease out of the workforce.
- Portable jobs for "snowbirds" who wish to live in warmer climates in the winter.
- Part-time projects for retirees.
- Full benefits for part-timers.¹²⁰

As always in recruiting, projecting the right image is essential. For example, writing the ad so that it sends the message "we're older-worker friendly" is important. The most effective ads emphasize schedule flexibility and accentuate the firm's equal opportunity employment statement. This is much more effective than adding statements about giving retirees opportunities to use their knowledge in the new work setting.¹²¹

Recruiting Minorities

The same prescriptions that apply to recruiting older workers apply to recruiting minorities. In practice, this requires a three-part effort: Understand the recruitment barriers, formulate the required recruitment plans, and institute the specific day-to-day programs.¹²²

UNDERSTAND First, understand the barriers that prevent minorities from applying. For example, many minority applicants don't meet the educational or experience standards for the job. Therefore many companies offer remedial training in basic arithmetic and writing. For others, lack of role models is a problem. For example, in one retail chain, it was a lack of role models (plus what the one manager called a "rather macho culture") that stopped women from applying. Sometimes it's a lack of schedule flexibility, given the responsibility for caring for the children.

PLAN After recognizing the potential impediments, you can turn to formulating plans for attracting and retaining minorities and women. This may include, for instance, developing flexible work options, redesigning jobs, and offering flexible benefits plans.

IMPLEMENT Finally, translate these personnel plans into recruitment programs. Specifically, decide what the ads will say and what recruiting sources you will use. Many job seekers check with friends or relatives as a strategy for looking for jobs, so encouraging your minority employees to assist in your recruitment efforts makes sense. Diversity recruitment specialists include www.diversity.com, www.2trabajo.com, and <http://recruitersnetwork.com/resources/diversity.htm>.

Other firms collaborate with specialist professional organizations. These include the National Black MBA Association (www.nbmbaa.org/home.aspx?PageID=637&), the National Society of Hispanic MBAs (www.nshmba.org/), and the Organization of Chinese Americans (<http://ocanational.org/>).

Welfare-to-Work

Some companies report difficulty in hiring and assimilating people previously on welfare. Applicants sometimes lack basic work skills, such as reporting for work on time, working in teams, and taking orders. The key to a welfare-to-work program's success seems to be the employer's pretraining program. Here, participants get counseling and basic skills training over several weeks.¹²³

The Disabled

The EEOC estimates that nearly 70% of the disabled are jobless, but it certainly doesn't have to be that way.¹²⁴ Thousands of employers have found that disabled employees provide an excellent and largely untapped source of competent, efficient labor for jobs ranging from information technology to creative advertising to receptionist.

Employers can do several things to tap this huge potential workforce. The U.S. Department of Labor's Office of Disability Employment Policy offers several programs, including one that helps link disabled college undergraduates who are looking for summer internships with potential employers.¹²⁵ All states have local agencies (such as "Corporate Connections" in Tennessee) that provide placement services and other recruitment and training tools and information for employers seeking to hire the disabled. Employers also must use common sense. For example, employers who only post job openings online may miss potential employees who are visually impaired.¹²⁶

DEVELOPING AND USING APPLICATION FORMS

Purpose of Application Forms

With a pool of applicants, the prescreening process can begin. The **application form** is usually the first step in this process (some firms first require a brief, prescreening interview or online test).


A filled-in application provides four types of information. First, you can make judgments on *substantive matters*, such as whether the applicant has the education and experience to do the job. Second, you can draw conclusions about the applicant's *previous progress* and growth, especially important for management candidates. Third, you can draw tentative conclusions about the applicant's *stability* based on previous work record (although years of downsizing suggest the need for caution here). Fourth, you may be able to use the data in the application to *predict* which candidates will succeed on the job and which will not.

application form

The form that provides information on education, prior work record, and skills.

FIGURE 10
FBI Employment Application

Source: FBI Preliminary Application for Honors Internship Program.



FEDERAL BUREAU OF INVESTIGATION

Preliminary Application for Honors Internship Program
(Please Type or Print in Ink)

Date: _____

FIELD OFFICE USE ONLY

HP

Div: _____ Program: _____

I. PERSONAL HISTORY

Name in Full (Last, First, Middle, Maiden)	List College(s) attended, Major, Degree (if applicable), Grade Point Average
Birth Date (Month, Day, Year) Birth Place: Current Address	Social Security Number: (Optional)
Street _____ Apt. No. _____ City _____ State _____ Zip Code _____	Home Phone _____ Area Code _____ Number _____ Work Phone _____ Area Code _____ Number _____
Are you: Licensed Driver <input type="checkbox"/> Yes <input type="checkbox"/> No U. S. Citizen <input type="checkbox"/> Yes <input type="checkbox"/> No	
Have you served on active duty in the Armed Forces of the United States? <input type="checkbox"/> Yes <input type="checkbox"/> No	
Branch of military service and dates of active duty: _____	
Type of Discharge _____	
How did you learn or become interested in the FBI Honors Internship Program?	
Do you have a foreign language background? <input type="checkbox"/> Yes <input type="checkbox"/> No List proficiency for each language on reverse side.	
Have you ever been arrested or charged with any violation including traffic, but excluding parking tickets? <input type="checkbox"/> Yes <input type="checkbox"/> No If so, list all such matters even if found not guilty, not formally charged, no court appearance, or matter settled by payment of fine or forfeiture of collateral. Include date, place, charge, disposition, details, and police agency on reverse side.	

II. EMPLOYMENT HISTORY

Identify your most recent three years FULL-TIME work experience, after high school (excluding summer, part-time and temporary employment).

From	To	Description of Work	Name/Location of Employer

III. PERSONAL DECLARATIONS

Persons with a disability who require an accommodation to complete the application process are required to notify the FBI of their need for the accommodation.

Have you used marijuana during the last three years or more than 15 times? Yes No

Have you used any illegal drug(s) or combination of illegal drugs, other than marijuana, more than 5 times or during the last 10 years? Yes No

All information provided by applicants concerning their drug history will be subject to verification by a preemployment polygraph examination.

Do you understand all prospective FBI employees will be required to submit to an urinalysis for drug abuse prior to employment? Yes No

I am aware that willfully withholding information or making false statements on this application constitutes a violation of Section 1001, Title 18, U.S. Code and if appointed, will be the basis for dismissal from the Federal Bureau of Investigation. I agree to these conditions and I hereby certify that all statements made by me on this application are true and complete, to the best of my knowledge.

Signature of Applicant as usually written. (Do Not Use Nickname)

The Federal Bureau of Investigation is an equal opportunity employer.

Most employers need several application forms. For technical and managerial personnel, the form may require detailed answers to questions about education and training. The form for hourly factory workers might focus on tools and equipment. Figure 10 presents one employer’s approach to collecting application form information—the employment application for the FBI. In practice, most employers encourage online applications.

Application Guidelines

Managers should keep several practical guidelines in mind. In the “Employment History” section, request detailed information on each prior employer, including the name of the supervisor and his or her e-mail address and telephone number; this is essential for reference checking. Also, in signing the application, the applicant should certify his or her understanding that falsified statements may be cause for dismissal, that investigation of credit and employment and driving record is authorized, that a medical examination may be required, that drug-screening tests may be required, and that employment is for no definite period.

APPLICANT EXAGGERATION Job applicants often exaggerate their qualifications. Estimates of how many applicants exaggerate range from 40% to 70%.¹²⁷ The most common exaggerations

concern education and job experience. A majority of graduating seniors reportedly believe that employers expect some exaggeration on résumés. Much of this exaggeration may occur on application forms, too. Therefore, always ensure applicants complete the form and sign a statement on it indicating that the information is true. The court will almost always support a discharge for falsifying information when applying for work.¹²⁸ Furthermore, doing a less-than-complete job of filling in the form may reflect poor work habits. Some applicants simply scribble “see résumé attached” on the application. This is not acceptable. You need the signed, completed form.



Application Forms and EEO Law

Carefully review application forms to ensure that they comply with equal employment laws. Questions to be aware of include the following:

Education. A question on the dates of attendance and graduation from various schools is one potential violation, insofar as it may reflect the applicant’s age.

Arrest record. The courts have usually held that employers violate Title VII by disqualifying applicants from employment because of an arrest. This item has an adverse impact on minorities, and employers usually can’t show it’s required as a business necessity.

Notify in case of emergency. Asking the relationship of this person could indicate the applicant’s marital status or ethnic lineage.

Membership in organizations. Some forms ask the applicant to list memberships in clubs, organizations, or societies. Employers should include instructions not to include organizations that would reveal race, religion, physical disabilities, marital status, or ancestry.

Physical disability. It is usually illegal to require the listing of an applicant’s physical disabilities or past illnesses unless the application blank specifically asks only for those that “may interfere with your job performance.” It is also generally illegal to ask if the applicant has ever received workers’ compensation.

Marital status. In general, the application should not ask whether an applicant is single, married, divorced, separated, or living with anyone, or the names, occupations, and ages of the applicant’s spouse or children.

Housing. Asking whether an applicant *owns, rents, or leases* a house may also be discriminatory. It can adversely affect minority groups and is difficult to justify on business necessity.

VIDEO RÉSUMÉS More candidates are submitting video résumés, a practice replete with benefits and threats. About half of responding employers in one survey thought video résumés might give employers a better feel for the candidate. The danger is that a video résumé makes it more likely that rejected candidates may claim discrimination.¹²⁹ To facilitate using video résumés, several websites compile for applicants, usually for a fee, multimedia résumés.¹³⁰

Using Application Forms to Predict Job Performance

Finally, employers can use analyses of application information (“biodata”) to *predict* employee tenure and performance. In one study, the researchers found that applicants who had longer tenure with previous employers were less likely to quit, and also had higher performance within 6 months after hire.¹³¹ Examples of biodata items might include “quit a job without giving notice,” “graduated from college,” and “traveled considerably growing up.”¹³²

Choose biodata items with three things in mind. First, of course, equal employment law limits the items you’ll want to use (avoid age, race, or gender, for instance). And, noninvasive items are best. In one study, subjects perceived items such as “dollar sales achieved” and “grade point average in math” as legitimate, and not invasive. Other items such as “birth order” and “frequent dates in high school” were more invasive, and unacceptable. Finally, consider that some applicants will fake biodata answers in an effort to impress the employer.¹³³

Mandatory Arbitration

Many employers, aware of the high costs of employment litigation, require applicants to agree in writing to mandatory arbitration should a dispute arise.

Different federal courts have taken different positions on the enforceability of these “mandatory alternative dispute resolution” clauses. The basic situation now is that they are generally enforceable, with two big caveats.

First, it must be a fair process.¹³⁴ For example, the agreement should be a signed and dated separate agreement. Use simple wording. Provide for reconsideration and judicial appeal if there is an error of law.¹³⁵ The employer must absorb most of the cost of the arbitration process. The arbitration process should be reasonably swift. The employee, if he or she prevails, should be eligible to receive the full remedies that he or she would have with access to the courts.

Second, mandatory arbitration clauses turn some candidates off. In one study, 389 MBA students read simulated employment brochures. Mandatory employment arbitration had a significantly negative impact on the attractiveness of the company as a place to work.¹³⁶

Review

MyManagementLab

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

SUMMARY

1. The recruitment and selection process entails five main steps: decide what positions to fill; build a pool of candidates for these jobs; have candidates complete application forms; use selection tools; and decide to whom to make an offer, in part by having the supervisor and others interview the candidates.
2. Recruitment and selection starts with workforce planning and forecasting. Workforce planning is the process of deciding what positions the firm will have to fill and how to fill them. This often starts by forecasting personnel needs, perhaps using trend analysis, ratio analysis, scatter plots, or computerized software packages. The other side of the equation is forecasting the supply of inside candidates. Here employers use manual systems and replacement charts, and computerized skills inventories. Forecasting the supply of outside candidates is important, particularly when entering periods of economic expansion where unemployment is low and good candidates are more difficult to come by.
3. All managers need to understand why effective recruiting is important. Without enough candidates, employers cannot effectively screen the candidates or hire the best. Some employers use a recruiting yield pyramid to estimate how many applicants they need to generate in order to fill predicted job openings.
4. Filling open positions with internal sources of candidates has several advantages. For example, you're probably already more familiar with their strengths and weaknesses, and they require less orientation. Finding internal candidates often utilizes job posting. For filling the company's projected top-level positions, succession planning—the ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance—is the process of choice.
5. Employers use a variety of outside sources of candidates when recruiting applicants.
 - Of these, recruiting via the Internet using job boards such as Monster.com represents the leading source. It is quick and cost-effective. One downside is too many applicants from too far away, but employers use applicant tracking software to screen online applicants.
 - Other sources include advertising and employment agencies (including public, nonprofit, and private agencies).
 - Employers increasingly turn to temporary agencies and other alternative staffing methods to hire “alternative” types of employees, such as contract employees for special projects.
 - Executive recruiters, a special type of employment agency, are invaluable for finding and helping the employer hire top-level professionals and executives. However, the employer needs to ensure that the recruiter is conducting a thorough search and carefully checking references.
 - Other outside sources include college recruiting, referrals, and walk-ins, and military personnel.
6. Understanding how to recruit a more diverse workforce is important. Whether the target is the single parent, older workers, or minorities, the basic rule is to understand their special needs and to create a set of policies and practices that create a more hospitable environment in which they can work.

7. The recruitment process inevitably includes developing and using application forms to collect essential background information about the applicant. The application should enable you to make judgments on substantial matters such as the person's education and to identify

the person's job references and supervisors. Of course, it's important to make sure the application complies with equal employment laws, for instance with respect to questions regarding physical disabilities.

KEY TERMS

workforce (or employment or personnel) planning
trend analysis
ratio analysis
scatter plot
qualifications (or skills) inventories
personnel replacement charts
position replacement card
recruiting yield pyramid

employee recruiting
job posting
succession planning
applicant tracking systems
alternative staffing
on-demand recruiting services (ODRS)
college recruiting
application form

DISCUSSION QUESTIONS

1. What are the pros and cons of five sources of job candidates?
2. What are the main types of information that application forms provide?
3. What should employers keep in mind when using Internet sites to find job candidates?
4. What are the main things you would do to recruit and retain a more diverse workforce?
- ★ 5. How would you describe the recruiting "brand" of your current or previous employer, or your university? What would you do to revise that brand?
- ★ 6. What metrics would you use to analyze the effectiveness of the recruiting efforts of your current or previous employer? Why did you choose these?
7. Choose two tools HR managers use for employment forecasting and explain how to use them.
8. Briefly describe how you would apply talent management principles in improving your employer's workforce planning processes.

INDIVIDUAL AND GROUP ACTIVITIES

1. Bring to class several classified and display ads from the Sunday help wanted ads. Analyze the effectiveness of these ads using the guidelines discussed in this chapter.
2. Working individually or in groups, develop a 5-year forecast of occupational supply and demand for five occupations such as accountant, nurse, and engineer.
3. Working individually or in groups, visit the local office of your state employment agency (or check out their site online). Come back to class prepared to discuss the following questions: What types of jobs seem to be predominantly available through this agency? To what extent do you think this particular agency would be a good source of professional, technical, and/or managerial applicants? What sorts of paperwork are applicants to the state agency required to complete before their applications are processed by the agency? What other services does the office provide? What other opinions did you form about the state agency?
4. Working individually or in groups, find at least five employment ads, either on the Internet or in a local newspaper, that suggest that the company is family friendly and should appeal to women, minorities, older workers, and single parents. Discuss what they're doing to be family friendly.
5. Working individually or in groups, interview a manager between the ages of 25 and 35 at a local business who manages employees age 40 or older. Ask the manager to describe three or four of his or her most challenging experiences managing older employees.
6. The PHR and SPHR Knowledge Base appendix lists the knowledge someone studying for the HRCI certification exam needs to have in each area of human resource management (such as in strategic management, workforce planning, and human resource development). In groups of four to five students, do four things: (1) review that appendix now; (2) identify the material in this chapter that relates to the required knowledge the appendix lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so the students in other teams can take each others' exam questions.



APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Finding People Who Are Passionate About What They Do

Trilogy Enterprises Inc. of Austin, Texas, is a fast-growing software company, and provides software solutions to giant global firms for improving sales and performance. It prides itself on its unique and unorthodox culture. Many of its approaches to business practice are unusual, but in Trilogy's fast-changing and highly competitive environment, they seem to work.

There is no dress code and employees make their own hours, often very long. They tend to socialize together (the average age is 26), both in the office's well-stocked kitchen and on company-sponsored events and trips to places like local dance clubs and retreats in Las Vegas and Hawaii. An in-house jargon has developed, and the shared history of the firm has taken on the status of legend. Responsibility is heavy and comes early, with a "just do it now" attitude that dispenses with long apprenticeships. New recruits are given a few weeks of intensive training, known as "Trilogy University" and described by participants as "more like boot camp than business school." Information is delivered as if with "a fire hose," and new employees are expected to commit their expertise and vitality to everything they do. Jeff Daniel, director of college recruiting, admits the intense and unconventional firm is not the employer for everybody. "But it's definitely an environment where people who are passionate about what they do can thrive."

The firm employs about 700 such passionate people. Trilogy's managers know the rapid growth they seek depends on having a staff of the best people they can find, quickly trained, and given broad responsibility and freedom as soon as possible. CEO Joe Liemandt says, "At a software company, people are everything. You can't build the next great software company, which is what we're trying to do here, unless you're totally committed to that. Of course, the leaders at every company say, 'People are everything.' But they don't act on it."

Trilogy makes finding the right people (it calls them "great people") a companywide mission. Recruiters actively pursue the freshest, if least experienced, people in the job market, scouring college career fairs and computer science departments for talented overachievers with ambition and entrepreneurial instincts. Top managers conduct the first rounds of interviews, letting prospects know they will be pushed to achieve but will be well rewarded. Employees take top recruits and their significant others out on the town when they fly into Austin for the standard, 3-day preliminary visit. A typical day might begin with grueling interviews but end with mountain biking, rollerblading, or laser tag. Executives have been known to fly out to meet and woo hot prospects who couldn't make the trip.

One year, Trilogy reviewed 15,000 résumés, conducted 4,000 on-campus interviews, flew 850 prospects in for interviews, and hired 262 college graduates, who account for over a third of its current employees. The cost per hire was \$13,000; Jeff Daniel believes it was worth every penny.

Questions

1. Identify some of the established recruiting techniques that apparently underlie Trilogy's unconventional approach to attracting talent.
2. What particular elements of Trilogy's culture most likely appeal to the kind of employees it seeks? How does it convey those elements to job prospects?
3. Would Trilogy be an appealing employer for you? Why or why not? If not, what would it take for you to accept a job offer from Trilogy?
4. What suggestions would you make to Trilogy for improving its recruiting processes?

Sources: Chuck Salter, "Insanity, Inc.," *Fast Company*, January 1999, pp. 101–108; and www.trilogy.com/sections/careers/work, accessed August 24, 2007.

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company

Getting Better Applicants

If you were to ask Jennifer and her father what the main problem was in running their firm, their answer would be quick and short: hiring good people. Originally begun as a string of coin-operated laundromats requiring virtually no skilled help, the chain grew to six stores, each heavily dependent on skilled managers, cleaner/spotters, and pressers. Employees generally have no more than a high school education (often less), and the market for them is very competitive. Over a typical weekend, literally dozens of want ads for experienced pressers or cleaner/spotters can be found in area newspapers. All these people usually are paid around \$15 per

hour, and they change jobs frequently. Jennifer and her father thus face the continuing task of recruiting and hiring qualified workers out of a pool of individuals they feel are almost nomadic in their propensity to move from area to area and job to job. Turnover in their stores (as in the stores of many of their competitors) often approaches 400%. "Don't talk to me about human resources planning and trend analysis," says Jennifer. "We're fighting an economic war and I'm happy just to be able to round up enough live applicants to be able to keep my trenches fully manned."

In light of this problem, Jennifer's father asked her to answer the questions that follow.

Questions

1. First, how would you recommend we go about reducing the turnover in our stores?
2. Provide a detailed list of recommendations concerning how we should go about increasing our pool of acceptable job

applicants so we no longer face the need to hire almost anyone who walks in the door. (Your recommendations regarding the latter should include completely worded online and hard-copy advertisements and recommendations regarding any other recruiting strategies you would suggest we use.)

EXPERIENTIAL EXERCISE

The Nursing Shortage

As of August 2012, U.S. unemployment was still disappointingly high, and employers were still holding back on their hiring. However, while many people were unemployed, that was not the case with nurse professionals. Virtually every hospital was aggressively recruiting nurses. Many were turning to foreign-trained nurses, for example, by recruiting nurses in the Philippines. Experts expected nurses to be in very short supply for years to come.

Purpose: The purpose of this exercise is to give you experience in creating a recruitment program.

Required Understanding: You should be thoroughly familiar with the contents of this chapter and with the nurse recruitment program of a hospital such as Lenox Hill Hospital in New York (see http://lenoxhillhospital.org/careers_default.aspx).

How to Set Up the Exercise/Instructions: Set up groups of four to five students for this exercise. The groups should work separately and should not converse with each other. Each group should address the following tasks:

1. Based on information available on the hospital's website, create a hard-copy ad for the hospital to place in the Sunday edition of the *New York Times*. Which (geographic) editions of the *Times* would you use and why?
2. Analyze the hospital's current online nurses' ad. How would you improve on it?
3. Prepare in outline form a complete nurses' recruiting program for this hospital, including all recruiting sources your group would use.

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Using specific examples, how do equal employment laws affect what managers can and cannot do with respect to recruiting employees?
2. What human resource management tools would you use to identify possible internal candidates for a job opening and to assess the candidates' promotability?
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

ENDNOTES

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Selecting Employees

Selecting Employees

OVERVIEW: THE BASICS OF TESTING AND SELECTING EMPLOYEES
In this chapter, we will cover . . .
USING TESTS AT WORK
INTERVIEWING CANDIDATES
USING OTHER SELECTION TECHNIQUES

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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Define basic testing concepts, including validity and reliability.
2. Discuss at least four basic types of personnel tests.
3. Explain the factors and problems that can undermine an interview's usefulness, and the techniques for eliminating them.
4. Explain how to do background checks on job candidates.
5. Explain the basics of how to develop and extend a job offer.

INTRODUCTION

It is said that Google gets about one million job applications per year, and hires less than 1% —1 out of 130, to be exact.¹ Google isn't necessarily looking for the smartest or most technically adept employees; more importantly, they want people who fit in with Google's creative, flexible, open-minded culture. To find out if a job candidate is a great fit, Google devised some interesting job interview questions. For example, "A man pushed his car to a hotel and lost his fortune. What happened?"² (The answer is at the end of the next paragraph.)

THE BASICS OF TESTING AND SELECTING EMPLOYEES

With a pool of applicants, your next step is to select the best person for the job. This usually means whittling down the applicant pool by using employee selection tools including tests, interviews, and background checks. The main aim of employee selection is to achieve person-job fit. *Person-job fit* means matching the knowledge, skills, abilities, and competencies (KSACs) that are required for performing the job (based on the job analysis) with the applicant's knowledge, skills, abilities and competencies. (Answer: He was playing Monopoly).

Why Careful Selection Is Important

Selecting the right employee is important for several reasons.

- First, doing so should lead to *improved employee and organizational performance*. No one wants to hire an incompetent. Few things are more important to a manager than putting the right person in the right job.
- Second, *your own performance* always depends partly on your subordinates. Hire employees who lack the necessary skills or who are obstructionist and your own performance and the firm's will suffer.
- Third, screening can help reduce *dysfunctional behaviors* at work. By one account, about 30% of all employees say they've stolen from their employers; about 41% are managers.³ In retail, employers apprehended about 1 out of every 28 workers for stealing.⁴ The time to screen out such undesirables is before they're hired.
- Fourth, it is *costly* to recruit and hire employees. Hiring and training even a clerk can cost \$10,000 in fees and supervisory time. That's money wasted if the person doesn't work out.



LEGAL IMPLICATIONS AND NEGLIGENT HIRING Finally, careful selection is important because of the *legal implications* of inept selection. Potentially discriminatory selection standards are one potential legal problem.

Negligent hiring is a second legal issue. Courts will find employers liable when employees with criminal records or other problems use their access to customers' homes or similar opportunities to commit crimes. Hiring workers with such backgrounds without proper safeguards is **negligent hiring**. For example, after lawyers sued Walmart alleging that several of its employees with criminal convictions for sexually related offenses had assaulted young girls, Walmart instituted criminal background checks.⁵ Employers "must make a systematic effort to gain relevant information about the applicant, verify documentation, follow up on missing records or gaps in employment, and keep a detailed log of all attempts to obtain information, including the names and dates for phone calls or other requests."⁶

negligent hiring

Hiring workers with criminal records or other such problems without proper safeguards.



LEARNING OBJECTIVE 1

Define basic testing concepts, including validity and reliability.

Reliability

Effective screening depends to a large degree on the basic testing concepts of reliability and validity. **Reliability** refers to the test's consistency. It is "the consistency of scores obtained by the same person when retested with the identical tests or with an equivalent form of a test."⁷ Test reliability is essential: If a person scored 90 on an intelligence test on Monday and 130 when retested on Tuesday, you wouldn't have much faith in the test.

You can measure reliability in several ways. One is to administer a test to a group of people one day, readminister the same test several days later to the same group, and then correlate the first set of scores with the second (*test-retest reliability estimates*).⁸ Or you could administer a test and then administer what experts believe to be an equivalent test later; this would be an *equivalent or alternate form estimate*. The Scholastic Assessment Test (SAT) is an example. Or, compare the test taker's answers to multiple questions on the same test aimed at measuring the same thing. For example, a psychologist includes 10 items on a test believing that they all measure interest in working outdoors. You administer the test and then statistically analyze the degree to which responses to these 10 items vary together. This is an *internal comparison estimate*.

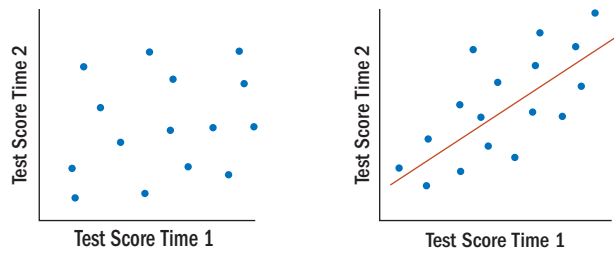
Many things cause a test to be unreliable. These include physical conditions (quiet tests conditions one day, noisy the next day); differences in the test taker (healthy one day, sick the next); and differences in the person administering the test (courteous one day, curt the next). Or perhaps

reliability

The characteristic that refers to the consistency of scores obtained by the same person when retested with the identical or equivalent tests.

SELECTING EMPLOYEES

FIGURE 1
Correlation Examples



the questions do a poor job of sampling the material.

Because measuring reliability generally involves comparing two measures that assess the same thing (such as test 1 and test 2), it is typical to judge a test's reliability in terms of a correlation coefficient (in this case, a *reliability coefficient*). This coefficient shows the degree to which the two measures (say, test score one day and test score next day) are related.

Figure 1 illustrates correlation. In both the left and the right scatter plots, the psychologist compared each applicant's test score (on the x-axis) with his or her subsequent performance (on the y-axis). On the left, the scatter plot points (each point showing one applicant's test score and subsequent performance) are dispersed. There seems to be no correlation between test scores and performance. On the right, the psychologist tried a new test. Here, the resulting points fall in a predictable pattern. This suggests that the applicants' test scores correlate closely with their previous scores.



test validity

The accuracy with which a test, interview, and so on measures what it purports to measure or fulfills the function it was designed to fill.

criterion validity

A type of validity based on showing that scores on the test (*predictors*) are related to job performance (*criterion*).

A Slide from the Rorschach Test. What do you see in the slide?

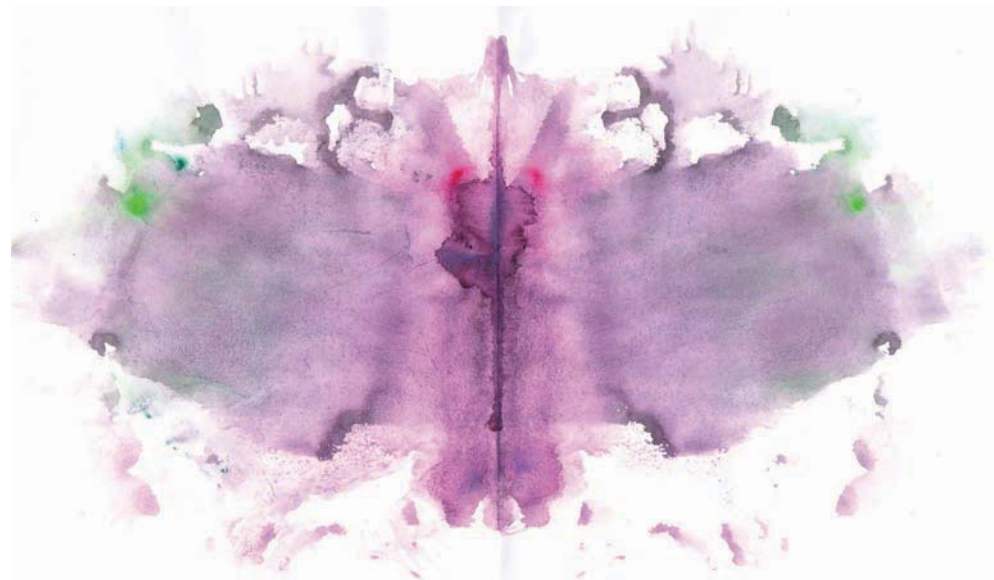
Source: Fotolia LLC.

Validity

Any test is a sample of a person's behavior, but some tests more clearly reflect the behavior you're sampling. For example, a typing test clearly corresponds to an on-the-job behavior—typing. At the other extreme, there may be no apparent relationship between the items on the test and the behavior. For example, in the Rorschach test item below, the psychologist asks the person to explain how he or she interprets the somewhat eerie picture. The psychologist then uses that interpretation to draw conclusions about the person's personality and behavior. With such tests, it is harder to “prove” that the tests are measuring what they are purported to measure—that they are *valid*.

Test validity answers the question “Does this test measure what it's supposed to measure?” Stated differently, “validity refers to the confidence one has in the meaning attached to the scores.”⁹ With respect to employee selection tests, the term *validity* often refers to evidence that the test is job related—in other words, that performance on the test is a *valid predictor* of subsequent performance on the job. A selection test must be valid because, without proof of its validity, there is no logical or legally permissible reason to continue using it to screen job applicants.

In employment testing, there are two main ways to demonstrate a test's validity: criterion validity and content validity. **Criterion validity** involves demonstrating statistically a relationship



between (1) scores on a selection procedure and (2) job performance of a sample of workers (for example, that those who do well on the test also do well on the job, and that those who do poorly on the test do poorly on the job). In psychological measurement, a predictor is the measurement (in this case, the test score) that you are trying to relate to a criterion, such as job performance (perhaps as measured by performance appraisals). In criterion validity, the criterion and predictor should be closely related. The term *criterion validity* comes from that terminology.

content validity

A test that is *content valid* is one in which the test contains a fair sample of the tasks and skills actually needed for the job in question.

construct validity

A test that is construct valid is one that demonstrates that a selection procedure measures a construct and that construct is important for successful job performance.

Content validity is a demonstration that the content of a selection procedure is representative of important aspects of performance on the job. For example, employers demonstrate the *content validity* of a test by showing that the test constitutes a fair sample of the job's content. The basic procedure here is to identify job tasks that are critical to performance, and then randomly select a sample of those tasks to test. In selecting students for dental school, many schools give applicants chunks of chalk, and ask them to carve something that looks like a tooth. If the content you choose for the test is a representative sample of what the person needs to know for the job, then the test is probably content valid. Clumsy dental students need not apply.

Construct validity is another possible approach. It means demonstrating two things: that a selection procedure measures a construct (something believed to be an underlying human trait or characteristic, such as honesty); and that the construct is important for successful job performance.



How to Validate a Test

What makes a test such as the Graduate Record Examination (GRE) useful for graduate school admissions directors? What makes a mechanical comprehension test useful for managers hiring machinists?

The answer to both questions is usually that people's scores on these tests are predictive of how people perform. Thus, other things being equal, students who score high on the GRE also do better in school. Employers would use statistical means to determine the degree of correlation between mechanical comprehension scores and machinists' performance. The validation process (see Figure 2) usually requires the expertise of an industrial psychologist.

Utility Analysis

It may turn out that the testing is so expensive that it costs more than you save by hiring better employees. Answering the question, "Does it pay to use the test?" requires *utility analysis*. Two selection experts say, "Using dollar and cents terms, [*utility analysis*] shows the degree to which use of a selection measure improves the quality of individuals selected over what would have happened if the measure had not been used."¹⁰ The information required for utility analysis includes the validity of the selection measure, a dollar measure of job performance, applicants' average test scores, cost of testing an applicant, and the number of applicants tested and selected. The accompanying HR as a Profit Center feature provides an example.

HR AS A PROFIT CENTER

Reducing Turnover at KeyBank

Financial services firm KeyBank needed a better way to screen and select tellers and call-center employees.¹¹ Analysts calculated it cost KeyBank about \$10,000 to select and bring onboard an employee, but they were losing 13% of new tellers and call-center employees in the first 90 days. That turnover number dropped to 4% after KeyBank implemented a virtual job tryout candidate-assessment screening tool. "We calculated a \$1.7 million cost savings in teller turnover in one year, simply by making better hiring decisions, reducing training costs, and increasing quality of hires," said the firm's human resources director.

Validity Generalization

Many employers, particularly smaller ones, won't find it cost-effective to conduct validity studies for the selection tools they use. These employers must identify tests and other screening tools that have been shown to be valid in other settings (companies), and then bring them in-house in the hopes that they'll be valid there, too.¹²

If the test is valid in one company, to what extent can we generalize those validity findings to our own company? *Validity generalization* "refers to the degree to which evidence of a measure's validity obtained in one situation can be generalized to another situation without further study."¹³

FIGURE 2
How to Validate a Test

Step 1: Analyze the Job. First, analyze the job descriptions and specifications. Specify the human traits and skills you believe are required for adequate job performance. For example, must an applicant be aggressive? Must the person be able to assemble small, detailed components? These requirements become your predictors. They are the human traits and skills you believe to be predictive of success on the job.

In this first step, you must also define what you mean by “success on the job” because it is this success for which you want predictors. The standards of success are called *criteria*. You could focus on production-related criteria (quantity, quality, and so on), personnel data (absenteeism, length of service, and so on), or judgments (of worker performance by persons such as supervisors). For an assembler’s job, *predictors* to use when testing applicants might include manual dexterity and patience. Criteria that you would hope to predict with your test might then include quantity produced per hour and number of rejects produced per hour.

Step 2: Choose the Tests. Next, choose tests that you think measure the attributes (predictors) important for job success. This choice is usually based on experience, previous research, and best guesses, and you usually won’t start off with just one test. Instead, you choose several tests, combining them into a test battery aimed at measuring a variety of possible predictors, such as aggressiveness, extroversion, and numeric ability.

Step 3: Administer Tests. Administer the selected test(s) to employees. *Predictive validation* is the most dependable way to validate a test. The test is administered to applicants before they are hired. Then these applicants are hired using only existing selection techniques, not the results of the new test you are developing. After they have been on the job for some time, you measure their performance and compare it to their performance on the earlier test. You can then determine whether their performance on the test could have been used to predict their subsequent job performance.

Step 4: Relate Scores and Criteria. Next, determine whether there is a significant relationship between scores (the predictor) and performance (the criterion). The usual way to do this is to determine the statistical relationship between scores on the test and performance through correlation analysis, which shows the degree of statistical relationship.

Step 5: Cross-Validate and Revalidate. Before putting the test into use, you may want to check it by cross-validating, by again performing steps 3 and 4 on a new sample of employees. At a minimum, an expert should validate the test periodically.

Being able to use the test without your own validation study is, of course, the key. Factors to consider in arriving at a conclusion include *existing validation evidence* regarding using the test for various specific purposes, the *similarity of the subjects* on whom the test was validated with those in your organization, and the *similarity of the jobs* involved.¹⁴

Testing and Equal Employment Opportunity

Once an employee or applicant shows that one of your selection procedures has an adverse impact on his or her protected class, *the burden of proof rests with the employer*, who must demonstrate the validity and selection fairness of the allegedly discriminatory test or item. With respect to testing, the EEO laws boil down to two things: (1) You must be able to prove that your tests are related to success or failure on the job, and (2) you must prove that your tests don’t unfairly discriminate against either minority or nonminority subgroups.

impact means there is a significant discrepancy between rates of rejection of members of the protected groups and others. For example, a federal court ruled that Dial Corporation discriminated against female job applicants at a meatpacking facility by requiring employees to take a pre-employment strength test. The test had an adverse impact on women. Furthermore, there appeared to be no compelling need for strength on the job.¹⁵

You can’t avoid EEO laws by not using tests, by the way. The same burden of proving job relatedness falls on interviews and other techniques (including performance appraisals) that fall on tests.

INDIVIDUAL RIGHTS OF TEST TAKERS AND TEST SECURITY Under the American Psychological Association’s standard for educational and psychology tests (which guide professional psychologists but are not legally enforceable), test takers have the right to the confidentiality of



the test results and the right to informed consent regarding the use of these results. They have the right to expect that only people qualified to interpret the scores will have access to them or that sufficient information will accompany the scores to ensure their appropriate interpretation. They have the right to expect that the test is secure; no person taking the test should have prior information concerning the questions or answers.

USING TESTS AS SUPPLEMENTS Tests aren't infallible. Even in the best cases, the test score usually accounts for only about 25% of the variation in the measure of performance. Therefore, do not use tests as your only selection technique; instead, use them to supplement other techniques such as interviews and background checks.

USING TESTS AT WORK

Several years ago, researchers administered an aggression questionnaire to high school hockey players before the season. Preseason aggressiveness as measured by the questionnaire predicted the amount of minutes they subsequently spent in the penalty box for penalties such as fighting, slashing, and tripping.¹⁶ Try the test in Figure 3 to see how prone you might be to on-the-job accidents.

How Do Employers Use Tests at Work?

Employers similarly use tests to measure a wide range of candidate attributes, including cognitive (mental) abilities, motor and physical abilities, personality and interests, and achievement. Many firms such as FedEx have applicants take computerized tests—sometimes online, and sometimes by phone using the touchtone keypad—to prescreen applicants prior to more in-depth interviews and background checks. Barclays Capital gives graduate and undergraduate job candidates aptitude tests instead of first-round interviews.¹⁷

EXAMPLE Outback Steakhouse is looking for employees who are social, meticulous, sympathetic, and adaptable. It uses a personality assessment test as part of its preemployment process. Applicants take the test, and the company then compares the results to the profile for Outback Steakhouse employees. Those who score low don't move on. Two managers interview those who score high. They ask "behavioral" questions, such as "What would you do if a customer asked for a side dish we don't have on the menu?"¹⁸

CHECK YES OR NO	YES	NO
1. You like a lot of excitement in your life.		
2. An employee who takes it easy at work is cheating on the employer.		
3. You are a cautious person.		
4. In the past three years you have found yourself in a shouting match at school or work.		
5. You like to drive fast just for fun.		

Analysis: According to John Kamp, an industrial psychologist, applicants who answered no, yes, yes, no, no to questions 1, 2, 3, 4, and 5 are statistically likely to be absent less often, to have fewer on-the-job injuries, and, if the job involves driving, to have fewer on-the-job driving accidents. Actual scores on the test are based on answers to 130 questions.

FIGURE 3

Sample Selection Test

Source: Based on a sample selection test from The New York Times.

Outback Steakhouse has used preemployment testing since just after the company started

Source: Jeff Greenberg/Alamy



DATA MINING Employers increasingly use *data mining* (sometimes called “business analytics” or “big data”) techniques in selection. It means sifting through huge amounts of employee data to find patterns and identify traits that correlate with performance.

For example, department store chain Bon-Ton Stores Inc. suffered high cosmetics sales associate turnover. To analyze this, management worked with Kenexa, which supplies assessment tools. Four hundred fifty cosmetics associates filled out anonymous surveys aimed at identifying employee traits. By using data mining techniques to analyze this and other data, Bon-Ton identified cosmetics associates’ traits that correlated with performance and tenure. For example, it had assumed that the most successful associates were friendly and enthusiastic about cosmetics. “But we found the most successful associates, and those with most tenure, were problem solvers. They have to take information from the customer about what she wants and needs, and solve the problem.”¹⁹ This enabled Bon-Ton to formulate more effective selection tools.



LEARNING OBJECTIVE 2

Discuss at least four basic types of personnel tests.

Types of Tests

We discuss the basic types of tests next.

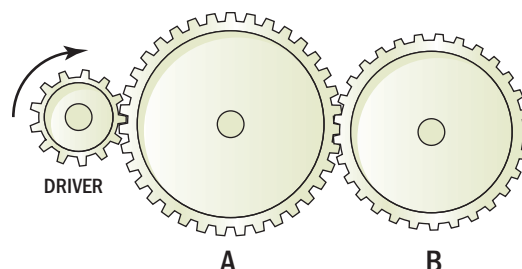
TESTS OF COGNITIVE ABILITIES Employers often want to assess a candidate’s cognitive or mental abilities. For example, you may want to know if a supervisory candidate has the intelligence to do the job’s paperwork or a bookkeeper candidate has numeric aptitude.

Intelligence tests, such as IQ tests, are tests of general intellectual abilities. They measure not a single intelligence trait, but rather a range of abilities, including memory, vocabulary, and numeric ability. Psychologists often measure intelligence with individually administered tests such as the Stanford-Binet test or the Wechsler Adult Intelligence Scale. Employers use tests such as the Wonderlic Personnel Test as quick measures of IQ for both individuals and groups of people.

There are also measures of specific mental abilities. Psychologists often call tests in this category *aptitude tests*. For example, since Figure 4 tests applicants’ understanding of basic mechanical principles, it may reflect a person’s aptitude for jobs such as engineer.

FIGURE 4

Type of Question Applicant Might Expect on a Test of Mechanical Comprehension



Which gear will turn the same way as the driver?

TESTS OF MOTOR AND PHYSICAL ABILITIES There are many motor or physical abilities you might want to measure, such as finger dexterity, strength, and manual dexterity. The Stromberg Dexterity Test is an example. It measures the speed and accuracy of simple judgment as well as the speed of finger, hand, and arm movements.

MEASURING PERSONALITY A person's mental and physical abilities alone seldom explain his or her job performance. Other factors, such as motivation and interpersonal skills, are important, too. As one consultant put it, most people are hired based on qualifications, but most are fired for nonperformance. And *nonperformance* (or *performance*) "is usually the result of personal characteristics, such as attitude, motivation, and especially, temperament."²⁰ Employers such as Outback Steakhouse use personality and interests tests (or "inventories") to measure and predict such intangibles. Thus Acxiom Corporation uses the Birkman Method (www.birkman.com/) personality assessment to help new employees better understand which tasks they perform best.²¹

Personality tests measure basic aspects of an applicant's personality, such as introversion, stability, and motivation. A sample personality inventory item is:

It does not make sense to work hard on something if no one will notice.

- a. Definitely true.
- b. Somewhat true.
- c. Neither true nor false.
- d. Somewhat false.
- e. Definitely false.²²

Of course, personality testing isn't limited to employment settings. Online dating services such as eHarmony.com reject those its software judges are unmatchable. Figure 5 shows a sample from one online personality inventory.

Many personality tests are projective, meaning that the person taking the test must interpret an ambiguous stimulus such as an inkblot or a clouded picture. The person supposedly projects into the picture his or her own emotions. Thus, a security-oriented person might describe Figure 1 as "a giant bug coming to get me." Other projective techniques include Make a Picture Story (MAPS), House-Tree-Person (H-T-P), and the Forer Structured Sentence Completion Test. Some personality tests are *self-reported*: applicants fill them out themselves. For example, the Guilford-Zimmerman survey measures personality traits like emotional stability versus moodiness, and friendliness versus criticalness. The Minnesota Multiphasic Personality Inventory (MMPI) taps traits like hypochondria and paranoia. Available online,²³ the Myers-Briggs test provides a personality type classification useful for decisions such as career selection and planning. Its DiSC Profile learning instrument enables the user to gain insight into his or her behavioral style.²⁴

Personality tests—particularly the projective type—are difficult to evaluate and use. An expert must analyze the test taker's interpretations and reactions and infer from them his or her personality. The usefulness of such tests for selection then assumes that you find a relationship between a measurable personality trait (such as extroversion) and success on the job. Because they are personal in nature, employers should use personality tests with caution. Rejected candidates may (validly) claim that the results are false, or that they violate the Americans with Disabilities Act (ADA).



PERSONALITY TEST EFFECTIVENESS The difficulties notwithstanding, personality tests can help employers hire effective workers. Industrial psychologists often focus on the "big five" personality dimensions: extroversion, emotional stability, agreeableness, conscientiousness, and openness to experience.²⁵

One study focused on how these five dimensions predicted performance for professionals, police officers, managers, sales workers, and skilled/semiskilled workers. Conscientiousness showed a consistent relationship with all job performance criteria for all the occupations. Extroversion was a valid predictor of performance for managers and sales employees. Openness to experience and extroversion predicted training proficiency for all occupations.²⁶

Recently, a panel of distinguished industrial psychologists raised the question of whether *self-report* personality tests (which applicants fill out themselves) predict performance at all.²⁷ They said that if you carefully conduct predictive validation studies with actual job candidates, validity is low.²⁸ Other experts call such concerns "unfounded."²⁹

FIGURE 5
Sample Online Personality Test Questions

Source: “Selection Assessment Methods: A guide to implementing formal assessments to build a high-quality workforce” by Elaine D. Pulakos from *SHRM Foundation’s Effective Practice Guidelines*. Copyright © 2005 by SHRM Foundation. Reprinted with permission, all rights reserved.

HumanMetrics

Jung Typology Test™

After completing the questionnaire, you will obtain:

- Your type formula according to Carl Jung and Isabel Myers-Briggs typology along with the strengths of the preferences
- The description of your personality type
- The list of occupations and educational institutions where you can get relevant degree or training, most suitable for your personality type - **Jung Career Indicator™**

For Organizations and Professionals

Organizations and specialists interested in Jung personality assessments for team building, candidate assessment, leadership, career development, psychographics - visit **HRPersonality™** for practical and validated instruments and professional services.

1. You are almost never late for your appointments
 YES NO
2. You like to be engaged in an active and fast-paced job
 YES NO
3. You enjoy having a wide circle of acquaintances
 YES NO
4. You feel involved when watching TV soaps
 YES NO
5. You are usually the first to react to a sudden event: the telephone ringing or unexpected question
 YES NO
6. You are more interested in a general idea than in the details of its realization
 YES NO
7. You tend to be unbiased even if this might endanger your good relations with people
 YES NO
8. Strict observance of the established rules is likely to prevent a good outcome
 YES NO
9. It's difficult to get you excited
 YES NO
10. It is in your nature to assume responsibility
 YES NO
11. You often think about humankind and its destiny
 YES NO
12. You believe the best decision is one that can be easily changed
 YES NO
13. Objective criticism is always useful in any activity
 YES NO
14. You prefer to act immediately rather than speculate about various options
 YES NO
15. You trust reason rather than feelings
 YES NO
16. You are inclined to rely more on improvisation than on careful planning
 YES NO
17. You spend your leisure time actively socializing with a group of people, attending parties, shopping, etc.
 YES NO
18. You usually plan your actions in advance
 YES NO
19. Your actions are frequently influenced by emotions
 YES NO
20. You are a person somewhat reserved and distant in communication
 YES NO
21. You know how to put every minute of your time to good purpose
 YES NO
22. You readily help people while asking nothing in return
 YES NO
23. You often contemplate about the complexity of life
 YES NO
24. After prolonged socializing you feel you need to get away and be alone
 YES NO
25. You often do jobs in a hurry
 YES NO
26. You easily see the general principle behind specific occurrences
 YES NO
27. You frequently and easily express your feelings and emotions
 YES NO
28. You find it difficult to speak loudly
 YES NO

Overall, the evidence suggests this: Employers are increasingly using personality tests. Personality measures do contribute to predicting job performance. People can and will give fake responses to personality and integrity tests. (Researchers in one study identified such faking by recoding tiny eye movements of university students.)³⁰ Employers can reduce test faking by warning that faking may reduce the chance of being hired.³¹ Finally, ensure that any personality tests you use—particularly self-report types—actually do predict performance.³²

INTEREST INVENTORIES *Interest inventories* compare one’s interests with those of people in various occupations. Thus, when a person takes the Strong-Campbell Interest Inventory, he or she receives a report comparing his or her interests to those of people already in particular occupations.³³

ACHIEVEMENT TESTS An *achievement test* is a measure of what someone has learned. Most tests in school are achievement tests. They measure knowledge in areas such as economics, marketing, or accounting. In addition to job knowledge, achievement tests can measure

applicants' abilities; a typing test is one example.³⁴ The Global Issues in HR feature addresses testing for assignments abroad.

GLOBAL ISSUES IN HR

Testing for Assignments Abroad

Living and working abroad requires some special talents. Not everyone can easily adapt to having one's family far away, and to dealing with colleagues with different cultural values. Doing so requires high levels of adaptability and interpersonal skills.³⁵

Employers often use special inventories such as the Global Competencies Inventory (GCI) here. It focuses on three aspects of adaptability.

- The Perception Management Factor assesses people's tendency to be rigid in their view of cultural differences, to be judgmental about those differences, and to deal with complexity and uncertainty.
- The Relationship Management Factor assesses a person's awareness of the impact he or she is having on others.
- The Self-Management Factor assesses one's mental and emotional health.

Computerized and Online Testing

Computerized and online testing is increasingly replacing conventional paper-and-pencil and manual tests. For example, Timken Company recently began using online assessment for hourly position applicants in the United States. The online tests cover characteristics such as math skills.³⁶

Most of the types of tests in this chapter (see, for example, Figure 6, a sample of the Wonderlic personnel test) are available in both computerized and paper form and studies suggest that paper and computerized version scores are equivalent.³⁷ Test vendors such as PreVisor (www.previsor.com) offer online adaptive personality tests. These tests adapt the next question to each test taker's answers to the previous question. This improves validity and makes it less likely candidates can share test questions (since each candidate gets what amounts to a customized test).³⁸ The strategic context feature illustrates how one company uses such tests.

Sample Questions for WPT-R

The following questions are similar, but not identical, to those presented on the actual WPT-R forms.

Question 1

Which of the following is the earliest date?

- A) Jan. 16, 1898 B) Feb. 21, 1889 C) Feb. 2, 1898 D) Jan. 7, 1898 E) Jan. 30, 1889

Question 2

LOW is to HIGH as EASY is to _____?

- J) SUCCESSFUL K) PURE L) TALL M) INTERESTING N) DIFFICULT

Question 3

One word below appears in color. What is the OPPOSITE of that word?

She gave a **complex** answer to the question and we all agreed with her.

- A) long B) better C) simple D) wrong E) kind

Answers

1. E 2. N 3. C

FIGURE 6

Sample Items from Wonderlic Personnel Test

Source: www.wonderlic.com/products/selection/wpvr/sampleQuestions.asp.

THE STRATEGIC CONTEXT

City Garage Computerized Testing Example

Texas-based City Garage knew it couldn't implement its growth strategy without a dramatic change in how it tested and hired employees.³⁹ Its old hiring process consisted of a paper-and-pencil application and one interview, followed by a hire/don't hire decision. While that might work for a slow-growth operation, it was unsatisfactory for a fast-growing operation like City Garage. For one thing, local shop managers didn't have the time to evaluate every applicant, so "if they had been shorthanded too long, we would hire pretty much anybody who had experience," said the firm's training director. Furthermore, City Garage differentiates itself with an "open garage" arrangement, where customers interact directly with technicians. Therefore, finding mechanics who react positively to customer inquiries is essential.

City Garage purchased the Personality Profile Analysis (PPA) online test from Dallas-based Thomas International USA. Now, after a quick application and background check, likely candidates take the 10-minute, 24-question PPA. City Garage staff then enter the answers into the PPA Software system and receive test results in about 2 minutes. These show whether the applicant is high or low in four personality characteristics. It also produces follow-up questions about areas that might cause problems. For example, applicants might be asked how they've handled possible weaknesses such as lack of patience. If candidates answer those questions satisfactorily, they're asked back for extensive, all-day interviews, after which hiring decisions are made.

Vendors are making tests available for applicants to take via their smartphones. For example, www.iphonetypingtest.com illustrates an online typing test you can take on an iPhone.⁴⁰

Situational Judgment Tests

Situational judgment tests are personnel tests "designed to assess an applicant's judgment regarding a situation encountered in the workplace." Here's a sample test question: You are a Sales Associate at Best Buy in Miami Florida. The store sells more than 1,500 products, including smart phones, computers, TVs, and CDs. Competition for Best Buy comes not just from other neighborhood retailers, but also from online firms such as Amazon. Many of the customers who come to your store for advice check the product's feel and price with you, and then buy the item at Amazon for a lower price. As a Sales Associate, you are responsible for three main things—providing exceptional customer service, demonstrating exceptional product knowledge, and maximizing sales. You are paid based on a weekly salary, not based on a sales incentive. Please indicate how you would respond to each of the following situations (several situations are typically presented):

Situation 1: A customer comes to you with a printout for a Samsung Galaxy phone from Amazon.com, and proceeds to ask you detailed questions about price, battery life, and how to work the phone, while mentioning that "the price at Amazon is \$50 (about 25%) less than yours". You have been with this customer for $\frac{3}{4}$ of an hour now, and there are other customers waiting. You would:

1. Tell the customer to go buy the phone at Amazon.
2. Tell the customer to wait for 20 minutes while you take care of another customer.
3. Tell the customer to go to the Best Buy store about a $\frac{1}{2}$ hour drive away, where they have in stock a similar phone at a lower price.
4. Tell the customer that the local Sprint Mobility dealer has the phone for even less than Amazon.
5. Explain in detail the advantages of similar phones you have that may better fulfill the buyer's requirements.
6. Ask your supervisor to come over and try to sell the customer on buying the Galaxy from Best Buy.

Situational judgment tests are effective and widely used.⁴¹ (Answer 5 may be best).

Management Assessment Centers

In a **management assessment center**, management candidates take tests and make decisions in simulated situations, while trained assessors grade their performance.⁴² The center may be

management assessment center

A facility in which management candidates are asked to make decisions in hypothetical situations and are scored on their performance.

a conference room, but often it is a room with a one-way mirror for unobtrusive observations. Examples of the exercises included are as follows:

- **The in-basket.** Here the candidate faces an accumulation of reports, memos, notes of incoming phone calls, letters, and other materials. The candidate takes appropriate action on each of these materials.
- **The leaderless group discussion.** A leaderless group receives a discussion question and must arrive at a group decision. The raters then evaluate each group member's interpersonal skills, acceptance by the group, leadership ability, and individual influence.
- **Individual presentations.** A participant's communication skills and persuasiveness are evaluated.

Employers use assessment centers for selection, promotion, and development. Supervisor recommendations usually play a big role in choosing participants. Line managers usually act as assessors and typically arrive at their ratings through consensus.⁴³ Centers are expensive to set up but are usually worth the cost. In one study (of 40 police candidates), the researchers concluded: “[A]ssessment center performance shows a unique and substantial contribution to the prediction of future police work success, justifying the usage of such method.”⁴⁴

Computerized Multimedia Candidate Assessment Tools

Employers increasingly use computerized multimedia candidate assessment tools. Thus Development Dimensions International developed a multimedia skill test that Ford Motor Company uses for hiring assembly workers. “The company can test everything from how people tighten the bolt, to whether they followed a certain procedure correctly, to using a weight-sensitive mat on the floor that, when stepped on at the wrong time, will mark a candidate down in a safety category.”⁴⁵



interview

A procedure designed to solicit information from a person's oral responses to oral inquiries.

INTERVIEWING CANDIDATES

While not all employers use tests, it would be very unusual for a manager not to interview a prospective employee. An **interview** is a procedure designed to solicit information from a person's oral responses to oral inquiries. A *selection interview* is “a selection procedure designed to predict future job performance on the basis of applicants' oral responses to oral inquiries.”⁴⁶

Types of Selection Interviews

As you may know from your own experience, there are several ways to conduct selection interviews.

STRUCTURE First, interviews may vary in the degree to which the interviewer structures or standardizes the interview.⁴⁷ In *nonstructured* interviews, the interviewer asks questions as they come to mind, generally with no set format. In more structured or directive interviews, the questions (and perhaps even acceptable answers) are specified in advance, and the answers may be rated for appropriateness. Figure 7 presents one structured interview form.

TYPES OF QUESTIONS Interviewers also ask different types of questions. *Situational* questions focus on the candidate's ability to explain what his or her behavior *would be* in a given situation.⁴⁸ For example, “How would you react to a subordinate coming to work late 3 days in a row”?

With *behavioral* questions you ask interviewees how they behaved *in the past* in some situation. For example, “Did you ever have a situation in which a subordinate came in late? If so, how did you handle the situation?” When Citizen's Banking Corporation in Michigan found that 31 of the 50 people in its call center quit in 1 year, the center's head switched to behavioral interviews. She no longer tries to predict how candidates will act based on asking them if they want to work with angry clients. Instead, she asks behavioral questions like, “Tell me about a time you were speaking with an irate person, and how you turned the situation around.” Only four people left her center in the following year.⁴⁹ Vanguard uses a behavioral-based interviewing technique they call STAR. During the interview, the Vanguard manager is

FIGURE 7
Structured Interview Guide

Source: <http://www.state.gov/documents/organization/107843.pdf>, and United States Office of Personnel Management. Structured Interviews: Interview Guide and Evaluation Materials for Structured Interviews.

STEP 1—Create a Structured Interview Guide		
<p>Instructions: First, here in step 1, create a structured interview guide like this one (including a competency definition, a lead question, and benchmark examples and answers, for instance) for each of the job's required competencies:</p>		
<p>Competency: Interpersonal Skills</p>		
<p>Definition: Shows understanding, courtesy, tact, empathy, concern; develops and maintains relationships; may deal with people who are difficult, hostile, distressed; relates well to people from varied backgrounds and situations; is sensitive to individual differences.</p>		
<p>Lead Questions: Describe a situation in which you had to deal with people who were upset about a problem. What specific actions did you take? What was the outcome or result?</p>		
Benchmark Level	Level Definition	Level Examples
5	Establishes and maintains ongoing working relationships with management, other employees, internal or external stakeholders, or customers. Remains courteous when discussing information or eliciting highly sensitive or controversial information from people who are reluctant to give it. Effectively handles situations involving a high degree of tension or discomfort involving people who are demonstrating a high degree of hostility or distress.	Presents controversial findings tactfully to irate organization senior management officials regarding shortcomings of a newly installed computer system, software programs, and associated equipment.
4		Mediates disputes concerning system design/architecture, the nature and capacity of data management systems, system resources allocations, or other equally controversial/sensitive matters.
3	Cooperates and works well with management, other employees, or customers, on short-term assignments. Remains courteous when discussing information or eliciting moderately sensitive or controversial information from people who are hesitant to give it. Effectively handles situations involving a moderate degree of tension or discomfort involving people who are demonstrating a moderate degree of hostility or distress.	Courteously and tactfully delivers effective instruction to frustrated customers. Provides technical advice to customers and the public on various types of IT such as communication or security systems, data management procedures or analysis.
2		Familiarizes new employees with administrative procedures and office systems.
1	Cooperates and works well with management, other employees, or customers during brief interactions. Remains courteous when discussing information or eliciting non-sensitive or non-controversial information from people who are willing to give it. Effectively handles situations involving little or no tension, discomfort, hostility, or distress.	Responds courteously to customers' general inquiries. Greets and assists visitors attending a meeting within own organization.

(Continued)

told to ask the interviewee about a particular situation (S), or task (T) he or she faced, and to then uncover the actions or behaviors (A) the candidates took, and the result (R) of his or her actions.⁵⁰

Knowledge and background questions probe candidates' job-related knowledge and experience, as in, "What math courses did you take in college?"

HOW TO ADMINISTER Managers can also administer the interview in several ways. The *one-on-one interview* is most familiar. Two people meet alone and one interviews the other. In a *sequential interview* several people interview the applicant in sequence before a selection decision is made. In a *panel interview* the candidate is interviewed simultaneously by a group (or panel) of interviewers, rather than sequentially.

FIGURE 7
(Continued)

STEP 2—INDIVIDUAL EVALUATION FORM				
Instructions: Next, in step 2, create a form for evaluating each job candidate on each of the job's competencies:				
Candidate to be assessed: _____				
Date of Interview: _____				
Problem Solving				
Definition: Identifies problems; determines accuracy and relevance of information; uses sound judgment to generate and evaluate alternatives, and to make the recommendations.				
Question: Describe a situation in which you identified a problem and evaluated the alternatives to make a recommendation or decision. What was the problem and who was affected?				
Probes: How did you generate and evaluate your alternatives? What was the outcome? Describe specific behaviors observed: (Use back of sheet, if necessary)				
1—Low	2	3—Average	4	5—Outstanding
Uses logic to identify alternatives to solve routine problems. Reacts to and solves problems by gathering and applying information from standard materials or sources that provide a limited number of alternatives.		Uses logic to identify alternatives to solve moderately difficult problems. Identifies and solves problems by gathering and applying information from a variety of materials or sources that provide several alternatives.		Uses logic to identify alternatives to solve complex or sensitive problems. Anticipates problems and identifies and evaluates potential sources of information and generates alternatives to solve problems where standards do not exist.
Final Evaluation:		Printed Name:		Signature:

(Continued)

Some conduct interviews by *video* or *phone*. Phone interviews can be more accurate than face-to-face ones for judging things like interpersonal skills. Perhaps because neither side need worry about things like clothing or handshakes, the phone interview may let both participants focus more on substantive answers. In one study, interviewers tended to evaluate applicants more favorably in telephone versus face-to-face interviews. The interviewers came to about the same conclusions regarding the interviewees whether the interview was face-to-face or by videoconferrence. Applicants preferred face-to-face interviews.⁵¹

For better or worse, some employers are using a speed-dating interviewing approach. One employer sent e-mails to all applicants for an advertised position. Of the 800 applicants contacted, 400 showed up. Over the next few hours, applicants first mingled with employees, and

FIGURE 7
(Continued)

STEP 3—PANEL CONSENSUS EVALUATION FORM

Instructions:
Finally, in step 3, create a panel consensus evaluation form like this one, which the members of the panel who interviewed the candidate will use to evaluate his or her interview performance.

Candidate: _____

Date: _____

Panel Consensus Evaluation Form				
Instructions: Translate each individual evaluation for each competency onto this form. If all of the individual competency evaluations are within one rating scale point, enter the average of the evaluations in the column labeled Group Evaluation. If more than one point separates any two raters, a consensus discussion must occur with each party justifying his/her evaluation. The lead interviewer or his/her designee should take notes on the consensus discussion in the space provided. Any changes in evaluation should be initialed and a final evaluation entered for each competency.				
Competency	Final Individual Evaluations			Group Evaluation
	(1)	(2)	(3)	
Interpersonal Skills				
Self-Management				
Reasoning				
Decision Making				
Problem Solving				
Oral Communication				
Total Score				
Consensus Discussion Notes:				
Signature Panel Member 1: _____				
Signature Panel Member 2: _____				
Signature Panel Member 3: _____				

then (in a so-called “speed-dating area”) had one-on-one contacts with employees for a few minutes. Based on this, the recruiting team chose 68 candidates for follow-up interviews.⁵²

Managing the New Workforce: Bias Against Working Mothers

Would you hire someone’s mother? As absurd as that question seems, managers should be aware of a sad fact: employers tend to view working mothers negatively.⁵³ Researchers gave 100 MBA students (34% female, and all of whom worked full time) copies of a job description summary. The job was assistant vice president of financial affairs. The MBA students also got a “promotion applicant information form” to evaluate for each “applicant.” These included researcher-created information such as marital status and supervisor comments. Some “applicants” were mothers.

In one study, the student evaluators viewed job candidates who were supposedly mothers as less competent, and were less likely to recommend them for the job.

Source: Cultura Creative/Alamy



The student evaluators viewed the mothers as less competent, and were less likely to recommend them for the job. As the researchers say, this is consistent with evidence that mothers suffer disadvantages in the workplace, a problem they term “the maternal wall.”⁵⁴

How Useful Are Interviews?

While most employers use interviews, the statistical evidence regarding their validity is mixed.⁵⁵ The key is that the interview’s usefulness depends on how you conduct the interview itself.⁵⁶ In summary:

- For predicting job performance, *situational question interviews* yield a higher mean (average) validity than do behavioral interviews.
- *Structured interviews*, regardless of content, are more valid and reliable than unstructured interviews for predicting job performance.⁵⁷
- *One-on-one interviews* tend to be more valid than panel interviews.⁵⁸

In summary, structured situational interviews (in which you ask the candidates what they would do in a particular situation) conducted one-on-one seem to be the most useful for predicting job performance.

How to Avoid Common Interviewing Mistakes

Most people think they’re better interviewers than they really are.⁵⁹ Actually, several common interviewing mistakes often undermine an interview’s usefulness.

SNAP JUDGMENTS Interviewers tend to jump to conclusions—make snap judgments—about candidates during the first few minutes of the interview. In fact, this often occurs before the interview begins, based on test scores or résumés. One psychologist interviewed the CEOs of 80 top companies. She concluded that to make a good impression you “don’t even get time to open your mouth.”⁶⁰ Instead, the interviewer will size up your posture, handshake, smile, and whether you have “a captivating aura.” After that, it is difficult for interviewees to overcome that first impression, during the interview.

For the *interviewee*, such findings show why it’s imperative to start off right. For *interviewers*, the findings highlight the importance of keeping an open mind until the interview is over.

NEGATIVE EMPHASIS Jumping to conclusions is especially troublesome given three interviewing facts: (1) Interviews are often mostly searches for negative information; (2) interviewers tend to be more influenced by unfavorable than favorable information; and (3) interviewers’ impressions are more likely to change from favorable to unfavorable than from unfavorable to favorable.

LEARNING OBJECTIVE 3

Explain the factors and problems that can undermine an interview’s usefulness and the techniques for eliminating them.

As an interviewee, remember that you only have one chance to make a good first impression. As an interviewer, the implication is, keep an open mind and consciously guard against unwarranted negative impressions.

NOT KNOWING THE JOB Interviewers who don't really know what the job entails and what sort of candidate is best suited for it usually enter the interview with incorrect stereotypes about the ideal applicant. They then erroneously match interviewees against these incorrect stereotypes. Studies therefore have long shown that more interviewer knowledge about the job translates into better interviews.⁶¹

PRESSURE TO HIRE Being under pressure to hire undermines interview validity. In one study, managers were told that they were behind their recruiting quota. A second group was told they were ahead. Those behind evaluated the same recruits much more highly than did those ahead.⁶²

CANDIDATE ORDER (CONTRAST) ERROR Candidate order (or contrast) error means that the order in which you see applicants affects how you rate them. In one study, researchers asked managers to evaluate a candidate who was "just average" after first evaluating several "unfavorable" candidates. The average candidate was evaluated more favorably than he might otherwise have been, because, in contrast to the unfavorable candidates, the average one looked better than he actually was.⁶³

INFLUENCE OF NONVERBAL BEHAVIOR Interviewers rate applicants who demonstrate more eye contact, head moving, smiling, and similar nonverbal behaviors higher; such behavior can account for over 80% of the applicant's rating.⁶⁴ In one study, vocal cues (such as the interviewee's pitch, speech rates, and pauses) and visual cues (such as physical attractiveness, smile, and body orientation) correlated with evaluators' judgments of interviewee credibility.⁶⁵ Similarly, candidate self-promotion is strongly related to the interviewer's perceptions of candidate-job fit.⁶⁶

ATTRACTIVENESS In general, individuals ascribe more favorable traits and more successful life outcomes to attractive people.⁶⁷ In one study, researchers asked subjects to evaluate candidates for promotability based on photographs. Men were perceived to be more suitable for hire and more likely to advance to the next executive level than were equally qualified women, and more attractive candidates, especially men, were preferred over less attractive ones.⁶⁸ These stereotypes are changing. However, women still account for only about 16% of corporate officers and 1% of CEOs at Fortune 500 companies.⁶⁹

RESEARCH INSIGHT In one study, the researchers manipulated how "candidates" looked, for instance by placing scarlike marks on the cheeks of some applicants but not on others. Managers who interviewed a facially stigmatized applicant "rated the applicant lower [and] recalled less information about the interview" (apparently, staring at the "scars" distracted the interviewers).⁷⁰

INGRATIATION Interviewees can boost their chances for job offers through self-promotion and ingratiation. *Ingratiation* means, for example, agreeing with the recruiter's opinions and thus signaling that they share similar beliefs. *Self-promotion* means promoting one's own skills and abilities to create the impression of competence.⁷¹ Self-promotion is the most effective tactic, but faking or lying generally backfires.⁷²

NONVERBAL IMPLICATIONS The bottom line is that otherwise inferior candidates who "act right" in interviews often get higher ratings than do more competent applicants who lack such skills. Interviewers should thus look beyond the interviewee's behavior. Focus on what the interviewee says. Furthermore (since attributes such as attractiveness, sex, or race are generally irrelevant to job performance), anticipate the potential impact of such biases and don't let them influence the ratings you give.

Steps in Conducting an Effective Interview

There are two main ways to minimize interview errors. First, keep them in mind (don't make snap judgments, for instance). Second, structure the interview using situational and behavioral questions. The following steps explain how.

Step 1: Structure the interview Before starting the interview, your main focus should be on standardizing what you ask, and (ideally) what you look for as good, fair, and poor responses. The chapter appendix presents a precise way to do this—to create a structured interview.

However, there are also less technical ways to increase the interview's standardization and structure.⁷³ Specifically:

1. Make sure you understand the job. Then compose your questions based on actual job duties from the job description.⁷⁴
2. Use mostly job knowledge, situational, or behavioral questions. Questions that ask for opinions and attitudes, goals and aspirations, and self-descriptions and self-evaluations encourage self-promotion and let candidates avoid revealing weaknesses.

Question examples include (1) *situational* questions like “Suppose you were giving a sales presentation and a difficult technical question arose that you could not answer. What would you do?” (2) *past behavior* questions like “Can you provide an example of a specific instance where you developed a sales presentation that was highly effective?” (3) *background* questions like “What work experiences, training, or other qualifications do you have for working in a teamwork environment?” and (4) *job knowledge* questions like “What factors should you consider when developing a TV advertising campaign?”
3. Train interviewers. For example, train interviewers to avoid jumping to conclusions.⁷⁵
4. Use the same list of questions with all candidates. This boosts reliability and can reduce bias by giving all candidates the same opportunity.
5. Use rating scales. For each question, try to have sample ideal good, fair, and poor answers and a quantitative score for each. Then rate each candidate's answers against this scale.
6. Have several people interview the candidate.
7. If possible, use a structured interview form. Interviews based on structured guides, as in Figure 7, usually result in superior interviews.⁷⁶

Step 2: Review candidate's background Before the interview, review the candidate's application and résumé, and note any vague areas. Review the job specification. Start the interview with a clear picture of the traits of an ideal candidate.

Step 3: Establish rapport The point of the interview is to find out about the applicant. Start the interview by putting the person at ease. As a rule, all applicants—even drop-ins—should receive friendly, courteous treatment.

Step 4: Ask questions Try to follow your structured interview form, or questions you wrote out ahead of time. You'll find an additional menu of questions (such as “Describe a situation which best illustrates your leadership ability”) in Figure 8.

One way to get candid answers is to make it clear you're going to conduct reference checks. Ask, “If I were to ask your boss, what would he or she say are your strengths, weak points, and overall performance?”⁷⁷ The HR in Practice feature presents some additional Dos and Don'ts.

HR IN PRACTICE

Dos and Don'ts of Interview Questions

- **Don't** ask questions that can be answered yes or no.
- **Don't** telegraph the desired answer, for instance, by nodding or smiling when the right answer is given.
- **Don't** interrogate the applicant as if the person were a criminal.
- **Don't** monopolize the interview by rambling, nor let the applicant dominate the interview.
- **Do** ask open-ended questions.
- **Do** listen to the candidate to encourage him or her to express thoughts fully.
- **Do** draw out the applicant's opinions and feelings by repeating the person's last comment as a question (e.g., “You didn't like your last job?”).
- **Do** ask for examples.⁷⁸ For instance, if the candidate lists specific strengths or weaknesses, follow up with, “What are specific examples that demonstrate each of your strengths?”

WHAT NOT TO ASK As a rule, avoid questions that might eliminate applicants based on age, race, gender, national origin, handicap, or other prohibited criteria. Try to pick out the inappropriate questions in this list:⁷⁹

- What kinds of things do you look for in a job?
- What types of interests or hobbies are you involved in?

Organization and Planning Skills

1. Describe a specific situation which illustrates how you set objectives to reach a goal.
2. Tell me about a time when you had to choose between two or more important opportunities. How did you go about deciding which was most important to you?
3. Tell me how you normally schedule your time in order to accomplish your day-to-day tasks.
4. Describe a situation where you had a major role in organizing an important event. How did you do it?
5. Think about a lengthy term paper or report that you have written. Describe how you organized, researched and wrote that report.
6. Give an example of how you organized notes and other materials in order to study for an important exam.
7. Describe a time when you reorganized something to be more efficient. How did you do it?
8. Think of a time when you made important plans that were fouled up. How did you react? What did you do?

Interaction and Leadership

1. Tell me about an event in your past which has greatly influenced the way you relate to people.
2. Give a specific example that best illustrates your ability to deal with an uncooperative person.
3. Some people have the ability to "roll with the punches." Describe a time when you demonstrated this skill.
4. Tell me when you had to work with someone who had a negative opinion of you. How did you overcome this?
5. Recall a time when you participated on a team. Tell me an important lesson you learned that is useful to you today.
6. Describe an instance when you reversed a negative situation at school, work, or home. How did you do it?
7. Describe a situation which best illustrates your leadership ability.
8. Think about someone whose leadership you admire. What qualities impress you?

Assertiveness and Motivation

1. Describe several work standards that you have set for yourself in past jobs. Why are these important to you?
2. Tell me a time when you have experienced a lack of motivation. What caused this? What did you do about it?
3. Describe a situation where you had to deal with someone whom you felt was dishonest. How did you handle it?
4. Describe a situation that made you extremely angry. How did you react?
5. Tell me about a time that best illustrates your ability to "stick things out" in a tough situation.
6. Describe a time when you motivated an unmotivated person to do something you wanted them to do.
7. Give me an example of a time when you were affected by organizational politics. How did you react?
8. Give me an example of when someone tried to take advantage of you. How did you react?

Decision Making and Problem Solving

1. Give an example that illustrates your ability to make a tough decision.
2. Tell me about a decision you made even though you did not have all the facts.
3. Describe a situation where you have had to "stand up" for a decision you made, even though it was unpopular.
4. Describe a situation where you changed your mind, even after you publicly committed to a decision.
5. Describe a situation that illustrates your ability to analyze and solve a problem.
6. Tell me about a time where you acted as a mediator to solve a problem between two other people.
7. Describe a problem that seemed almost overwhelming to you. How did you handle it?
8. Tell me about a time where you have used a creative or unique approach to solve a tough problem.

The following general questions will also help you prepare for employment interviews:

1. Tell me a little about yourself.
2. Why did you attend Indiana State University?
3. What led you to choose your major or career field?
4. What college subjects did you like best/least? What did you like/dislike about them?
5. What has been your greatest challenge in college?
6. Describe your most rewarding college experience.
7. Do you think that your grades are a good indication of your academic abilities?
8. If you could change a decision you made while at college, what would you change? Why?
9. What campus involvements did you choose? What did you gain/contribute?
10. What are your plans for continued or graduate study?
11. What interests you about this job? What challenges are you looking for in a position?
12. How have your educational and work experiences prepared you for this position?
13. What work experiences have been most valuable to you and why?
14. Why are you interested in our organization? In what way do you think you can contribute to our company?
15. How would you describe yourself?
16. What do you consider to be your greatest strengths? Weaknesses? Give examples.
17. If I asked the people who know you for one reason why I shouldn't hire you, what would they say?
18. What accomplishments have given you the most satisfaction? Why?
19. What are your long-range career objectives? How do you plan to achieve these?
20. How would you describe your ideal job?
21. What two or three things are most important to you in your job?
22. Do you have a geographical preference? Why?

FIGURE 8

Sample Interview Questions

Source: Figure showing "Sample Interview Questions" from Indiana State University Career Center website. Copyright © 2012 by Indiana State University. Reprinted with permission of Indiana State University Career Center. All rights reserved.

- Do you have any handicaps?
- What qualities should a successful manager possess?
- Do you have any future plans for marriage and children?
- What do you think you have to offer a company like Dandy Toys?
- What is your date of birth?
- What is the nature of your previous work experience?
- Have you ever been arrested for a crime?

Step 5: Close the interview Leave time to answer any questions the candidate may have and, if appropriate, to advocate your firm to the candidate. Leave all interviews on a courteous note. Tell the applicant whether there is an interest and, if so, what the next step is. Make rejections diplomatically (for instance, “Thank you but there are other candidates whose experience is closer to our requirements”).

Step 6: Review the interview After the candidate leaves, review your interview notes and fill in the structured interview guide (if any, and if you didn’t do so during the interview). Then make your decision.

Talent Management: Profiles and Employee Interviews

Talent management is the goal-oriented and integrated process of planning for, recruiting, selecting, developing, and compensating employees. At the heart of talent management is the idea of using the same profile (set of desirable competencies, traits, knowledge, and experience) for recruiting, selecting, training, appraising, and compensating the employee.

Profiles can therefore play an important role in employee selection. For example, in its own workforce planning, IBM identified 490 possible “roles” employees might fill, such as analyst. IBM then identified the profiles or required skill sets for each role. Now it rates its employees’ on these skills, from Zero to Three. Those rating may then trigger promotions, transfers, or training, for instance.

Managers can use a job’s profile to formulate selection interview questions. Table 1 illustrates this. It shows illustrative competencies, knowledge, traits, and experience for a chemical engineer, along with relevant interview questions. Interviewing and selecting engineers based on this profile would help to ensure that you focus your questions on the competencies, skills, knowledge, and experience someone must have to do this job. You could also use the same profile (competencies, knowledge, traits, experience set) for guidance in how to recruit candidates for this position, and for what to focus on to train, appraise, and pay him or her.



USING OTHER SELECTION TECHNIQUES

Employers use other selection techniques. These include the following methods.

Background Investigations and Reference Checks

About 82% of HR managers report checking applicants’ backgrounds, 80% do criminal convictions searches, and 35% do credit history reports.⁸⁰ There are two key reasons for checking

TABLE 1 Asking Profile-Oriented Interview Questions

Profile Component	Example	Sample Interview Question
Competency	Able to use computer drafting software	Tell me about a time you used CAD Pro computerized design software.
Knowledge	How extreme heat affects hydrochloric acid (HCl)	Suppose you have an application where HCl is heated to 400 degrees Fahrenheit at 2 atmospheres of pressure; what happens to the HCl?
Trait	Willing to travel abroad at least 4 months per year visiting facilities	Suppose you had a big affair that you had to attend next week and our company informed you that you had to leave for a job abroad immediately, and stay 3 weeks. How would you handle that?
Experience	Designed pollution filter for acid-cleaning facility	Tell me about a time when you designed a pollution filter device for an acid-cleaning facility. How did it work? What particular problems did you encounter? How did you address them?

Employers sometimes discover after hiring someone that his or her background or training was not what he or she said they were.

Source: Dmitriy Shironosov/Shutterstock



backgrounds. One is to verify the accuracy of facts the applicant provided; the other is to uncover damaging background information such as criminal records. In Chicago, for instance, a pharmaceutical firm discovered that it had hired gang members in its mail delivery and computer repair departments. The gang members were stealing computer parts and then using the mail department to ship them to a nearby computer store they owned.⁸¹

Here's another reason for careful reference checking: Some enterprising individuals have created fake job reference services. For a fee, these services create fake work histories and references for job seekers.⁸²

LEARNING OBJECTIVE 4

Explain how to do background checks on job candidates.

WHAT TO VERIFY The most commonly verified background areas are legal eligibility for employment (to comply with immigration laws), dates of prior employment, military service (including discharge status), education, and identification (including date of birth and address). Other items should include county criminal records (current residence, last residence), motor vehicle record, credit, licensing verification, Social Security number, and reference checks.⁸³ Several states, including Massachusetts and Hawaii, prohibit private employers from asking about criminal records on initial written applications.⁸⁴

The position determines how deeply you search. For example, a credit and education check is more important for hiring an accountant than a groundskeeper. In any case, also periodically check credit ratings of employees with easy access to company assets, and driving records of those who use company cars.

COLLECTING BACKGROUND INFORMATION⁸⁵ Most employers try to verify directly an applicant's current position, salary, and employment dates with his or her current employer by phone (assuming that the candidate has cleared doing so). Others call the applicant's current and previous supervisors to try to discover more about the person's motivation, technical competence, and ability to work with others.

Many employers use commercial credit rating companies or employment screening services. These provide information about an applicant's credit standing, indebtedness, reputation, character, lifestyle, and the truthfulness of the person's application data. There are also thousands of online databases and sources for obtaining background information, including sex offender registries; workers compensation histories; nurses aid registries; and sources for criminal, employment, and educational histories.⁸⁶

CHECKING SOCIAL NETWORKING SITES More employers are checking candidates' social networking site postings. Some ask for applicants' Facebook or other login information to facilitate checking their sites. One employer went to Facebook.com and found that a top candidate

described his interests as smoking marijuana and shooting people. The student may have been joking but did not get the offer.⁸⁷ After conducting informal online reviews, recruiters found that 31% of applicants had lied about their qualifications and 19% had posted information about their drinking or drug use, according to one survey.⁸⁸ Similarly, as a *Wall Street Journal* article titled “Job references you can’t control” noted, social networking sites can also help prospective employers identify an applicant’s former colleagues, and thus contact them.⁸⁹

Social Media Policy. Employers’ increasing use of Facebook, LinkedIn, and other social media injects new legal risks into the screening process. For example, applicants usually don’t list race, age, disability or ethnic origin on their resumes but their Facebook pages may well reveal such information, setting the stage for possible EEO claims. Or, an over-eager supervisor might supplement HR’s efforts by conducting his or her own Facebook page “background check” and then make a hiring decision based on discriminatory criteria.⁹⁰ A new Maryland law restricts employer demands for applicant usernames and passwords.⁹¹

The solution isn’t necessarily to prohibit the legitimate use of social media-based applicant and employee information (unless perusing such information is illegal under the law, as in Maryland). Instead, the employer should formulate and follow intelligent social media staffing policies and procedures. For example, inform employees and prospective employees ahead of time regarding what information the employer plans to review. Assign one or two specially trained human resource professionals to search social media sites. Prohibit unauthorized employees (such as the prospective supervisor) from accessing such information. Also, treat everyone equitably: don’t permit accessing information on, say, LinkedIn job profiles unless all applicants have such job profiles posted.⁹² The employer should avoid subterfuge, for instance, using a fictitious login name. Applicants should obviously consider the likelihood that employers may access their sites.

REFERENCE CHECK EFFECTIVENESS Handled correctly, background checks are an inexpensive and straightforward way to verify facts (such as current and previous job titles). Unfortunately, getting candid replies can be tricky. For one thing, it is not easy for the reference to prove that the bad reference was warranted. The rejected applicant thus has various legal remedies, including suing the reference for defamation. This can understandably inhibit former employers.⁹³ In one case, a man was awarded \$56,000 after being turned down for a job because, among other things, a former employer called him a “character.” Furthermore, many supervisors don’t want to diminish a former employee’s chances for a job. Others give incompetent employees good reviews to get rid of them.

MAKING REFERENCE CHECKS MORE USEFUL You can do several things to make your reference checking more useful.

First, have the candidate sign a release (usually, on the application) authorizing the background check.⁹⁴

Second, always obtain two forms of identification.

In 2012, the newly hired CEO of Yahoo! stepped down when critics discovered that his resume contained incorrect information regarding his college degree.⁹⁵ Therefore, *third*, ensure that applicants complete the applications fully. Always compare the application to the résumé (people tend to be more creative on their résumés than on their application forms, where they must certify the information).⁹⁶

Fourth, use a structured reference-checking form as in Figure 9. This helps ensure that you don’t overlook important questions.

Finally, use the references offered by the applicant as merely a source for other people who may know of the applicant’s performance. Thus, you might ask each reference, “Could you give me the name of another person who might be familiar with the applicant’s performance?” In that way, you begin getting information from references that may be more objective. Try to contact at least two previous superiors, two peers, and two subordinates.

Automated online reference checking can also improve results. With a system such as pre-hire 360 (<http://www.skillsurvey.com/pre-hire-360>), the hiring employer inputs the applicant’s name and email address. Then the person’s pre-selected references rate the applicant’s skills anonymously, using a multi-question survey. The system then compiles these references into a report for the employer.⁹⁷

Employers fielding reference requests should ensure that only authorized managers give them. Centralize the task within HR. Former employees may even hire reference-checking firms and take legal action for defamatory references. There are dozens of reference-checking firms like

FIGURE 9
Reference Checking Form

Source: Reprinted with permission from the Society for Human Resource Management. All rights reserved.

(Verify that the applicant has provided permission before conducting reference checks.)

Candidate Name _____

Reference Name _____

Company Name _____

Dates of Employment
From: _____ To: _____

Position(s) Held _____

Salary History _____

Reason for Leaving _____

Explain the reason for your call and verify the above information with the supervisor (including the reason for leaving)

1. Please describe the type of work for which the candidate was responsible.

2. How would you describe the applicant's relationships with coworkers, subordinates (if applicable), and with superiors?

3. Did the candidate have a positive or negative work attitude? Please elaborate.

4. How would you describe the quantity and quality of output generated by the former employee?

5. What were his/her strengths on the job?

6. What were his/her weaknesses on the job?

7. What is your overall assessment of the candidate?

8. Would you recommend him/her for this position? Why or why not?

9. Would this individual be eligible for rehire? Why or why not?

Other comments?

Allison & Taylor Reference Checking Inc. in Jamestown, New York.⁹⁸ Charging as little as \$80, many use certified court reporters to transcribe what the reference is saying.⁹⁹ One supervisor, describing a former city employee, reportedly “used swear words . . . and said that he almost brought the city down on its knees.”¹⁰⁰



The polygraph (or “lie detector”) machine is a device that measures physiological changes such as increased perspiration.

Source: Tek Image/Photo Researchers, Inc.

USING PREEMPLOYMENT INFORMATION SERVICES Numerous services offer prehire screening. Large background checking providers include ADP, Hireright, LEXIS-NEXIS Screening Solutions, Talentwise Solutions, and Employment Background Investigations.¹⁰¹ They use databases to access information about matters such as workers’ compensation and credit histories, and conviction and driving records. Some critics argue that criminal background information is often flawed. Errors include mismatching the subject of the report with someone having the same or similar name, and omitting information on how criminal charges were resolved.¹⁰²

There are therefore caveats. The employer should make sure the vendor does not violate EEO laws. For example, they should avoid preemployment inquiries into the existence, nature, or severity of a disability. The employer should ensure the vendor requires a signed release authorizing the background check, complies with relevant laws such as the Fair Credit Reporting Act, and uses only legal data sources. And the employer should make sure that the vendor is providing accurate and complete information on the candidate. A basic criminal check might cost \$25, while a comprehensive background check costs about \$200.¹⁰³

Honesty Testing

Employers can use various tools to assess candidates’ and employees’ honesty.

POLYGRAPH TESTS The *polygraph* (or “*lie detector*”) machine measures physiological changes such as increased perspiration. The assumption is that such changes reflect changes in the emotional stress that accompanies lying.

Complaints about offensiveness as well as doubts about the polygraph’s accuracy culminated in the Employee Polygraph Protection Act of 1988. With few exceptions, the law prohibits most employers from conducting polygraph examinations of all applicants and most employees.

PAPER-AND-PENCIL HONESTY TESTS The virtual elimination of the polygraph triggered a burgeoning market for written psychological tests designed to predict job applicants’ proneness to dishonesty. Most of these measure attitudes regarding things such as tolerance of others who steal. (See, for example, <http://testyourself.psychtests.com/testid/2100>.)

Psychologists have some concerns. For example, the tests may be prone to producing a high percentage of false positives, and are susceptible to coaching.¹⁰⁴ However, studies tend to support these tests’ validity. One study was made of 111 employees hired by a major retail convenience store chain to work at convenience store or gas station outlet counters.¹⁰⁵ The researchers found that scores on an honesty test successfully predicted theft, as measured by termination for theft. The HR as a Profit Center feature describes another example.¹⁰⁶

In practice, detecting dishonest candidates (see the HR in Practice feature) involves not just testing but a comprehensive screening procedure.

HR IN PRACTICE

How to Spot Dishonesty

One expert suggests following these steps:

- Ask blunt questions.¹⁰⁷ For example, there is probably nothing wrong with asking, “Have you ever stolen anything from an employer?” and “Is any information on your application falsified?”
- Listen, rather than talk.
- Include a clause in your application form that gives you the right to background checks, including credit checks and motor vehicle reports.
- Check all references.
- Consider using a paper-and-pencil honesty test.
- Test for drugs. Devise a drug testing program and give each applicant a copy of the policy.
- Conduct searches and establish a search-and-seizure policy. The policy should state that all lockers, desks, and similar property remain the property of the company and may be inspected. Give each applicant a copy of the policy and require a signed copy.
- Communicate with employees. Make clear that any failure to follow protocols or falsification of records will result in disciplinary action.¹⁰⁸
- Use caution. Being rejected for dishonesty carries more stigma than does being rejected for, say, poor mechanical comprehension. Furthermore, some states, such as Massachusetts and Rhode Island, limit paper-and-pencil honesty testing.

Graphology

The use of graphology (handwriting analysis) assumes that the writer's basic personality traits will be expressed in his or her handwriting. Handwriting analysis thus has some resemblance to projective personality tests.

Although some writers estimate that more than 1,000 U.S. companies use handwriting analysis to assess applicants, the validity of handwriting analysis is questionable. One reviewer says, "There is essentially no evidence of a direct link between handwriting analysis and various measures of job performance. . ."¹⁰⁹ Why so many employers use it is thus a matter of debate. Perhaps it's because it seems, to many people, to have face validity.¹¹⁰

HR AS A PROFIT CENTER

Using Integrity Tests

At Hospital Management Corporation, an integrity test is the first step in the hiring process, and those who fail go no further. It instituted the test after determining that such tests did weed out applicants with undesirable behaviors. For example, after several months using the test, workers compensation claims dropped among new hires.¹¹¹

Medical Exams

Medical exams are often the next step in the selection process. Such exams can confirm that the applicant qualifies for the physical requirements of the position and can unearth any medical limitations to take into account in placing the applicant. It can also detect communicable diseases. Under the ADA, a person with a disability can't be rejected for the job if he or she is otherwise qualified and if the person could perform the essential job functions with reasonable accommodation. According to the ADA, a medical exam is permitted during the period *between the job offer and the commencement of work*, if such exams are standard for all applicants for that job.¹¹²

Drug Screening

Employers generally conduct drug tests. Employers may use urine testing to test for any illicit drugs; breath alcohol tests to determine amount of alcohol in the blood; blood tests to measure alcohol or drug in the blood at the time of the test; hair analyses to reveal drug history; saliva tests for substances such as marijuana and cocaine; and skin patches to determine drug use.¹¹³

The most common practice is to test new applicants just before formally hiring them. Many firms also test current employees when there is reason to believe an employee has been using drugs, such as after a work accident. Some firms administer drug tests on a random basis, while others do so when transferring an employee.¹¹⁴ Most employers that conduct such tests use urine sampling. Numerous vendors provide workplace drug testing services.¹¹⁵

PROBLEMS Drug testing is problematical.¹¹⁶ Breathalyzers (like those police give roadside to inebriated drivers) and blood tests for alcohol do correlate closely with impairment levels. However, urine and blood tests for other drugs only show whether drug residues are present. They can't measure impairment or, for that matter, habituation or addiction.¹¹⁷ Furthermore, "there is a swarm of products that promise to help employees (both male and female) beat [urine analysis] drug tests."¹¹⁸ Hair follicle testing and newer oral fluid samples are much less subject to tampering.

Drug testing therefore raises several issues. Without strong evidence linking blood or urine drug levels to impairment, some argue that drug testing violates people's privacy and due process rights, and that the procedures themselves are degrading and intrusive. Others argue that workplace drug testing might identify one's use of drugs during leisure hours, but have little or no relevance to the job.¹¹⁹ It's also not clear that drug testing improves safety or performance. At least one study concluded that other than alcohol, there is no clear evidence that drugs diminish safety or job performance.¹²⁰

LEGAL ISSUES Several federal laws affect workplace drug testing. Under the ADA, courts might view a former drug user (one who no longer uses illegal drugs and successfully completed or is participating in a rehabilitation program) as a qualified applicant with a disability.¹²¹ U.S. Department of Transportation regulations require firms with more than 50 eligible employees in transportation industries to conduct alcohol testing on workers with sensitive or safety-related jobs. These include

mass-transit workers, air traffic controllers, train crews, and school bus drivers.¹²² Particularly where safety-sensitive jobs are concerned, courts appear to side with employers when questions arise.

Realistic Job Previews

Sometimes, a dose of realism makes the best screening tool. For example, Walmart found that associates who quit within the first 90 days often did so because they preferred to work in another geographic area. The firm then began explicitly explaining and asking about work schedules and work preferences.¹²³ One study even found that some applicants accepted jobs with the intention to quit, a fact that more realistic interviewing might have unearthed.¹²⁴

Tapping Friends and Acquaintances

Testing and interviewing aside, don't ignore tapping the opinions of people you trust who have direct personal knowledge of the candidate. It may be an exaggeration, but as a former Continental Airlines CEO said, "[T]he best possible interview is miniscule in value compared to somebody who's got even a couple of months of work experience with somebody."¹²⁵

Making the Selection Decision

Once you've done all your testing and checking the question arises, How do you combine all this information and make a selection decision? Of course, if you're only using one predictor (such as one test score) then the decision is straightforward. For example, an applicant for an engineering position should score at least 30 answers correct on the Wonderlic test in order to be appointable as an engineer. If your applicant scores lower, you probably wouldn't hire him or her, and if it's higher, you probably would.

But, in reality, things are not so simple. For one thing, you'll probably not make your decision based on a single predictor (in this case, one test score). You'll also want to factor in the person's references, his or her interview and application information (such as school attended), and perhaps the results of other tests. Furthermore, you'll probably have more than one candidate.¹²⁶ Will you simply choose the one with the highest Wonderlic score? Probably not. So again, you'll need some way to weigh all the sources of information you have about each candidate.

How do you weigh all the input in reaching a selection decision? You have three basic choices. You could use, first, a clinical (or intuitive or judgmental) approach. Here you intuitively but consciously weigh all the evidence you have about the candidate, and make your decision. Second, you could take a statistical or "mechanical" approach. In its purest sense, the mechanical approach involves quantifying all the information you collect about the candidate (including, for example, subjective information from references). You then combine all this quantified information, perhaps using a formula that predicts the candidate's likely job success. And third, of course, you could combine the mechanical results you obtained from your formula with judgment. While it's ideal to use a mechanical/statistical approach, a judgmental approach is usually better than nothing.¹²⁷

Evaluating the Selection Process

There are several aspects to assessing how effective one's selection processes are. Whether it predicts performance (validity) is of course important. Thus, as noted earlier, Bon-Ton stores found that screening reduced employee tenure and performance. Utility, in terms of the program's cost versus its savings, is important, too. One should also streamline the selection process to minimize how long it actually takes to fill a particular position ("*time-to-hire*"). For example, the U.S. government was taking an average 122 days to fill a position. By reviewing each step in its hiring process it reduced time-to-hire to about 105 days (by, for instance, eliminating the required applicant essay).¹²⁸ SHRM recently proposed a new cost-per-hire metric.¹²⁹ How applicants react to your selection process is another consideration. The consulting firm Bernard Hodes worked with one client to create phantom applicants. These phantoms then applied to the client employer and reported on the effectiveness of the employer's selection processes.¹³⁰

Table 2 presents validity, cost, and potential adverse impact of some popular selection methods.

Complying with Immigration Law

Under the Immigration Reform and Control Act of 1986, prospective employees must prove that they are eligible to work in the United States. A person does not have to be a U.S. citizen to be employed under this act. However, employers should ask a candidate who is about to be hired whether he or she is a U.S. citizen or an alien lawfully authorized to work in the United States.



TABLE 2 Evaluation of Assessment Methods Based on Four Criteria

Assessment Method	Validity	EEO Adverse Impact	Costs (Develop/ Administer)	Applicant Reactions
Cognitive ability test	High	High (against minorities)	Low/low	Somewhat favorable
Job knowledge test	High	High (against minorities)	Low/low	More favorable
Personality test	Low to moderate	Low	Low/low	Less favorable
Biographical data inventory	Moderate	Low to high for different types	High/low	Less favorable
Integrity test	Moderate to high	Low	Low/low	Less favorable
Structured interview	High	Low	High/high	More favorable
Physical fitness test	Moderate to high	High (against females and older workers)	High/high	More favorable
Situational judgment test	Moderate	Moderate (against minorities)	High/low	More favorable
Assessment center	Moderate to high	Low to moderate, depending on exercise	High/high	More favorable
Physical ability test	Moderate to high	High (against females and older workers)	High/high	More favorable

Note: There was limited research evidence available on applicant reactions to situational judgment tests and physical ability tests. However, because these tests tend to appear very relevant to the job, it is likely that applicant reactions to them would be favorable.

Source: “Selection Assessment Methods: A guide to implementing formal assessments to build a high-quality workforce” by Elaine D. Pulakos from *SHRM Foundation’s Effective Practice Guidelines*. Copyright © 2005 by SHRM Foundation. Reprinted with permission, all rights reserved.

HOW TO COMPLY There are two ways prospective employees can show their eligibility for employment. One is to show a document such as a U.S. passport or alien registration card containing a photograph that proves *both* identity and employment eligibility. However, many prospective employees do not have either of these documents. Therefore, the other way to verify employment eligibility is to see one document that proves the person’s identity, along with a separate document showing the person’s employment eligibility, such as a work permit.

Employers run the risk of accepting fraudulent documents. Preemployment screening should therefore include employment verification, criminal record checks, drug screens, and reference checks. You can verify Social Security cards by calling the Social Security Administration.

More employers are using the federal government’s voluntary Internet-based employment verification program, E-Verify (although identify remains a problem).¹³¹ Many employers now use automated I-9 verification systems with drop-down menus to electronically compile and submit applicants’ I-9 data.¹³² E-Verify is mandatory for employers with certain federal contracts. There is no charge to use E-Verify.¹³³

The requirement to verify eligibility does not provide any basis to reject an applicant just because he or she is a foreigner, not a U.S. citizen, or an alien residing in the United States. But, the applicant must be able to prove his or her identity and employment eligibility. Applicants can use E-Verify to confirm their U.S. work authorization status.¹³⁴ Employers can avoid accusations of discrimination by verifying all applicants’ documents, not just those they think may be suspicious.¹³⁵



Improving Productivity through HRIS

Comprehensive Applicant Tracking and Screening Systems

Applicant tracking systems do more than track applicants. Many also help employers screen applicants.

First, most employers use their applicant tracking systems (ATSs) to “knock out” applicants who do not meet minimum, nonnegotiable job requirements, like holding driver’s licenses.

Second, employers use them to test and screen applicants online. This includes Web-based skills tests (in arithmetic, for instance), cognitive tests (such as for mechanical comprehension), and even psychological tests. Recreation Equipment, Inc., needed a system to match applicant skills with the company’s culture (specifically, to identify applicants who were inclined to work in teams). The company worked with its ATS vendor to customize its system to do that.¹³⁶

Third, the newer systems don’t just screen out candidates but discover “hidden talents.” The ATS can identify talents in the résumé that lend themselves to job matches at the company that even the applicant didn’t know existed.¹³⁷

LEARNING OBJECTIVE 5

Explain the basics of how to develop and extend a job offer.



Developing and Extending the Job Offer

After selecting the candidate to whom an offer is to be made, the employer develops the actual job offer. It will base the offer's financial and other terms on, for instance, the candidate's attractiveness as a prospective employee, the level of the position, and pay rates for similar positions. Next, the employer extends an actual job offer to the candidate verbally. Here the employer's point person (who might be the person to whom the new employee will report, or the human resource director, for instance) discusses the offer's main parameters, for instance in terms of pay rates, benefits, and actual job duties. There may be some negotiations. Then, once agreement is reached, the employer will extend a written job offer.

There are several issues to consider here. Perhaps most important, understand the difference between a *job offer letter* and a *contract*. In a job offer letter, the employer lists the offer's basic information. This typically starts with a welcome sentence. It then includes job-specific information (such as details on salary and pay), benefits information, paid leave information, and terms of employment (including, for instance, successful completion of job testing and physical exams).¹³⁸ Crucially, there should be a strong statement specifying that the employment relationship is "at will." There is then a closing statement. This again welcomes the employee, mentions who the employer's point person should be if any questions arise, and instructs the candidate to sign the letter if it is acceptable.¹³⁹ It is prudent to have an attorney review the offer before extending it.

On the other hand, in hiring for many positions (such as an executive) a *contract* might be in order. In contrast to a letter of offer (which should always be "at will"), it is not unusual for an employment contract to specify a duration (such as three years). Given this, the contract will also describe grounds for termination or resignation and severance provisions. The contract will almost always also include terms regarding confidentiality, nondisclosure requirements, and covenants not to compete (although some job offer *letters* for positions such as engineer many include such provisions as well).¹⁴⁰

Depending on the position, the employment contract (and, occasionally, the offer letter) may include a *relocation provision*. This lays out what the employer is willing to pay the new employee to relocate, for instance in terms of moving expenses. State law generally governs enforcement of individual employment contracts. Assuming the offer is accepted, the next step is to welcome the employee on board.

Review

MyManagementLab

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

SUMMARY

1. In this chapter we discuss several techniques for screening and selecting job candidates: The first is testing.
2. Test validity answers the question "What does this test measure?" Criterion validity means demonstrating that those who do well on the test do well on the job. Content validity is demonstrated by showing that the test constitutes a fair sample of the content of the job.
3. As used by psychologists, the term *reliability* always means "consistency." One way to measure reliability is to administer the same (or equivalent) tests to the same people at two different points in time. Or you could focus on internal consistency, comparing the responses to roughly equivalent items on the same test.
4. There are many types of personnel tests in use, including intelligence tests, tests of physical skills, tests of achievement, aptitude tests, interest inventories, and personality tests.
5. Under equal opportunity legislation, an employer may have to prove that his or her tests are predictive of success or failure on the job. This usually requires a predictive validation study, although other means of validation are often acceptable.
6. Management assessment centers are screening devices that expose applicants to a series of real-life exercises. Performance is observed and assessed by experts, who then check their assessments by observing the participants when they are back at their jobs. Examples of such real-life

exercises include a simulated business game, an in-basket exercise, and group discussions.

7. Several factors and problems can undermine the usefulness of an interview: making premature decisions, letting unfavorable information predominate, not knowing the requirements of the job, being under pressure to hire, not allowing for the candidate order effect, and nonverbal behavior.
8. The five steps in the interview include plan, establish rapport, question the candidate, close the interview, and review the data.
9. Other screening tools include reference checks, background checks, physical exams, and realistic previews.
10. After selecting the candidate to whom an offer is to be made, the employer develops the actual job offer. It will base this offer on, for instance, the candidate's attractiveness as a prospective employee and pay rates for similar positions. Next, the employer extends an actual job offer to the candidate verbally. Then, once agreement is reached, the employer will extend a written job offer.
11. Once you've selected and hired your new employees, they must be trained.

KEY TERMS

negligent hiring
reliability
test validity
criterion validity
content validity

construct validity
management assessment center
interview
structured situational interview

DISCUSSION QUESTIONS

1. Explain what is meant by *reliability* and *validity*. What is the difference between them? In what respects are they similar?
- ★ 2. Discuss at least four basic types of personnel tests.
3. Explain the shortcomings of background investigations, reference checks, and preemployment information services, and how to overcome them.
- ★ 4. For what sorts of jobs do you think computerized interviews are most appropriate? Why?
5. Briefly discuss and give examples of several common interviewing mistakes. What recommendations would you give for avoiding these interviewing mistakes?
6. Compare and contrast a job offer letter and a contract, and discuss the basic components of each.
7. Write a short (1-page double-spaced) essay on the topic, "How Equal Employment Law Affects Employee Selection". Please include at least 5 specific examples.
8. You own a small business. How would you go about finding a selection test for a job you want to fill, and what practical and legal issues would you want to keep in mind before choosing a test to use?

INDIVIDUAL AND GROUP ACTIVITIES

1. Working individually or in groups, develop a list of specific selection techniques that you would suggest your dean use to hire the next HR professor at your school. Explain why you chose each selection technique.
2. Working individually or in groups, contact the publisher of a standardized test such as the Scholastic Assessment Test and obtain from it written information regarding the test's validity and reliability. Present a short report in class discussing what the test is supposed to measure and the degree to which you think the test does what it is supposed to do, based on the reported validity and reliability scores.
3. Give a short presentation titled "How to Be Effective as an Interviewer."
4. Write a short essay discussing some of the ethical and legal considerations in testing.
5. Give some examples of how interest inventories could be used to improve employee selection. In doing so, suggest several examples of occupational interests that you believe might predict success in various occupations, including college professor, accountant, and computer programmer.
6. The PHR and SPHR Knowledge Base appendix lists the knowledge someone studying for the HRCI certification exam needs to have in each area of human resource management (such as in strategic management, workforce planning, and human resource development). In groups of four to five students, do four things: (1) review that appendix now; (2) identify the material in this chapter that relates to the required knowledge in the appendix lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so the students in other teams can take each others' exam questions.



APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Ethics and the Out-of-Control Interview

Ethics are “the principles of conduct governing an individual or a group”—they are the principles people use to decide what their conduct should be.¹⁴¹

Fairness is important in employee selection. For example, “If prospective employees perceive that the hiring process does not treat people fairly, they may assume that ethical behavior is not important in the company, and that ‘official’ pronouncements about the importance of ethics can be discounted.”¹⁴²

That’s one reason why the situation Maria Fernandez ran into is disturbing. Maria is a bright, popular, and well-informed mechanical engineer who graduated with an engineering degree from State University in June 2010. During the spring preceding her graduation, she went out on many job interviews, most of which she thought were conducted courteously and were reasonably useful in giving both her and the prospective employer a good impression of where each of them stood on matters of importance to both of them. It was, therefore, with great anticipation that she looked forward to an interview with the one firm where she most wanted to work: Apex Environmental. She had always had a strong interest in cleaning up the environment and firmly believed she could best use her training and skills in a firm like Apex, where she thought she could have a successful career while making the world a better place.

The interview, however, was a disaster. Maria walked into a room in which a panel of five men—the president of the company, two vice presidents, the marketing director, and another engineer—began throwing questions at her that she felt were aimed primarily at tripping her up rather than finding out what she could offer through her engineering skills. The questions ranged from unnecessarily discourteous (“Why would you take a job as a waitress in college if you’re such an intelligent person?”) to irrelevant and sexist (“Are you planning on settling down and starting a family anytime soon?”). Then, after the interview, she met with two of the gentlemen individually (including the president), and the discussions focused almost exclusively on her technical

expertise. She thought that these later discussions went fairly well. However, given the apparent aimlessness and even mean-spiritedness of the panel interview, she was astonished when several days later she received a job offer from the firm.

The offer forced her to consider several matters. From her point of view, the job itself was perfect—she liked what she would be doing, the industry, and the firm’s location. And, in fact, the president had been quite courteous in subsequent discussions, as had been the other members of the management team. She was left wondering whether the panel interview had been intentionally tense to see how she’d stand up under pressure, and, if so, why they would do such a thing.

Questions

1. How would you explain the nature of the panel interview Maria had to endure? Specifically, do you think it reflected a well-thought-out interviewing strategy on the part of the firm or carelessness (or worse) on the part of the firm’s management? If it was carelessness, what would you do to improve the interview process at Apex Environmental?
2. Do you consider the managers’ treatment of Maria ethical? Why? If not, what specific steps would you take to make sure the interview process is ethical from now on?
3. Would you take the job offer if you were Maria? If you’re not sure, is there any additional information that would help you make your decision, and if so, what is it?
4. The job of applications engineer for which Maria was applying requires (a) excellent technical skills with respect to mechanical engineering, (b) a commitment to working in the area of pollution control, (c) the ability to deal well and confidently with customers who have engineering problems, (d) a willingness to travel worldwide, and (e) a very intelligent and well-balanced personality. List 10 questions you would ask when interviewing applicants for the job.

HR IN ACTION CASE INCIDENT 2

Honesty Testing at Carter Cleaning Company

Jennifer Carter and her father have what the latter describes as an easy but hard job when it comes to screening job applicants. It is easy because for two important jobs—the people who actually do the pressing and those who do the cleaning-spotting—the applicants are easily screened with about 20 minutes of on-the-job testing. As with typists, as Jennifer points out, “Applicants either know how to press clothes fast enough or how to use cleaning chemicals and machines, or they don’t, and we find out very quickly by just trying them out on the job.” On the other hand, applicant screening for the stores can also be frustratingly hard because of the nature of some of the other qualities that Jennifer would like to screen for.

Two of the most critical problems facing her company are employee turnover and employee honesty. Jennifer and her father sorely need to implement practices that will reduce the rate of employee turnover. If there is a way to do this through employee testing and screening techniques, Jennifer would like to know about it because of the management time and money that are now being wasted by the never-ending need to recruit and hire new employees. Of even greater concern to Jennifer and her father is the need to institute new practices to screen out those employees who may be predisposed to steal from the company.

Employee theft is an enormous problem for Carter Cleaning Centers, and one that is not just limited to employees who handle

the cash. For example, the cleaner-spotter and/or the presser often open the store themselves, without a manager present, to get the day's work started, and it is not unusual to have one or more of these people steal supplies or "run a route." Running a route means that an employee canvasses his or her neighborhood to pick up people's clothes for cleaning and then secretly cleans and presses them in the Carter store, using the company's supplies, gas, and power. It would also not be unusual for an unsupervised person (or his or her supervisor, for that matter) to accept a one-hour rush order for cleaning or laundering, quickly clean and press the item, and return it to the customer for payment without making out a proper ticket for the item posting the sale. The money, of course, goes into the worker's pocket instead of into the cash register.

The more serious problem concerns the store manager and the counter workers who actually handle the cash. According to Jack Carter, "You would not believe the creativity employees use to get around the management controls we set up to cut down on employee theft." As one extreme example of this felonious creativity, Jack tells the following story: "To cut down on the amount of money my employees were stealing, I had a small sign painted and placed in front of all our cash registers. The sign said: YOUR ENTIRE ORDER FREE IF WE DON'T GIVE YOU A CASH REGISTER RECEIPT WHEN YOU PAY. CALL 552-0235. It was my intention with this sign to force all our cash-handling employees to place their receipts into the cash register where they would be recorded for my accountants. After all, if all the cash that comes

in is recorded in the cash register, then we should have a much better handle on stealing in our stores, right? Well, one of our managers found a diabolical way around this. I came into the store one night and noticed that the cash register this particular manager was using just didn't look right, although the sign was dutifully placed in front of it. It turned out that every afternoon at about 5:00 P.M. when the other employees left, this character would pull his own cash register out of a box that he hid underneath our supplies. Customers coming in would notice the sign and of course the fact that he was meticulous in ringing up every sale. But unknown to them and us, for about five months the sales that came in for about an hour every day went into his cash register, not mine. It took us that long to figure out where our cash for that store was going."

Jennifer would like you to answer the following questions.

Questions

1. What would be the advantages and disadvantages to Jennifer's company of routinely administering honesty tests to all its employees?
2. Specifically, what other screening techniques could the company use to screen out theft-prone and turnover-prone employees, and how exactly could these be used?
3. How should Jennifer's company terminate employees caught stealing, and what kind of procedure should be set up for handling reference calls about these employees when they go to other companies looking for jobs?

EXPERIENTIAL EXERCISE

The Most Important Person You'll Ever Hire

Purpose: The purpose of this exercise is to give you practice using some of the interview techniques you learned from this chapter.

Required Understanding: You should be familiar with the information presented in this chapter, and read this:

For parents, children are precious. It's therefore interesting that parents who hire nannies to take care of their children usually do little more than ask several interview questions and conduct what is often, at best, a perfunctory reference check. Given the often questionable validity of interviews, and the (often) relative inexperience of the father or mother doing the interviewing, it's not surprising that many of these arrangements end in disappointment. You know from this chapter that it is difficult to conduct a valid interview unless you know exactly what you're looking for and, preferably, also how to structure the interview. Most parents simply aren't trained to do this.

How to Set Up the Exercise/Instructions:

1. Set up groups of five or six students. Two students will be the interviewees, while the other students in the group will serve as panel interviewers. The interviewees will develop a form for assessing the interviewers, and the panel interviewers will develop a structured situational interview for a nanny.
2. Instructions for the interviewees: The interviewees should leave the room for about 20 minutes. While

out of the room, the interviewees should develop an interviewer assessment form based on the information presented in this chapter regarding factors that can undermine the usefulness of an interview. During the panel interview, the interviewees should assess the interviewers using the interviewer assessment form. After the panel interviewers have conducted the interview, the interviewees should leave the room to discuss their notes. Did the interviewers exhibit any of the factors that can undermine the usefulness of an interview? If so, which ones? What suggestions would you (the interviewees) make to the interviewers on how to improve the usefulness of the interview?

3. Instructions for the interviewers: While the interviewees are out of the room, the panel interviewers will have 20 minutes to develop a short, structured situational interview form for a nanny. The panel interview team will interview two candidates for the position. During the panel interview, each interviewer should be taking notes on a copy of the structured situational interview form. After the panel interview, the panel interviewers should discuss their notes. What were your first impressions of each interviewee? Were your impressions similar? Which candidate would you all select for the position and why?

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Explain the factors and problems that can undermine an interview's usefulness, and techniques for eliminating them.
2. Why is it important to conduct preemployment background investigations? How would you go about doing so?
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

Appendix: The Structured Situational Interview

There is little doubt that the **structured situational interview**—a series of job-relevant questions with predetermined answers that interviewers ask of all applicants for the job—produces superior results.¹⁴³ The basic idea is to write situational (what would you do), behavioral (what did you do), or job knowledge questions, *and* have job experts (like those supervising the job) also write sample answers for these questions, rated from good to poor. The people who interview and rate the applicants then use rating sheets anchored with examples of good or bad answers to rate the interviewees' answers.¹⁴⁴

In creating structured situational interviews, people familiar with the job develop questions based on the job's actual duties. They then reach consensus on what are and are not acceptable answers. The procedure is as follows.¹⁴⁵

Step 1: Job Analysis Write a job description with a list of job duties and required knowledge, skills, abilities, and other worker qualifications.

Step 2: Rate the Job's Main Duties Identify the job's main duties. To do so, rate each job duty based on its importance to job success and on the time required to perform it compared to other tasks.

Step 3: Create Interview Questions Create interview questions based on actual job duties, with more questions for the important duties. Recall that *situational questions* pose a hypothetical job situation, such as "What would you do if the machine suddenly began heating up?" *Job knowledge questions* assess knowledge essential to job performance, such as "What is HTML?" *Willingness questions* gauge the applicant's willingness and motivation to meet the job's requirements—to do repetitive physical work or to travel, for instance. *Behavioral questions*, of course, ask candidates how they've handled similar situations.

The people who create the questions usually write them in terms of critical incidents. For example, for a supervisory

Structured Situational Interview

A series of job-relevant questions with predetermined answers that interviewers ask of all applicants for the job.

candidate, the interviewer might ask this situational question: Your spouse and two teenage children are sick in bed with colds. There are no relatives or friends available to look in on them. Your shift starts in three hours. What would you do in this situation? See Figure 7 for examples.

Step 4: Create Benchmark Answers Next, *for each question*, develop ideal (benchmark) answers for good (a 5 rating), marginal (a 3 rating), and poor (a 1 rating). For example, consider the preceding situational question, where the spouse and children are sick. Three benchmark answers (from low to high) for the example question might be, "I'd stay home—my spouse and family come first" (1); "I'd phone my supervisor and explain my situation" (3); and "Since they only have colds, I'd come to work" (5).

Step 5: Appoint the Interview Panel and Conduct Interviews Employers generally conduct structured situational interviews using a panel, rather than one-on-one. The panel usually consists of three to six members, preferably the same ones who wrote the questions and answers. It may also include the job's supervisor and/or incumbent, and a human resources representative. The same panel interviews all candidates for the job.¹⁴⁶

The panel members generally review the job description, questions, and benchmark answers before the interview. One panel member introduces the applicant, and asks all questions of all applicants in this and succeeding candidates' interviews (to ensure consistency). However, all panel members record and rate the applicant's answers on the rating scale sheet. They do this by indicating where the candidate's answer to each question falls relative to the ideal poor, marginal, or good answers. At the end of the interview, someone answers any questions the applicant has.¹⁴⁷

Web-based programs help interviewers design and organize behaviorally based selection interviews. For example, SelectPro (www.selectpro.net) enables interviewers to create behavior-based selection interviews, custom interview guides, and automated online interviews.

VIDEO CASES APPENDIX

Video Title: Talent Management (The Weather Channel)

SYNOPSIS

This video discusses job analysis in some detail, including how employers use the job analysis, who contributes to a job analysis, and writing the job description and the job specification.

Discussion Questions

- ★ 1. What job analysis tools would you suggest The Weather Channel use to supplement what it's doing now to analyze jobs?
- ★ 2. What role do you think job analysis plays in talent management at The Weather Channel? What role should it play?
- ★ 3. How is human resources at The Weather Channel involved in job analysis?
- ★ 4. If Taylor asked you what strategic HR is, what would you tell her? Does The Weather Channel seem to be practicing strategic HR? Why or why not?
- ★ 5. What indications, if any, are there that The Weather Channel takes a talent management approach?

Video Title: Recruiting (Hautelook)

SYNOPSIS

The online fashion retailer Hautelook is growing quickly and needs to recruit new employees at a rapid rate. The video discusses the company's methods for recruiting job applicants and for finding the best potential employees from among its applicants. Hautelook prefers to promote internal job candidates, but also to hire applicants who are most familiar with the company—ideally, previous customers.

Discussion Questions

- ★ 1. Explain the importance of employee referrals to Hautelook's recruiting.
- ★ 2. Based on the chapter, what other recruiting tools would you suggest a company like this use, and why?
- ★ 3. How would you suggest Hautelook deal with the problem of receiving too many résumé applications?
- ★ 4. Given that it loves to promote internally, what other steps would you suggest Hautelook take to facilitate this?
- ★ 5. From what Hautelook says, is it really necessary for the company to use employment agencies? Why?

Video Title: Personnel Planning and Recruiting (Gawker Media)

SYNOPSIS

Gawker Media founder Nick Denton analyzes how his company responded to the 2007–2010 recession. A key was planning for staffing levels.

Discussion Questions

- ★ 1. What advice would you give Gawker Media regarding how to improve its personnel planning?
- ★ 2. How is it that some organizations succeed during a recession?
- ★ 3. Evaluate Gawker Media's practice of recruiting new writers from the people who comment on its sites. How would you suggest the company improve its recruiting practices overall?

Video Title: Employee Testing and Selection (Patagonia)

SYNOPSIS

Patagonia strives to select employees whose values are in sync with the philosophies and values of the company. The interviewing process is a multifaceted one, in which candidates take part in several group interviews. In an attempt to reveal as much about a potential employee's interests, passions, and personality as possible, these interviews tend to be unstructured and conversational. It is important that those hired by

Patagonia not only have an interest in outdoor activities and the products the company produces, but also are passionate about preserving the environment, which is the mission of Patagonia.

Discussion Questions

- ★ 1. If you had to create a talent management-type job profile for the average employee at Patagonia, what would the profile look like in terms of its specific contents?

- ★ 2. What traits does Patagonia look for in its future employees during the interview process?
- ★ 3. In what respects does Patagonia's employee selection process reflect a talent management approach to selection?
- ★ 4. What is the employee turnover rate at Patagonia? Is this higher or lower than the industry average? What reason can you give for why Patagonia's turnover rate is as you described?
- ★ 5. Describe the interview process used by Patagonia. How is this process similar to others in the industry? How does the process used by Patagonia differ?

Video Title: Interviewing Candidates (Zipcar)

SYNOPSIS

Zipcar is a company that allows customers to share a car for a fee as small as a short cab ride. Individuals who become Zipcar members are able to reserve a vehicle with as little advance notice as 1 hour through any wireless device, unlock a car with a card that members carry with them, and drive for the reserved period of time. The goal of Zipcar is to reduce the number of cars being driven and thereby reduce environmental pollution.

Zipcar is a fast-growing innovative company that supports the environment and is socially responsible. This makes it an attractive place to work for many who are looking for a company that is doing something new. When selecting new employees, Zipcar aims to find people who are passionate about the brand,

professional, courteous, and presentable. It wants someone who understands the value of the organization and the culture within which the company operates.

Discussion Questions

- ★ 1. What makes Zipcar an attractive employer for whom to work?
- ★ 2. What do those doing the actual hiring at Zipcar feel are important characteristics to find in potential employees?
- ★ 3. List three behavioral and three situational questions you would use to interview Zipcar employment applicants.
- ★ 4. According to the video, what practices should you avoid during an interview? How do these compare with those we discussed in this chapter?

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Training and Developing Employees

Training and Developing Employees

OVERVIEW:
In this chapter,
we will cover . . .

ORIENTING AND ONBOARDING NEW EMPLOYEES

OVERVIEW OF THE TRAINING PROCESS

IMPLEMENTING TRAINING PROGRAMS

IMPLEMENTING MANAGEMENT DEVELOPMENT PROGRAMS

MANAGING ORGANIZATIONAL CHANGE PROGRAMS

EVALUATING THE TRAINING EFFORT

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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Summarize the purpose and process of employee orientation.
2. List and briefly explain each of the five steps in the training process.
3. Conduct a needs assessment to identify training requirements.
4. Explain how to distinguish between problems you can fix with training and those you can't.
5. Discuss how you would motivate trainees.
6. Explain how to use five training techniques.
7. List and briefly discuss four management development methods.
8. List and briefly discuss the eight steps in leading organizational change.
9. Answer the question, "What is organizational development and how does it differ from traditional approaches to organizational change?"
10. Explain what to consider in evaluating the effectiveness of a training program.

INTRODUCTION

For about 6 years after it merged with May Department Stores, Macy's focused on integrating its regional department stores under the single Macy's umbrella. Then the recession hit and the focus shifted to cutting costs. During these years, Macy's customer service suffered. Many Macy's sales associates just weren't providing the level of service that customers wanted. The question is what should Macy's do about it now?



Source: Hemis/Alamy

**LEARNING OBJECTIVE 1**

Summarize the purpose and process of employee orientation.

employee orientation

A procedure for providing new employees with basic background information about the firm.

ORIENTING AND ONBOARDING NEW EMPLOYEES

Carefully selecting employees doesn't guarantee they'll perform effectively. Even high-potential employees can't do their jobs if they don't know what to do or how to do it. Making sure your employees do know what to do and how to do it is the purpose of orientation and training. We will start with orientation.

The Purposes of Employee Orientation/Onboarding

Employee orientation (or "onboarding") involves more than what most people realize.¹ **Employee orientation** still provides new employees with the information they need to function (such as computer passwords and company rules); ideally, though, it should also help new employees start getting emotionally attached to the firm. You want to accomplish four things by orienting new employees:

1. Make the new employee feel welcome and at home and part of the team.
2. Make sure the new employee has the basic information to function effectively, such as e-mail access, personnel policies and benefits, and what the employer expects in terms of work behavior.
3. Help the new employee understand the organization in a broad sense (its past, present, culture, and strategies and vision of the future).
4. Start the person on becoming socialized into the firm's values and ways of doing things.²

Getting the new employee to appreciate the company's culture and values distinguishes today's *onboarding* programs from traditional orientation.³ For example, the Mayo Clinic's new "heritage and culture" program emphasizes core Mayo Clinic values such as teamwork, personal responsibility, innovation, integrity, diversity, customer service, and mutual respect.⁴

The Orientation Process

The length of the orientation program depends on what you cover. Traditional programs take several hours. The human resource specialist (or, in smaller firms, the office manager) usually performs the first part of the orientation by explaining basic matters like working hours, benefits, and vacations. That person then introduces the new employee to his or her new supervisor. The supervisor continues the orientation (see Figure 1) by explaining the organization, introducing the person to his or her new colleagues, familiarizing him or her with the workplace, and helping to reduce first-day jitters. For new employees in general, and particularly people with disabilities, integration and socialization is highly influenced by the behavior of coworkers and supervisors.⁵ Supervisors should be vigilant. Follow up on and encourage new employees to engage in activities (such as taking breaks with current employees) that will enable each to "learn the ropes" and become productive.

At a minimum, as in Figure 1, an orientation typically includes information on employee benefits, personnel policies, the daily routine, company organization and operations, safety measures and regulations, and a facilities tour.⁶ New employees should receive (and sign for) print or Internet-based employee handbooks covering matters like these.

THE EMPLOYEE HANDBOOK Courts may find that the employee handbook's contents represent legally binding employment commitments. Therefore, make it clear that statements of company policies, benefits, and regulations do not constitute the terms and conditions of an employment contract, either expressed or implied. Also, employers generally should not insert statements such as "No employee will be fired without just cause" or statements that imply or state that employees have tenure. Emphasize that the employment relationship is "at-will."

ORIENTATION TECHNOLOGY Employers use technology to support orientation. For example, at the University of Cincinnati, new employees spend about 45 minutes online learning about their new employer's mission, organization, and policies and procedures. IBM uses virtual

TRAINING AND DEVELOPING EMPLOYEES



UNIVERSITY of CALIFORNIA, SAN DIEGO
MEDICAL CENTER

NEW EMPLOYEE DEPARTMENTAL ORIENTATION CHECKLIST

(Return to Human Resources within 10 days of Hire)

NAME:	HIRE DATE:	SSN:	JOB TITLE:	
DEPARTMENT:	NEO DATE:	DEPARTMENTAL ORIENTATION COMPLETED BY:		
TOPIC			DATE REVIEWED	N/A
1. HUMAN RESOURCES INFORMATION				
a. Departmental Attendance Procedures and UCSD Medical Center Work Time & Attendance Policy			a. _____	<input type="checkbox"/>
b. Job Description Review			b. _____	<input type="checkbox"/>
c. Annual Performance Evaluation and Peer Feedback Process			c. _____	<input type="checkbox"/>
d. Probationary Period Information			d. _____	<input type="checkbox"/>
e. Appearance/Dress Code Requirements			e. _____	<input type="checkbox"/>
f. Annual TB Screening			f. _____	<input type="checkbox"/>
g. License and/or Certification Renewals			g. _____	<input type="checkbox"/>
2. DEPARTMENT INFORMATION				
a. Organizational Structure-Department Core Values Orientation			a. _____	<input type="checkbox"/>
b. Department/Unit Area Specific Policies & Procedures			b. _____	<input type="checkbox"/>
c. Customer Service Practices			c. _____	<input type="checkbox"/>
d. CQI Effort and Projects			d. _____	<input type="checkbox"/>
e. Tour and Floor Plan			e. _____	<input type="checkbox"/>
f. Equipment/Supplies			f. _____	<input type="checkbox"/>
• Keys issued			_____	<input type="checkbox"/>
• Radio Pager issued			_____	<input type="checkbox"/>
• Other _____			_____	<input type="checkbox"/>
g. Mail and Recharge Codes			g. _____	<input type="checkbox"/>
3. SAFETY INFORMATION				
a. Departmental Safety Plan			a. _____	<input type="checkbox"/>
b. Employee Safety/Injury Reporting Procedures			b. _____	<input type="checkbox"/>
c. Hazard Communication			c. _____	<input type="checkbox"/>
d. Infection Control/Sharps Disposal			d. _____	<input type="checkbox"/>
e. Attendance at annual Safety Fair (mandatory)			e. _____	<input type="checkbox"/>
4. FACILITIES INFORMATION				
a. Emergency Power			a. _____	<input type="checkbox"/>
b. Mechanical Systems			b. _____	<input type="checkbox"/>
c. Water			c. _____	<input type="checkbox"/>
d. Medical Gases			d. _____	<input type="checkbox"/>
e. Patient Room			e. _____	<input type="checkbox"/>
• Bed			_____	<input type="checkbox"/>
• Headwall			_____	<input type="checkbox"/>
• Bathroom			_____	<input type="checkbox"/>
• Nurse Call System			_____	<input type="checkbox"/>
5. SECURITY INFORMATION				
a. Code Triage Assignment			a. _____	<input type="checkbox"/>
b. Code Blue Assignment			b. _____	<input type="checkbox"/>
c. Code Red – Evacuation Procedure			c. _____	<input type="checkbox"/>
d. Code 10 – Bomb Threat Procedure			d. _____	<input type="checkbox"/>
e. Departmental Security Measures			e. _____	<input type="checkbox"/>
f. UCSD Emergency Number <u>6111</u> or <u>911</u>			f. _____	<input type="checkbox"/>

This generic checklist may not constitute a complete departmental orientation or assessment. Please attach any additional unit specific orientation material for placement in the employee's HR file

I have been oriented on the items listed above _____

D1999(R7-01)

White – HR Records (8912)

Yellow – Department Retains

FIGURE 1
New Employee Departmental Orientation Checklist

Source: “New Employee Departmental Orientation Checklist” from UCSD *Health Care website*. Used with permission of UC San Diego Medical Center.

environments like Second Life to support orientation, particularly for employees abroad. The new employees choose virtual avatars, which then interact with other company avatars, for instance to learn how to enroll for benefits.⁷ ION Geophysical uses an online onboarding portal solution called RedCarpet. Ion’s CEO uses RedCarpet to offer a streaming video welcome message. New hires can view things like photos and profiles of members of their work teams.⁸

LEARNING OBJECTIVE 2

List and briefly explain each of the five steps in the training process.

training

The process of teaching new or current employees the basic skills they need to perform their jobs.

negligent training

A situation where an employer fails to train adequately, and the employee subsequently harms a third party.

OVERVIEW OF THE TRAINING PROCESS

Directly after orientation, training should begin. **Training** means giving new or current employees the skills they need to perform their jobs. Training is a task that managers ignore at their peril. If employees don't know what to do or how to do it, they will improvise or do nothing useful at all.

Inadequate training can also trigger **negligent training** liability. As one expert puts it, "It's clear from the case law that where an employer fails to train adequately and an employee subsequently does harm to third parties, the court will find the employer liable."⁹ Employers should confirm the applicant/employee's claims of skill and experience, provide adequate training (particularly where employees use dangerous equipment), and evaluate the training to ensure that it's actually reducing risks.

Aligning Strategy and Training

The employer's strategic plans should ultimately govern its training goals.¹⁰ In essence, the task is to identify the employee behaviors the firm needs to execute its strategy, and from that deduce what competencies employees will need. Then, they need to put in place training goals and programs to instill these competencies.¹¹ For example, Caterpillar Inc. created Caterpillar University to oversee all its training and development programs. Company executives comprise the university's board of directors. They set the university's policies and oversee "the alignment of the corporation's learning needs with the enterprises' business strategy."¹² The training team also needs to always focus on the bottom line, by defining their own purpose and success in terms of how they affect the company's performance.¹³ Training has an impressive record of influencing performance. It scores higher than appraisal and feedback and just below goal setting in its effect on productivity.¹⁴ The accompanying Strategic Context feature illustrates strategy's role in training and development.

THE STRATEGIC CONTEXT

Macy's Training Turnaround Strategy

Having spent about 6 years consolidating and cutting costs to navigate its way through the recession, Macy's top management turned to a new strategy in 2011. As its CEO said, "We are [now] talking about a cultural shift . . . becoming more of a growth company."¹⁵ However, Macy's top management knew that growth would not occur without improved customer service. To produce the improved customer service that Macy's new-growth strategy depended on, Macy's installed a new training program. Rather than just watching a 90-minute interactive video as they did previously, sales associates now attended 3½-hour training sessions aimed at cultivating higher levels of customer service. Macy's management believes the training program and the resulting improvement in customer service will be the biggest factor in achieving Macy's projected growth targets.¹⁶



The ADDIE Five-Step Training Process

The employer should use a rational training process. The gold standard here is still the basic analysis-design-develop-implement-evaluate (ADDIE) training process model that training experts have used for years.¹⁷ As an example, to paraphrase one training vendor:¹⁸

- *Analyze* the training need.
- *Design* the overall training program.
- *Develop* the course (actually assembling/creating the training materials).
- *Implement* training, by actually training the targeted employee group using methods such as on-the-job or online training.
- *Evaluate* the course's effectiveness.

We'll look at each step next.



Conducting the Training Needs Analysis

The training needs analysis should address the employer’s *strategic/longer term* training needs and/or its *current* training needs. If the program is to use technology, the manager should also include a review of the technology he or she plans to use for presenting the program, as part of the analysis.¹⁹

STRATEGIC TRAINING NEEDS ANALYSIS Strategic goals (perhaps to enter new lines of business or to expand abroad) usually mean the firm will have to fill new jobs. *Strategic training needs analysis* focuses on identifying the training that employees will need to fill these new future jobs. For example, when Wisconsin-based Signicast Corporation decided to build a new, high-tech plant, the firm’s top management knew the plant’s employees would need new skills to run the computerized machines. They worked closely with their HR team to formulate hiring policies and training programs to ensure the firm would have the human resources required to populate the new plant.

Strategic training needs analysis is tied to succession planning. The latter, recall, means identifying the training and development that employees need to fill the firm’s key positions, and then formulating plans to ensure that high-potential employees get the training and development to fill the firm’s future positions.

CURRENT TRAINING NEEDS ANALYSIS As important as strategic training is, most training efforts aim to improve current performance—specifically training new employees, and those whose performance is deficient.

How you analyze current training needs depends on whether you’re training new or current employees. The main task in analyzing *new* employees’ needs is to determine what the job entails and to break it down into subtasks, each of which you then teach to the new employee.

Analyzing *current* employees’ training needs is more complex, because you must also decide whether training is the solution. For example, performance may be down because standards aren’t clear or because the person isn’t motivated. Managers use *task analysis* to identify new employees’ training needs, and *performance analysis* to identify current employees’ training needs.

LEARNING OBJECTIVE 3

Conduct a needs assessment to identify training requirements.

task analysis

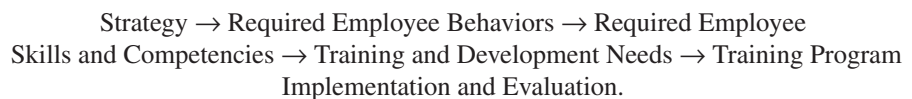
A detailed study of a job to identify the specific skills required.

TASK ANALYSIS: ANALYZING NEW EMPLOYEES’ TRAINING NEEDS Particularly with lower-level workers, it’s common to hire inexperienced personnel and train them. Your aim here is to give these new employees the skills and knowledge they need to do the job. **Task analysis** is a detailed study of the job to determine what specific skills the job requires. For task analysis, job descriptions and job specifications are essential. These list the job’s specific duties and skills, which are the basic reference points in determining the training required. Managers can also uncover training needs by reviewing performance standards, performing the job, and questioning current job holders and their supervisors.²⁰

Some managers supplement the job description and specification with a *task analysis record form*. This consolidates information regarding required tasks and skills in a form that’s especially helpful for determining training requirements. As in Table 1, it contains information such as “Skills or knowledge required.”



TALENT MANAGEMENT: USING PROFILES AND COMPETENCY MODELS Talent management is the goal-oriented and integrated process of planning for, recruiting, selecting, developing, and compensating employees. At the heart of talent management is the idea of using the same profile (set of necessary competencies, traits, knowledge, and experience) for recruiting, selecting, training, appraising, and compensating the employee. For training, we can summarize this as follows:



Many employers use competency models to compile and summarize a job’s training needs. The **competency model** consolidates, usually in one diagram, a list of the competencies (the knowledge, skills, and behaviors) someone needs to do a job well. The employer can then formulate training goals and specific training programs aimed at developing these skills and competencies.

As an example, the top of the pyramid of the competency model for a human resource manager shows four main roles the human resource manager

competency model

A graphic model that consolidates, usually in one diagram, a precise overview of the competencies (the knowledge, skills, and behaviors) someone would need to do a job well.

TABLE 1 Sample Task Analysis Record Form

	Task List	When and How Often Performed	Quantity and Quality of Performance	Conditions Under Which Performed	Skills or Knowledge Required	Where Best Learned
1.	Operate paper cutter	4 times per day		Noisy pressroom: distractions		
1.1	Start motor	4 times per day				On the job
1.2	Set cutting distance		± tolerance of 0.007 in.		Read gauge	On the job
1.3	Place paper on cutting table		Must be completely even to prevent uneven cut		Lift paper correctly	On the job
1.4	Push paper up to cutter				Must be even	On the job
1.5	Grasp safety release with left hand		100% of time, for safety		Essential for safety	On the job but practice first with no distractions
1.6	Grasp cutter release with right hand				Must keep both hands on releases	On the job but practice first with no distractions
1.7	Simultaneously pull safety release with left hand and cutter release with right hand				Must keep both hands on releases	On the job but practice first with no distractions
1.8	Wait for cutter to retract		100% of time, for safety		Must keep both hands on releases	On the job but practice first with no distractions
1.9	Retract paper				Wait until cutter retracts	On the job but practice first with no distractions
1.10	Shut off		100% of time, for safety			On the job but practice first with no distractions
2.	Operate printing press					
2.1	Start motor					

Note: Task analysis record form showing some of the tasks and subtasks performed by a printing press operator.

needs to fill. Beneath that are the required areas of expertise such as selection and training. Beneath are an HR manager’s essential, “foundation” competencies, such as communicating effectively.²¹

The model’s aim is to compile in one place the competencies one needs for doing the job. For example, at Sharp Electronics, training managers interview top managers to understand the firm’s strategic objectives and to infer from these what competencies those objectives will require. Sharp’s trainers also interview each job’s top performers to identify the competencies (such as “able to understand the customer’s key needs”) he or she believes comprise the job’s core skills and competencies. Training for the job then aims to develop this profile or set of competencies.²²

PERFORMANCE ANALYSIS: ANALYZING CURRENT EMPLOYEES’ TRAINING NEEDS For underperforming current employees, you cannot assume that training is the problem. In other words, is it lack of training, or something else? **Performance analysis** is the process of verifying that there is a performance deficiency and determining whether the employer should correct such deficiencies through training or some other means (like transferring the employee).

The first step in performance analysis is usually to compare the person’s actual performance to what it should be. Doing so helps to confirm that there is a performance deficiency, and (hopefully) helps the manager to identify its cause. Examples of performance deficiencies might be:

I expect each salesperson to make 10 new contracts per week, but John averages only six. Other plants our size average two serious accidents per month; we’re averaging five.

performance analysis

Verifying that there is a performance deficiency and determining whether that deficiency should be corrected through training or through some other means (such as transferring the employee).

There are several ways to identify how a current employee is performing. These include reviewing:

- Performance appraisals.
- Job-related performance data (including productivity, absenteeism and tardiness, grievances, waste, late deliveries, product quality, downtime, repairs, equipment utilization, and customer complaints).
- Observations by supervisors or other specialists.
- Interviews with the employee or his or her supervisor.
- Tests of things like job knowledge, skills, and attendance.
- Attitude surveys.
- Individual employee daily diaries.
- Assessment center results.
- Special performance gap analytical software, such as from Saba Software, Inc.

LEARNING OBJECTIVE 4

Explain how to distinguish between problems you can fix with training and those you can't.

CAN'T DO/WON'T DO Ferreting out why performance is down is the heart of performance analysis. Why spend time training employees when the problem isn't training, but weak motivation?

The manager's aim here is to distinguish between can't-do and won't-do problems. First, determine whether it is a *can't-do* problem. For example, the employees don't know what to do; there are impediments such as lack of tools or supplies; or you've hired people who haven't the skills to do the job. Or, perhaps there is a need for training.

On the other hand, it might be a *won't-do* problem. Here employees *could* do a good job if they wanted to.²³ Here, for instance, the solution may be to change the reward system.

LEARNING OBJECTIVE 5

Discuss how you would motivate trainees.

Designing the Training Program

Armed with the needs analysis results, the manager next designs the overall training program. *Design* means planning the overall training program including training objectives, delivery methods, and program evaluation. Substeps include setting performance objectives, creating a detailed training outline (all training program steps from start to finish), choosing a program delivery method (such as lectures or Web), and verifying the overall program design with management. The design should include summaries of how you plan to set a training environment that motivates your trainees both to learn and to transfer what they learn to the job. It is also at the design stage that the manager reviews possible training program content (including workbooks, exercises, and activities), and estimates a budget for the training program.²⁴ We'll look more closely next at several specific program design issues.



SETTING LEARNING OBJECTIVES Training, development, or (more generally) *instructional objectives* should specify in measurable terms what the trainee should be able to accomplish after successfully completing the training program.²⁵ For example:

The technical service representative will be able to adjust the color guidelines on this HP Officejet All-in-One printer copier within 10 minutes according to the device's specifications.

The learning objectives you choose should address rectifying the performance deficiencies that you identified with needs analysis. Thus, if the sales team's sales are 40% too low, the objectives should focus on ensuring they get the knowledge, skills, and attitudes they need to boost sales. But at the same time, the learning objectives must be practical, given the constraints. One constraint is financial. For all but the most trivial training programs, the employer will want to see and approve a *training budget* for the program. Typical costs include the development costs (of having, say, a human resource specialist working on the program for a week or two), the direct and indirect (overhead) costs of the trainers' time, participant compensation (for the time they're actually being trained), and the cost of evaluating the program. The question, of course, isn't just "Can we afford this program?" but "Does it pay to spend this much, given the benefits we'll derive from the program?" Therefore, be prepared to defend the training program on benefits-versus-costs grounds. There are also other constraints. For example, time constraints may require reducing three or four desirable learning objectives down to two.

CREATING A MOTIVATIONAL LEARNING ENVIRONMENT Learning something requires both ability and motivation, and the training program's learning environment should take both into

account. First, in terms of *ability*, the learner–trainee needs (among other things) the required reading, writing, and mathematics skills, and the educational level, intelligence, and knowledge base. In setting the learning environment, the manager therefore has to address several trainee-related ability issues. For example, how will our program accommodate differences in trainee abilities? Do we need to provide remedial training?

Second, the learner must also be motivated to learn the material. No manager should want to waste his or her time showing a disinterested employee how to do something (even if he or she has the requisite ability).

Many books have been written about how to motivate employees, but several observations are pertinent here.²⁶ It's likely that the training program's effects will be diminished if trainees return to their jobs to snide comments such as, "I hope you liked your little vacation" from peers or supervisors. Therefore, the low-hanging fruit in motivating trainees is to make sure the trainee's peers and supervisor support the training effort. Ideally, particularly for larger programs, top management should visibly support the program. Beyond that, we can summarize motivational suggestions as follows.

MAKING THE LEARNING MEANINGFUL Learners are more motivated to learn something that has meaning for them. Therefore:

1. At the start of training, provide an overview of the material that you are going to present.²⁷
2. Use familiar examples.
3. Organize the information so you can present it logically and in meaningful units.
4. Use visual aids.
5. Create a perceived training need in trainees' minds.²⁸ "Managers need to sit down and talk with the trainee about why they are enrolled in the class, what they are expected to learn, and how they can use it on the job."²⁹

REINFORCING THE LEARNING Make sure the learner gets plenty of feedback. In particular:

1. Trainees learn best when the trainers immediately reinforce correct responses, perhaps with a quick "well done."
2. Provide follow-up assignments at the close of training, so trainees are reinforced by having to apply back on the job what they've learned.³⁰

ENSURING TRANSFER OF LEARNING TO THE JOB Unfortunately, fewer than 35% of trainees seem to be transferring what they learned in training to their jobs a year after training. Improving on that sad statistic requires taking special steps at each stage of training. *Prior to training*, get trainee and supervisor input in designing the program, institute a training attendance policy, and encourage employees to participate. *During training*, provide trainees with training experiences and conditions (surroundings, equipment) that resemble the actual work environment. *After training*, reinforce what trainees learned, for instance, by appraising and rewarding employees for using new skills, and by making sure that they have the tools and materials they need to use their new skills.³¹

OTHER TRAINING DESIGN ISSUES Managers address several other issues during the training design stage. Most importantly, they review relevant alternative training methodologies (lectures, Web-based, and so on) and choose likely methods for their program. They also decide how they will organize (for instance, in what sequence) the training content components, choose how to evaluate the program, develop an overall summary plan for the program, and obtain management's approval to move ahead.

Developing the Program

Program development means actually assembling/creating the program's training content and materials. It means choosing the actual content the program will present, as well as designing/choosing the specific instructional methods (lectures, cases, Web-based, etc.) you will use. Training equipment and materials include (for example) iPads, workbooks, lectures, PowerPoint slides, Web- and computer-based activities, course activities, trainer resources (manuals, for instance), and support materials.

Some employers create their own training content, but there's also a vast selection of online and offline content from which to choose. You'll find turnkey, off-the-shelf programs on virtually any topic—from occupational safety to sexual harassment to Web design—from tens of thousands of online and offline providers. (See, for example, the American Society for Training and

Development’s Infoline at www.astd.org, www.trainerswarehouse.com, and www.gneil.com, among thousands of such suppliers.)³² Turnkey training packages often include trainer’s guide, self-study book, video, and other content.

Once you design, approve, and develop the program, management can implement and then evaluate it. *Implement* means actually provide the training, using one or more of the instructional methods (such as lectures) discussed next. We address program *evaluation* at the end of this chapter.

LEARNING OBJECTIVE 6

Explain how to use five training techniques.



on-the-job training (OJT)

Training a person to learn a job while working on it.

IMPLEMENTING TRAINING PROGRAMS

With objectives set and the program designed and budgeted, you can turn to implementing the training program. This means actually doing the training, using one or more of the training methods we turn to now. We’ll start with simpler, low-tech methods and proceed to computer-based ones.

On-the-Job Training

On-the-job training (OJT) means having a person learn a job by actually doing it. Every employee, from mailroom clerk to CEO, gets on-the-job training when he or she joins a firm. In many firms, OJT is the only training available.³³ (Or worse; the supervisor may simply say, “Here’s your desk; get started.”)

TYPES OF ON-THE-JOB TRAINING The most familiar on-the-job training is the *coaching or understudy method*. Here, an experienced worker or the trainee’s supervisor trains the employee. This may involve simply acquiring skills by observing the supervisor, or (preferably) having the supervisor or job expert show the new employee the ropes, step by step. On-the-job training is part of multifaceted training at The Men’s Wearhouse. It combines on-the-job training with comprehensive initiation programs and continuing-education seminars. Every Men’s Wearhouse manager is accountable for the development of his or her direct subordinates.³⁴ *Job rotation*, in which an employee (usually a management trainee) moves from job to job at planned intervals, is another OJT technique. *Special assignments* similarly give lower-level executives firsthand experience in working on actual problems.

It is important that employers not take the success of an on-the-job training effort for granted. Instead, the employer should formally plan out and structure the OJT process and experience. Train the trainers themselves (often the employees’ supervisors), and provide the training materials. Trainers should know, for instance, the principles of motivating learners. Because low expectations may translate into poor trainee performance, supervisor/trainers should emphasize their high expectations. Many firms use “peer training” for OJT; for instance, expert employees answer calls at selected times during the day or participate in in-house “radio programs” to answer their peers’ call-in questions about technical aspects of doing their jobs.³⁵ Others use employee teams (instead of training professionals) to analyze the jobs and prepare training materials. The employees, already job experts, reportedly conduct task analyses more quickly and effectively than do training experts.³⁶

Apprenticeship Training

Apprenticeship training is a process by which people become skilled workers, usually through a combination of formal learning and long-term on-the-job training. It traditionally involves having the learner/apprentice study under a master craftsperson. When steelmaker Dofasco discovered that many of their employees would be retiring during the next 5 to 10 years, the company decided to revive its apprenticeship training. New recruits spend about 32 months in an internal apprenticeship training program, learning various jobs under the tutelage of experienced employees.³⁷

The U.S. Department of Labor’s National Apprenticeship System promotes apprenticeship programs. More than 460,000 apprentices participate in 28,000 programs, and registered programs can receive federal and state contracts and other assistance.³⁸ Figure 2 lists popular recent apprenticeships.

Informal Learning

Surveys from the American Society for Training and Development estimate that as much as 80% of what employees learn on the job they learn through informal means, including performing their jobs on a daily basis with their colleagues.³⁹

Although managers don’t manage informal learning, there’s still much they can do to ensure that it occurs. For example, Siemens Power Transmission and Distribution in Raleigh, North

apprenticeship training

A structured process by which people become skilled workers through a combination of classroom instruction and on-the-job training.

FIGURE 2
Some Popular Apprenticeships

Source: <http://www.doleta.gov/OA/occupations.cfm>, accessed October 12, 2012.

The U.S. Department of Labor’s Registered Apprenticeship program offers access to more than 1,000 occupations, such as the following:

- Able seaman
- Carpenter
- Chef
- Child care development specialist
- Construction craft laborer
- Dental assistant
- Electrician
- Elevator constructor
- Fire medic
- Law enforcement agent
- Over-the-road truck driver
- Pipefitter

job instruction training (JIT)

Listing each job’s basic tasks, along with key points, in order to provide step-by-step training for employees.

Carolina, places tools in cafeteria areas to take advantage of the work-related discussions taking place. Sun Microsystems has an informal online learning tool it called Sun Learning eXchange. This is a platform containing more than 5,000 informal learning items/suggestions addressing topics ranging from sales to technical support.⁴⁰

Job Instruction Training

Many jobs (or parts of jobs) consist of a sequence of steps that one best learns step by step. Such step-by-step training is called **job instruction training (JIT)**. First, list the job’s required steps (let’s say for using a mechanical paper cutter) each in its proper sequence. Then list a corresponding “key point” (if any) beside each step. The steps in such a *job instruction training sheet* show trainees what to do, and the key points show how it’s to be done—and why.

As an example, consider how UPS trains new drivers to park and disembark. Among the steps it teaches: Shift into the lowest gear or into park; turn off the ignition; apply the parking brake; release the seatbelt with your left hand; open the door; and place the key on your ring finger.⁴¹

Lectures

Lecturing is a quick and simple way to present knowledge to large groups of trainees, as when the sales force needs to learn a new product’s features.⁴² Here are some guidelines for presenting a lecture:⁴³

- Don’t open with an irrelevant joke.
- Speak about what you know well.
- Give your listeners signals. For instance, if you have a list of items, start with, “There are four reasons why the sales reports are necessary. . . . The first . . .”
- Use anecdotes.
- Watch listeners for negative signals like fidgeting.
- Maintain eye contact with the audience.
- Make sure everyone in the room can hear.
- Leave your hands hanging naturally at your sides.
- Talk from notes on index cards or on PowerPoint slides.
- Break a long talk into a series of short points.⁴⁴
- Practice the lecture ahead of time.

Programmed Learning

Whether the medium is a textbook, PC, or the Internet, **programmed learning** (or *programmed instruction*) is a step-by-step, self-learning method that consists of three parts:

1. Present questions, facts, or problems to the learner.
2. Allow the person to respond.
3. Provide feedback on the accuracy of answers, with instructions on what to do next.

Generally, programmed learning presents facts and follow-up questions frame by frame. When the learner responds, subsequent frames provide feedback on the answer’s accuracy. What

programmed learning

A systematic method for teaching job skills, involving presenting questions or facts, allowing the person to respond, and giving the learner immediate feedback on the accuracy of his or her answers.

the next question is often depends on how the learner answers the previous question. The built-in feedback from the answers provides reinforcement.

Programmed learning reduces training time. It also facilitates learning by letting trainees learn at their own pace, get immediate feedback, and reduce their risk of error. Some argue that trainees do not learn much more from programmed learning than from a textbook. Yet studies generally support programmed learning's effectiveness.⁴⁵

Intelligent tutoring systems take programmed learning one step further. In addition to the usual programmed learning, computerized intelligent tutoring systems learn what questions and approaches worked and did not work for the learner, and then adjust the instructional sequence to the trainee's unique needs.

Audiovisual-Based Training

Although increasingly replaced by Web-based methods, audiovisual-based training techniques like DVDs, films, PowerPoint, and audiotapes are still popular.⁴⁶ The Ford Motor Company uses videos in its dealer training sessions to simulate problems and reactions to various customer complaints, for example.

Vestibule Training

With vestibule training, trainees learn on the actual or simulated equipment they will use on the job, but are trained off the job (perhaps in a separate room or *vestibule*). Vestibule training is necessary when it's too costly or dangerous to train employees on the job. As an example, UPS uses a life-size learning lab to provide a 40-hour, 5-day realistic training program for driver candidates.⁴⁷

Electronic Performance Support Systems (EPSS)

Electronic performance support systems (EPSS) are computerized tools that automate training, documentation, and phone support.⁴⁸ When you call a Dell service rep about a problem, he or she is probably asking step-by-step questions prompted by an EPSS. Without the EPSS, Dell would have to train its service reps to memorize an unrealistically large number of solutions. Aetna Insurance cut its 13-week instructor-led training course for new call center employees by about 2 weeks by providing the employees with performance support tools.⁴⁹

Performance support systems are job aids. **Job aids** are sets of instructions, diagrams, or similar methods available at the job site to guide the worker.⁵⁰ Airline pilots use job aids (such as a checklist) prior to takeoff.

Videoconferencing

Videoconferencing is popular for training geographically dispersed employees, and involves delivering programs via compressed audio and video signals over cable broadband lines, the Internet, or satellite. Vendors such as Cisco offer videoconference products such as Webex and TelePresence (www.cisco.com/en/US/products/ps10352/index.html). Employers typically use videoconferencing technology with other technology. For example, Cisco's Unified Video Conferencing (CUVC) product line combines Cisco group collaboration and decision-making software with videoconferencing, video telephony, and realistic "TelePresence" capabilities.⁵¹ When Cisco organized a training program for IT managers, it used its videoconferencing capabilities.⁵²

Computer-Based Training (CBT)

Computer-based training methods use interactive computer-based systems to increase knowledge or skills. Computer-based training is increasingly interactive and realistic. For example, *interactive multimedia training* integrates the use of text, video, graphics, photos, animation, and sound to produce a complex training environment with which the trainee interacts.⁵³ In training a physician, for instance, such a system lets a medical student take a hypothetical patient's medical history, conduct an examination, and analyze lab tests. Then, by clicking the "examine chest" button, the student can even hear and diagnose the sounds of the person's heart. Cheesecake Factory employees use VideoCafé, a YouTube-type platform, to "upload and share video snippets on job-related topics, including customer greetings and food preparation."⁵⁴ They also use interactive games, including a simulation that shows employees how to build the "perfect hamburger."

electronic performance support systems (EPSS)

Sets of computerized tools and displays that automate training, documentation, and phone support; integrate this automation into applications; and provide support that's faster, cheaper, and more effective than traditional methods.

job aid

A set of instructions, diagrams, or similar methods available at the job site to guide the worker.

Simulated Learning

“Simulated learning” means different things to different people. A survey asked training professionals what experiences qualified as simulated learning experiences. The percentages of trainers choosing each experience were:

- Virtual reality-type games, 19%.
- Step-by-step animated guide, 8%.
- Scenarios with questions and decision trees overlaying animation, 19%.
- Online role play with photos and videos, 14%.
- Software training including screenshots with interactive requests, 35%.
- Other, 6%.⁵⁵

Virtual reality puts the trainee in an artificial three-dimensional environment that simulates events and situations that might be experienced on the job.⁵⁶ Sensory devices transmit how the trainee is responding to the computer, and the trainee “sees, feels and hears” what is going on, assisted by special goggles and auditory and sensory devices.⁵⁷

U.S. ARMY EXAMPLE The U.S. Armed Forces use simulation-based training programs for soldiers and officers. For example, the army developed video game-type training programs called Full-Spectrum Command and Full-Spectrum Warrior for training troops in urban warfare. According to one description, the two games offer extremely realistic features, within a context that emphasizes real-time leadership and decision-making skills.⁵⁸ Orlando-based Environmental Tectonics Corporation created an Advanced Disaster Management simulation for emergency medical response trainees. So realistic that it’s “unsettling,” trainees including firefighters and airport officials who respond to a simulated crash’s sights and sounds via pointing devices and radios.⁵⁹

WEB 2.0 “Web 2.0” learning utilizes online technologies such as social media (such as Facebook, Twitter, and LinkedIn), virtual worlds (such as Second Life), and systems that blend synchronous and asynchronous delivery with blogs, chat rooms, Internet researchers, bookmark sharing, and tools such as 3-D simulations.⁶⁰ For example, British Petroleum (BP) uses Second Life to train new gas station employees. The aim is to show new gas station employees how to use the safety features of gasoline storage tanks. BP built three-dimensional renderings of the tank systems in Second Life. Trainees could use these to “see” underground and observe the effects of using the safety devices.⁶¹

ADVANTAGES In general, interactive and simulated technologies reduce learning time by an average of 50%.⁶² Other advantages include instructional consistency (computers don’t vary what they teach from day to day as human trainers might), mastery of learning (if the trainee doesn’t learn it, he or she generally can’t move on to the next step), increased retention, and increased trainee motivation (resulting from responsive feedback).

Orlando-based Environmental Tectonics Corporation created an Advanced Disaster Management simulation for emergency medical response trainees.

Source: David McNew/Getty Images, Inc.–Liaison



Specialist multimedia software houses such as Graphic Media of Portland, Oregon, produce much of the content for these programs. They produce both custom titles and generic programs such as a \$999 package for teaching workplace safety.

Internet-Based Training

Trainers increasingly employ Internet-based learning to deliver programs. Until a few years ago, ADP's new sales associate training required two weeks of expensive classroom training at ADP's Atlanta, Georgia, training center. Today, ADP trains its new salespeople online, using a Blackboard learning management system similar to one used by many online college students.⁶³ The Italian eyewear company Luxottica (whose brands include LensCrafters, Pearl Vision, and Sunglass Hut) provides standardized training to its 38,000 employees worldwide via instant access online to information such as new products and regulations.⁶⁴

There are two basic ways to offer online courses to employees. First, the employer can have its employees take relevant courses from its own online (intranet) offerings or from online training vendors on the Web. For example, the employer might arrange to let its employees take occupational safety courses from those that puresafety.com offers.

LEARNING PORTALS The second approach is to arrange with an online training vendor to make its courses available via the employer's intranet-based learning portal. A *learning portal* is a section of an employer's website that offers employees online access to many or all of the training courses they need to succeed at their jobs. Most often, the employer contracts with application service providers (ASPs). A Google search for e-learning companies reveals many vendors such as SkillSoft, Plateau Systems, and Employment Law Learning Technologies. When employees go to their firm's learning portal, they actually access the menu of training courses that the ASP offers for the employer.



Improving Productivity through HRIS

Learning Management Systems

Learning management systems (LMS) are special software tools that support Internet training by helping employers identify training needs, and in scheduling, delivering, assessing, and managing the online training itself. For example, General Motors uses an LMS to help its dealers in Africa and in the Middle East deliver training. The Internet-based LMS includes a course catalog, supervisor-approved self-enrollment, and pre- and post-course tests. The system then automatically schedules the individual's training.⁶⁵ Blackboard and WebCT are two familiar college-oriented learning management systems.

USING INTERNET-BASED LEARNING Whether to use e-learning often comes down to efficiency. Web learning doesn't necessarily teach faster or better. In one review of the evidence, Web-based instruction was a bit more effective than classroom instruction for teaching memory of facts and principles, and Web-based instruction and classroom instruction were equally effective for teaching information about how to perform a task or action.⁶⁶ But of course, the need to teach large numbers of students remotely, or to enable students to study at their leisure, often makes e-learning so much more efficient that the small differences in Web-based versus classroom learning become somewhat meaningless.⁶⁷

In practice, many employers opt for "blended learning."⁶⁸ The maker of TurboTax software uses regular classroom training for getting new distributors up to speed. Then they use their online systems for additional training, such as short classes on special software features.⁶⁹

Mobile Learning

Mobile learning (or "on-demand learning") means delivering learning content on demand via mobile devices like cell phones, laptops, and iPads, wherever and whenever the learner has the time and desire to access it.⁷⁰ For example, using dominKnow's (www.dominknow.com) iPod touch and iPhone-optimized Touch Learning Center Portal, trainees can log in and take full online courses.⁷¹

Employers use mobile learning to deliver "corporate training and downloads on everything from how to close an important sales deal to optimizing organizational change to learning business Spanish . . . You can be . . . riding your bike" while listening to the training program.⁷² Capital

One purchased 3,000 iPods for trainees who had enrolled in one of 20 instructor-led courses at its Capital One University. The training department then had an Internet audio book provider create an audio learning site within Capital One's firewall. Employees used it to download the instructor-requested books and other materials to their iPods.⁷³ IBM uses mobile learning to deliver just-in-time information (for instance, about new product features) to its sales force. Some employers use blogs to communicate learning to trainees.⁷⁴ JP Morgan encourages employees to use instant messaging as a quick learning device, for instance, to quickly update colleagues about new products.

The Virtual Classroom

A **virtual classroom** uses special collaboration software to enable multiple remote learners, using their PCs or laptops, to participate in live audio and visual discussions, communicate via written text, and learn via content such as PowerPoint slides.

The virtual classroom combines the best of Web-based learning offered by systems like Blackboard and WebCT with live video and audio. Thus, Elluminate Live! (http://www.elluminate.com/Services/Training/Elluminate_Live!/?id=418) enables learners to communicate with two-way audio; build communities with user profiles and live video; collaborate with chat and shared whiteboards; and learn with shared applications such as PowerPoint slides.⁷⁵

Lifelong and Literacy Training Techniques

Lifelong learning means providing employees with continuing learning experiences over their tenure with the firm, with the aims of ensuring they have the opportunity to learn the skills they need to do their jobs and to expand their horizons. For example, one senior waiter at the Rhapsody restaurant in Chicago received his undergraduate degree and began work toward a master of social work using the lifelong learning account (LiLA) program his employer offers. Lifelong learning may thus range from basic remedial skills (for instance, English as a second language) to college. Somewhat similar to 401(k) plans, employers and employees contribute to LiLA plans (without the tax advantages of 401(k) plans), and the employee can use these funds to better himself or herself.⁷⁶

LITERACY TRAINING By one estimate, about 39 million people in the United States have learning disabilities. Another study called the American workforce ill-prepared.⁷⁷ Yet today's emphasis on teamwork and quality requires that employees read, write, and understand numbers.⁷⁸

Employers often turn to private firms like Education Management Corporation to provide the requisite education.⁷⁹ Another simple literacy training approach is to have supervisors teach basic skills by giving employees writing and speaking exercises.⁸⁰ For example, if an employee needs to use a manual to find out how to change a part, teach that person how to use the index to locate the relevant section. Others bring in local high school teachers for, say, remedial reading. Having employees attend adult education or high school evening classes is another option.

Diversity Training

Diversity training aims to improve cross-cultural sensitivity, with the goal of fostering more harmonious working relationships among a firm's employees. Such training typically includes improving interpersonal skills, understanding and valuing cultural differences, improving technical skills, socializing employees into the corporate culture, indoctrinating new workers into the U.S. work ethic, improving English proficiency and basic math skills, and improving bilingual skills for English-speaking employees.⁸¹ For example, IBM has online programs to educate managers regarding diversity, inclusive leadership, and sexual harassment.⁸²

Most employers opt for an off-the-shelf diversity training program such as *Just Be F.A.I.R.:* *A practical approach to diversity and the workplace*, from VisionPoint productions. It includes vignettes such as on the importance of communicating and the pitfalls of stereotyping people.⁸³

Team Training

Teamwork doesn't always come naturally. Companies devote many hours to training new employees to listen to each other and to cooperate. A team-building program at a Baltimore Coca-Cola plant illustrates this.⁸⁴ In this case, the plant suffered from high turnover and absenteeism. The new plant manager decided to reorganize around teams and to use team training to support the new organization.

virtual classroom

Teaching method that uses special collaboration software to enable multiple remote learners, using their PCs or laptops, to participate in live audio and visual discussions, communicate via written text, and learn via content such as PowerPoint slides.

lifelong learning

Provides employees with continuing learning experiences over their tenure with the firm, with the aims of ensuring they have the opportunity to learn the skills they need to do their jobs and to expand their occupational horizons.

cross training

Training employees to do different tasks or jobs than their own; doing so facilitates flexibility and job rotation.

Team training focused on technical, interpersonal, and team management issues. In terms of *technical training*, for instance, management encouraged team employees to learn each other’s jobs, with the aim of encouraging flexible team assignments. **Cross training** means training employees to do different tasks or jobs than their own; doing so facilitates flexibility and job rotation, as when you expect team members to occasionally share jobs.

When teamwork fails, it is often due to interpersonal problems such as intra-team conflict, lack of agreement, guarded communications, and personal criticism. In this case, team training therefore included *interpersonal skills* training such as in listening, handling conflict, and negotiating.⁸⁵ In practice, effective teams also require certain team management skills. In this case, *team management skills* included training in problem solving, meetings management, consensus decision making, and team leadership (since each team member had to exercise team leadership at one time or another).

Employers also use team training to build stronger management teams. This often involves special training methods. For example, some use outdoor “adventure” or “extreme” training such as Outward Bound programs to build teamwork. Such training usually involves taking a firm’s management team out into rugged, mountainous terrain. Activities might include, for instance, white-water rafting and maneuvering through obstacle courses.⁸⁶ The aim is to foster trust and cooperation. Other team training methods include action learning and team building, which we’ll address later in this chapter.

LEARNING OBJECTIVE 7

List and briefly discuss four management development methods.



management development

Any attempt to improve current or future management performance by imparting knowledge, changing attitudes, or increasing skills.

IMPLEMENTING MANAGEMENT DEVELOPMENT PROGRAMS

Management development is any attempt to improve managerial performance by imparting knowledge, changing attitudes, or increasing skills.

Strategy’s Role in Management Development

Management development programs should not exist in a vacuum, but should instead reflect the firm’s strategic plans.⁸⁷ For example, strategies to enter new businesses or expand overseas imply that the employer will need succession plans in place to obtain and/or develop managers who have the skills to manage these new businesses. Management development programs then impart the knowledge, attitudes, and skills these managers will need to excel at their jobs.⁸⁸

Some management development programs are companywide and involve all or most new (or potential) managers. Thus, new MBAs may join GE’s management development program and rotate through various assignments and educational experiences. The firm may then slot superior candidates onto a “fast track,” a development program that prepares them more quickly for senior-level commands.

Other development programs aim to fill specific top positions, such as CEO. For example, GE spent years developing, testing, and watching several potential replacements for CEO before finally choosing Jeffrey Immelt.

A survey listed the most popular management development techniques. The most popular include classroom-based learning, executive coaching, action learning, 360-degree feedback, experiential learning, off-site retreats (where managers meet with colleagues for learning), mentoring, and job rotation.⁸⁹ We’ll look at some of these.

Managerial On-the-Job Training

Managerial on-the-job training methods include job rotation, the coaching/understudy approach, and action learning. In the context of management development, **job rotation** means moving managers from department to department to broaden their understanding of the business and to test their abilities. The trainee may be a recent graduate and spend several months in each department, learning by doing. Or he or she may be a senior manager being groomed for promotion by exposure to new domestic and foreign challenges.

COACHING/UNDERSTUDY APPROACH Here the trainee works directly with a senior manager or with the person he or she is to replace; the latter is responsible for the trainee’s coaching. Normally, the understudy relieves the executive of certain responsibilities, giving the trainee a chance to learn the job.

ACTION LEARNING **Action learning** programs give managers and others released time to work at analyzing and solving problems in departments other than their own. Its basics include

job rotation

A management training technique that involves moving a trainee from department to department to broaden his or her experience and to identify strong and weak points.

action learning

A training technique by which management trainees are allowed to work full time analyzing and solving problems in other departments.

carefully selecting teams of 5 to 25 members, assigning the teams real-world business problems that extend beyond their usual areas of expertise, and providing structured learning through coaching and feedback. The employer’s senior managers usually choose the projects and decide whether to accept the teams’ recommendations.⁹⁰ For example, Pacific Gas & Electric Company’s (PG&E’s) Action-Forum Process has three phases:

1. A “framework” phase of 6 to 8 weeks—basically, an intense planning period during which the team defines and collects data on an issue.
2. The action forum—2 to 3 days at PG&E’s learning center discussing the issue and developing action-plan recommendations.
3. Accountability sessions, when the teams meet with the leadership group at 30, 60, and 90 days to review their action plans.

Off-the-Job Management Training and Development Techniques

There are also many off-the-job techniques for training and developing managers.

THE CASE STUDY METHOD As most everyone knows, the **case study method** presents a trainee with a written description of an organizational problem. The person then analyzes the case, diagnoses the problem, and presents his or her findings and solutions in a discussion with other trainees.

Integrated case scenarios expand the case analysis concept by creating long-term, comprehensive case situations. For example, the FBI Academy uses one that starts with “a concerned citizen’s telephone call and ends 14 weeks later with a simulated trial. In between is . . . a healthy sampling of what can go wrong in an actual criminal inquiry.” Scriptwriters (often employees in the firm’s training group) write the scripts. The scripts include themes, background stories, detailed personnel histories, and role-playing instructions. The scenarios aim to develop specific skills, such as interviewing witnesses.⁹¹

MANAGEMENT GAMES Computerized **management games** enable trainees to learn by making realistic decisions in simulated situations. For example, *Interpret* is a team exercise that “explores team communication, the management of information and the planning and implementation of a strategy. It raises management trainees’ communication skills, helps them to better manage the information flow between individuals and the team, and improves planning and problem solving skills.”⁹² With some games, trainees divide into teams competing in a simulated marketplace. Each must decide, for example, how much to produce and to order for inventory.

OUTSIDE SEMINARS Numerous companies and universities offer Web-based and traditional classroom management development seminars and conferences. The selection of 1- to 3-day

case study method

A development method in which the manager is presented with a written description of an organizational problem to diagnose and solve.

management game

A development technique in which teams of managers compete by making computerized decisions regarding realistic but simulated situations.

Computerized management games enable trainees to learn by making realistic decisions in simulated situations.

Source: Somos Images/Alamy



training programs offered by the American Management Association illustrates what's available. Recently, for instance, their offerings ranged from "developing your emotional intelligence" to "assertiveness training," "assertiveness training for managers," "assertiveness training for women in business," "dynamic listening skills for successful communication," and "fundamentals of cost accounting."⁹³ Specialized associations, such as Society for Human Resource Management (SHRM), provide specialized seminars for their profession's members.

UNIVERSITY-RELATED PROGRAMS Many universities provide executive education and continuing education programs in leadership, supervision, and the like. These can range from 1- to 4-day programs to executive development programs lasting 1 to 4 months.

The Advanced Management Program of Harvard's Graduate School of Business Administration is one example.⁹⁴ Students are experienced managers from around the world. It uses cases and lectures to provide them with the latest management skills. When Hasbro wanted to improve its executives' creativity skills, it turned to Dartmouth University's Amos Tuck Business School. Tuck provided a "custom approach to designing a program that would be built from the ground up to suit Hasbro's specific needs."⁹⁵

ROLE PLAYING With **role playing** the trainees assume the parts (or roles) of specific persons in realistic situations. Each trainee gets a role, such as:

You are the head of a crew of telephone maintenance workers, each of whom drives a small service truck to and from the various jobs. Every so often you get a new truck to exchange for an old one, and you have the problem of deciding to which of your crew members you should give the new truck. Often there are hard feelings, since each seems to feel entitled to the new truck.⁹⁶

When combined with the general instructions and other roles, role playing can trigger spirited discussions among the role player/trainees. The aim is to develop trainees' skills in areas like leadership and delegating.

BEHAVIOR MODELING **Behavior modeling** involves (1) showing trainees the right (or "model") way of doing something, (2) letting trainees practice that way, and then (3) giving feedback on the trainees' performance. Behavior modeling training is one of the most widely used, well researched, and highly regarded psychologically based training interventions.⁹⁷ The basic procedure is as follows:

1. **Modeling.** First, trainees watch live or video examples showing models behaving effectively in a problem situation. Thus, the video might show a supervisor effectively disciplining a subordinate, if teaching "how to discipline" is the aim of the training program.
2. **Role playing.** Next, the trainees receive roles to play in a simulated situation so they can practice the effective behaviors demonstrated by the models.
3. **Social reinforcement.** The trainer provides reinforcement in the form of praise and constructive feedback.
4. **Transfer of training.** Finally, trainees are encouraged to apply their new skills when they are back on their jobs.

CORPORATE UNIVERSITIES Many firms, such as GE, Caterpillar, and IBM, establish **in-house development centers** (often called *corporate universities*). Such centers offer a catalogue of courses and programs aimed at supporting the employers' management development needs. Employers often collaborate with academic institutions, and with training and development program providers and Web-based educational portals, to create packages of programs and materials. Characteristics of effective corporate universities include (1) alignment with corporate strategic goals, (2) a focus on development of skills that support business needs, (3) evaluation of learning and performance, (4) using technology to support the learning, and (5) partnering with academia.⁹⁸

Employers increasingly offer virtual—rather than bricks and mortar—corporate university services. For example, Cerner, a health care information technology company, has "Cerner KnowledgeWorks." It offers its employees three types of learning content. Dynamic content "is real-time content that flows back and forth, such as e-mails, instant messages, or conference calls." Moderated content "includes best practices, such as case studies or wikis that capture information about situations where we did well and how we did it." Codified content "is more formal documentation of official company practices, and includes installation guides, help files, and formal training or courses."⁹⁹

role playing

A training technique in which trainees act out parts in a realistic management situation.

behavior modeling

A training technique in which trainees are first shown good management techniques in a film, are asked to play roles in a simulated situation, and are then given feedback and praise by their supervisor.

in-house development center

A company-based method for exposing prospective managers to realistic exercises to develop improved management skills.

executive coach

An outside consultant who questions the executive's associates in order to identify the executive's strengths and weaknesses, and then counsels the executive so he or she can capitalize on those strengths and overcome the weaknesses.

EXECUTIVE COACHES Many firms retain executive coaches to develop their top managers' effectiveness. An **executive coach** is an outside consultant who questions the executive's boss, peers, subordinates, and (sometimes) family in order to identify the executive's strengths and weaknesses, and to counsel the executive so he or she can capitalize on those strengths and overcome the weaknesses.¹⁰⁰

Executive coaching can be effective. Participants in one study included about 1,400 senior managers who had received "360-degree" performance feedback from bosses, peers, and subordinates. About 400 worked with an executive coach to review the feedback. Then, about a year later, these 400 managers and about 400 who didn't receive coaching again received multisource feedback. Those who received executive coaching were more likely to have received improved ratings from subordinates and supervisors.¹⁰¹ Experts recommend using formal assessments prior to coaching, to provide more focused coaching.¹⁰²

The coaching field is unregulated, so managers should do their due diligence. Check references carefully, and check with the International Coach Federation, a trade group.

THE SHRM LEARNING SYSTEM The Society for Human Resource Management encourages HR professionals to qualify for certification by taking examinations. The society offers several preparatory training programs. The self-study option includes text and DVD. The college/university option provides classroom interaction with instructors and other students.

Leadership Development at GE

General Electric is known for its ability to develop executive talent. Their current mix of executive development programs illustrates what is available:¹⁰³

Leadership programs: These multiyear training programs rotate about 3,000 employees per year through various functions with the aim of enabling people to run a large GE business.

Session C: This is GE's intense multilevel performance appraisal process. The CEO personally reviews GE's top 625 officers every year.

Crotonville: This is GE's corporate training campus in New York and offers a mix of conventional classroom learning and team-based training and cultural trips.

Boca Raton: At this annual meeting of GE's top 625 officers, they network, share their best ideas, and get to understand the company's strategy for the coming year.

The next big thing: Whether it's productivity and quality improvement through "Six Sigma" or "innovation," GE focuses its employees on central themes or initiatives.

Monthly dinners: Jeffrey Immelt, GE's CEO, meets periodically at dinners and breakfasts to learn more about his top executives and to "strengthen his connections with his top team."¹⁰⁴

Talent Management and Mission-Critical Employees: Differential Development Assignments

One distinctive talent management best practice is to *actively manage* employees, for instance by allocating more resources to "mission-critical" employees. Many employers do this with training-and-development, for example:

- A telecommunications firm previously spread pay and development money evenly over its 8,000 employees. When the recent recession came, company leaders segmented their employees into four groups to receive rewards: business impact, high performers, high potentials, and critical skills. Then they shifted their rewards from strictly performance to these groups. "While the company lost some low performers, the high performers and high potentials felt like they finally received recognition."¹⁰⁵
- High potential participants in one special Johnson & Johnson leadership development program receive advice and regular assessments from coaches brought in from outside the company.¹⁰⁶



MANAGING ORGANIZATIONAL CHANGE PROGRAMS

Not too long ago, Nokia led the world in smartphones. Then, Apple introduced its first iPhone. Within a year, Nokia's smartphone market share plummeted.

Soon, Nokia's board took action. It appointed a new CEO with Silicon Valley experience, Stephen Elop.¹⁰⁷ He knew Nokia faced pressing problems. Its smartphone share was down, and it was losing low-cost handset business to Asian competitors. Nokia's R&D was behind the times. Its Symbian mobile operating system couldn't handle many of the leading applications that Apple's and Microsoft's systems could. Nokia was too slow in executing strategic changes. He had to jumpstart Nokia.

Major organizational changes like these are never easy, but perhaps the hardest part is overcoming the resistance to it. People resist change because they're accustomed to the usual way of doing things or because they perceive threats to their influence.¹⁰⁸

What to Change

Faced with situations like these, managers like Stephen Elop can change one or more of five aspects of their companies—their *strategy*, *culture*, *structure*, *technologies*, or the *attitudes and skills* of the employees.

STRATEGIC CHANGE Organizational turnarounds often start with a change in the firm's strategy, mission, and vision—with *strategic change*. For example, Elop entered into a strategic partnership with Microsoft with the aim of introducing a new Windows-based smartphone within a year.

OTHER CHANGES Nokia's new CEO instituted other organizational changes. In terms of *structure*, Nokia split responsibility for its smartphones and handsets into two new units. He replaced managers in Nokia's mobile phones unit and markets unit. In *technology*, Elop reduced the Symbian operating system's central role in its smartphones, replacing it with Microsoft's mobile operating system. Elop had his new management team change the firm's *culture*, for instance, by impressing on Nokia's employees the need to eradicate bureaucratic decision making.

However, strategic, cultural, structural, and technological changes will fail without employees' active support. (For instance, a large beverage distributor encountered opposition from its sales force when it moved from its paper-based sales management system to wireless laptops.)¹⁰⁹ Leading organizational change therefore invariably requires *changing the employees* themselves, particularly their attitudes, skills, and behaviors.¹¹⁰

Unfortunately, getting employees' support isn't easy. The change may require the cooperation of dozens or even hundreds of managers and supervisors, many of whom may view the change as detrimental. Resistance may therefore be formidable. Knowing how to deal with that resistance is the heart of implementing organizational change.

Lewin's Change Process

Psychologist Kurt Lewin formulated a model to summarize what he believed was the basic process for implementing a change with minimal resistance. To Lewin, all behavior in organizations was a product of two kinds of forces: those striving to maintain the status quo and those pushing for change. Implementing change thus means reducing the forces for the status quo or building up the forces for change. Lewin's process consisted of three steps:

1. *Unfreezing* means reducing the forces that are striving to maintain the status quo, usually by presenting a provocative problem or event to get people to recognize the need for change and to search for new solutions.
2. *Moving* means developing new behaviors, values, and attitudes. The manager may accomplish this through organizational structure changes, through conventional training and development activities, and sometimes through the other organizational development techniques (such as the team building), we'll discuss later.
3. *Refreezing* means building in the reinforcement to make sure the organization doesn't slide back into its former ways of doing things.

Leading Organizational Change¹¹¹

A CEO such as Nokia's Stephen Elop needs a process for leading such a change. An eight-step process for leading organizational change follows.¹¹²

Unfreezing Stage

1. *Establish a sense of urgency.* Most managers start by creating a sense of urgency. For example, the CEO might present executives with a (fictitious) analyst's report describing the firm's imminent demise.

LEARNING OBJECTIVE 8

List and briefly discuss the eight steps in leading organizational change.

2. *Mobilize commitment* through joint diagnosis of problems. Having established a sense of urgency, the leader may then create one or more task forces to diagnose the problems facing the company. Such teams can produce a shared understanding of what they can and must improve, and thereby mobilize commitment.

Moving Stage

3. *Create a guiding coalition.* No one can really implement major organizational change alone. Most CEOs create a guiding coalition of influential people. They act as missionaries and implementers.
4. *Develop and communicate a shared vision.* For example, Stephen Elop’s vision was of a streamlined Nokia moving fast to build advanced smartphones based on Microsoft’s operating system. Guidelines here are *keep the vision simple* (for example, “We will be faster than anyone at satisfying customer needs.”), *use multiple forums* (meetings, e-mails, formal and informal interaction), and *lead by example*.¹¹³
5. *Help employees make the change.* Are there impediments to change? Do policies, procedures, or the firm’s organization make it difficult to act? Do intransigent managers discourage employees from acting? If so, address the impediments. For example, Elop quickly replaced many of Nokia’s top and mid-level managers.
6. *Consolidate gains* and produce more change. Aim for attainable short-term accomplishments. Use the credibility from these to change the remaining systems, structures, and policies that don’t fit well with the company’s new vision.¹¹⁴

Refreezing Stage

7. *Reinforce the new ways of doing things* with changes to the company’s systems and procedures. For example, use new appraisal systems and incentives to reinforce the desired behaviors.
8. Finally, the leader must *monitor and assess progress*. In brief, this involves comparing where the company is with where it should be. At Nokia, for instance, “How many new products has the company introduced?”

Note, however, that while a useful eight-step process, organizational change requires more than process: the manager’s leadership style is critical. *Transformational leaders*—those who motivate their followers to transcend their personal interests, to enable their followers to identify with a collective goal and to articulate a clear and attainable vision—are more likely to achieve organizational change.¹¹⁵

LEARNING OBJECTIVE 9

Answer the question, “What is organizational development and how does it differ from traditional approaches to organizational change?”



organizational development

A special approach to organizational change in which employees themselves formulate and implement the change that’s required.

Using Organizational Development

There are many ways to reduce resistance to change. Among the many suggestions are that managers impose rewards or sanctions that guide employee behaviors, explain why the change is needed, negotiate with employees, give inspirational speeches, or ask employees to help design the change.¹¹⁶ Organizational development (OD) taps into the latter. **Organizational development** is a change process through which employees formulate the change that’s required and implement it, often with the assistance of trained consultants. OD has several distinguishing characteristics:

1. It usually involves *action research*, which means collecting data about a group, department, or organization, and feeding the information back to the employees so they can analyze it and develop hypotheses about what the problems might be.
2. It applies behavioral science knowledge to improve the organization’s effectiveness.
3. It changes the organization in a particular direction—toward empowerment, improved problem solving, responsiveness, quality of work, and effectiveness.

There are four basic categories of OD applications: human process, technostuctural, human resource management, and strategic applications (see Table 2). Action research—getting the employees themselves to review the required data and to design and implement the solutions—is the basis of all four.

HUMAN PROCESS APPLICATIONS The goal of human process OD techniques is to give employees the insights and skills required to analyze their own and others’ behavior more effectively, so they can then solve interpersonal and intergroup problems. These problems might

TABLE 2 Examples of OD Interventions

Human Process	Human Resource Management
T-groups	Goal setting
Process consultation	Performance appraisal
Third-party intervention	Reward systems
Team building	Career planning and development
Organizational confrontation meeting	Managing workforce diversity
Survey research	Employee wellness
Technostructural	Strategic
Formal structural change	Integrated strategic management
Differentiation and integration	Culture change
Cooperative union–management projects	Strategic change
Quality circles	Self-designing organizations
Total quality management	
Work design	

include, for instance, conflict among employees. Applications here include sensitivity training, team building, and survey research.

Sensitivity, laboratory, or t-group (the *t* is for “training”) training’s basic aim is to increase the participant’s insight into his or her own behavior by encouraging an open expression of feelings in the trainer-guided t-group. Typically, 10 to 15 people meet away from the job, with no specific agenda. Instead, the focus is on the feelings and emotions of the people in the group at the meeting. The facilitator encourages participants to portray themselves as they feel within the group rather than in terms of past behaviors. The t-group’s success depends on the feedback each person gets from the others, and on their willingness to be candid.¹¹⁷

T-group training is controversial. Its personal nature suggests that participation should be strictly voluntary. Similarly, some practitioners have t-group trainees take personality tests, for instance assigning them D for dominance and C for conscientiousness.¹¹⁸ Others argue that it can be dangerous if led by an incompetent trainer.

Team building is another option. According to experts French and Bell, the typical team-building meeting begins with the consultant interviewing each of the group members and the leader before the meeting.¹¹⁹ They are asked what their problems are, how they think the group functions, and what obstacles are keeping the group from performing better. The consultant then categorizes the interview data into themes (such as “inadequate communications”) and presents the themes to the group. The group ranks the themes in terms of importance, and the most important ones become the agenda. The group then discusses the issues, examines the underlying causes, and begins devising solutions.

Survey research, another human process OD technique, requires that employees throughout the organization complete attitude surveys. The facilitator then uses those data as a basis for problem analysis and action planning. Surveys are a convenient way to unfreeze a company’s management and employees. Increasingly administered online, they provide a comparative, graphic illustration of the fact that the organization does have problems to solve.¹²⁰

TECHNOSTRUCTURAL INTERVENTIONS OD practitioners also get involved in changing firms’ structures, methods, and job designs, using an assortment of technostructural interventions. For example, in a *formal structural change* program, the employees collect data on the company’s existing organizational structure; they then jointly redesign and implement a new one.

HUMAN RESOURCE MANAGEMENT APPLICATIONS OD practitioners use action research to enable employees to analyze and change their firm’s human resources practices. Targets of change here might include the performance appraisal and reward systems, as well as installing diversity programs.

STRATEGIC OD APPLICATIONS *Strategic interventions* aim to use action research to improve a company’s strategic management. *Integrated strategic management* is one example. It consists

of four steps: managers and employees (1) analyze current strategy and organizational structure, (2) choose a desired strategy and organizational structure, and (3) design a strategic change plan—“an action plan for moving the organization from its current strategy and organizational design to the desired future strategy and design.”¹²¹ Finally, (4) the team oversees implementing the strategic change and reviewing the results.¹²²

LEARNING OBJECTIVE 10

Explain what to consider in evaluating the effectiveness of a training program.



EVALUATING THE TRAINING EFFORT

With today’s emphasis on measuring results, it is crucial that the manager evaluate the training program. There are several things you can measure: participants’ *reactions* to the program, what (if anything) the trainees *learned* from the program, and to what extent their on-the-job *behavior* or *results* changed as a result of the program. In one survey of about 500 U.S. organizations, 77% evaluated their training programs by eliciting reactions, 36% evaluated learning, and about 10% to 15% assessed the program’s behavior and/or results.¹²³ Computerization facilitates evaluation. For example, Bovis Lend Lease uses learning management system software to monitor which employees are taking which courses, and the extent to which they’re improving their skills.¹²⁴

There are two basic issues to address when evaluating training programs. One is how to design the study and whether to use controlled experimentation. The second is “What should we measure?”

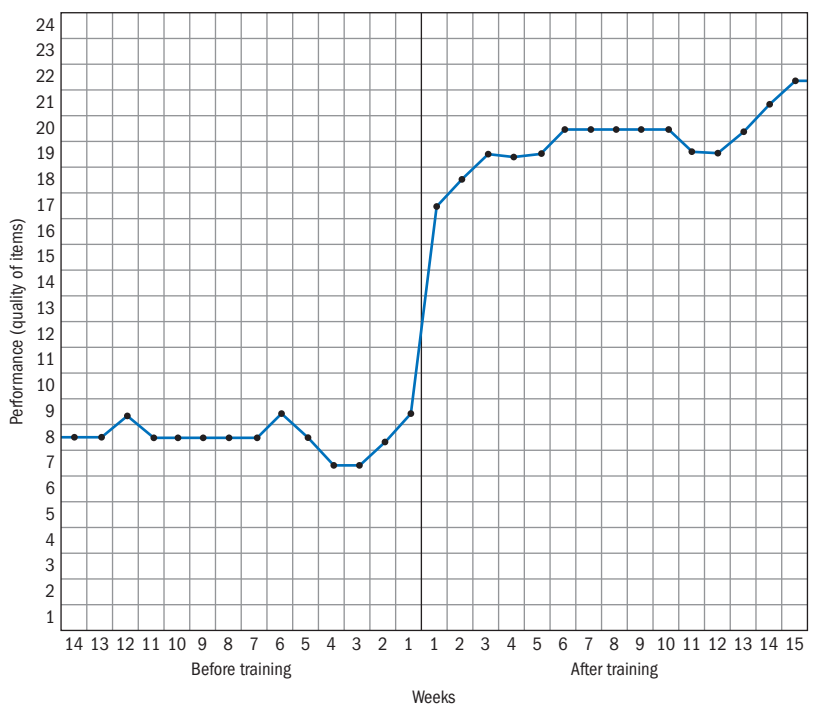
Designing the Study

In evaluating the training program, the first question should be how to design the evaluation study. Your basic concern here is this: How can we be sure that the training caused the results? The *time series design* is one option. Here, as in Figure 3, you take a series of performance measures before and after the training program. This can provide a preliminary reading on the program’s effectiveness.¹²⁵ However, you can’t be sure from this that the training (rather than, say, a new pay plan) caused any change.

Controlled experimentation is therefore the evaluation process of choice. A controlled experiment uses both a training group, and a control group that receives no training. Data (for instance, on quantity of sales or quality of service) are obtained both before and after the group is exposed to training and before and after a corresponding work period in the control group. This makes it possible to determine the extent to which any change in the training group’s performance

controlled experimentation
Formal methods for testing the effectiveness of a training program, preferably with before-and-after tests and a control group.

FIGURE 3
Using a Time Series Graph to Assess a Training Program’s Effects



resulted from the training, rather than from some organizationwide change like a raise in pay. (The pay raise should have affected employees in both groups equally.)¹²⁶

This controlled approach is feasible, but most firms simply measure trainees' reactions to the program; some also measure the trainees' job performance before and after training.¹²⁷

Training Effects to Measure

The manager can measure four basic categories of training outcomes:

1. **Reaction.** Evaluate trainees' reactions to the program. Did they like the program? Did they think it worthwhile?
2. **Learning.** Test the trainees to determine whether they learned the principles, skills, and facts they were supposed to learn.
3. **Behavior.** Ask whether the trainees' on-the-job behavior changed because of the training program. For example, are employees in the store's complaint department more courteous toward disgruntled customers?
4. **Results.** Probably most important, ask, "What results did we achieve, in terms of the training objectives previously set?" For example, did the number of customer complaints diminish? Reactions, learning, and behavior are important. But if the training program doesn't produce measurable results, then it probably hasn't achieved its goals.¹²⁸

The accompanying HR as a Profit Center feature illustrates measuring a program's impact.

HR AS A PROFIT CENTER

Judging Training's Impact

A careful comparison of the training program's costs and benefits can enable the human resource team to compute the program's return on investment. Online calculators such as the one shown here facilitate such analyses.

ROI calculator

Both international and national research indicates that the increase in labour productivity resulting from targeted training can yield a return on investment of more than 30 per cent. Researchers use sophisticated statistical techniques to measure performance before and after the training in order to evaluate its impact. We propose a simple method of estimating the potential return on your training investment.

1. Cost of training (*compulsory fields)

a. Number of employees attending training:

b. Direct costs of training PER employee*
eg training fee + transport + meals + material costs: \$

c. Cost of lost work PER employee*
hrs of work missed x hourly rate: \$

d. Lost sales PER employee
for sales staff only;
hrs of work missed x hourly sales;
(Note: hourly sales = employees monthly sales / 40 hours): \$

2. Benefits of training (fill in all or any of the fields)

Increased productivity per annum:

e. Current productivity PER employee
cost of production / total no. of employees: \$

f. Rate of productivity increase: % (30)

Reduction in staff turnover per annum:

g. Current staff turnover rate
no. of staff who left over the last 12 months / total no. of staff x 100: %

h. Cost of hiring and training new staff (% of total payroll)
The estimated rate of 150% is based on research - you can enter your own estimate: % (150)

i. Total payroll of employees attending training: \$

j. Turnover reduction rate
The estimated rate of 35% is based on research - you can enter your own estimate: % (35)

Increase in sales per annum:

k. Current sales PER employee
Total sales / no. of sales employees: \$

l. Increase in sales rate
The estimated rate of 10% is based on research - you can enter your own estimate: % (10)

Online Training Evaluation Calculator

Source: www.training.com.au (Department of Education, Employment and Workplace Relations, Australian Government), accessed September 2011.

Review

MyManagementLab

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

SUMMARY

- Getting your new employee on board and up to speed begins with orienting and training him or her. Employee orientation means providing new employees with the information they need to function, and helping them start being emotionally attached to the firm. This may simply involve providing them with brief written orientation materials and an employee handbook, but sometimes involves a formal process aimed at instilling in the employee the company's cherished values. The four-step training process includes needs analysis, instructional design, implementation, and evaluation. Trainees need to be motivated to learn. Ensuring that they are motivated involves making the learning meaningful, making skills transfers easy, and reinforcing the learning.
 - We can use the acronym ADDIE to outline the training process: analyze, develop, design, implement, and evaluate. Before training employees, it's necessary to analyze their training needs and design the training program. In training new employees, employers use task analysis—basically, a detailed study of the job—to determine what skills the job requires. For current employees, performance analysis is required, specifically to verify that there is performance efficiency and to determine if training is the solution. Distinguishing between can't do and won't do problems is the main issue here. Once you understand the issues, you can design a training program, which means identifying specific training objectives, clarifying a training budget, and then actually designing the program in terms of the actual content.
 - With this in place, you can turn to implementing the training program. Specific training methods include on-the-job training, apprenticeship training, informal learning, job instruction training, lectures, programmed learning, audiovisual-based training, vestibule training, videoconferencing, electronic performance support systems, and computer-based training. Computerized training is increasingly popular, with many packaged programs available. Frequently, programs today are Internet-based, with employees accessing packaged online programs, backed up by learning management systems, through their company's learning portals.
- Employers also increasingly use mobile learning, for instance, delivering short courses and explanations to employees' iPods. With increasing demands for technologically literate employees, lifelong learning can help ensure employees have the basic educational backgrounds they need to succeed on their jobs. Diversity training aims to create better cross-cultural sensitivity with the goal of fostering more harmonious working relationships.
- Most training methods are useful for all employees, but some are particularly appropriate for management development programs. Like all employees, new managers often get on-the-job training, for instance, via job rotation and coaching. In addition, it's usual to supply various off-the-job training and development opportunities—for instance, using the case study method, management games, outside seminars, university-related programs, corporate universities, executive coaches, and (for human resource managers) the SHRM learning system.
 - When facing economic, competitive, or other challenges, managers have to execute organizational change programs. These may aim at changing the company's strategy, culture, structure, technologies, or the attitudes and skills of the employees. Often, the trickiest part of organizational change is overcoming employees' resistance to it. With that in mind, steps in an effective organizational change program include establishing a sense of urgency, mobilizing commitment, creating a guiding coalition, developing and communicating a shared vision, helping employees make the change, consolidating gains, reinforcing new ways of doing things, and monitoring and assessing progress. Organizational development is a special approach to organizational change, one that involves action research, which means collecting data about a group and feeding the information back to the employees so they can analyze it and develop hypotheses about what the problems might be.
 - Whatever the training program, it's important to evaluate the training effort. You can measure reaction, learning, behavior, or results, ideally using a control group that is not exposed to training, in parallel with the group that you're training.

KEY TERMS

employee orientation
 training
 negligent training
 task analysis
 competency model
 performance analysis
 on-the-job training (OJT)
 apprenticeship training
 job instruction training (JIT)
 programmed learning
 electronic performance support systems (EPSS)
 job aid
 virtual classroom

lifelong learning
 cross training
 management development
 job rotation
 action learning
 case study method
 management game
 role playing
 behavior modeling
 in-house development center
 executive coach
 organizational development
 controlled experimentation

DISCUSSION QUESTIONS

- ★1. “A well-thought-out orientation program is essential for all new employees, whether they have experience or not.” Explain why you agree or disagree with this statement.
2. John Santos is an undergraduate business student majoring in accounting. He just failed the first accounting course, Accounting 101. He is understandably upset. How would you use performance analysis to identify what, if any, are John’s training needs?
3. What are some typical on-the-job training techniques? What do you think are some of the main drawbacks of relying on informal on-the-job training for breaking new employees into their jobs?
4. One reason for implementing global training programs is the need to avoid business losses “due to cultural insensitivity.” What sort of cultural insensitivity do you think is referred to, and how might that translate into lost business? What sort of training program would you recommend to avoid such cultural insensitivity?
5. Describe the pros and cons of five management development methods.
- ★6. Do you think job rotation is a good method to use for developing management trainees? Why or why not?
7. What is organizational development and how does it differ from traditional approaches to organizational change?
8. List and briefly explain each of the five steps in the training process.

INDIVIDUAL AND GROUP ACTIVITIES

1. You’re the supervisor of a group of employees whose task is to assemble disk drives that go into computers. You find that quality is not what it should be and that many of your group’s devices have to be brought back and reworked. Your boss says, “You’d better start doing a better job of training your workers.”
 - a. What are some of the staffing factors that could be contributing to this problem?
 - b. Explain how you would go about assessing whether it is in fact a training problem.
2. Choose a task with which you are familiar—mowing the lawn, making a salad, or studying for a test—and develop a job instruction sheet for it.
3. Working individually or in groups, develop a short, programmed learning program on the subject “Guidelines for Giving a More Effective Lecture.”
4. Find a provider of management development seminars. Obtain copies of its recent listings of seminar offerings. At what levels of managers are the offerings aimed? What seem to be the most popular types of development programs? Why do you think that’s the case?
5. Working individually or in groups, develop several specific examples to illustrate how a professor teaching human resource management could use at least four of the techniques described in this chapter in teaching his or her HR course.
6. Working individually or in groups, develop an orientation program for high school graduates entering your university as freshmen.
7. Appendix: PHR® and SPHR® Knowledge Base lists the knowledge someone studying for the HRCI certification exam needs to have in each area of human resource management (such as in strategic management, workforce planning, and human resource development). In groups of four to five students, do four things: (1) review that appendix now; (2) identify the material in this chapter that relates to the required knowledge the appendix lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team’s questions in front of the class, so the students in other teams can take each others’ exam questions.



APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Reinventing the Wheel at Apex Door Company

Jim Delaney, president of Apex Door, has a problem. No matter how often he tells his employees how to do their jobs, they invariably “decide to do it their way,” as he puts it, and arguments ensue between Jim, the employee, and the employee’s supervisor. One example is the door-design department, where the designers are expected to work with the architects to design doors that meet the specifications. While it’s not “rocket science,” as Jim puts it, the designers invariably make mistakes—such as designing in too much steel, a problem that can cost Apex tens of thousands of wasted dollars, once you consider the number of doors in, say, a 30-story office tower.

The order processing department is another example. Jim has a very specific and detailed way he wants the order written up, but most of the order clerks don’t understand how to use the multipage order form. They simply improvise when it comes to a detailed question such as whether to classify the customer as “industrial” or “commercial.”

The current training process is as follows. None of the jobs has a training manual per se, although several have somewhat out-of-date job descriptions. The training for new people is all on the job. Usually, the person leaving the company trains the new person during the 1- or 2-week overlap period, but if there’s no overlap, the new person is trained as well as possible by other employees who have filled in occasionally on the job in the past. The training is the same throughout the company—for machinists, secretaries, assemblers, engineers, and accounting clerks, for example.

Questions

1. What do you think of Apex’s training process? Could it help to explain why employees “do things their way”? If so, how?
2. What role should job descriptions play in training at Apex?
3. Explain in detail what you would do to improve the training process at Apex. Make sure to provide specific suggestions.

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HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company

The New Training Program

The Carter Cleaning Centers currently have no formal orientation or training policies or procedures, and Jennifer believes this is one reason why the standards to which she and her father would like employees to adhere are generally not followed.

The Carters would prefer that certain practices and procedures be used in dealing with the customers at the front counters. For example, all customers should be greeted with what Jack refers to as a “big hello.” Garments they drop off should immediately be inspected for any damage or unusual stains so these can be brought to the customer’s attention, lest the customer later return to pick up the garment and erroneously blame the store. The garments are then supposed to be immediately placed together in a nylon sack to separate them from other customers’ garments. The ticket also has to be carefully written up, with the customer’s name and telephone number and the date precisely and clearly noted on all copies. The counter person is also supposed to take the opportunity to try to sell the customer additional services such as waterproofing, or simply notify the customer that “Now that people are doing their spring cleaning, we’re having a special on drapery cleaning all this month.” Finally, as the customer leaves, the counter person is supposed to make a courteous comment like “Have a nice day” or “Drive safely.” Each of the other jobs in the stores—pressing, cleaning and spotting, and so forth—similarly contain certain steps, procedures, and most importantly, standards the Carters would prefer to see upheld.

Jennifer thinks the company has had problems, because of a lack of adequate employee training and orientation. For example, two new employees became very upset last month when they discovered that they were not paid at the end of the week, on Friday,

but instead were paid (as are all Carter employees) on the following Tuesday. The Carters use the extra two days in part to give them time to obtain everyone’s hours and compute their pay. The other reason they do it, according to Jack, is that “frankly, when we stay a few days behind in paying employees it helps to ensure that they at least give us a few days’ notice before quitting on us. While we are certainly obligated to pay them anything they earn, we find that psychologically they seem to be less likely to just walk out on us Friday evening and not show up Monday morning if they still haven’t gotten their pay from the previous week. This way they at least give us a few days’ notice so we can find a replacement.”

There are other matters that could be covered during orientation and training, says Jennifer. These include company policy regarding paid holidays, lateness and absences, health benefits (there are none, other than workers’ compensation), substance abuse, and eating or smoking on the job (both forbidden), and general matters like the maintenance of a clean and safe work area, personal appearance and cleanliness, time sheets, personal telephone calls, and personal e-mail.

Jennifer believes that implementing orientation and training programs would help to ensure that employees know how to do their jobs the right way. And she and her father further believe that it is only when employees understand the right way to do their jobs that there is any hope their jobs will be accomplished the way the Carters want them to be accomplished.

Questions

1. Specifically, what should the Carters cover in their new employee orientation program and how should they convey this information?

2. In the HR management course Jennifer took, the book suggested using a job instruction sheet to identify tasks performed by an employee. Should the Carter Cleaning Centers use a form like this for the counter person's job? If so, what should the form look like, say, for a counter person?

3. Which specific training techniques should Jennifer use to train her pressers, her cleaner/spotters, her managers, and her counter people? Why should these training techniques be used?

EXPERIENTIAL EXERCISE

Flying the Friendlier Skies

Purpose: The purpose of this exercise is to give you practice in developing a training program for the job of airline reservation clerk for a major airline.

Required Understanding: You should be fully acquainted with the material in this chapter and should read the following description of an airline reservation clerk's duties:

Customers contact our airline reservation clerks to obtain flight schedules, prices, and itineraries. The reservation clerks look up the requested information on our airline's online flight schedule systems, which are updated continuously. The reservation clerk must deal courteously and expeditiously with the customer, and be able to find quickly alternative flight arrangements in order to provide the customer with the itinerary that fits his or her needs. Alternative flights and prices must be found quickly, so that the customer is not kept waiting,

and so that our reservations operations group maintains its efficiency standards. It is often necessary to look under various routings, since there may be a dozen or more alternative routes between the customer's starting point and destination.

You may assume that we just hired 30 new clerks, and that you must create a 3-day training program.

How to Set Up the Exercise/Instructions: Divide the class into teams of five or six students.

Airline reservation clerks obviously need numerous skills to perform their jobs. JetBlue Airlines has asked you to develop quickly the outline of a training program for its new reservation clerks. Please produce the requested outline, making sure to be very specific about what you want to teach the new clerks, and what methods and aids you suggest using to train them.

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Explain how you would apply our "motivation points" in developing a lecture, say, on orientation and training.
2. Your employee is only selling about half the items per week that he should be selling. How would you go about determining what the problem is and whether training is the solution.
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126. See, for example, Jack Phillips, and Patti Phillips, “Moving From Evidence to Proof,” *T + D* 65, no. 8 (August 2011), pp. 34–39 for a discussion of a process for gathering training assessment data.
127. See, for example, Antonio Aragon-Sanchez et al., “Effects of Training on Business Results,” *International Journal of Human Resource Management* 14, no. 6 (September 2003), pp. 956–980.
128. A recent review concluded that the relationship of training to human resource outcomes and organizational performance is positive, but that training “is only very weakly related to financial outcomes.” Given this, managers may want to assess training results not just in terms of employee behavior and performance, but company financial performance as well. See Phyllis Tharenou et al., “A Review and Critique of Research on Training and Organizational Level Outcomes,” *Human Resource Management Review* 17 (2007), pp. 251–273.

Performance Management and Appraisal

OVERVIEW:
In this chapter,
we will cover . . .

BASIC CONCEPTS IN PERFORMANCE APPRAISAL
APPRAISAL METHODS
DEALING WITH APPRAISAL PROBLEMS AND THE APPRAISAL INTERVIEW
PERFORMANCE MANAGEMENT
TALENT MANAGEMENT PRACTICES AND EMPLOYEE APPRAISAL

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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Explain the purpose of performance appraisal.
2. Answer the question, "Who should do the appraising?"
3. Discuss the pros and cons of at least eight performance appraisal methods.
4. Give examples of five potential appraisal problems.
5. Explain how to conduct an appraisal feedback interview.
6. Explain how to install a performance management program.
7. Illustrate examples of segmenting and actively managing a company's talent.

INTRODUCTION

TRW supplies automotive steering, braking, and safety and electronic equipment to customers worldwide.¹ Several years ago, TRW was deeply in debt.² With over 100,000 employees on five continents, TRW management knew it had to base its new strategy on improving competitiveness and performance. At the time, most of TRW's far-flung departments used their own paper-based performance appraisal systems. Top management decided it needed a new companywide performance management system, to help harmonize what TRW's employees were doing with the firm's new goals.

Source: Scott Nelson/AFP/Newscom

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LEARNING OBJECTIVE 1

Explain the purpose of performance appraisal.

**performance appraisal**

Evaluating an employee's current and/or past performance relative to his or her performance standards.

BASIC CONCEPTS IN PERFORMANCE APPRAISAL

Few things supervisors do are fraught with more peril than appraising subordinates' performance. Employees tend to be overly optimistic about what their ratings will be, and know that their raises, careers, and peace of mind may hinge on how you rate them. As if that's not enough, few appraisal processes are as fair as employers think. Numerous problems (such as bias and some supervisors rating everyone "average") undermine the process. However, the perils notwithstanding, performance appraisal plays a central role in managing human resources. The challenge is to do the appraisal the right way.

The Performance Appraisal Cycle

Performance appraisal means evaluating an employee's current and/or past performance relative to his or her performance standards. You may equate filling out appraisal forms as in Figure 1 with "performance appraisal," but appraisal involves more. Effective appraisal also requires that the supervisor set performance standards. And it requires that the employee receives the training, feedback, and incentives required to eliminate performance deficiencies.

Stripped to its essentials, performance appraisal involves (1) setting work standards, (2) assessing the employee's actual performance relative to those standards, and (3) providing feedback to the employee with the aim of helping him or her to eliminate performance deficiencies or to continue above par performance. As Figure 2 summarizes, managers call these three steps the *performance appraisal cycle*.

Why Appraise Performance?

There are five reasons to appraise subordinates' performance.

- First, most employers still base pay, promotion, and retention decisions on the employee's appraisal.³
- Second, appraisals play a central role in the employer's performance management process. Performance management means continuously making sure that each employee's performance makes sense in terms of the company's overall goals.
- Third, the appraisal lets you and the subordinate develop a plan for correcting any deficiencies, and to reinforce the things the subordinate does right.
- Fourth, appraisals should serve a useful career planning purpose. They provide an opportunity to review the employee's career plans in light of his or her exhibited strengths and weaknesses.
- Finally, supervisors use appraisals to identify employees' training and development needs. They let supervisors identify performance gaps (between current and expected performance) and to formulate the remedial steps required. The accompanying HR as a Profit Center features illustrates this.

FIGURE 1

Online Faculty Evaluation Form

Source: Copyright Gary Dessler, PhD

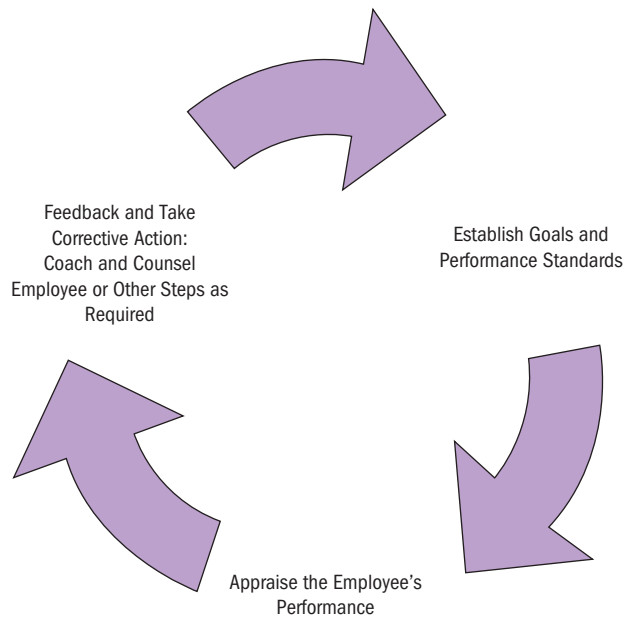
Instructions: Thoughtful evaluations help the faculty member better understand and improve his or her teaching practices. For each of the following eight items, please assign a score, giving your highest score of 7 for Outstanding, a score of 4 for Average, your lowest score of 1 for Needs Improvement, and an NA if the question is not applicable:

Evaluation Items

- ___ 1. The instructor was prepared for his/her lectures.
- ___ 2. The course was consistent with the course objectives.
- ___ 3. The instructor was fair in how he/she graded me.
- ___ 4. The instructor carefully planned and organized this course.
- ___ 5. The instructor was available during his/her posted office hours.
- ___ 6. The instructor responded to online inquiries in a timely manner.
- ___ 7. In terms of knowledge and/or experience, the instructor was competent to teach this course.
- ___ 8. Overall how would you rate this course?

FIGURE 2

The Three-Step Performance Appraisal Cycle



HR AS A PROFIT CENTER

Setting Performance Goals at Ball Corporation

Ball Corporation supplies metal packaging to customers such as food manufacturers.⁴ The management team at one Ball plant wanted to improve performance by instituting a better process for setting goals.⁵ The new program began with training plant leaders on how to improve performance. They then set and communicated daily performance goals to their work teams. Management tracked daily goal attainment with team scorecards that the work teams completed. All employees received special training to ensure they had the required skills. According to management, within 12 months the new plan raised production by 84 million cans, reduced customer complaints by 50%, and produced a return-on-investment of more than \$3,090,000.⁶



Performance Management

For several appraisal aims, the usual annual or semiannual appraisal reviews may suffice. For example, promotions and raises tend to be periodic decisions. But for correcting performance, there is no substitute for nudging employees' performance back into line continuously, at once. The same applies to acknowledging exceptional performance.

Many employers therefore take a more continuous approach to performance appraisal. For example, at Toyota Motor's Lexington, Kentucky, Camry plant, teams of employees monitor their own results. In frequent meetings, they continuously align those results with the work team's standards and with the plant's overall quality and productivity goals. Team members who need coaching and training receive it. Procedures that need changing are changed.

This is performance management in action. **Performance management** is the *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's *goals*.⁷

Many employers have what they call performance management, but still use traditional performance appraisal. The key differences are performance management's *continuous* and *goal-based* adjustments.⁸ As one expert put it, "[A] system that involves employee evaluations once a year without an ongoing effort to provide feedback and coaching ... is not a true performance management system."⁹ The Strategic Context feature illustrates this.

performance management

The *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's *goals*.

THE STRATEGIC CONTEXT

TRW

TRW management decided it needed a new companywide performance management system to help bring its employees' actual performance into synch with the firm's new operating goals. Top management appointed a team. The team's aim was to create a performance management system that was *consistent* (employees in all of TRW's far-flung organization could use the same system), and *comprehensive* (it consolidated into a single integrated system the necessary goal setting, performance appraisal, professional development, and succession planning functions).

The new performance management system produced many benefits. Most notably, it focuses every employee's attention on what he or she needs to do to help to achieve TRW's goals. It also uncovers employee development needs that are relevant to both TRW's and the employee's success.

We'll discuss performance management more fully later in the chapter, after addressing the basics of performance appraisal.



Defining the Employee's Goals and Performance Standards

Most employees need and expect to know ahead of time on what basis their managers will appraise them.¹⁰ Managers use one or more of three bases—goals, standards, and competencies.

First, the manager can assess to what extent *the employee is attaining his or her goals*. Ideally, each employee's goals should derive from the company's overall aims. For example, a companywide goal of reducing costs by 10% should translate into goals for how individual employees or teams will cut costs. Here, some employers use a management by objectives approach; we'll discuss this later in this chapter.

Managers say that effective goals should be "SMART." They are *specific*, and clearly state the desired results. They are *measurable*, and answer the question "how much?" They are *attainable*. They are *relevant*, and clearly derive from what the manager and company want to achieve. And they are *timely*, with deadlines and milestones.¹¹ Behavioral science research provides useful insights into setting motivational goals. The accompanying HR in Practice feature summarizes these findings.

HR IN PRACTICE

How to Set Effective Goals

Behavioral science research studies suggest four guidelines for setting performance goals:

1. *Assign Specific Goals.* Employees who receive specific goals usually perform better than those who do not.
2. *Assign Measurable Goals.* Put goals in quantitative terms and include target dates or deadlines. If measurable results will not be available, then "satisfactory completion"—such as "satisfactorily attended workshop" or "satisfactorily completed his or her degree"—is the next best thing.
3. *Assign Challenging but Doable Goals.* Goals should be challenging, but not so difficult that they appear impossible or unrealistic.
4. *Encourage Participation.* Throughout your management career, you'll be faced with this question: Should I just tell my employees what their goals are, or should I let them participate with me in setting their goals? The evidence suggests that participatively set goals do not consistently result in higher performance than assigned goals, nor do assigned goals consistently result in higher performance than participatively set ones. It is only when the participatively set goals are more difficult (are set higher) than the assigned ones that the participatively set goals produce higher performance. Because it tends to be easier to set higher standards when your employees participate in the process, participation tends to facilitate standards setting and performance.¹²

A second popular basis upon which to appraise someone is to use a form with *generic criteria* (such as "Quality" and "Quantity"). Thus, an instructor's appraisal form might include criteria such as, "The instructor is well prepared."

TALENT MANAGEMENT, COMPETENCIES, AND BEHAVIORAL STANDARDS A third option is to appraise employees based on *their mastery of the competencies or skills* (or "behavioral standards") the job requires.

Consider an example. BP's exploration division appraises employees' skills using a skills matrix. This matrix shows the basic skills to be assessed (such as "technical expertise"), and the minimum level of each skill the job requires. Employees with the requisite level of each skill are qualified to fill the position.

LEARNING OBJECTIVE 2

Answer the question, "Who should do the appraising?"

WHO SHOULD DO THE APPRAISING?

Appraisals by the immediate supervisor are the heart of most appraisals. Getting a supervisor's appraisal is straightforward and makes sense. The supervisor should be and usually is in the best position to observe and evaluate his or her subordinate's performance. The supervisor is also responsible for that person's performance.

Yet, relying only on supervisors' ratings is not always wise. For example, an employee's supervisor may not understand or appreciate how customers and colleagues who interact with the employee rate his or her performance. Furthermore, there is always some danger of bias for or against the employee. If so, managers have several options.

PEER APPRAISALS With more firms using self-managing teams, appraisal of an employee by his or her peers—peer appraisal—is more popular. Typically, an employee due for an annual appraisal chooses an appraisal chairperson. The latter then selects one supervisor and three peers to evaluate the employee's work.

Research indicates that peer appraisals can be effective. One study involved undergraduates placed into self-managing work groups. The researchers found that peer appraisals had "an immediate positive impact on [improving] perception of open communication, task motivation, social loafing, group viability, cohesion, and satisfaction."¹³ Employees, in other words, seem to be motivated to meet their colleagues' expectations.

RATING COMMITTEES Some companies use rating committees. A rating committee is usually composed of the employee's immediate supervisor and three or four other supervisors.¹⁴

Using multiple raters is advantageous. It can help cancel out problems such as bias on the part of individual raters.¹⁵ It can also provide a way to include in the appraisal the different facets of an employee's performance observed by different appraisers. Multiple raters often see different facets of an employee's performance. Studies often find that the ratings obtained from different sources rarely match.¹⁶ It's therefore advisable to at least obtain ratings from the supervisor, his or her boss, and perhaps another manager who is familiar with the employee's work.¹⁷ At a minimum, most employers require that the supervisor's boss sign off on any appraisals the supervisor does.

SELF-RATINGS Some employers obtain employees' self-ratings, usually in conjunction with supervisors' ratings. The basic problem, of course, is that employees usually rate themselves higher than do their supervisors or peers.¹⁸ One study found that, when asked to rate their own

A rating committee is usually composed of the employee's immediate supervisor and three or four other supervisors.

Source: nyul/ Fotolia



job performances, 40% of employees in jobs of all types placed themselves in the top 10%, and virtually all remaining employees rated themselves at least in the top 50%.¹⁹ In another study, subjects' self-ratings actually correlated negatively with their subsequent performance in an assessment center—the higher they appraised themselves, they worse they did in the center. In contrast, an average of the person's supervisor, peer, and subordinate ratings predicted the subjects' assessment center performance.²⁰

APPRAISAL BY SUBORDINATES Many employers have subordinates rate their managers, usually for developmental rather than for pay purposes. Anonymity affects such upward feedback. Managers who get feedback from subordinates who identify themselves view the upward feedback process more positively than do managers who get anonymous feedback. However, subordinates prefer giving anonymous responses, and those who must identify themselves tend to give inflated ratings.²¹

Upward feedback can improve a manager's performance. One study focused on 252 managers during five annual administrations of an upward feedback program. Managers who were initially rated poor or moderate "showed significant improvements in [their] upward feedback ratings over the five-year period." And, managers who met with their subordinates to discuss their upward feedback improved more than the managers who did not.²²

360-DEGREE FEEDBACK With **360-degree feedback**, the employer collects performance information all around an employee—from his or her supervisors, subordinates, peers, and internal or external customers—generally for developmental rather than pay purposes.²³ The usual process is to have the raters complete online appraisal surveys on the ratee. Computerized systems then compile all this feedback into individualized reports to ratees (see the sample in Figure 3). The person may then meet with the supervisor to develop a self-improvement plan.

Results are mixed. Participants seem to prefer this approach, but one study concluded that multisource feedback led to "generally small" improvements in subsequent ratings by supervisors, peers, and subordinates. Improvement was most likely when the recipients believed that change was necessary.²⁴ Also, such appraisals are more candid when rewards or promotions are not involved.

There are several ways to improve 360-degree appraisals.

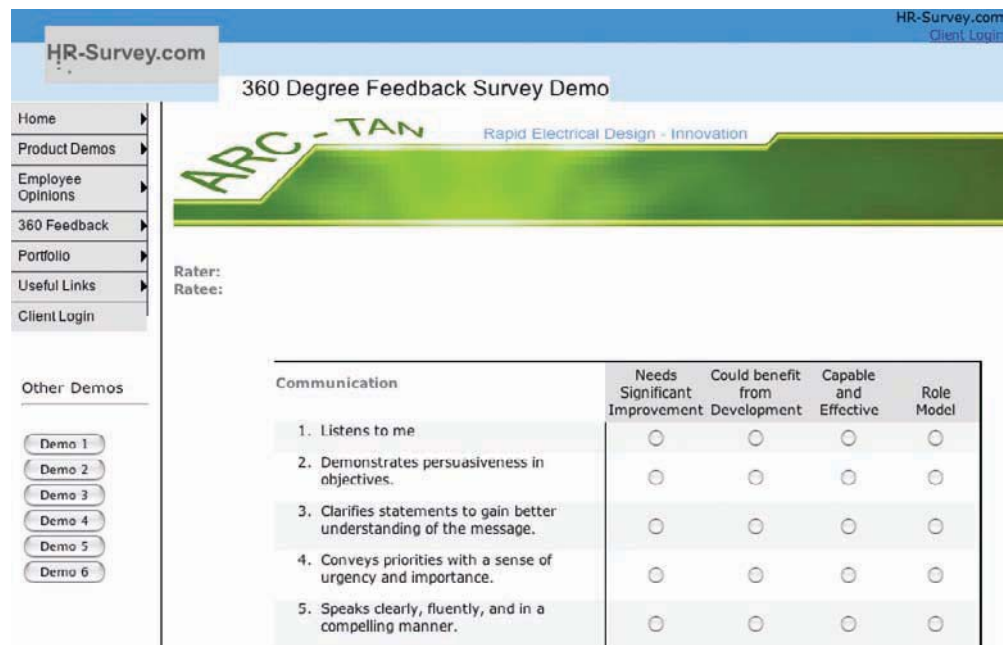
- Anchor the 360-degree rating dimensions (such as "conflict management") with specific behavioral examples (such as "effectively deals with conflicts").²⁵
- Carefully train the people who are giving and receiving the feedback.²⁶
- With multiple raters, make sure the feedback is productive, unbiased, and development oriented.²⁷
- Reduce the administrative costs associated with collecting multisource feedback by using a Web-based system such as the one in Figure 3. The rater logs in, opens a screen with a rating scale, and rates the person along several competencies with ratings such as "capable and effective."²⁸

360-degree feedback

The employer collects performance information all around an employee—from his or her supervisors, subordinates, peers, and internal or external customers.

FIGURE 3
Online 360-Degree Feedback

Source: "Online 360-Degree Feedback," from HR-SURVEY.COM. Copyright © 2012 by HR-Survey, LLC. Reprinted with permission. www.hr-survey.com/sd3609q.htm



“CROWD” APPRAISALS In a twist on 360-degree appraisals more employers are using new “crowd-sourcing” recognition and appraisal software tools such as Globoforce (www.globoforce.com/) and Salesforce Rypple to obtain co-workers’ comments and appraisals. For example, any employee at Washington-based LivingSocial can use Salesforce Rypple to comment on another’s work; the company then uses these comments as one input for its formal employee appraisals.²⁹

LEARNING OBJECTIVE 3

Discuss the pros and cons of at least eight performance appraisal methods.



APPRAISAL METHODS

The manager usually conducts the actual appraisal using one or more of the formal methods we describe in this section.

Graphic Rating Scale Method

A graphic rating scale lists a number of traits and a range of performance for each. As in Figure 4, a typical scale lists traits (such as teamwork) and a range of performance standards (Below Expectations, Meets Expectations, and Role Model) for each trait. The supervisor rates each subordinate by circling or checking the score that best describes the subordinate’s performance for each trait, and then totals the scores for all traits.

Alternation Ranking Method

Ranking employees from best to worst on a trait or traits is another popular appraisal method. Because it is usually easier to distinguish between the worst and best employees than to rank them, an alternation ranking method is useful. With this method the supervisor uses a form like that in Figure 5 to specify the employee who is highest on the trait being measured and also the one who is the lowest. He or she alternates between highest and lowest until all employees to be rated have been ranked.

Paired Comparison Method

With the paired comparison method, every subordinate to be rated is paired with and compared to every other subordinate on each trait. For example, suppose there are five employees to be rated. With this method, a chart such as that in Figure 6 shows all possible pairs of employees for each trait. Then for each trait, the supervisor indicates (with a plus or minus) who is the better employee of the pair. Next, the number of times an employee is rated better is added up. In Figure 6 employee Maria ranked highest (has the most plus marks) for “quality of work,” and Art ranked highest for “creativity.”

Forced Distribution Method

With the forced distribution method, the manager places predetermined percentages of subordinates in performance categories, as when a professor “grades on a curve.” An estimated 60% of Fortune 500 firms use some form of ranking. At Lending Tree the top 15% appraisees are “1s,” the middle 75% are “2s,” and the bottom 10% are “3s” and the “first to go.”³⁰ Forced distribution’s advantages are that it (1) prevents supervisors from rating most employees “satisfactory” or “high,” and (2) makes top and bottom performers stand out. GE, which first popularized forced ranking, has been injecting more flexibility into its system. For instance, it no longer strictly adheres to its famous 20/70/10 split (in which most of the bottom 10% lost their jobs.) and tells managers to use more common sense in assigning rankings.³¹

DRAWBACKS While widely used, some balk at forced distribution appraisals. As most students know, forced distribution grading is unforgiving. With forced distribution, either you’re in the top 10%, or you’re not. And, if you’re in the bottom 10%, you get an F, no questions asked. Your professor has little wiggle room. In one survey 77% of responding employers were at least “somewhat satisfied” with forced ranking, while the rest were dissatisfied with it. The biggest complaints: 44% said it damages morale, and 47% said it creates interdepartmental inequities, since “high-performing teams must cut 10% of their workers while low-performing teams are still allowed to retain 90% of theirs.”³² Some writers refer unkindly to forced ranking as “Rank and Yank.”³³

Given this, employers need to be vigilant. Office politics and managerial bias can taint ratings. To protect against bias claims, employers should take several steps.³⁴ Appoint a review committee to review any employee’s low ranking. Train raters to be objective. And consider using multiple raters in conjunction with the forced distribution approach.

Sample Performance Rating Form

Employee's Name _____ Level: Entry-level employee

Manager's Name _____

Key Work Responsibilities
 1. _____
 2. _____
 3. _____
 4. _____

Results/Goals to be Achieved
 1. _____
 2. _____
 3. _____
 4. _____

Communication

1	2	3	4	5
Below Expectations Even with guidance, fails to prepare straightforward communications, including forms, paperwork, and records, in a timely and accurate manner; products require minimal corrections. Even with guidance, fails to adapt style and materials to communicate straightforward information.	Meets Expectations With guidance, prepares straightforward communications, including forms, paperwork, and records, in a timely and accurate manner; products require minimal corrections. With guidance, adapts style and materials to communicate straightforward information.	Role Model Independently prepares communications, such as forms, paperwork, and records, in a timely, clear, and accurate manner; products require few, if any, corrections. Independently adapts style and materials to communicate information.		

Organizational Know-How

1	2	3	4	5
Below Expectations <performance standards appear here>	Meets Expectations <performance standards appear here>	Role Model <performance standards appear here>		

Personal Effectiveness

1	2	3	4	5
Below Expectations <performance standards appear here>	Meets Expectations <performance standards appear here>	Role Model <performance standards appear here>		

Teamwork

1	2	3	4	5
Below Expectations <performance standards appear here>	Meets Expectations <performance standards appear here>	Role Model <performance standards appear here>		

Achieving Business Results

1	2	3	4	5
Below Expectations <performance standards appear here>	Meets Expectations <performance standards appear here>	Role Model <performance standards appear here>		

FIGURE 4
Sample Graphic Rating Form with Behavioral Examples

Source: "Sample Performance Rating Form from Performance Management: A Roadmap for Developing, Implementing and Evaluating Performance Management Systems" by Elaine D. Pulakos from *SHRM Effective Practice Guidelines*. Copyright © 2004 by SHRM Foundation. Reprinted with permission. All rights reserved.

Critical Incident Method

The critical incident method entails keeping an anecdotal record of good or undesirable examples of an employee's work-related behavior and reviewing it with the employee at predetermined times. Employers often compile such incidents to supplement a rating or ranking method. Keeping a running list of critical incidents provides concrete examples of what specifically the subordinates can do to eliminate any performance deficiencies. It also provides opportunities for mid-year corrections if required. Compiling incidents all year also helps reduce supervisors' tendencies to focus unduly on just the last few weeks when appraising subordinates' performance.

Results Assessment

Accomplishment 1: _____

1	2	3	4	5
Low Impact	Moderate Impact	High Impact		
The efficiency or effectiveness of operations remained the same or improved only minimally.	The efficiency or effectiveness of operations improved quite a lot.	The efficiency or effectiveness of operations improved tremendously.		
The quality of products remained the same or improved only minimally.	The quality of products improved quite a lot.	The quality of products improved tremendously.		

Accomplishment 2: _____

1	2	3	4	5
Low Impact	Moderate Impact	High Impact		
The efficiency or effectiveness of operations remained the same or improved only minimally.	The efficiency or effectiveness of operations improved quite a lot.	The efficiency or effectiveness of operations improved tremendously.		
The quality of products remained the same or improved only minimally.	The quality of products improved quite a lot.	The quality of products improved tremendously.		

Narrative

Areas to be Developed	Actions	Completion Date

Manager's Signature _____ Date _____

Employee's Signature _____ Date _____

The above employee signature indicates receipt of, but not necessarily concurrence with, the evaluation herein.

FIGURE 4
(Continued)

FIGURE 5
Alternation Ranking Method

ALTERNATION RANKING SCALE

Trait: _____

For the trait you are measuring, list all the employees you want to rank. Put the highest-ranking employee's name on line 1. Put the lowest-ranking employee's name on line 20. Then list the next highest ranking on line 2, the next lowest ranking on line 19, and so on. Continue until all names are on the scale.

Highest-ranking employee

1. _____	11. _____
2. _____	12. _____
3. _____	13. _____
4. _____	14. _____
5. _____	15. _____
6. _____	16. _____
7. _____	17. _____
8. _____	18. _____
9. _____	19. _____
10. _____	20. _____

Lowest-ranking employee

Behaviorally Anchored Rating Scales

A behaviorally anchored rating scale (BARS) is an appraisal method that combines the benefits of critical incidents and quantitative ratings by anchoring a quantified scale with specific narrative examples of good and poor performance expressed as specific behaviors. Figure 7 is an example. It shows the behaviorally anchored rating scale for the trait “salesmanship skills” used for an automobile salesperson. Note how the various performance levels, from 10 (high) to 1 (low), are anchored with specific behavioral examples such as “The salesperson told the customer ‘the style is the style’ and that he’d probably be happier with a competitor’s vehicle.”

Appraisal Forms in Practice

In practice, appraisal forms often blend several approaches. For example, Figure 4 is a graphic rating scale supported with specific behavioral competency expectations (examples of good or poor performance). The latter pinpoint what raters should look for. Even without using the more

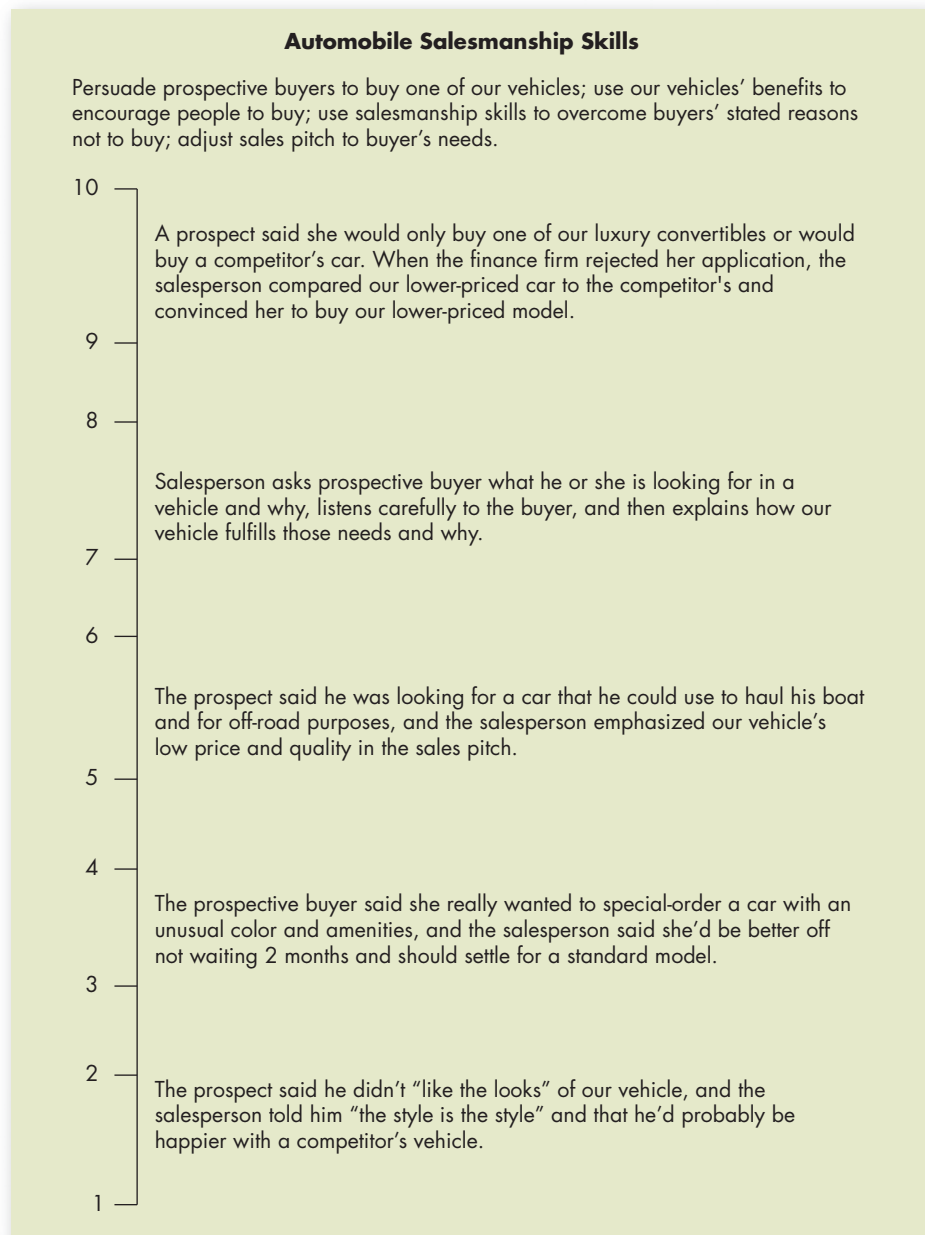
FIGURE 6
Paired Comparison Method

Note: + means “better than,” – means “worse than.” For each chart, add up the number of +’s in each column to get the highest-ranked employee.

<i>FOR THE TRAIT “QUALITY OF WORK”</i>						<i>FOR THE TRAIT “CREATIVITY”</i>					
Employee rated:						Employee rated:					
As Compared to:	A Art	B Maria	C Chuck	D Diane	E José	As Compared to:	A Art	B Maria	C Chuck	D Diane	E José
A Art		+	+	–	–	A Art		–	–	–	–
B Maria	–		–	–	–	B Maria	+		–	+	+
C Chuck	–	+		+	–	C Chuck	+	+		–	+
D Diane	+	+	–		+	D Diane	+	–	+		–
E José	+	+	+	–		E José	+	–	–	+	

↑
Maria ranks highest here
↑
Art ranks highest here

FIGURE 7
Behaviorally Anchored
Rating Scale

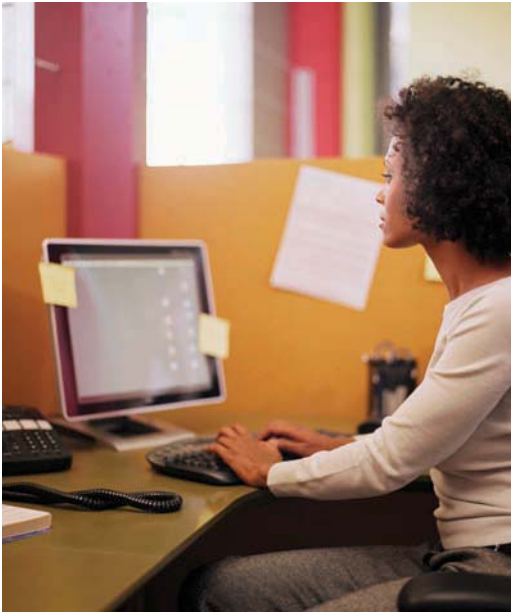


elaborate behaviorally anchored appraisal approach, behaviorally anchoring a rating scale, as in Figure 7, can improve the reliability and validity of the appraisal scale.

The Management by Objectives Method

The term *management by objectives (MBO)* usually refers to a multistep companywide goal-setting and appraisal program. MBO requires the manager to set specific measurable, organizationally relevant goals with each employee, and then periodically discuss the latter's progress toward these goals. The steps are:

1. *Set the organization's goals.* Establish a companywide plan for next year and set goals.
2. *Set departmental goals.* Department heads and their superiors jointly set goals for their departments.
3. *Discuss departmental goals.* Department heads discuss the department's goals with their subordinates and ask them to develop their own individual goals. They should ask, How could each employee help the department attain its goals?
4. *Define expected results (set individual goals).* Department heads and their subordinates set short-term performance targets for each employee.



More employers today use Web- or PC-supported appraisal tools.

Source: Thomas Barwick/Getty Images

5. *Conduct performance reviews.* After a period, department heads compare each employee’s actual and expected results.
6. *Provide feedback.* Department heads hold periodic performance review meetings with subordinates. Here they discuss the subordinates’ performance and make any plans for rectifying or continuing the person’s performance.

Computerized and Web-Based Performance Appraisals

More employers use Web- or PC-supported appraisal tools. For example, Seagate Technology uses “Enterprise Suite” for its 39,000 employees.³⁵ Early in Seagate’s first fiscal quarter, employees enter the system and set goals and development plans for themselves that make sense in terms of Seagate’s corporate objectives. Employees update their plans quarterly. They then do self-evaluations at the end of the year, with follow-up reviews by their supervisors. Figure 8 outlines another good online appraisal tool, in this case from PerformancePro.

Electronic Performance Monitoring

Electronic performance monitoring (EPM) systems use computer technology to allow managers to monitor their employees’ rate, accuracy, and time spent working online or just on their computers.³⁶

EPM can improve productivity. For example, for repetitive tasks, highly skilled and monitored subjects keyed in more data entries than did highly skilled unmonitored participants. But EPM can also backfire. In this same study, low-skilled highly monitored participants did more poorly than low-skilled, unmonitored participants did. EPM also seems to raise employee stress.³⁷

The Global Issues in HR feature discusses some special challenges in appraising employees abroad.

FIGURE 8
Online Appraisal Tool

Source: “Online Appraisal Tool.” from HRONLINE.COM website. Copyright © 2012 by HRN Performance Solutions. Reprinted with permission. All Rights Reserved. http://www.hrnonline.com/per_about.asp

The screenshot shows the Performance Pro website interface. At the top, there is a navigation bar with links for Products, Webinars, Customer Support, Partners, Contact Us, About Us, and Client Login. The main header features the HRN Management Group logo and the 'performance pro' branding. Below the header, a central banner reads 'performance pro' and 'Effectively drive employee performance.' The main content area includes a sub-header 'Simple, powerful, and complete employee performance management' and a description: 'Implement a Flexible, User-friendly, Online Performance Appraisal and Employee Development Program Quickly and Effectively'. A list of benefits follows: 'Save time, increase productivity, and eliminate hassles. Performance Pro is designed by HR professionals for small to medium sized companies, in most every industry, that require a centralized solution to streamline and improve employee development and bottom line performance. Performance Pro is a powerful and complete--yet flexible and easy-to-use employee development and performance evaluation solution.' Below this, a section titled 'Easy Customization and Administration' lists features such as 'Easy, unique-to-you content and system customization', 'Centralized, secure administration and performance history archive', and 'Includes electronic signature option for a completely paperless and automated approval process'. A sidebar on the right contains a 'Buy Online' section with a shopping cart icon, and a 'Performance Appraisal Resources' section with links to 'Review Tips and Information', 'Performance and Compensation Integration', and 'Did You Know...'. The 'Did You Know...' section states: 'HRN also develops and provides appraisal forms, job descriptions, policy guides and many other HR compliance tools.'

FIGURE 8
(Continued)

Factor Info
Available Factor:
Communication Weight: 20%
Back Next Details

Definition:
The ability to effectively converse and listen to others concerning company matters. The use of proper written and grammatical skills, and the meaningful application of computer technology [e-mail, Internet, etc].

Evaluation
Last: 4.5 Current: 4
5 - High Performer
Communication skills are superior. Listening and interpersonal communication skills strengthen others. Effectively uses all available communication technology. Written
4.5 - Valued Performer
Communication skills are excellent. Listening and interpersonal skills are above average. Effectively uses most available communication technology. Written
3 - Contributor
Communication and listening skills are good. Effectively uses some available communication technology. Written documents convey information appropriately
2 - Needs Improvement
Communication skills are lacking in some areas. Verbal communication skills of listening and speaking impede job performance. More effective use of communication
1 - Unacceptable
Communication skills are inadequate for the job. Immediate improvement is necessary in one or more key areas (listening, speaking, writing, using communication)

Comments:
Annette is a clear and concise communicator. She uses the appropriate method, and time in her communication that is required by the situation. She presents facts and recommends alternatives effectively.

e-signature

Date Completed	Employee	Item	Status
4/3/2007	Henry L. Smith	Appraisal	Unsigned

Routing In-Box

Date Routed	Routed By	Item	Status
4/3/2007	Smith, Henry	Report of Oral Warning Form Murray, Annette	

Routing Out-Box

Status	Date	Status	Routed To	Item
Approved	4/3/2007		Granger, Francois	Employee Commitment Form Smith, Henry L.

Employee Notes

Date	Title	View/Edit	Delete
3/15/2007	Schedule staff Q2 goal status meetings by 5/1		
2/13/2007	Quarterly report completed		

Rating an employee is fast and easy. Simply glide the slider to the appropriate rating level and add in optional appraiser comments.

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GLOBAL ISSUES IN HR

Appraising Employees Abroad

Installing a process for appraising expatriate employees (who move temporarily abroad) is challenging. For example, do you use the same appraisal process as the local subsidiary. Or do you use the one you would use if he or she was still working at home?

One study found that, at least for large multinational companies, employers used the same forms and procedures abroad that they do at headquarters. The researchers interviewed expatriate employees and human resource managers of five MNE (multinational enterprise) subsidiaries of information technology firms Applied Material (American), Philips (Dutch), Hitachi (Japanese), Samsung (Korean), and Winbond (Taiwan). In brief, each of the five firms used standardized performance forms set by headquarters, and did not adapt them to local operating situations. They therefore tried to maintain some comparability in both the appraisals and in the conclusions they could draw from those appraisals.³⁸

Conversation Days

When employees at Juniper Networks, Inc. expressed concerns about their annual performance reviews and the lack of positive feedback, Juniper changed the process. Instead of once-a-year performance reviews, there are now semiannual “conversation days.” The emphasis in these manager–employee conversations is on areas for improvement and growth, and on setting stretch goals that align with the employee’s career interests. There are no explicit performance ratings.

LEARNING OBJECTIVE 4

Give examples of five potential appraisal problems.

DEALING WITH APPRAISAL PROBLEMS AND THE APPRAISAL INTERVIEW

Appraisal at Juniper Networks illustrates an unpleasant fact about performance appraisals. As noted earlier, employees may view appraisals as unfair, unhelpful, and counterproductive.³⁹ Supervisors are often uncomfortable in dispensing the ratings and reviews. The solution lies in knowing where the pitfalls lie and how to avoid them.

Ensure Fairness and Effective Supervision

The first task is to ensure the appraisal is fair. Studies confirm that, in practice, some managers ignore accuracy and honesty in performance appraisals. Instead, they use the process for political purposes (such as encouraging employees with whom they don’t get along to quit).⁴⁰ The employees’ standards should be clear, they should understand on what basis you will appraise them, and the appraisals should be objective.⁴¹ Figure 9 summarizes some best practices for administering fair performance appraisals.

More generally, the quality of the interpersonal interactions between the supervisor and employee will shape the appraisal’s impact and worth. Supervisors (and particularly new supervisors) must therefore manage their interpersonal relations with their employees, and be trained in both the technical and interpersonal aspects of appraising employees and giving them feedback.⁴² Supervisors should understand how to build trust through open relationships, engage in continuous and formal performance conversations, diagnose and productively address performance issues, and deliver and react to feedback conversations constructively.⁴³ To facilitate this, the employer should formally evaluate and reward supervisors partly based on their effectiveness in managing performance.

FIGURE 9

Selected Best Practices for Fair Performance Appraisals

- Base the performance review on duties and standards from a job analysis.
- Employees must be aware of how their performance will be assessed before the review, and their goals should be set effectively.
- Ensure that the employee’s goals align with organizational objectives.
- To the extent possible, base the performance review on objective performance data.
- Use a standardized procedure for all employees.
- Gather information from several sources, preferably multiple raters; at least have the rater’s supervisor review the appraisal ratings.
- Ensure an ongoing process, specifically, continuous feedback.
- Document the appraisal results.
- Indicate what the employee needs to do to improve his or her ratings.
- Include an appeals mechanism.

Source: Based on Richard Posthuma, “Twenty Best Practices for Just Employee Performance Reviews,” *Compensation & Benefits Review* (January/February 2008), pp. 47–54; www.employeeperformance.com/PerformanceManagementResources/BestPracticesforPerformanceAppraisals.php, accessed July, 2010; and www.successfactors.com/articles/optimize-performance-management, accessed July, 2010. Reprinted with permission of the Society for Human Resource Management (www.shrm.com), Alexandria, VA, Publisher of *HR Magazine*, © SHRM.

	Excellent	Good	Fair	Poor
Quality of work				
Quantity of work				
Creativity				
Integrity				

FIGURE 10**A Graphic Rating Scale with Unclear Standards**

Note: For example, what exactly is meant by “good,” “quantity of work,” and so forth?

Clarify Standards

Often, the appraisal scale is too open to interpretation. As in Figure 10, this rating scale may seem objective, but would probably result in unfair appraisals because the traits and degrees of merit are open to interpretation. For example, different supervisors would probably define “good performance” differently. The same is true of traits such as “quality of work.” The best way to rectify this problem is to develop and include descriptive phrases that define each trait and degree of merit.

Avoid Halo Effect Ratings

The halo effect means that the rating you give a subordinate on one trait (such as “gets along with others”) influences the way you rate the person on other traits (such as “quantity of work”). Thus, you might rate an unfriendly employee “unsatisfactory” for all traits, rather than just for the trait “gets along with others.” Being aware of this problem is a step toward avoiding it.

Avoid the Middle

The “central tendency” problem refers to a tendency to rate all employees as being about average, or in the middle. For example, if the rating scale ranges from 1 to 7, a supervisor may tend to avoid the highs (6 and 7) and lows (1 and 2) and rate most of his or her employees between 3 and 5. Supervisors who do this restrict the range of their appraisals (the appraisals can’t range from high to low), and therefore bestow appraisals that don’t validly describe their subordinates’ actual performance.

Such restrictions make the evaluations less useful for promotion, salary, and counseling purposes. Ranking employees instead of using a graphic rating scale can eliminate this problem. When you rank employees, they can’t all be rated average.⁴⁴

Don’t Be Lenient or Strict

Conversely, some supervisors rate all their subordinates consistently high or low, a problem referred to as the strictness/leniency problem. Again, one solution is to insist on ranking subordinates, because that forces the supervisor to distinguish between high and low performers.

The appraisal you do may be less objective than you realize. One study focused on how personality influenced the peer evaluations students gave their peers. Raters who scored higher on “conscientiousness” tended to give their peers lower ratings; those scoring higher on “agreeableness” gave higher ratings.⁴⁵

Avoid Bias

Unfortunately, ratees’ personal characteristics (such as age, race, and gender) can distort their ratings. In fact, “rater idiosyncratic biases account for the largest percentage of the observed variances in performance ratings.”⁴⁶

EXAMPLE As an example, one study found that raters penalized successful women for their success.⁴⁷ Earlier studies had found that raters tend to demean women’s performance, particularly when they excel at what seems like male-typical tasks, and that is exactly what happened here. In this new study, the researchers told the subject-raters that they’d be viewing information about someone who was one of 30 people who had just finished a year-long management training program. The researchers emphasized that most trainees were men. The researchers found,

There are many things that lead an individual to be disliked, including obnoxious behavior, arrogance, stubbornness, and pettiness, [but] it is only women, not men, for whom a unique propensity toward dislike is created by success in a nontraditional [“male-type”] work situation.⁴⁸

Table 1 summarizes how the most popular appraisal methods rate in addressing these problems.

Addressing Legal Issues in Appraisal

Performance appraisals affect raises, promotions, training opportunities, and other personnel actions. If the manager is inept or biased in making the appraisal, how can one defend the promotion decisions that stem from the appraisal? In one case, a 36-year-old supervisor ranked a 62-year-old subordinate at the bottom of the department’s rankings, and then terminated him. The U.S. Court of Appeals for the 10th Circuit determined that the discriminatory motives of the younger boss might have influenced the appraisal and termination.⁴⁹ The HR in Practice feature summarizes some steps to make appraisals legally defensible.

TABLE 1 Important Similarities, Differences, and Advantages and Disadvantages of Appraisal Tools

Tool	Similarities/Differences	Advantages	Disadvantages
Graphic rating scale	These scales both aim at measuring an employee’s <i>absolute</i> performance based on objective criteria as listed on the scales.	Simple to use; provides a quantitative rating for each employee.	Standards may be unclear; halo effect, central tendency, leniency, bias can also be problems.
BARS		Provides behavioral “anchors.” BARS is very accurate.	Difficult to develop.
Alternation ranking	These are both methods for judging the <i>relative</i> performance of employees relative to each other, but still based on objective criteria.	Simple to use (but not as simple as graphic rating scales); avoids central tendency and other problems of rating scales.	Can cause disagreements among employees and may be unfair if all employees <i>are</i> , in fact, excellent.
Forced distribution method		End up with a predetermined proportion of people in each group.	Appraisal results depend on the adequacy of your original choice of cutoff points (for top 10%, and so on).
Critical incident method	These are both subjective, narrative methods for appraising performance.	Helps clarify what exactly is “right” and “wrong” about the employee’s performance; forces supervisor to size up subordinates on an ongoing basis.	Difficult to rate or rank employees relative to one another.
MBO		Tied to Agreed-upon Performance Objectives.	Time consuming.

HR IN PRACTICE

Making Appraisals Legally Defensible

Steps to ensure your appraisals are legally defensible include:

- Base the performance appraisal criteria on a job analysis.
- At the start of the period, communicate performance standards to employees in writing.
- Base your appraisals on separate non-subjective evaluations of each performance dimension (such as quality, quantity, and gets along with others). Using a single “overall” rating of performance or ranking of employees is not acceptable to the courts.⁵⁰ Courts often characterize such systems as vague.
- Include an employee appeals process. Employees should have the opportunity to review and make comments, written or verbal, about their appraisals before they become final, and should have a formal appeals process through which to appeal their ratings.
- One appraiser should never have absolute authority to determine a personnel action.
- Document all information bearing on a personnel decision in writing. “Without exception, courts condemn informal performance evaluation practices that eschew documentation.”⁵¹
- Train supervisors to use the appraisal tools. If formal rater training is not possible, at least provide raters with written instructions on how to use the rating scale.⁵²

LEARNING OBJECTIVE 5

Explain how to conduct an appraisal feedback interview.

Handling the Appraisal Interview

A performance appraisal usually culminates in an appraisal interview. Here, you and your subordinate discuss the appraisal and formulate plans to remedy deficiencies and reinforce strengths. Few people like to receive or give negative feedback.⁵³ Adequate preparation and effective implementation are therefore essential.

PREPARING FOR THE APPRAISAL INTERVIEW Adequate preparation requires three things. First, give the subordinate about *a week’s notice* to review his or her work, and to compile questions and comments. Second, prior to the appraisal *compare the employee’s performance to his or her standards*, and review the person’s previous appraisals. Finally, find *a private area* for the interview. Set a mutually agreeable time for the interview and leave enough time—perhaps a half-hour for lower-level personnel such as clerical workers and an hour or so for management employees.

CONDUCTING THE INTERVIEW There are several things to remember when actually conducting appraisal interviews.

1. Remember that the interview’s main aim is to reinforce satisfactory performance or to diagnose and improve unsatisfactory performance. Therefore, be direct and specific. Talk in terms of objective work data, using examples such as quality records and tardiness.
2. Get agreement before the subordinate leaves on how things will improve and by when. An action plan showing steps and expected results is essential. If a formal written warning is required, it should identify the standards under which the employee is judged, make it clear that the employee was aware of the standard, specify any violation, and show that the employee had an opportunity to correct his or her behavior.
3. Ensure that the review process is fair. Letting the employee participate in the appraisal interview process by expressing his or her opinions is essential.⁵⁴
4. Be prepared to deal with defensiveness. For example, when a person is accused of poor performance, the first reaction is usually denial—a defense mechanism. Attacking the person’s defenses (for instance, “You know the real reason you’re using that excuse is that you can’t bear to be blamed for anything”) is usually counterproductive. One approach is to postpone action. For instance, give the person a few minutes to cool down after being informed of unsatisfactory performance. Then focus on performance (“sales are down”) rather than on the person (you’re being defensive”).



Building Your Communications Skills

Good interpersonal communication skills are essential when appraising employees' performance. People don't like giving or receiving negative feedback, and appraisals thus tend to be tense, unproductive affairs. Clear, unambiguous, effective, communication is vital. Therefore:

1. **Pay attention.** You are unlikely to create a common understanding if you don't listen attentively. Give the person your undivided attention.
2. **Make yourself clear.** For example, if you mean immediately, say "immediately," not "as soon as you can."
3. **Be an active listener.** Communication pioneer Carl Rogers says that active listeners don't just listen to what the speaker says; they also try to understand and respond to the feelings underlying the words. Suggestions include listen for total meaning (try to understand the feelings underlying what the person is saying), reflect feelings (for instance, by replying with something like "they're pushing you pretty hard, aren't they?"), and watch for all cues (not all communication is verbal; facial expressions and gestures reveal feelings, too).

LEARNING OBJECTIVE 6

Explain how to install a performance management program.



PERFORMANCE MANAGEMENT

Earlier in this chapter, we said that performance management is the continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning their performance with the organization's goals.⁵⁵ We look at performance management more closely in this section.

Performance Management Versus Performance Appraisal

In comparing performance management and performance appraisal, "the distinction is the contrast between a year-end event—the completion of the appraisal form—and a process that starts the year with performance planning and is integral to the way people are managed throughout the year."⁵⁶ Three main things distinguish performance management from performance appraisal.

1. First, performance management never means just meeting with a subordinate once or twice a year to "review your performance." It means *continuous, daily, or weekly* interactions and feedback to ensure continuous improvement.⁵⁷
2. Second, performance management is always *goal-directed*. The continuing performance reviews always involve comparing the employee's or team's performance against goals that specifically stem from and link to the company's strategic goals. *Strategic congruence* is crucial: each employee's goals should align with and support departmental and company goals.
3. Third, performance management means continuously re-evaluating and (if need be) *modifying how the employee and team get their work done*. Depending on the issue, this may mean additional training, changing work procedures, or instituting new incentive plans, for instance.

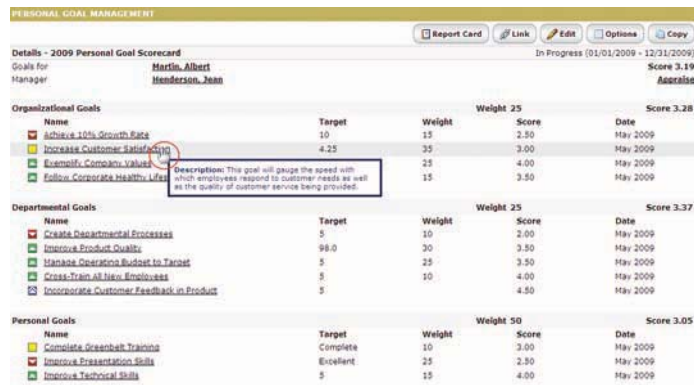
We can summarize performance management's six basic elements as follows:⁵⁸

- Direction sharing means communicating the company's goals throughout the company and then translating these into doable departmental, team, and individual goals.
- Goal alignment means having a method that enables managers and employees to see the link between the employees' goals and those of their department and company.
- Ongoing performance monitoring usually includes using computerized systems that measure and then e-mail progress and exception reports based on the person's progress toward meeting his or her performance goals.
- Ongoing feedback includes both face-to-face and computerized feedback regarding progress toward goals.
- Coaching and developmental support should be an integral part of the feedback process.
- Recognition and rewards provide the consequences needed to keep the employee's goal-directed performance on track.

FIGURE 11

Summary of Performance-Management Process Report

Source: Figure “Personal Goal Management” from the Active Strategy website. Copyright © 2012 by ActiveStrategy, Inc. Reprinted with permission. All rights reserved.



Using Information Technology to Support Performance Management

Performance management needn't be high-tech. For example, in many facilities, work teams simply meet daily to review their performance and to get their efforts and those of their members aligned with their performance standards and goals.

However, information technology enables management to automate performance management. The process is as follows:

- First, *assign financial and nonfinancial goals* to each team's activities so that these goals are supportive of the company's overall strategic goals. (For example, suppose an airline wants to reduce costs. It might measure ground crew aircraft turnaround time in terms of "improve turnaround time from an average of 30 minutes per plane to 26 minutes per plane this year.")
- *Inform all teams and employees* of their goals.
- *Use IT-supported tools* like online performance management software and digital dashboards to continuously display, monitor, and assess each team's and employee's performance. Special performance management software monitors and shows management a real-time view of each team's performance. Figure 11 presents an example of an online performance management report for an employee.
- Finally, if exceptions are noted, *take corrective action* before things swing out of control.

TALENT MANAGEMENT PRACTICES AND EMPLOYEE APPRAISAL

Talent management is the goal-oriented and integrated process of planning, recruiting, developing, appraising, and compensating employees. Five practices distinguish talent management. These include using *the same profile or list of skills and of competencies* for recruiting someone for the job as for selecting, training, appraising, and compensating that person, as well as *actively managing* how employees are recruited, selected, trained, appraised, and paid.

Appraising and Actively Managing Employees

Given this emphasis on actively managing the company's talent, talent management practitioners argue that the traditional way of appraising employees and allocating rewards is obsolete. Perhaps with the exception of selected "fast-track" employees, managers tend to allocate rewards (such as compensation and development opportunities) either across-the-board or based on the employee's appraisal ratings (or both). They don't "actively manage" the process.

It is preferable, talent management practitioners would argue, to focus management's attention and resources on the company's mission-critical employees, those who are critical to the firm's strategic needs. For example, is an employer actively managing its employees if it gives the same percentage pay raise to every employee who rates "excellent," regardless of how important that employee is to the company's future success?

LEARNING OBJECTIVE 7

Illustrate examples of segmenting and actively managing a company's talent.



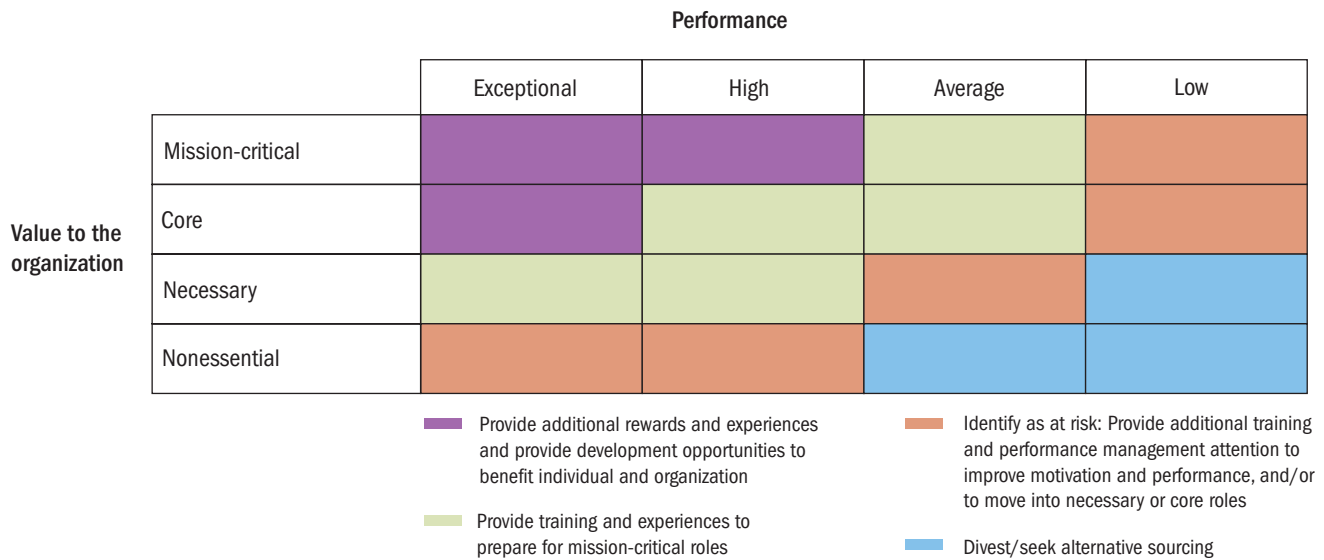


FIGURE 12
Accenture’s Strategic Role Assessment Matrix

Source: “The New Talent Equation” from *Outlook*, June 2009. Copyright © 2009 by Accenture. Reprinted by permission. All rights reserved.

Increasingly, employers say no. They do use performance appraisal to evaluate how their employees are performing. However, they also segment their employees based on how critical the employees are to the company’s success. They focus more attention and resources on the company’s “mission-critical” employees.

HOW TO SEGMENT EMPLOYEES Figure 12 illustrates this. Accenture uses a 4 × 4 strategic role assessment matrix to plot employees by *Performance* (exceptional, high, medium, low) and *Value to the Organization* (mission-critical, core, necessary, nonessential). As an example, consider a chemical engineering company that designs pollution control equipment. Here, the firm’s experienced engineers may be “mission-critical,” engineer-trainees “core,” sales, accounting, (and HR) “necessary,” and peripheral, outsource-able employees such as those in maintenance “nonessential.” The company would then tie pay, development, dismissal, and other personnel decisions to each employee’s position in the matrix, not just to their performance ratings.

Segmenting and Actively Managing Employees in Practice

Several examples can illustrate how employers implement this active-management segmented approach in practice.

- Compass Group PLC identifies top performers. Then Compass assesses them for promotability, promotability time frame, and leadership potential. Top employees then get special coaching and feedback, and development opportunities. Compass monitors their progress. GE prioritizes jobs and focuses on what it calls its employee, “game changers.”⁵⁹
- Tesco PLC segments employees according to personal and professional goals to better communicate and motivate its employees.⁶⁰
- McKinsey & Co. recommends limiting the “high potential group in whom the company invests heavily to no more than 10 to 20% of managerial and professional staff.”⁶¹
- Unilever includes 15% of employees per management level in its high potential list each year, and expects these people to move to the next management level within five years.⁶²
- Shell China appoints “career stewards” to meet regularly with “emerging leaders.” They help them set realistic career expectations, and make sure they’re getting the right development opportunities.⁶³

Review

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SUMMARY

1. Performance appraisal means evaluating an employee's current or past performance relative to his or her performance standards. Performance management is the process through which companies ensure that employees are working toward organizational goals, and includes defining goals, developing skills, appraising performance, and rewarding the employee.
2. Managers appraise their subordinates' performance to obtain input on which promotion and salary raise decisions can be made, to develop plans for correcting performance deficiencies, and for career planning purposes. Supervisory ratings are still at the heart of most appraisal processes.
3. The appraisal is generally conducted using one or more popular appraisal methods or tools. These include graphic rating scales, alternation ranking, paired comparison, forced distribution, critical incidents, behaviorally anchored rating scales, MBO, computerized performance appraisals, and electronic performance monitoring.
4. An appraisal typically culminates in an appraisal interview. Adequate preparation, including giving the subordinate notice, reviewing his or her job description and past performance, choosing the right place for the interview, and leaving enough time for it, is essential. In conducting the interview, the aim is to reinforce satisfactory performance or to diagnose and improve unsatisfactory performance. A concrete analysis of objective work data and development of an action plan are therefore advisable. Employee defensiveness is normal and needs to be dealt with.
5. The appraisal process can be improved, first, by eliminating chronic problems that often undermine appraisals and graphic rating scales in particular. These common problems include unclear standards, halo effect, central tendency, leniency or strictness, and bias.
6. Care should also be taken to ensure that the performance appraisal is legally defensible. For example, appraisal criteria should be based on documented job analyses, employees should receive performance standards in writing, and multiple performance dimensions should be rated.
7. Performance management is a *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's *goals*. Unlike performance appraisal, performance management never just means meeting with a subordinate once or twice a year to "review your performance." It means *continuous, daily, or weekly* interactions and feedback to ensure continuous improvement in the employee's and team's capacity and performance.
8. At its core, talent management means actively managing decisions like these. In today's competitive environment, the traditional HR practice of allocating pay raises, development opportunities, and other scarce resources more-or-less across the board or based only on performance is no longer viable. Employers need to focus their attention and resources on their company's mission-critical employees, those who are critical to the firm's strategic needs.

KEY TERMS

performance appraisal
performance management

360-degree feedback

DISCUSSION QUESTIONS

1. Answer the question, "Who should do the appraising?"
- ★ 2. Discuss the pros and cons of at least eight performance appraisal methods.
3. Explain how to conduct an appraisal feedback interview.
4. Give examples of five potential appraisal problems.
5. Explain how to install a performance management program.
6. Illustrate examples of segmenting and actively managing a company's talent.
7. Explain how you would use the alternation ranking method, the paired comparison method, and the forced distribution method.
- ★ 8. Discuss the pros and cons of using various potential raters to appraise an employee's performance.

INDIVIDUAL AND GROUP ACTIVITIES

1. Working individually or in groups, develop a graphic rating scale for the following jobs: secretary, professor, directory assistance operator.
2. Working individually or in groups, describe the advantages and disadvantages of using the forced distribution appraisal method for college professors.
3. Working individually or in groups, develop, over the period of a week, a set of critical incidents covering the classroom performance of one of your instructors.
4. Working individually or in groups, evaluate the rating scale in Figure 4. Discuss ways to improve it.
5. Create an Accenture-type grid for your place of work or college, showing how you would segment employees into four groups.

APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Appraising the Secretaries at Sweetwater U

Rob Winchester, newly appointed vice president for administrative affairs at Sweetwater State University, faced a tough problem shortly after his university career began. Three weeks after he came on board in September, Sweetwater's president, Rob's boss, told Rob that one of his first tasks was to improve the appraisal system used to evaluate secretarial and clerical performance at Sweetwater U. Apparently the main difficulty was that the performance appraisal was traditionally tied directly to salary increases given at the end of the year. So most administrators were less than accurate when they used the graphic rating forms that were the basis of the clerical staff evaluation. In fact, what usually happened was that each administrator simply rated his or her clerk or secretary as "excellent." This cleared the way for all support staff to receive a maximum pay increase every year.

But the current university budget simply did not include enough money to fund another "maximum" annual increase for every staffer. Furthermore, Sweetwater's president felt that the custom of providing invalid feedback to each secretary on his or her year's performance was not productive, so he had asked the new vice president to revise the system. In October, Rob sent a memo to all administrators telling them that in the future no more than half the secretaries reporting to any particular administrator could be appraised as "excellent." This move, in effect, forced each supervisor to begin ranking his or her secretaries for quality of performance. The vice president's memo met widespread resistance immediately—from administrators, who were afraid that many of their secretaries would begin leaving for more lucrative jobs in private industry; and from secretaries, who felt that the new system was unfair and reduced each secretary's chance of receiving a maximum salary increase. A handful of secretaries had begun quietly picketing outside the president's home on the university campus. The picketing, caustic remarks by disgruntled administrators, and rumors of an impending slowdown by the secretaries (there were about 250 on campus) made Rob Winchester wonder whether he had made the right decision by setting up forced ranking. He knew, however, that there were a few performance appraisal experts in the School of Business, so he decided to set up an appointment with them to discuss the matter.

He met with them the next morning. He explained the situation as he had found it: The present appraisal system had been set up when the university first opened 10 years earlier, and the appraisal form had been developed primarily by a committee of secretaries. Under that system, Sweetwater's administrators filled out forms similar to the one shown in Figure 10. This once-a-year appraisal (in March) had run into problems almost immediately, since it was apparent from the start that administrators varied widely in their interpretations of job standards, as well as in how conscientiously they filled out the forms and supervised their secretaries. Moreover, at the end of the first year it became obvious to everyone that each secretary's salary increase was tied directly to the March appraisal. For example, those rated "excellent" received the maximum increases, those rated "good" received smaller increases, and those given neither rating received only the standard across-the-board, cost-of-living increase. Since universities in general—and Sweetwater in particular—have paid secretaries somewhat lower salaries than those prevailing in private industry, some secretaries left in a huff that first year. From that time on, most administrators simply rated all secretaries excellent in order to reduce staff turnover, thus ensuring each a maximum increase. In the process, they also avoided the hard feelings aroused by the significant performance differences otherwise highlighted by administrators.

Two Sweetwater School of Business experts agreed to consider the problem, and in two weeks they came back to the vice president with the following recommendations. First, the form used to rate the secretaries was grossly insufficient. It was unclear what "excellent" or "quality of work" meant, for example. They recommended instead a form like that in Figure 4. In addition, they recommended that the vice president rescind his earlier memo and no longer attempt to force university administrators to arbitrarily rate at least half their secretaries as something less than excellent. The two consultants pointed out that this was, in fact, an unfair procedure since it was quite possible that any particular administrator might have staffers who were all or virtually all excellent—or conceivably, although less likely, all below standard. The experts said that the way to get all the administrators to take the appraisal

process more seriously was to stop tying it to salary increases. In other words, they recommended that every administrator fill out a form like that in Figure 4 for each secretary at least once a year and then use this form as the basis of a counseling session. Salary increases would have to be made on some basis other than the performance appraisal, so that administrators would no longer hesitate to fill out the rating forms honestly.

Rob thanked the two experts and went back to his office to ponder their recommendations. Some of the recommendations (such as substituting the new rating form for the old) seemed to make sense. Nevertheless, he still had serious doubts as to the efficacy of any graphic rating form, particularly if he were to decide in favor of his original forced ranking approach. The experts' second recommendation—to stop tying the appraisals to automatic salary increases—made sense but raised at least one very practical problem: If salary increases were not to be based on performance

appraisals, on what were they to be based? He began wondering whether the experts' recommendations weren't simply based on ivory tower theorizing.

Questions

1. Do you think that the experts' recommendations will be sufficient to get most of the administrators to fill out the rating forms properly? Why or why not? What additional actions (if any) do you think will be necessary?
2. Do you think that Vice President Winchester would be better off dropping graphic rating forms, substituting instead one of the other techniques discussed in this chapter, such as a ranking method? Why?
3. What performance appraisal system would you develop for the secretaries if you were Rob Winchester? Defend your answer.

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company: The Performance Appraisal

After spending several weeks on the job, Jennifer was surprised to discover that her father had not formally evaluated any employee's performance for all the years that he had owned the business. Jack's position was that he had "a hundred higher-priority things to attend to," such as boosting sales and lowering costs, and, in any case, many employees didn't stick around long enough to be appraised anyway. Furthermore, contended Jack, manual workers such as those doing the pressing and the cleaning did periodically get positive feedback in terms of praise from Jack for a job well done, or criticism, also from Jack, if things did not look right during one of his swings through the stores. Similarly, Jack was never shy about telling his managers about store problems so that they, too, got some feedback on where they stood.

This informal feedback notwithstanding, Jennifer believes that a more formal appraisal approach is required. She believes that there are criteria such as quality, quantity, attendance, and punctuality that should be evaluated periodically even if a worker is paid based on how much he or she produces. Furthermore, she feels quite strongly that the managers need to have a list of quality standards for matters such as store cleanliness, efficiency, safety, and adherence to budget on which they know they are to be formally evaluated.

Questions

1. Is Jennifer right about the need to evaluate the workers formally? The managers? Why or why not?
2. Develop a performance appraisal method for the workers and managers in each store.

EXPERIENTIAL EXERCISE

Setting Goals for and Appraising an Instructor

Purpose: The purpose of this exercise is to give you practice in developing and using a performance appraisal form.

Required Understanding: You are going to develop a performance appraisal form for an instructor and should therefore be thoroughly familiar with the discussion of performance appraisals in this chapter.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students.

1. First, based on what you now know about performance appraisals, do you think Figure 1 is an effective scale for appraising instructors? Why or why not?
2. Next, your group should develop its own tool for appraising the performance of an instructor. Decide which of the appraisal tools (graphic rating scales, alternation ranking, and so on) you are going to use, and then design the instrument itself. Apply what you learned in this chapter about goal-setting to provide the instructor with practical goals.
3. Next, have a spokesperson from each group put his or her group's appraisal tool on the board. How similar are the tools? Do they all measure about the same factors? Which factor appears most often? Which do you think is the most effective tool on the board? Can you think of any way of combining the best points of several of the tools into a new performance appraisal tool?

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Explain the purpose of performance appraisal.
2. Compare and contrast performance appraisal and performance management, using specific examples.
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

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Managing Employee Retention, Engagement, and Careers

OVERVIEW:
In this chapter,
we will cover . . .

MANAGING EMPLOYEE TURNOVER AND RETENTION
EMPLOYEE ENGAGEMENT
CAREER MANAGEMENT
IMPROVING COACHING SKILLS
MAKING PROMOTION DECISIONS
MANAGING DISMISSALS

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Source: Sean Gallup/Getty Images

KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Describe a comprehensive approach to retaining employees.
2. Explain why employee engagement is important, and how to foster such engagement.
3. Discuss what employers and supervisors can do to support employees' career development needs.
4. List and discuss the four steps in effectively coaching an employee.
5. List the main decisions employers should address in reaching promotion decisions.
6. Explain the factors you would consider when dismissing an employee.

INTRODUCTION

IBM recently marked its 100th year.¹ Few companies last that long. IBM did by adapting to customers' needs. Now IBM faces a new threat. Technology is changing so fast that IBM will soon need employees with very different skills than its workforce has now. How should it build that new workforce and retain the employees it needs?

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MANAGING EMPLOYEE RETENTION AND TURNOVER

Turnover—the rate at which employees leave a firm—varies widely. For example, in the hotel and food services industry, about half the employees leave voluntarily each year. In contrast, voluntary turnover in education is about 12%.²

And that reflects only employees who leave voluntarily, such as for better jobs. It doesn't include *involuntary* separations, such as for poor performance.³ Combining voluntary and involuntary turnover produces some astounding statistics. For example, the turnover in many restaurants is around 100% per year. Many need to replace just about all their employees every year! The costs of such turnover are high, as the accompanying HR as a Profit Center feature illustrates.⁴

HR AS A PROFIT CENTER

Costs of Turnover

A research team analyzed the tangible and intangible costs of turnover in a call center with 31 agents and 4 supervisors.⁵ Tangible costs of an agent's leaving included, for instance, the costs of recruiting, screening, interviewing, and testing applicants, as well as the cost of wages while the new agent was oriented and trained. Intangible costs included the cost of lost productivity for the new agent (who is less productive at first than his or her predecessor), the cost of rework for errors the new agent makes, and the supervisory cost for coaching the new agent. The researchers estimated the cost of an agent leaving at about \$21,500. This call center averaged 18.6 vacancies per year (about a 60% turnover rate). Therefore, the researchers estimated the total annual cost of agent turnover at \$400,853. Taking steps to cut this turnover rate in, say, half could save this firm about \$200,000 per year.

Managing Voluntary Turnover

Managing voluntary turnover requires identifying its causes and then addressing them. Unfortunately, identifying why employees voluntarily leave is easier said than done. People who are dissatisfied with their jobs are more likely to leave, but the sources of dissatisfaction are many and varied.

Figure 1 illustrates this.⁶ The consultants collected survey data from 262 U.S. organizations having a minimum of 1,000 employees. In this survey, the five top reasons high-commitment/top-performing employees gave for leaving (ranked from high to low) were pay, promotional opportunities, work–life balance, career development, and health care benefits. Other reasons employees voluntarily leave include unfairness, not having their voices heard, and a lack of recognition.⁷ (Sometimes just asking, “All things considered, how satisfied are you with your job?” is as effective as surveying employees’ attitudes toward multiple facets of the job, such as supervision and pay).⁸ Practical considerations also affect turnover. For example, high unemployment reduces voluntary turnover, and some locales have fewer job opportunities (and thus turnover) than do others.

Turnover isn't always bad. For example, losing low-performing employees isn't as problematic as losing high-performing ones. Some firms, such as the restaurant chain Applebee's, even incentivize their managers differentially, with higher incentives for reducing turnover among top-performing employees.⁹

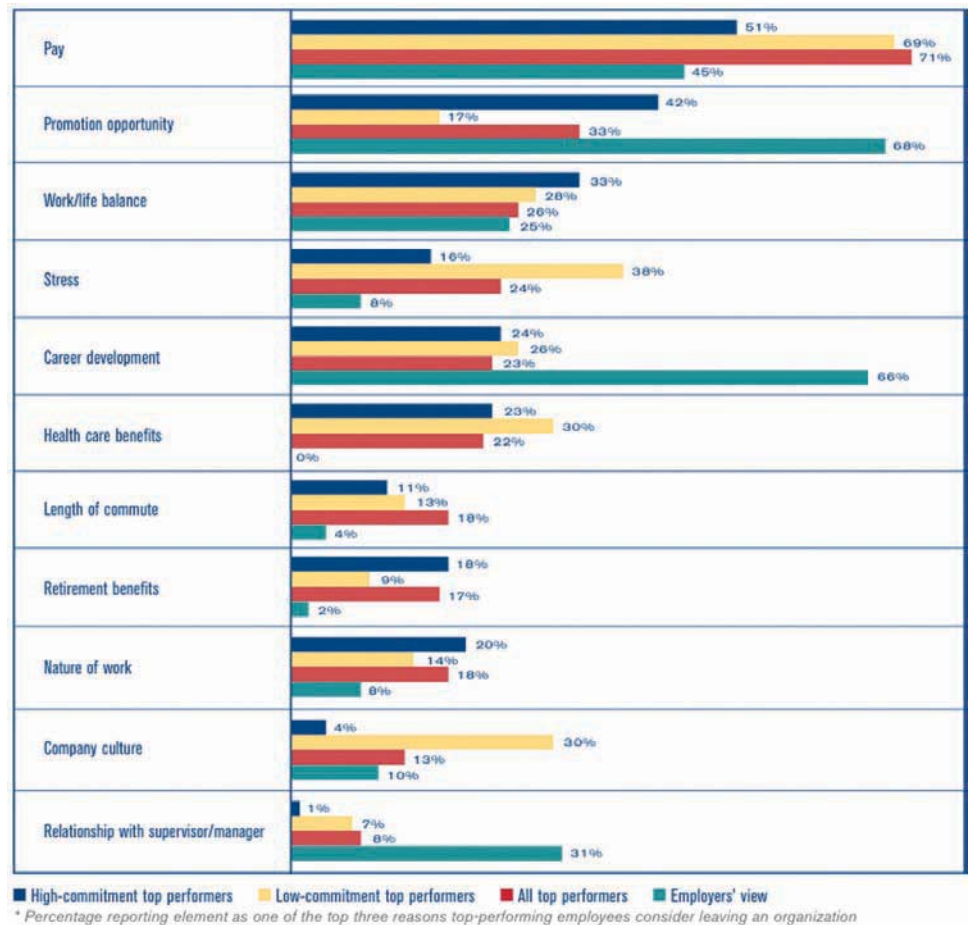


Retention Strategies for Reducing Voluntary Turnover

In any case, given the variety of things prompting employees to leave voluntarily, what can one do to manage retention? There is no silver bullet. The manager should understand that retaining employees is a talent management issue, and that the best retention strategies are therefore multifunctional. For example, employees who aren't interested in their jobs, sense that they're not suited for their jobs, or who feel undercompensated are more likely to leave. Employers can address such issues only by instituting effective and comprehensive talent management practices. Put another way, turnovers (both voluntary and involuntary) often start with poor selection

FIGURE 1
Reasons Top-Performing Employees Leave an Organization

Source: Figure from “Aligning Rewards With the Changing Employment Deal” from *Strategic Rewards Report*, 2006-2007. Copyright © 2006 by Watson Wyatt Worldwide. Reprinted with permission of Towers Watson. All rights reserved.



decisions, compounded by inadequate training, insensitive appraisals, and inequitable pay. Therefore trying to formulate a “retention strategy” without considering all of one’s HR practices is generally futile.¹⁰

LEARNING OBJECTIVE 1

Describe a comprehensive approach to retaining employees.

A Comprehensive Approach to Retaining Employees

However, research findings plus survey results and insights from practitioners such as consultants Development Dimensions International (DDI) and Robert Half International do provide insights into the building blocks of a comprehensive retention program.

IDENTIFY MAGNITUDE OF THE PROBLEM AND THE ISSUES The logical place to start is by periodically tracking the number of employees—and particularly top performers and high potentials—who leave the company.¹¹ Then, identify the issues. Exit interviews can provide useful insights into potential turnover problems. Many employers administer attitude surveys to monitor employees’ feelings about matters such as supervision and pay. Open-door policies and anonymous “hotlines” help management identify and remedy morale problems before they get out of hand. Sometimes, analyzing the situation leads to simple solutions. For example, Walmart discovered it could significantly reduce turnover by providing aggressively realistic previews about the job’s demands and work hours. Having identified potential problems, the employer can then take steps like the following to boost employee retention.

COMPENSATION The most obvious explanation for why employees quit is often also the correct one: low pay. Particularly for high performers and key employees, enhanced pay has recently been the retention tool of choice for many employers.¹²

SELECTION However, employees don’t just leave for better pay. For example, people who are unsuited for their jobs or who work for abusive supervisors are more likely to leave. Therefore, “retention starts up front, in the selection and hiring of the right employees.”¹³ Selection refers

not just to the worker but also to choosing and monitoring supervisors. For example, FedEx conducts periodic employee attitude surveys to get a continuing sense for how its supervisors are performing.

PROFESSIONAL GROWTH Inadequate career prospects and professional development prompt many employees to leave. Conversely, a training and career development program can provide a strong incentive for staying. One expert says, “professionals who feel their company cares about their development and progress are much more likely to stay.”¹⁴ The accompanying Strategic Context feature illustrates this.

CAREER DIRECTION Periodically discuss with employees their career preferences and prospects at your firm, and help them lay out potential career paths. Furthermore, “don’t wait until performance reviews to remind top employees how valuable they are to your company.”¹⁵ We address career development later in the chapter.

MEANINGFUL EXPECTATIONS People can’t do their jobs if they don’t know what to do or what their goals are. Therefore, an important part of retaining employees is clarifying what your expectations are regarding their performance.

RECOGNITION In addition to pay and benefits, employees need and appreciate recognition for a job well done.

CULTURE AND ENVIRONMENT For example, companies that are tense and “political” may prompt employees to leave, while companies that make them feel comfortable encourage them to stay.

WORK-LIFE BALANCE In one survey conducted by Robert Half and CareerBuilder.com, workers identified “flexible work arrangements” and “telecommuting” as the two top benefits that would encourage them to choose one job or another.¹⁶

HIGH-PERFORMANCE WORK SYSTEM PRACTICES High-performance/involvement type practices seem to reduce employee retention. One study focused on call-center employees. Employers that made greater use of high-involvement work practices (for instance, employee discretion, problem-solving groups, and self-directed teams) had significantly lower rates of quits, dismissals, and total turnover. So did those that “invested” more in employees (for instance, in terms of promotion opportunities, high relative pay, pensions, and full-time jobs).¹⁷ Conversely, performance pressures (such as intensive performance monitoring) related to significantly higher turnover rates.¹⁸

USE ANALYTICS Evidence-based management is important in controlling employee turnover. At Nationwide Mutual Insurance Co., for instance, managers receive monthly “scorecards” that include turnover data. Alliant Techsystems Inc. uses business analytics to sift through employee data in order to calculate, in terms of a “flight-risk model,” the likelihood that any particular employee will leave.¹⁹

THE STRATEGIC CONTEXT

IBM’s New Workforce

Technological change is occurring so fast that IBM will soon need a workforce with much different skills than its workforce has now. IBM could merely size up its employees periodically and let go those who don’t measure up. Instead, IBM chose to put in place an *on-demand staffing strategy*. This aims to ensure that its current employees get the training and coaching they need to play roles in IBM’s future.²⁰ To do this, IBM budgeted \$700 million per year to identify needed skills, spot gaps for skills that are in short supply, and train and assess its executives, managers, and rank-and-file employees. IBM’s on-demand staffing effort does two things. It *supports IBM’s strategy*, which depends on being able to offer the fast-evolving technological services its customers need, at once, on demand. The staffing program also *improves employee retention*. It does this by minimizing the layoffs and resignations that might occur if employees’ skills were inconsistent with IBM’s needs.

As the text explains, voluntary turnover is just one way that employees withdraw. Withdrawal in general means separating oneself from one's current situation, and at work may manifest itself in daydreaming, lack of attention to one's job, or other counterproductive behaviors.

Source: Yuri Arcurs/Fotolia



Talent Management Approach to Employee Retention

All employees are important, but talent management-oriented employers put special emphasis on retaining their most critical employees. For example, Accenture uses a 4×4 strategic role assessment matrix. It plots employees by performance and by value to Accenture. Accenture then ties pay, development, dismissal, and other personnel decisions to each employee's position in the matrix. Shell China "career stewards" meet regularly with its "emerging leaders." Novartis China assesses the attitudes of its most mission-critical employees. The point is that taking a talent management approach to retaining employees suggests focusing augmented retention efforts on the company's most important employees.

Job Withdrawal

Unfortunately, voluntary turnover is just one way that employees withdraw. Withdrawal in general means separating oneself from one's current situation—it's often a means of escape for someone who is dissatisfied or fearful. At work, *job withdrawal* refers to "actions intended to place physical or psychological distance between employees and their work environments."²¹

Poor attendance and voluntary turnover are two ways employees withdraw. Other types of job withdrawal can be less obvious if no less corrosive. Some examples include "taking undeserved work breaks, spending time in idle conversation and neglecting aspects of the job one is obligated to perform."²² Other employees stop "showing up" mentally ("psychological withdrawal"), perhaps daydreaming at their desks while productivity suffers.²³ The employee is there, but mentally absent. In fact, the *job withdrawal process* tends to be incremental, often evolving from daydreaming to absences to quitting: "When an employee perceives that temporary withdrawal will not resolve his/her problems, then the employee is apt to choose a more permanent form of withdrawal," such as turnover.²⁴

DEALING WITH JOB WITHDRAWAL²⁵ Because many people have experienced the desire to "get away," it's usually not difficult to empathize with those who feel they must escape. People tend to move toward situations that make them feel good, and away from those that make them feel bad. More technically, "negative emotional states make people aware that their current situation is problematic, and this awareness motivates them to take action."²⁶ People are repelled by situations that produce unpleasant, uncomfortable emotions, and are attracted to those that produce pleasant, comfortable ones.²⁷ The point is that the more negative (or less positive) the person's mood about a situation, the more likely he or she will try to avoid or withdraw from the situation.²⁸

The manager can therefore think of withdrawal-reducing strategies in terms of reducing the job’s negative effects and/or raising its positive effects. Because potential negatives and positives are virtually limitless, addressing withdrawal again requires a comprehensive human resource management approach. Illustrative potential negatives include, for instance, boring jobs, poor supervision, low pay, bullying, lack of career prospects, and poor working conditions. Potential positives include job enrichment, supportive supervision, equitable pay/family-friendly benefits, disciplinary/appeals processes, career development opportunities, safe and healthy working conditions, and high-morale colleagues.²⁹ Interviews, surveys, and observation can help identify issues to address.

LEARNING OBJECTIVE 2

Explain why employee engagement is important, and how to foster such engagement.

EMPLOYEE ENGAGEMENT

Poor attendance, voluntary turnover, and psychological withdrawal often also reflect diminished employee engagement. *Engagement* refers to being psychologically involved in, connected to, and committed to getting one’s jobs done. Engaged employees “experience a high level of connectivity with their work tasks,” and therefore work hard to accomplish their task related goals.³⁰

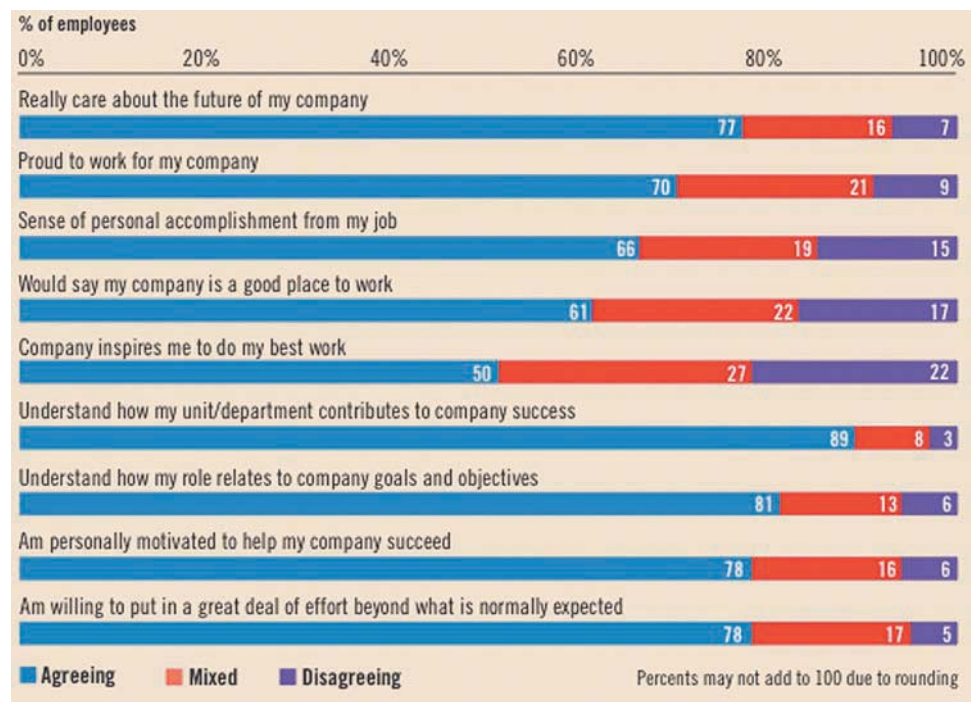
Employee engagement is important because many employee behaviors, including turnover, reflect how engaged employees are. For example, based on Gallup surveys, business units with the highest levels of employee engagement have an 83% chance of performing above the company median; those with the lowest employee engagement have only a 17% chance.³¹ A survey by consultants Watson Wyatt Worldwide concluded that companies with highly engaged employees have 26% higher revenue per employee.³² The director of recruiting at the nonprofit Fair Trade USA believes boosting engagement helps explain the firm’s subsequent 10% drop in turnover. A recent *Harvard Business Review* article notes that for optimal customer service, satisfied employees aren’t enough. Instead, “Employees should be engaged by providing them with reasons and methods to satisfy customers and then rewarded for appropriate behavior.”³³ Yet studies conclude that only about 21% of the global workforce is engaged; almost 40% is disengaged.³⁴

How to Foster Engagement

Survey findings from consultants Towers Perrin illustrate the sorts of practical managerial actions that can foster employee engagement. Figure 2 summarizes these findings.³⁵ Engagement-supporting actions include making sure employees (1) understand how their departments contribute to the company’s success, (2) see how their own efforts contribute to achieving the

FIGURE 2
Employer Actions That Make Employees Feel More Engaged

Source: “Working Today: Understanding What Drives Employee Engagement,” from *The 2003 Towers Perrin Talent Report*. Copyright © Towers Perrin. Reprinted with permission of Tower Watson.



company's goals, and (3) get a sense of accomplishment from working at the firm. Employers should also hold managers responsible for employee engagement. For example, WD-40 Company conducts periodic opinion surveys containing engagement measures. Supervisors then meet with their employees to discuss how to improve the results.³⁶

Monitoring Employee Engagement

Beyond surveys like that in Figure 2, monitoring employee engagement needn't be complicated. With about 180,000 employees worldwide, the consulting firm Accenture uses a three-part "shorthand" method it calls "say, stay, and strive." First, Accenture assesses how positively the employee speaks about the company and recommends it to others. Second, it looks at who stays with the company, and why. Third, it looks at "strive." For instance, "do employees take an active role in the overall success of the organization by moving beyond just doing tasks to going above and beyond?"³⁷

Some employers, such as Starwood Hotels, also measure engagement's consequences. Relevant outcome measures here might include customer satisfaction, financial results, absenteeism, safety, sales, turnover, and profitability.³⁸

LEARNING OBJECTIVE 3

Discuss what employers and supervisors can do to support employees' career development needs.



career

The occupational positions a person has had over many years.

career management

The process for enabling employees to better understand and develop their career skills and interests, and to use these skills and interests more effectively.

career development

The lifelong series of activities that contribute to a person's career exploration, establishment, success, and fulfillment.

career planning

The deliberate process through which someone becomes aware of personal skills, interests, knowledge, motivations, and other characteristics and establishes action plans to attain specific goals.

CAREER MANAGEMENT

We've seen that it takes more than money to retain and engage employees. A fulfilling and successful career is another magnet. For example, one survey found that employers offered both money and career development to retain and engage the right talent.³⁹ One observer similarly says that "rather than focusing on incentives and perks to entice and retain employees, organizations . . . will offer them a range of professional experiences, broad functional and geographic exposure within the organization, and more targeted leadership opportunities."⁴⁰

Employers, not just employees, therefore benefit from offering career development support. Employees armed with better insights about their occupational strengths should be better equipped to serve the company.⁴¹ Career development may also boost employee engagement and support the employer's retention efforts.⁴²

Careers Terminology

We may define **career** as the occupational positions a person holds over the years. **Career management** is a process for enabling employees to better understand and develop their career skills and interests and to use these skills and interests most effectively both within the company and after they leave the firm. **Career development** is the lifelong series of activities (such as workshops) that contribute to a person's career exploration, establishment, success, and fulfillment. **Career planning** is the deliberate process through which someone becomes aware of personal skills, interests, knowledge, motivations, and other characteristics; acquires information about opportunities and choices; identifies career-related goals; and establishes action plans to attain specific goals.

The employee's manager and employer should play roles in guiding and developing the employee's career. However, the employee must always accept full responsibility for his or her own career development and career success.

Careers Today

People once viewed careers as a sort of upward stairway from job to job, more often than not with one or at most a few firms. Today, recessions, mergers, outsourcing, consolidations, and more or less endless downsizings have changed the rules. Many people do still move up. But more often employees find themselves having to reinvent themselves. For example, the sales rep, laid off by a publishing firm that's just merged, may reinvent herself as an account executive at a media-oriented advertising firm.⁴³

Careers today differ in other ways from a few years ago. With more women pursuing professional and managerial careers, families must balance the challenges associated with dual career pressures. At the same time, what people want from their careers is changing. Baby boomers—those retiring in the next few years—tended to be job- and employer-focused. People entering the job market now often value more opportunities for balanced work–family lives.

Psychological Contract

One implication is that what employers and employees expect from each other is changing. What the employer and employee expect of each other is part of what psychologists call a *psychological contract*. This is “an unwritten agreement that exists between employers and employees.”⁴⁴ The psychological contract identifies each party’s mutual expectations. For example, the unstated agreement is that management will treat employees fairly and provide satisfactory work conditions, hopefully in a long-term relationship. Employees are expected to respond “by demonstrating a good attitude, following directions, and showing loyalty to the organization.”⁴⁵

But with today’s tumultuous labor markets, neither the employer nor the employee can count on long-term commitments. That fact undercuts the traditional psychological contract, and makes career management even more critical for the employee.

The Employee’s Role in Career Management

Although the employer and manager have roles in guiding employees’ careers, no employee should ever abandon this task to others. For the employee, career planning means matching individual strengths and weaknesses with occupational opportunities and threats. In other words, the person wants to pursue occupations, jobs, and a career that capitalize on his or her interests, aptitudes, values, and skills. He or she also wants to choose occupations, jobs, and a career that make sense in terms of projected future demand for various occupations. Ideally, he or she should create in his or her mind an ideal future “self” to strive for.⁴⁶ The consequences of a bad choice are too severe to leave to others.

There are various steps one can take. As one example, career-counseling expert John Holland says that personality (including values, motives, and needs) is one career choice determinant. For example, a person with a strong social orientation might be attracted to careers that entail interpersonal rather than intellectual or physical activities and to occupations such as social work. Holland found six basic personality types or orientations. Individuals can use his Self-Directed Search (SDS) test (available online at www.self-directed-search.com) to assess their occupational orientations and preferred occupations.

The SDS has an excellent reputation, but the career seeker needs to be wary of some of the other online career assessment sites. One study of 24 no-cost online career assessment websites concluded that they were easy to use, but suffered from insufficient validation and confidentiality. However, a number of online career assessment instruments such as Career Key (www.careerkey.org) do reportedly provide validated and useful information.⁴⁷ O*Net offers a free comprehensive online “My Next Move” occupations and career assessment system (www.onetcenter.org/mynextmove.html). You will find other examples at Workday.com, and in the following exercises.

EXERCISE 1 One useful exercise for identifying occupational skills is to head a page “The School or Occupational Tasks I Was Best At.” Then write a short essay describing the tasks. Provide as much detail as you can about your duties and responsibilities, and what you found enjoyable about each task. (It’s not necessarily the most enjoyable *job* you’ve had, but the most enjoyable *task* you’ve had to perform within your jobs.) Next, do the same for two other tasks you’ve had. Now scrutinize the three essays. Underline the skills that you mentioned the most often. For example, did you especially enjoy the hours you spent in the library doing research when you worked one summer as an office clerk?⁴⁸

EXERCISE 2 Another exercise can prove enlightening. On a page, answer the question: “If you could have any kind of job, what would it be?” Invent your own job if need be. Don’t worry about what you can do—just what you want to do.⁴⁹

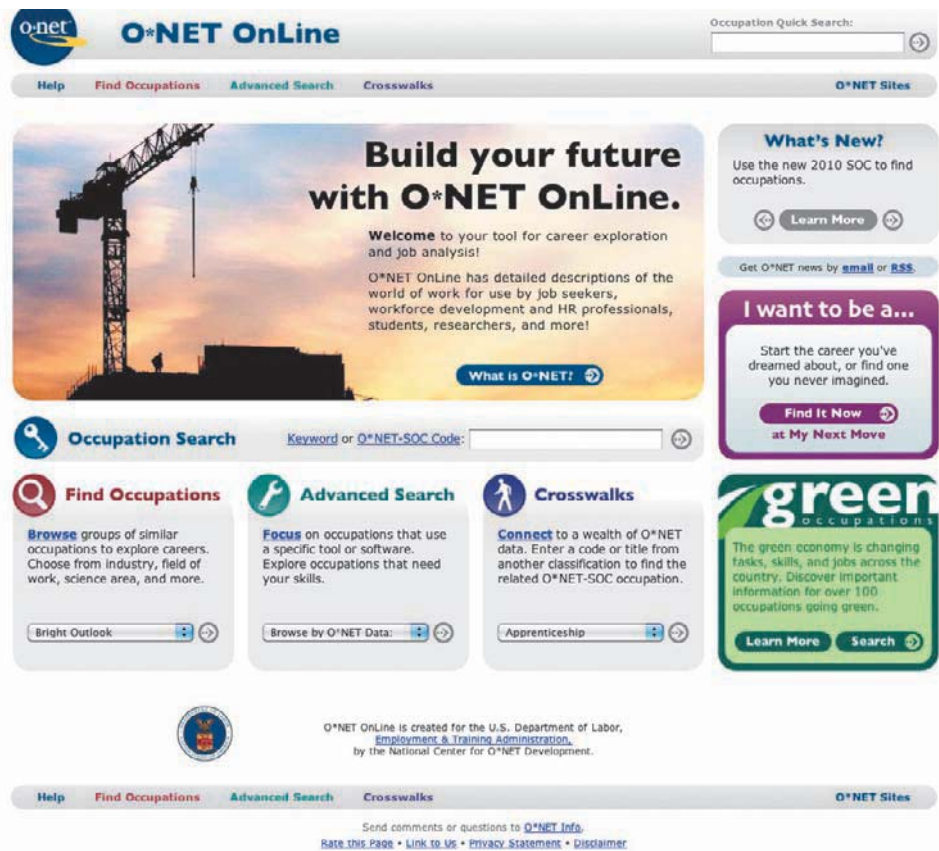
The Employer’s Role in Career Management

The employer’s career development tasks depend partly on how long the employee has been with the firm. For example, *before hiring*, realistic job interviews can help prospective employees more accurately gauge whether the job is a good fit for them.

Especially for recent college graduates, *the first job* can be crucial for building confidence and a more realistic picture of what he or she can and cannot do: Providing challenging first jobs

O*Net offers a free comprehensive online “My Next Move” occupations and career assessment system for building your future career (www.onetcenter.org/mynextmove.html).

Source: Screenshot of O*Net website. <http://www.onetonline.org/>



reality shock

Results of a period that may occur at the initial career entry when the new employee’s high job expectations confront the reality of a boring or otherwise unattractive work situation.

(rather than relegating new employees to “jobs where they can’t do any harm”) and having an experienced mentor who can help the person learn the ropes are important. Some refer to this as preventing **reality shock**, a phenomenon that occurs when a new employee’s high expectations and enthusiasm confront the reality of a boring, unchallenging job.

After the person has been *on the job* for a while, career-oriented appraisals—in which the manager is trained not just to appraise the employee but also to match the person’s strengths and weaknesses with a feasible career path and required development work—is important. Similarly, providing periodic job rotation can help the person develop a more realistic picture of what he or she is good at, and thus the career moves that might be best.

Career Management Options

Most employers do not provide a wide range of expensive career development options. However, career development systems needn’t be expensive. Even just receiving performance feedback from supervisors, having individual development plans, and having access to training is enough for most employees. Beyond that, job postings, formal career-oriented performance appraisals, career development centers, formal counseling and mentoring with managers, and individual succession planning for high-potential employees are valuable career development tools.⁵⁰ Yet only about a fourth of the respondents in one survey even had individual development plans.⁵¹

Figure 3 illustrates a simple employee career planning form.⁵²

CAREER CENTERS Other systems are more comprehensive. Some employers create Web-based or offline libraries of career development materials. First USA Bank has such a program. Its aim is to help employees crystallize their career goals and achieve them within the company. In addition to career development training, the program includes career development centers at work sites that employees use on company time. The latter contain materials such as career assessment and planning tools.⁵³

FIGURE 3
Employee Career Development Plan

Source: "Employee Career Development Plan" Copyright © 2012 by BLR-Business & Legal Resources (www.HR.BLR.com). Reprinted with permission.

Employee Career Development Plan

Employee: _____ **Position:** _____

Manager: _____ **Department:** _____

Date of Appraisal: _____

1. What is the next logical step up for this employee, and when do you think he or she will be ready for it?

Probable Next Job:	When Ready:			
	Now	6 Months	1 Year	2 Years
1.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. What is the highest probable promotion within five years?

3. What does this employee need to prepare for promotion?

- Knowledge: _____

 Action Plan: _____

- Skill Training: _____

 Action Plan: _____

- Management Training: _____

 Action Plan: _____

CAREER PLANNING WORKSHOPS A career planning workshop is “a planned learning event in which participants are expected to be actively involved, completing career planning exercises and inventories and participating in career skills practice sessions.”⁵⁴ A typical workshop includes self-assessment exercises (skills, interests, values, and so on), an assessment of important occupational trends, and goal-setting and action-planning segments.

LIFELONG LEARNING BUDGETS Several employers provide 401(k)-type lifelong learning accounts for their employees. Both employers and employees contribute, and the employees can tap into these to get the career-related education and development they desire.⁵⁵

CAREER COACHING Career coaches generally help employees create 5-year plans showing where their careers with the firm may lead. Then, the employer and employee base the development plans on what the employee needs.⁵⁶

For example, at Allmerica Financial Corp., career development coaches helped individual employees in the firm’s information technology group identify their development needs and obtain the development required to satisfy those needs.⁵⁷

ONLINE PROGRAMS For example, “Halogen eAppraisal™ lets you establish relevant employee development activities that are tied to competencies or that support career development

plans and/or goals.”⁵⁸ The employer then organizes development activities around the person’s needs.

CAREER-ORIENTED APPRAISALS Managers who use the performance review only to tell the employee how he or she is doing miss an opportunity to support the employee’s career development needs. The performance appraisal should also provide an opportunity to link the employee’s performance, career interests, and developmental needs into one coherent career plan.

Many employers do this. For example, JCPenney’s managerial performance appraisal form contains a listing of all jobs by title, function, and level that employees could conceivably want to consider. The company trains its supervisors to link the employee’s performance, career interests, and corporate needs, and develop a career plan including development activities for the employee.

However, even a simple form like the one shown in Figure 4 can suffice. The aim is for the manager and employee to translate the latter’s performance appraisal into development plans that make sense for both the employer and for satisfying the employee’s career needs.

FIGURE 4
Sample Performance Review Development Plan

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HR Management Checklists

A. Employee’s Major Strengths

1. _____
2. _____
3. _____

B. Areas for Improvement/Development

1. _____
2. _____
3. _____

C. Development Plans: Areas for Development

1. _____
2. _____
3. _____
4. _____

Development Strategy:

D. Employee’s Comments on This Review: _____

E. Reviewer’s Comments: _____

Growth potential in present position and future growth potential for increased responsibilities: _____

Employer’s Signature: _____ Date: _____

Reviewer’s Signature: _____ Date: _____

Reviewer’s Manager’s Signature: _____ Date: _____

Gender Issues in Career Development

While the situation is improving, women and men still face different challenges as they advance through their careers. In one study, promoted women had to receive higher performance ratings than promoted men to get promoted.⁵⁹ Women report more difficulty getting developmental assignments and geographic mobility opportunities. Women have to be more proactive than men just to be considered for such assignments, and employers therefore need to focus on breaking down the barriers that impede women's career progress. One study concluded that three corporate career development activities—fast-track programs, individual career counseling, and career planning workshops—were less available to women than to men.⁶⁰ Many call this combination of barriers to women's progress the *glass ceiling*. Because developmental experiences like these are so important, organizations “should focus on breaking down barriers that interfere with women's access to developmental experiences.”⁶¹

The Manager's Role

It's hard to overstate the impact that a supervisor can have on his or her employee's career development. With little or no additional effort than realistic performance reviews and candid skills assessments, a competent supervisor can help the employee get on and stay on the right career track. At the other extreme, an uncaring supervisor may look back on years of having inhibited his or her employees' progress.

The manager has many opportunities to support subordinates' career development needs. For example, when the subordinate first begins his or her job, make sure that he or she develops the skills required to get off to a good start. Schedule regular performance appraisals. At these reviews, cover the extent to which the employee's current skills and performance are consistent with the person's career aspirations. Provide the employee with an informal career development plan like that in Figure 4. Keep subordinates informed about the firm's career-related benefits, and encourage them to use them.⁶² And, know how to coach employees and provide mentoring assistance. We look at this next.



LEARNING OBJECTIVE 4

List and discuss the four steps in effectively coaching an employee.

coaching

Educating, instructing, and training subordinates.

mentoring

Advising, counseling, and guiding.

IMPROVING COACHING SKILLS

Coaching and the closely related *mentoring* are key managerial skills. **Coaching** means educating, instructing, and training subordinates. **Mentoring** means advising, counseling, and guiding. Coaching focuses on teaching shorter-term job-related skills. Mentoring focuses on helping employees navigate longer-term career-type hazards. Supervisors have always coached and mentored employees. But with more managers leading highly trained employees and self-managing teams, supporting, coaching, and mentoring are fast replacing giving orders for getting things done.

Employers understand that coaching and mentoring are important. One survey of training programs found that the top skills taught were “coaching a performance problem” (72%), “communicating performance standards” (69%), “coaching a development opportunity” (69%), and “conducting a performance appraisal” (67%).⁶³

Building Your Coaching Skills

Coaching and mentoring require both analytical and interpersonal skills. They require *analysis* because it's futile to advise someone if you don't know what the problem is. They require *interpersonal skills* because it's equally futile to know the problem if you can't get the person to change.

Some performance situations don't require coaching. For example, if your new employee learns the first time how to do the job, or if your employee's performance review is flawless, you won't need to do much coaching. Otherwise, you're probably going to have to coach the employee.

Coaching does not mean just telling someone what to do. We can best think of coaching in terms of a four-step process: *preparation*, *planning*, *active coaching*, and *follow-up*.⁶⁴ *Preparation* means understanding the problem, the employee, and the employee's skills. Your aim is to formulate a hypothesis about what the problem is. You'll watch the employee to see what he or she is doing, and observe the workflow and how coworkers interact with the employee. In addition to observation, you may review objective data

FIGURE 5

Coach’s Self-Evaluation Checklist

Source: *Coaching and Mentoring: How to Develop Top Talent and Achieve Stronger Performance*, by Richard Luecke.

Questions to Ask Yourself	Yes	No
Did you plan the approach you’ll take before you started the coaching session?	<input type="checkbox"/>	<input type="checkbox"/>
Do you take your position as a coach seriously?	<input type="checkbox"/>	<input type="checkbox"/>
Do you address the employee’s career, not just his or her current performance?	<input type="checkbox"/>	<input type="checkbox"/>
Do you listen for and address the trainee’s concerns about the job?	<input type="checkbox"/>	<input type="checkbox"/>
Do you adapt the lessons to the abilities of the trainee?	<input type="checkbox"/>	<input type="checkbox"/>
Do you check for trainee understanding?	<input type="checkbox"/>	<input type="checkbox"/>
Do you make sure the employee has the skills required to do the job, or plans to develop them?	<input type="checkbox"/>	<input type="checkbox"/>
Do you set high but attainable goals?	<input type="checkbox"/>	<input type="checkbox"/>
Do you work with the employee to develop viable alternatives?	<input type="checkbox"/>	<input type="checkbox"/>
Do you give timely and specific positive and negative feedback?	<input type="checkbox"/>	<input type="checkbox"/>
Does your feedback focus on the person’s behavior and its consequences?	<input type="checkbox"/>	<input type="checkbox"/>
Do you define the ongoing job performance expectations for the employee?	<input type="checkbox"/>	<input type="checkbox"/>
Do you listen to the trainee’s opinions about doing the job?	<input type="checkbox"/>	<input type="checkbox"/>
Do you provide encouragement?	<input type="checkbox"/>	<input type="checkbox"/>

on things like productivity, absenteeism, accidents, grievances, product quality, customer complaints, and the employee’s previous performance reviews and training.

Planning the solution is next. Perhaps the most powerful way to get someone to change is to obtain his or her enthusiastic agreement on what change is required. This requires reaching agreement on the problem and on what to change. You’ll then lay out a change plan in the form of *steps to take, measures of success, and date to complete*.

With agreement on a plan, you can start the *actual coaching*. Here you are, in essence, the teacher. Your toolkit will include specific tasks (“Explain quantity and quality requirements,” “Go through the job at the normal work pace,” and so on). As one writer says, “an effective coach offers ideas and advice in such a way that the subordinate can hear them, respond to them, and appreciate their value.”⁶⁵

Finally, bad habits sometimes reemerge. It’s therefore important to *follow up* and re-observe the person’s progress periodically.

Figure 5 presents a coaching self-evaluation checklist for assessing your coaching skills.



Building Your Mentoring Skills

Mentoring traditionally means having experienced senior people advising, counseling, and guiding employees’ longer-term career development. An employee who agonizes over which career to pursue might need mentoring.

Mentoring may be formal or informal. Informally, mid- and senior-level managers may voluntarily help less-experienced employees—for instance, by giving them career advice and helping them to navigate office politics. Many employers also have formal mentoring programs. Here the employer pairs protégés with mentors, and provides training to help mentor and protégé better understand their respective responsibilities. Either formal or informal, studies show that having a mentor can significantly enhance one’s career satisfaction and success.⁶⁶

MENTORING CAVEATS Mentoring is both valuable and dangerous. It can be valuable insofar as it allows the mentor to influence, in a positive way, the careers and lives of subordinates and colleagues. The danger lies on the other side of that coin. *Coaching* focuses on daily tasks that you can easily re-learn, so coaching’s downside is usually limited. *Mentoring* focuses on relatively hard-to-reverse longer-term issues, and often touches on the person’s psychology (motives, needs, aptitudes, and how one gets along with others, for instance). Because the supervisor is usually not a psychologist or trained career advisor, he or she must be cautious in the mentoring advice he or she gives.

THE EFFECTIVE MENTOR Research on what supervisors can do to be better mentors reveals few surprises. Effective mentors *set high standards*, are willing to *invest the time* and effort the mentoring relationship requires, and actively *steer protégés* into important projects, teams, and jobs.⁶⁷ Effective mentoring requires *trust*, and the level of trust reflects the mentor's *professional competence, consistency, ability to communicate*, and readiness to *share control*.⁶⁸

However, studies suggest that traditional mentoring is less effective for women than it is for men. For example, in one survey of employees who had mentoring relationships in one recent year, 72% of the men received one or more promotions in the ensuing 2 years, compared with 65% of the women. A CEO or other senior executive mentored 78% of the men, compared with 69% of women.⁶⁹

Figures like these are prompting employers to assign women to “mentor/sponsors” who have more organizational clout. For example, when Deutsche Bank discovered that several female managing directors had left the firm for better jobs at competitors, it began pairing them with mentor/sponsors from the bank's executive committee. The latter were in a position to advocate the women for promotion.

THE PROTÉGÉ'S RESPONSIBILITIES Effective mentoring is a two-way street. It's important to have effective mentors. However, the protégé is still responsible for making the relationship work. Suggestions here include:

- **Choose an appropriate potential mentor.** The mentor should be objective enough to offer good career advice. Many people seek out someone who is one or two levels above their current boss.
- **Don't be surprised if you're turned down.** Not everyone wants to undertake this time-consuming commitment.
- **Make it easier for a potential mentor to agree to your request.** Do so by making it clear what you expect in terms of time and advice.
- **Respect the mentor's time.** Be selective about the work-related issues that you bring to the table. The mentoring relationship generally should not involve personal problems or issues.⁷⁰



Improving Productivity through HRIS

Integrating Talent Management and Career/Succession Planning

Talent management-oriented employers aim to integrate their human resource activities. For example, the employee's career planning and development should reflect his or her performance appraisal ratings. Similarly, the firm's succession plans should reflect its employees' career interests and appraisal ratings.

Integrated talent management software helps to achieve such ongoing integration. For example, the company that manages the trans-Alaska pipeline has an online portal that lets employees “see their full training history, development plans and upcoming deadlines, register for courses, or do career planning—usually without having to ask for help.”⁷¹ At the same time, “managers can get a quick picture of the training needs for a particular group, or see all the employees who have a specific qualification.”⁷²

Various talent management systems enable employers to integrate data from appraisals, career development, training, and succession planning. For example, Kenexa CareerTracker “helps organizations optimize . . . employee performance management, succession planning, and career development.”⁷³ Halogen eSuccession enables the employer to “identify the skills and competencies required to support your 3–5 year strategic plans and cultivate these in your high-potential employees with career and development planning . . .”⁷⁴ Cornerstone Succession integrates talent profiles, career management, and internal recruiting.⁷⁵ Sum-Total Succession Planning supports “a holistic, end-to-end talent management strategy” including:⁷⁶

- **360 Feedback.** Competency reviews by peers are inputs into succession gap analysis;
- **Career development.** As employees map out their career progress, plans can be established that address competency, skill, and behavior gaps;
- **Compensation management.** Financial plans can be tied to future succession plans so that their financial impact can be modeled;

- **Career progression.** Historical information regarding past positions and career progress can be used to guide future succession decisions;
- **Learning management.** Learning paths and courses can be set for projected future positions;
- **Performance management.** Performance reviews can identify consistent high performers and top talent in the organization; and
- **Recruiting & hiring.** the Sum-Total system compares current job profiles with succession plans; external candidates can then be recruited as needed.⁷⁷



LEARNING OBJECTIVE 5

List the main decisions employers should address in reaching promotion decisions.

MAKING PROMOTION DECISIONS

Career planning and mentoring often precede promotion decisions. Most people crave promotions, which usually mean more pay, responsibility, and (often) job satisfaction. For employers, promotions can provide opportunities to reward exceptional performance, and to fill open positions with tested and loyal employees. Yet the promotion process isn't always a positive experience. Unfairness or secrecy can diminish the process. Furthermore, with more employers downsizing, some "promotions" take the form of more challenging but not necessarily better-paid jobs. Several decisions, therefore, loom large in any firm's promotion process.

Decision 1: Is Seniority or Competence the Rule?

Probably the most important decision is whether to base promotion on seniority or competence, or some combination of the two.

Today's focus on competitiveness favors competence. However, this depends on several things. Union agreements sometimes contain clauses that emphasize seniority. Civil service regulations that stress seniority rather than competence often govern promotions in many public-sector organizations.

Decision 2: How Should We Measure Competence?

If the firm opts for competence, how should it define and measure competence? The question highlights an important managerial adage called the "Peter Principle," after its founder. In brief, the Peter Principle says that companies often promote competent employees up to their "level of incompetence," where they then sit, sometimes underperforming for years. The point is that defining and measuring *past* performance is relatively straightforward. Promotions also require a valid procedure for predicting the candidate's future performance.

For better or worse, most employers use prior performance as a guide, and assume that (based on exemplary past performance) the person will do well on the new job. This is the simplest procedure. Many others wisely use tests or assessment centers to evaluate promotable employees and to identify those with executive potential.

For example, given the public safety issues involved, police departments and the military take a relatively systematic approach when evaluating candidates for promotion to command positions. For the police, traditional promotional reviews include a written knowledge test, an assessment center, credit for seniority, and a score based on recent performance appraisal ratings. Others include a personnel records review. This includes evaluation of job-related influences such as supervisory-related education and experience, ratings from multiple sources, and systematic evaluation of behavioral evidence.⁷⁸

THE 9-BOX ASSESSMENT In assessing candidates for promotions, it's not just current performance but performance *potential* that's important. For example, some high-performing candidates may have no potential for future growth. Some high-potential candidates may be performing poorly but be salvageable. That idea is at the heart of the **9-box matrix** approach to assessing current employees' promotional prospects.⁷⁹ The 9-box matrix displays three levels of current job performance (exceptional, fully performing, not yet fully performing) across the top, and also shows three levels of likely potential (eligible for promotion, room for growth in current position, not likely to grow beyond current position) down the side. This 3 × 3 design results in 9 possible combinations of current job performance and likely potential. For example, an employee may be *eligible for promotion* and *exceptional in his or her current performance*. He or she is therefore ready for promotion. As another example, an employee may have *room to*

9-box matrix

In workforce planning, this displays three levels of current job performance (exceptional, fully performing, not yet fully performing) across the top, and also shows three levels of likely potential (eligible for promotion, room for growth in current position, not likely to grow beyond current position) down the side.

grow in his or her current position, but not fully performing yet. Here you would want to identify the reasons for the underperformance and improve the employee's skills.

Decision 3: Is the Process Formal or Informal?

Many firms have informal promotion processes. They may or may not post open positions, and key managers may use their own “unpublished” criteria to make decisions. Here employees may (reasonably) conclude that factors like “who you know” are more important than performance, and that working hard to get ahead—at least in this firm—is futile.

Other employers set formal, published promotion policies and procedures. Employees receive a *formal promotion policy* describing the criteria by which the firm awards promotions. A *job posting policy* states the firm will post open positions and their requirements, and circulate these to all employees. Many employers also maintain *employee qualification databanks* and use replacement charts and computerized employee information systems.

Decision 4: Vertical, Horizontal, or Other?

Promotions aren't necessarily upward. For example, how do you motivate employees with the prospect of promotion when your firm is downsizing? And how do you provide promotional opportunities for those, like engineers, who may have little or no interest in managerial roles?

Several options are available. Some firms, such as the exploration division of British Petroleum (BP), create two parallel career paths, one for managers and another for “individual contributors” such as high-performing engineers. At BP, individual contributors can move up to nonsupervisory but senior positions, such as “senior engineer.” These jobs have most of the financial rewards attached to management-track positions at that level.

Another option is to move the person horizontally. For instance, move a production employee to human resources, to develop his or her skills and to test and challenge his or her aptitudes. And, in a sense, “promotions” are possible even when leaving the person in the same job. For example, you can usually enrich the job and enhance the opportunity for assuming more responsibility.

Practical Considerations

In any case, there are practical steps to take in formulating promotion policies.⁸⁰ Establish eligibility requirements, for instance, in terms of minimum tenure and performance ratings. Review the job description, and revise if necessary. Vigorously review all candidates' performance and history, including inside candidates'.

Sources of Bias in Promotion Decisions

Women and people of color still experience relatively less career progress in organizations, and bias and more subtle barriers are often the cause.

For example, women constitute about half of the workforce, but hold less than 2% of top management positions. Blatant or subtle discrimination may account for much of this. Some hiring managers erroneously believe that “women belong at home and are not committed to careers.” The “old-boy network” of informal (mostly male) friendships forged over lunch, at social events, or at club meetings is still a problem. More women than men must also make the “career versus family” decision, since the responsibilities of raising children still fall disproportionately on women.

Similarly, a lack of female mentors makes it harder for women to find role models and supporters. Special networking and mentoring opportunities can reduce some of these problems. So can more flexible employment policies. For example, when the accounting firm Deloitte & Touche noticed it was losing good female auditors, it instituted a new flexible/reduced work schedule. This enabled many working mothers who might otherwise have left to stay with the firm.⁸¹

Promotions and the Law

In general, the employer's promotion processes must comply with all the same antidiscrimination laws as do procedures for recruiting and selecting employees or any other HR actions. But beyond that general caveat, there are several specific points regarding promotion decisions.

Most federal and state employment laws contain antiretaliation provisions. One court allowed a claim of retaliation to proceed when a female employee provided evidence that her employer turned her down for a promotion because a supervisor she had previously accused of sexual harassment made comments that persuaded her current supervisor not to promote her.

Source: StockLite/Shutterstock



One concerns *retaliation*. Most federal and state employment laws contain antiretaliation provisions. For example, one U.S. Appeals Court allowed a claim of retaliation to proceed when a female employee provided evidence that her employer turned her down for promotion because a supervisor she had previously accused of sexual harassment made comments that persuaded her current supervisor not to promote her.⁸²

A second concerns using inconsistent, unsystematic promotion processes. For example, one employer turned down a 61-year-old applicant for a promotion because of his interview performance. The person who interviewed him said he did not “get a real feeling of confidence” from the candidate.⁸³ In this case, the court held that “an employer must articulate any clear and reasonably specific factual bases upon which it based its decision.” In other words, you should be able to provide objective evidence supporting your subjective assessment for promotion.

Managing Transfers

A **transfer** is a move from one job to another, usually with no change in salary or grade. Employers may transfer a worker to vacate a position where he or she is no longer needed, to fill one where he or she is needed, or more generally to find a better fit for the employee. Many firms today boost productivity by consolidating positions. Transfers are a way to give displaced employees a chance for another assignment or, perhaps, some personal growth. Employees seek transfers for many reasons, including more interesting jobs, greater convenience—better hours, location of work, and so on—or to jobs offering greater advancement possibilities. Some promotions and job transfers require the employee to move to a new locale. In this case, the “transfer” is physical. Here the employee may have to consider not just the job but also the effects of the transfer on his or her family.

Managing Retirements

For many employees, years of appraisals and career planning end with retirement.

Retirement planning is a significant long-term issue for employers. In the United States, the number of 25- to 34-year-olds is growing slowly, and the number of 35- to 44-year-olds is declining. So, with many employees in their 50s and 60s moving toward traditional retirement age, “companies have been so focused on downsizing to contain costs that they largely neglected a looming threat to their competitiveness . . . a severe shortage of talented workers.”⁸⁴

Many have wisely chosen to fill their staffing gaps in part with current or soon-to-be retirees. Fortuitously, 78% of employees in one survey said they expect to continue working in some capacity after normal retirement age (64% want to do so part-time). Only about a third said they plan to continue work for financial reasons; about 43% said they just wanted to remain active.⁸⁵

transfer

Reassignments to similar positions in other parts of the firm.

The bottom line is that “retirement planning” is no longer just for helping current employees slip into retirement.⁸⁶ It can also enable the employer to retain, in some capacity, the skills of those who would normally retire and leave the firm.

WORKFORCE RETIREMENT PLANNING A reasonable first step is to conduct numerical analyses of pending retirements. This should include a demographic analysis (including a census of the company’s employees), a determination of the average retirement age for the company’s employees, and a review of how retirement is going to affect the employer’s health care and pension benefits. The employer can then determine the extent of the “retirement problem,” and take fact-based workforce planning steps to address it.⁸⁷

METHODS Employers seeking to attract and/or retain retirees need to take several steps. The general idea is to institute human resource policies that encourage and support older workers. Not surprisingly, studies show that employees who are more committed and loyal to the employer are more likely to stay beyond their normal retirement age.⁸⁸ This often starts by creating a culture that honors experience. For example, the CVS pharmacy chain knows that traditional recruiting media such as help-wanted signs might not attract older workers; CVS thus works through the National Council on Aging, city agencies, and community organizations to find new employees. CVS also made it clear that they welcome older workers: “I’m too young to retire. [CVS] is willing to hire older people. They don’t look at your age but your experience,” said one dedicated older worker.⁸⁹ Others modify selection procedures. For example, one British bank stopped using psychometric tests, replacing them with role-playing exercises to gauge how candidates deal with customers.

Employers have various options for retaining older workers. These include offering them part-time positions, hiring them as consultants or temporary workers, offering them flexible work arrangements, encouraging them to work past traditional retirement age, providing training to upgrade skills, and instituting a phased retirement program. The latter lets older workers ease into retirement with gradually reduced work schedules.⁹⁰



LEARNING OBJECTIVE 6

Explain the factors you would consider when dismissing an employee.

dismissal

Involuntary termination of an employee’s employment with the firm.

terminate at will

The idea, based in law, that the employment relationship can be terminated at will by either the employer or the employee for any reason.

MANAGING DISMISSALS

Not all employee separations are voluntary. Some career plans and appraisals end not in promotion or graceful retirement but in **dismissal**—involuntary termination of an employee’s employment with the firm. The best way to “handle” such involuntary turnover is to avoid it in the first place, when possible. For example, many dismissals start with bad hiring decisions. Using assessment tests, reference and background checks, drug testing, and clearly defined jobs can reduce the need for dismissals.⁹¹

Termination at Will

For more than 100 years, the prevailing rule in the United States has been that without an employment contract, either the employer or the employee can **terminate at will** the employment relationship. In other words, the employee could resign for any reason, at will, and the employer could similarly dismiss an employee for any reason, at will. Today, however, dismissed employees increasingly take their cases to court, and in many cases employers are finding that they no longer have a blanket right to fire.

TERMINATION-AT-WILL EXCEPTIONS Three main protections against wrongful discharge eroded the termination-at-will doctrine—*statutory exceptions*, *common law exceptions*, and *public policy exceptions*.

First, *statutory exceptions* include federal and state equal employment and workplace laws that prohibit certain dismissals. For example, Title VII of the Civil Rights Act of 1964 prohibits discharging employees based on race, color, religion, sex, or national origin.⁹²

Second, numerous *common law exceptions* exist. Courts create these exceptions based on precedents. For example, courts have held that employee handbooks promising termination only “for just cause” may create an exception to the at-will rule.⁹³

Finally, under the *public policy exception*, courts have held a discharge to be wrongful when it was against a well-established public policy. Thus a public policy exception might prohibit an employer from firing an employee for refusing to break the law.

Grounds for Dismissal

There are four bases for dismissal: unsatisfactory performance, misconduct, lack of qualifications for the job, and changed requirements of (or elimination of) the job.

Unsatisfactory performance refers to a persistent failure to perform assigned duties or to meet prescribed standards on the job.⁹⁴ Specific reasons include excessive absenteeism; tardiness; a persistent failure to meet normal job requirements; or an adverse attitude toward the company, supervisor, or fellow employees.

Misconduct is deliberate and willful violation of the employer's rules and may include stealing, rowdy behavior, and insubordination.

Lack of qualifications for the job is an employee's inability to do the assigned work, although he or she is diligent. Because this employee may be trying to do the job, it is reasonable to try to salvage him or her—perhaps by assigning the employee to another job.

Changed requirements of the job is an employee's incapability of doing the job after the nature of the job has changed. Similarly, you may have to dismiss an employee when his or her job is eliminated. Again, the employee may be industrious, so it is reasonable to retrain or transfer this person, if possible.

Insubordination, a form of misconduct, is sometimes the grounds for dismissal. Some acts should be deemed insubordinate whenever and wherever they occur. These include:⁹⁵

1. Direct disregard of the boss's authority
2. Direct disobedience of, or refusal to obey, the boss's orders, particularly in front of others
3. Deliberate defiance of clearly stated company policies, rules, regulations, and procedures
4. Public criticism of the boss
5. Blatant disregard of reasonable instructions
6. Contemptuous display of disrespect
7. Disregard for the chain of command
8. Participation in (or leadership of) an effort to undermine and remove the boss from power

FAIRNESS IN DISMISSALS Dismissing employees is never easy, but at least the employer can try to ensure the employee views the process as fair. Communication is important. One study found that “individuals who reported that they were given full explanations of why and how termination decisions were made were more likely to perceive their layoff as fair, and to indicate that they did not wish to take the past employer to court.”⁹⁶

Avoiding Wrongful Discharge Suits

In what one magazine called “fear of firing,” it described how some employers—even when faced with employee theft—were reluctant to terminate disruptive employees for fear of lawsuits. In practice, dismissed employees win only a tiny fraction of such suits. However, the cost of defending the suits is still huge.⁹⁷

Wrongful discharge occurs when an employee's dismissal does not comply with the law or with the contractual arrangement stated or implied by the firm via its employment application forms, employee manuals, or other promises. (In a *constructive discharge* claim, the plaintiff argues that he or she quit, but had no choice because the employer made the situation so intolerable at work.⁹⁸) The time to protect against such suits is before the manager errs and suits are filed.

PROCEDURAL STEPS Protecting against wrongful discharge suits requires two things: following procedural steps, and fairness safeguards. First lay the groundwork to help avoid such suits. Procedural steps include:⁹⁹

- Have applicants sign the employment application. Make sure it contains a statement that “the employer can terminate at any time.”
- Review your employee manual to delete statements that could undermine your defense in a wrongful discharge case. For example, delete “employees can be terminated only for just cause.”
- Have written rules listing infractions that may require discipline and discharge.
- If a rule is broken, get the worker's side of the story in front of witnesses, and preferably get it signed. Then check out the story.

insubordination

Willful disregard or disobedience of the boss's authority or legitimate orders.

wrongful discharge

An employee dismissal that does not comply with the law or does not comply with the contractual arrangement stated or implied by the firm via its employment application forms, employee manuals, or other promises.

Is the employee covered by any type of written agreement, including a collective bargaining agreement? _____

Is a defamation claim likely? _____

Is there a possible discrimination allegation? _____

Is there any workers' compensation involvement? _____

Have reasonable rules and regulations been communicated and enforced? _____

Has the employee been given an opportunity to explain any rule violations or to correct poor performance? _____

Have all monies been paid within 24 hours after separation? _____

Has the employee been advised of his or her rights under COBRA? _____

FIGURE 6
Questions to Ask Before Making the Dismissal Final

Source: Personal Law, 4th Edition, by Kenneth L. Sovereign. Copyright © 1999 by Pearson Education, Inc. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

- Be sure that employees get a written appraisal at least annually. If an employee shows evidence of incompetence, give that person a warning. Provide an opportunity to improve.
- Keep careful confidential records of all actions such as employee appraisals, warnings or notices, and so on.
- Finally, ask the questions in Figure 6.

FAIRNESS SAFEGUARDS Terminated employees are less likely to sue if they believe you treated them fairly. Therefore, use practices (like those we listed earlier in this chapter) that help ensure the fairness of the dismissal.¹⁰⁰ People who are fired and walk away feeling that they've been treated unfairly financially (for instance, in terms of severance pay) are more likely to seek retribution in the courts. Some employers therefore use severance pay to blunt a dismissal's sting. Figure 7 summarizes typical severance policies. (As the economy deteriorated in 2009–2011 and layoffs rose, more employers reduced what they awarded for severance pay. For instance, they awarded lump sum payments rather than payments tied to years with the company.¹⁰¹)

Supervisor Liability

Courts sometimes hold managers personally liable for their supervisory actions.¹⁰² For example, the Fair Labor Standards Act defines *employer* to include “any person acting directly or indirectly in the interest of an employer in relation to any employee.” This can mean the individual supervisor.

FIGURE 7
Median Weeks of Severance Pay by Job Level

Source: “Severance Pay: Current Trends and Practices,” from Culpepper Compensation Surveys & Services website, July 2007. Copyright © 2012 Culpepper and Associates, Inc. All Rights Reserved. Reprinted with permission.

Severance Calculation Method	Median Weeks of Severance		
	Executives	Managers	Professionals
Fixed	26	6	4
Variable Amount by Employment Tenure			
1 year	4	2	2
3 years	7	5	5
5 years	10	7	7
10 years	20	12	10
15 years	26	16	15
Maximum	39	26	24

STEPS TO TAKE There are several ways to avoid having personal liability become an issue.

- *Follow company policies and procedures.* An employee may initiate a claim against a supervisor who he or she alleges did not follow policies and procedures.
- Administer the discipline in a manner that does not add to the employee's *emotional hardship* (as would having them publicly collect their belongings and leave the office).
- *Do not act in anger*, since doing so undermines the appearance of objectivity.
- Finally, *utilize the HR department* for advice regarding how to handle difficult disciplinary matters.



termination interview

The interview in which an employee is informed of the fact that he or she has been dismissed.

The Exit Process and Termination Interview

Dismissing an employee is one of the most difficult tasks you can face at work.¹⁰³ The dismissed employee, even if warned many times in the past, may still react with disbelief or even violence. Guidelines for the **termination interview** itself are as follows:

1. **Plan the interview carefully.** According to experts at Hay Associates, this includes:
 - Make sure the employee keeps the appointment time.
 - Never inform an employee over the phone.
 - Allow 10 minutes as sufficient time for the interview.
 - Use a neutral site, not your own office.
 - Have employee agreements, the human resource file, and a release announcement prepared in advance.
 - Be available at a time after the interview in case questions or problems arise.
 - Have phone numbers ready for medical or security emergencies.
2. **Get to the point.** As soon as the employee enters your office, give the person a moment to get comfortable and then inform him or her of your decision.
3. **Describe the situation.** Briefly, in three or four sentences, explain why the person is being let go. For instance, "Production in your area is down 4%, and we are continuing to have quality problems. We have talked about these problems several times in the past 3 months, and the solutions are not being followed through on. We have to make a change." Don't personalize the situation by saying things like "Your production is just not up to par." Also, emphasize that the decision is final and irrevocable. Preserving the employee's dignity is crucial.¹⁰⁴
4. **Listen.** Continue the interview until the person appears to be talking freely and reasonably calmly.
5. **Review the severance package.** Describe severance payments, benefits, access to office support people, and the way references will be handled. However, under no conditions make any promises or benefits beyond those already in the support package.
6. **Identify the next step.** The terminated employee may be disoriented and unsure what to do next. Explain where the employee should go next, upon leaving the interview.

outplacement counseling

A systematic process by which a terminated person is trained and counseled in the techniques of self-appraisal and securing a new position.

OUTPLACEMENT COUNSELING With **outplacement counseling** the employer arranges for an outside firm to provide terminated employees with career planning and job search skills. *Outplacement firms* usually provide the actual outplacement services. Employees (usually managers or professionals) who are let go typically have office space and secretarial services they can use at local offices of such firms, plus the counseling services. The outplacement counseling is part of the terminated employee's support or severance package.

exit interviews

Interviews conducted by the employer immediately prior to the employee leaving the firm with the aim of better understanding what the employee thinks about the company.

EXIT INTERVIEW Many employers conduct **exit interviews** with employees leaving the firm. These are interviews, usually conducted by a human resource professional just prior to the employee leaving, that elicit information with the aim of giving employers insights into their companies. Exit interview questions include: How were you recruited? Was the job presented correctly and honestly? What was the workplace environment like? What was your supervisor's management style like? What did you like most/least about the company?¹⁰⁵ Women and minorities are more likely to quit early in their employment, so this is one issue for which to watch.¹⁰⁶

The assumption is that because the employee is leaving, he or she will be candid. However, the information one gets is likely to be questionable.¹⁰⁷ Researchers found that at the time of separation, 38% of those leaving blamed salary and benefits, and 4% blamed supervision. Followed up 18 months later, 24% blamed supervision and 12% blamed salary and benefits.

Getting to the real issues may thus require digging. Yet these interviews can be useful. When Blue Cross of Northeastern Pennsylvania laid off employees, many said, in exit interviews, “This is not a stable place to work.” The firm took steps to correct that misperception for those who stayed with Blue Cross.

THE EXIT PROCESS The exit interview is just one part of a rational exit process. The employer should follow a checklist. It should ensure, for example, that the employee returns all keys and company equipment, that all computer and database password access is terminated, that proper communications are sent internally (for instance, to other employees if appropriate, and to payroll) and externally, that the employee leaves the premises in a timely fashion, and that if necessary precautions are followed to ensure security.

Layoffs and the Plant Closing Law

Nondisciplinary separations may be initiated by either employer or employee. For the *employer*, reduced sales or profits or the desire for more productivity may require layoffs. *Employees* (as we’ve seen) may leave for better jobs, to retire, or for other reasons. The Worker Adjustment and Retraining Notification Act (WARN Act, or the plant closing law) requires employers of 100 or more employees to give 60 days’ notice before closing a facility or starting a layoff of 50 or more people.¹⁰⁸

layoff

A situation in which employees are told there is no work for them but that management intends to recall them when work is again available.

A **layoff**, in which the employer sends workers home for a time for lack of work, is usually not a permanent dismissal (although it may turn out to be). Rather, it is a temporary one, which the employer expects will be short term. However, some employers use the term *layoff* as a euphemism for discharge or termination. In the deep recession years of 2008 in 2009 combined, employers carried out a total of about 51,000 mass layoffs, idling over 5 million workers.¹⁰⁹

THE LAYOFF PROCESS A study illustrates one firm’s layoff process. In this company, senior management first met to make strategic decisions about the size and timing of the layoffs. They also debated the relative importance of the skills the firm needed going forward. Supervisors then assessed their subordinates, rating their nonunion employees either A, B, or C (union employees were covered by a union agreement making layoffs dependant on seniority). The supervisors then informed each of their subordinates about his or her A, B, or C rating, and told each that those with C grades were designated “surplus” and most likely to be laid off.¹¹⁰

LAYOFF’S EFFECTS It’s not surprising that layoffs often result in “deleterious psychological and physical health outcomes” for those losing their jobs as well as for survivors.¹¹¹

Furthermore, not just the “victims” and “survivors” suffer. In one study, researchers “found that the more managers were personally responsible for handing out WARN notices to employees . . . the more likely they were to report physical health problems, to seek treatment for these problems, and to complain of disturbed sleep.”¹¹²

Given all this, many employers try to minimize layoffs and dismissals during downturns. Reducing everyone’s work hours and mandating vacations are two options. Others reduce layoffs by offering financial bonuses for improved productivity.¹¹³

Ironically, when some employees most need employee assistance programs (such as counseling)—after they’re laid off—they lose them. More firms are therefore extending these program benefits for a month or two to former employees. For example, Florida’s Sarasota County extended employee assistance program benefits for two months after it laid off some employees. Most didn’t use the service, but even they viewed it “like having a safety net.”¹¹⁴

Adjusting to Downsizings and Mergers

Downsizing means reducing, usually dramatically, the number of people employed by a firm. The basic idea is to cut costs and raise profitability. Downsizings (some call them “productivity transformation programs”)¹¹⁵ require careful consideration of several matters.

1. One is to make sure *the right people* are let go; this requires having an effective appraisal system in place.
2. Second is *compliance with all applicable laws*, including WARN.
3. Third is ensuring that the employer executes the dismissals in a manner that is *just and fair*.
4. Fourth is the practical consideration of *security*, for instance, retrieving keys and ensuring that those leaving do not take any prohibited items with them.

downsizing

Refers to the process of reducing, usually dramatically, the number of people employed by the firm.

5. Fifth is to reduce the remaining *employees' uncertainty* and to address their concerns. This typically involves a post-downsizing announcement and program, including meetings where senior managers field questions from the remaining employees.

Downsizings aren't pleasant but needn't be unfair. Providing advanced notice regarding the lay-off can help cushion the otherwise negative effects. So can interpersonal sensitivity (in terms of the manager's demeanor during layoffs).¹¹⁶ Layoffs can be more challenging abroad due to contractual obligations, as the Global Issues in HR feature shows.

Supportiveness and creativity is especially important in high-performance-work-system-type firms. These rely heavily on employee engagement and expertise.¹¹⁷ Here, turnover is especially disruptive. Therefore, it may be particularly important to cut costs without reducing the workforce. Options here include pay freezes or cuts; introduce a hiring freeze before reducing the workforce; provide candid communications about the need for the downsizing; give employees an opportunity to express their opinions about the downsizing; and be fair and compassionate in implementing the downsizing.¹¹⁸

GLOBAL ISSUES IN HR

Employment Contracts

Layoffs may be subject to additional constraints abroad. For example, the European Union (EU) has a directive (law) that requires employers to provide employees with very explicit contracts of employment, usually within 2 months of their starting work.

How employers comply with this varies by country. In the United Kingdom, the employee must receive a written contract specifying, among other things, name of employer, grievance procedure, job title, rate of pay, disciplinary rules, pension plan, hours of work, vacation and sick-leave policies, pay periods, and date when employment began. In Germany, the contracts need not be in writing, although they customarily are, given the amount of detail they must cover, including minimum notice prior to layoff, wages, vacations, maternity/paternity rights, equal pay, invention rights, noncompetition clause, and sickness pay. The contract need not be in writing in Italy, but usually is. Items covered include start date, probationary period, working hours, job description, place of work, basic salary, and a noncompetition clause. In France, the contract must be in writing, and specify information such as the identity of the parties, place of work, type of job or job descriptions, notice period, dates of payment, and work hours.

Review

MyManagementLab

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

SUMMARY

1. Managing voluntary turnover requires identifying its causes and then addressing them. A comprehensive approach to retaining employees should be multifaceted, and include improved selection, a well-thought-out training and career development program, assistance in helping employees lay out potential career plans, providing employees with meaningful work and recognition and rewards, promoting work-life balance, acknowledging employees' achievements, and providing all this within a supportive company culture.
2. Employee engagement is important. Numerous employee outcomes including turnover and performance reflect the degree to which employees are engaged. For example, business units with the highest levels of employee

engagement have an 83% chance of performing above the company median, while those with the lowest employee engagement have only a 17% chance. Engagement-supporting actions include making sure employees (1) understand how their departments contribute to the company's success, (2) see how their own efforts contribute to achieving the company's goals, and (3) get a sense of accomplishment from working at the firm.

3. Employees ultimately need to take responsibility for their own careers, but employers and managers should also understand what career management methods are available. These include establishing company-based career centers, offering career planning workshops, providing employee development budgets, and offering online career development workshops and programs. Perhaps the simplest and most direct is to make the appraisal itself career-oriented, insofar as the appraisal feedback is a link to the employee's aspirations and plans. Supervisors can play a major role in their employee's career development. For example, make sure the employee gets the training he or she requires, and make sure appraisals are discussed in the context of the employee's career aspirations.
4. Getting employees to do better requires improving your coaching skills. Ideally, the coaching process involves preparation (in terms of analyzing the issues), planning (development of an improvement plan), active coaching, and follow-up. Effective mentors set high standards, invest the time, steer protégés into important projects, and exhibit professional competence and consistency.
5. For employers, promotions can provide opportunities to reward exceptional performance, and to fill open positions with tested and loyal employees. Several decisions loom large in any firm's promotion process: Is seniority or competence the rule? How should we measure competence? Is the process formal or informal? and, Vertical, horizontal, or other? Women and people of color still experience relatively less career progress in organizations, and bias and more subtle barriers are often the cause. In general, the employer's promotion processes must comply with all the same antidiscrimination laws as do procedures for recruiting and selecting employees or any other HR actions.
6. Managing dismissals is an important part of any supervisor's job. Among the reasons for dismissal are unsatisfactory performance, misconduct, lack of qualifications, changed job requirements, and insubordination. In dismissing one or more employees, however, remember that termination at will as a policy has been weakened by exceptions in many states. Furthermore, great care should be taken to avoid wrongful discharge suits.
7. Nondisciplinary separations such as layoffs and retirement occur all the time. The plant closing law (the Worker Adjustment and Retraining Notification Act) outlines requirements to be followed with regard to official notice before operations with 50 or more people are to be closed down.
8. Disciplinary actions are a big source of grievances. Discipline should be based on rules and adhere to a system of progressive penalties, and it should permit an appeals process.

KEY TERMS

career
 career management
 career development
 career planning
 reality shock
 coaching
 mentoring
 9-box matrix
 transfer

dismissal
 terminate at will
 insubordination
 wrongful discharge
 termination interview
 outplacement counseling
 exit interviews
 layoff
 downsizing

DISCUSSION QUESTIONS

1. Why is it advisable for an employee retention effort to be comprehensive? To what extent does IBM's on-demand program fit that description, and why?
- ★ 2. Explain why employee engagement is important, and how to foster such engagement. What exactly would you as a supervisor do to increase your employees' engagement?
3. What is the employee's role in the career development process? The manager's role? The employer's role?
- ★ 4. List and discuss the four steps in effectively coaching an employee. How could (and would) a professional football coach apply these steps?
5. Discuss at least four procedural suggestions for managing dismissals effectively.
6. Is it advantageous to take a talent management approach to managing employee retention? Why or why not?
7. What would you as a supervisor do to avoid someone accusing you of wrongful dismissal?

INDIVIDUAL AND GROUP ACTIVITIES

- Many rightfully offer IBM as an example of an employer that works hard to improve employee retention and engagement. Browse through the employment pages of IBM.com's website (such as www-03.ibm.com/employment/build_your_career.html). In this chapter, we discussed actions employers can take to improve employee retention and engagement. From the information on IBM's web pages, what is IBM doing to support retention and engagement?
- In groups of four or five students, meet with one or two administrators and faculty members in your college or university and, based on this, write a two-page paper on the topic "the faculty promotion process at our college." What do you think of the process? Based on our discussion in this chapter, could you make any suggestions for improving it?
- Working individually or in groups, choose two occupations (such as management consultant, HR manager, or salesperson) and use sources such as O*Net to size up the future demand for this occupation in the next 10 years or so. Does this seem like a good occupation to pursue? Why or why not?
- In groups of four or five students, interview a small business owner or an HR manager with the aim of writing a two-page paper addressing the topic "steps our company is taking to reduce voluntary employee turnover." What is this employer's turnover rate now? How would you suggest it improve its turnover rate?
- The PHR and SPHR Knowledge Base appendix lists the knowledge someone studying for the HRCI certification exam needs to have in each area of human resource management (such as in Strategic Management, Workforce Planning, and Human Resource Development). In groups of four to five students, do four things: (1) review that appendix now; (2) identify the material in this chapter that relates to the required knowledge the appendix lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so the students in other teams can take each others' exam questions.
- Several years ago, a survey of college graduates in the United Kingdom found that although many hadn't found their first jobs, most were already planning "career breaks" and to keep up their hobbies and interests outside work. As one report of the findings put it, "the next generation of workers is determined not to wind up on the hamster wheel of long hours with no play."¹¹⁹ Part of the problem seems to be that many already see their friends "putting in more than 48 hours a week" at work. Career experts reviewing the results concluded that many of these recent college grads "are not looking for high-pay, high-profile jobs anymore."¹²⁰ Instead, they seem to be looking to "compartmentalize" their lives. They want to keep the number of hours they spend at work down, so they can maintain their hobbies and outside interests. If you were mentoring one of these people at work, what three bits of career advice would you give him or her? Why? What (if anything) would you suggest their employers do to accommodate these graduates' stated career wishes?
- Websites such as Sporting News (<http://aol.sportingnews.com/ncaa-basketball/story/2009-07-29/sporting-news-50-greatest-coaches-all-time>) occasionally run a story listing what they call the greatest basketball coaches. Look at this list, and pick out two of the names. Then research these people online to determine what behaviors they exhibited that seem to account for why they were great coaches. How do these behaviors compare with what this chapter had to say about effective coaching?



APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Google Reacts

On the face of it, Google would seem to be the last company that one would expect to have an employee retention problem. Google usually shows up on "Best Employers to Work For" lists; it's famous for full benefits, from dry-cleaning to free Web-enabled transportation from San Francisco, to great pensions; it offers great stock options; and as a fast-growing company, it usually has many job applicants. So when its employee turnover began creeping up around 2010, Google's human resource team had to decide what to do. Part of the problem is that as attractive as Google is to work for, Silicon Valley is filled with attractive employers, from Apple to Facebook. One of Google's first steps was to boost compensation. It gave all 23,000 Google employees a 10% raise, plus a \$1,000 tax-free holiday bonus.¹²¹ But still,

Google management knew that pay was just part of the solution. It had to take other steps.

Questions

- Without doing any further research than what you learned in this chapter, what other steps would you suggest Google take to improve employee retention?
- Use other Internet sources, including Google.com, to finalize an answer to the question, What other steps should Google take to improve employee retention?

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company

The Career Planning Program

Career planning has always been a pretty low-priority item for Carter Cleaning, since “just getting workers to come to work and then keeping them honest is enough of a problem,” as Jack likes to say. Yet Jennifer thought it might not be a bad idea to give some thought to what a career planning program might involve for Carter. Many of their employees had been with them for years in dead-end jobs, and she frankly felt a little badly for them: “Perhaps we could help them gain a better perspective on what they want to do,” she thought. And she definitely believed

that career support would have an effect on improving Carter’s employee retention.

Questions

1. What would be the advantages to Carter Cleaning of setting up a career planning program?
2. Who should participate in the program? All employees? Selected employees?
3. Outline and describe the career development program you would propose for the cleaners, pressers, counter people, and managers at the Carter Cleaning Centers.

EXPERIENTIAL EXERCISE

Where Am I Going . . . and Why?

Purpose: The purpose of this exercise is to provide you with experience in analyzing your career preferences.

Required Understanding: Students should be thoroughly familiar with the section “The Employee’s Role in Career Management” in this chapter, as well as using O*Net .

How to Set Up the Exercise/Instruction: Using O*Net and our section titled “The Employee’s Role in Career Management,” analyze your career-related inclinations (you can also take the self-directed search for about \$10 at www.self-directed-search.com). Based on this analysis,

answer the following questions (if you wish, you may do this analysis in teams of three or four students).

1. What does your research suggest to you about what would be your preferable occupational options?
2. What are the prospects for these occupations?
3. Given these prospects and your own occupational inclinations, outline a brief, one-page career plan for yourself, including current occupational inclinations, career goals, and an action plan listing four or five development steps you will need to take in order to get from where you are now career-wise to where you want to be, based on your career goals.

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Why is it important to manage employee dismissals properly?
2. What are the main decisions employers should address in reaching promotion decisions?
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

VIDEO CASES APPENDIX

Video Title: Training (Wilson Learning)

SYNOPSIS

Maxene Raices is a senior manager at Wilson Learning, a company that specializes in developing training programs. She describes the best practices that make training most effective. She explains how training sessions have to be planned carefully with an outcome in mind, and have to consist of more than just lecturing. Good training programs help employees do their jobs, and ideally produce measurable results. Managers can use technology to make training even more effective, giving opportunities for people spread over various locations to attend training sessions.

Discussion Questions

- ★ 1. How does Wilson Learning’s “know, show, do” approach fit within a training process?
- ★ 2. Explain what specific training tools and processes you would use to implement a “know, show, do” training approach.
- ★ 3. What do you think of the experimental design Wilson used to assess the call-center training program? How would you suggest the company improve it?
- ★ 4. Discuss four types of technology Wilson could use to deliver training.
- ★ 5. What are two reasons that Maxene gives for thinking it is important for different learning styles to be recognized?
- ★ 6. How does identifying the intended outcomes of a training shape the training itself?

Video Title: Training and Developing Employees (Witness.org)

SYNOPSIS

Witness.org trains human rights advocacy groups to capture on video the testimonies of survivors and witnesses to human rights abuses all over the world. The company’s goal is to empower the people who are directly involved in the situations, by giving them the tools necessary to use the power of video to communicate their stories. Witness.org trains advocacy partners on how to use the video equipment, how to tell a story in such a way that it effects change in those who hear it, and how to get the video in front of the people who are able to make a positive change.

Witness.org is run by a core of 28 people with experience in a variety of areas, including speaking multiple languages, managing a nonprofit organization, producing videos, and working

with human rights issues. These employees train advocacy groups on the technical aspects of creating a video, as well as safety and security issues related to producing videos containing sensitive materials. The main goal of Witness.org is to achieve changes in policies, laws, or behaviors that are currently causing human suffering.

Discussion Questions

1. Explain how training and development play an important role in Witness.org.
2. Describe the challenges incurred in the training and development process at Witness.org.
3. Describe the group of experts who conduct the training for Witness.org.

Video Title: Performance Management (California Health Foundation)

SYNOPSIS

Kim Galvin, the human resources director of the California Health Foundation, explains the nature of the company’s performance management system. The employee appraisal system is open-ended and includes just a few general categories, covering the employees’ past performance with respect to their objectives set at the previous year’s appraisal, and their future goals in the company.

Discussion Questions

- ★ 1. Specifically what type of appraisal tool does the company seem to be using, based on what you read in this chapter? How would you modify it?
- ★ 2. What do you think of the idea of getting anonymous third-party feedback on the employee? Why?
- ★ 3. Why does Kim Galvin think that, besides the human resources director, only an employee and his or her manager should review the employee’s performance review? What (if any) is the drawback of not having the supervisor’s own manager review the appraisal? Would you require some type of review, and why?
- ★ 4. Suppose, as Kim Galvin says, you have an employee who is very well liked but not meeting the job expectations. What would you do?
- ★ 5. How does the California Health Foundation handle employees who may be candidates for future promotion?

Video Title: Appraising (Hautelook)

SYNOPSIS

Performance appraisal can be performed both by employees and by their supervisors. The online clothing retail company Hautelook conducts evaluations by both a formal and an informal process. Informal evaluations can happen at any time during the year, whereas formal evaluations are in January, with an informal midyear review in July. Hautelook has an informal culture, where managers have an open-door policy and employees are encouraged to have regular discussions with managers as to their performance, as well as to self-evaluate their own performance continually. Hautelook rewards employees in various ways, such as by recognition, raises, bonuses, and promotions. Filling positions by internal promotion is strongly emphasized, and employees are encouraged

to think about how they might advance their position in the company in the future.

Discussion Questions

- ★ 1. What appraisal tool or tools would you recommend using at Hautelook, and why?
- ★ 2. What do you think of how Hautelook handled its attendance problem? Was this an appraisal or a discipline problem? What difference would it make in how you handle the problem?
- ★ 3. Which appraisal problems from this chapter would help explain the “fairness and accuracy” issues that sometimes arise in the company’s appraisals?
- ★ 4. From what you’ve seen in this video, what exactly would you do to turn Hautelook’s appraisal process into more of a performance management process?

Video Title: Appraising (The Weather Channel)

SYNOPSIS

Employee appraisals at The Weather Channel are recommended to be done on an ongoing, continual basis so that an employee always knows where he or she stands as far as what is expected and how well he or she is doing. This way, the employee can look forward to performance reviews instead of dreading them. The idea is that the appraisals will be a confirmation of the progress the employee has been making.

An employee is recognized not just for what he or she has achieved during the appraisal year, but for the ways in which his or her goals were accomplished. The employee can

thereby have opportunities identified for building on his or her previous performance and better progress within the company.

Discussion Questions

- ★ 1. From what Ms. Taylor says in the video, does The Weather Channel really use a “performance management” process? Why do you conclude that?
- ★ 2. How, specifically, does a firm’s performance management process support its training process?
- ★ 3. How would you reduce the anxiety and stress of an appraisal, based on what you read in this chapter?
- ★ 4. How exactly would you appraise the employees’ “competencies”? What tools would you use specifically, and why?

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Developing Compensation Plans

Developing Compensation Plans

OVERVIEW:
In this chapter,
we will cover . . .

THE BASIC FACTORS IN DETERMINING PAY RATES
JOB EVALUATION METHODS
HOW TO CREATE A MARKET-COMPETITIVE PAY PLAN
PRICING MANAGERIAL AND PROFESSIONAL JOBS
CONTEMPORARY TOPICS IN COMPENSATION

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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. List the basic factors determining pay rates.
2. Define and give an example of how to conduct a job evaluation.
3. Explain in detail how to establish a market-competitive pay plan.
4. Explain how to price managerial and professional jobs.
5. Explain the difference between competency-based and traditional pay plans.
6. List and explain important trends in compensation management.

INTRODUCTION

The grocery business is highly competitive. Therefore, when Walmart moves into a grocery's area, the automatic reaction is to cut wages and benefits. So as Wegmans Food Markets, Inc. adds more stores and increasingly competes with Walmart, its management needs to decide this: Should we cut pay to better compete based on cost, or pursue a different compensation strategy?¹

LEARNING OBJECTIVE 1

List the basic factors determining pay rates.

employee compensation

All forms of pay or rewards going to employees and arising from their employment.

direct financial payments

Pay in the form of wages, salaries, incentives, commissions, and bonuses.

indirect financial payments

Pay in the form of financial benefits such as insurance.

THE BASIC FACTORS IN DETERMINING PAY RATES

Employee compensation includes all forms of pay going to employees and arising from their employment. It has two main components, **direct financial payments** (wages, salaries, incentives, commissions, and bonuses) and **indirect financial payments** (financial benefits like employer-paid insurance and vacations).

In turn, there are two basic ways to make direct financial payments to employees: based on increments of time or based on performance. Time-based pay is still the foundation of most employers' pay plans. Blue-collar and clerical workers receive hourly or daily wages, for instance. Others, like managers or Web designers, tend to be salaried and paid weekly, monthly, or yearly.

The second direct payment option is to pay for performance. For example, piecework ties compensation to the amount of production (or number of "pieces") the worker turns out. Sales commissions are another performance-based (in this case, sales-based) compensation. Other employers devise pay plans that combine time-based pay plus incentives.

In this chapter, we explain how to formulate plans for paying employees a time-based wage or salary.

Several factors determine the design of any pay plan: company strategy and policy, equity, legal, and union.

Aligning Total Rewards with Strategy

The compensation plan should first advance the firm's strategic aims—management should produce an *aligned reward strategy*. This means creating a total pay package that produces the employee behaviors the firm needs to support and achieve its competitive strategy.² We will see that many employers formulate a total rewards strategy. Total rewards encompass the traditional pay, incentives, and benefits, but also things such as more challenging jobs (job design), career development, and recognition. Table 1 lists illustrative questions to ask when crafting a strategy-oriented pay policy.

The accompanying Strategic Context feature illustrates a strategy-oriented rewards policy.

THE STRATEGIC CONTEXT

Wegmans Food Markets, Inc.

Strategic compensation management requires asking, "What are our strategic aims?"; then asking, "What are the employee behaviors or actions needed to achieve these strategic aims?"; and then putting in place compensation programs to produce those employee behaviors.

Wegmans exemplifies this. Competitors drive prices down. The usual reaction is to cut employee pay.³ Wegmans instead views its workforce as central to its strategy of "optimizing service while controlling costs by improving systems and productivity." For example, one dairy department employee designed a new way to organize the cooler, thus improving ordering decisions and inventory control.⁴

Wegmans' compensation policies aim to elicit just such employee commitment. It offers above-market pay rates, affordable health insurance, a full range of benefits, and it hasn't laid off employees in 96 years.⁵ In sum, Wegmans' pay policies aim to produce the employee behaviors the company needs to achieve its strategic aims.

Equity and Its Impact on Pay Rates

In studies at Emory University, researchers studied how monkeys reacted to inequitable pay. They trained monkeys to trade pebbles for food. Some got grapes in return for pebbles; others

TABLE 1 Do Our Compensation Policies Support Our Strategic Aims?

- What are our strategic aims?
- What employee behaviors and skills do we need to achieve our strategic aims?
- What compensation policies and practices—salary, incentive plans, and benefits—will help produce the employee behaviors we need to achieve our strategic aims?

got cucumber slices. Those receiving the sweeter grapes willingly handed in their pebbles. But if a monkey receiving a cucumber slice saw others get grapes, it slammed down the pebble.⁶ Perhaps the moral is that even lower primates want fair treatment when it comes to pay.

EQUITY THEORY OF MOTIVATION Higher up the primate line, *the equity theory of motivation* postulates that people are strongly motivated to maintain a balance between what they perceive as their contributions and their rewards. Equity theory states that if a person perceives an inequity, a tension will develop in the person's mind, motivating the person to reduce the tension and perceived inequity. Research tends to support equity theory.⁷ For example, one study found that retail buyer turnover is significantly lower when the buyers believe they're fairly treated pay-wise.⁸ Overpaying people relative to what they think they're worth can backfire too, perhaps "due to feelings of guilt or discomfort."⁹

With respect to compensation, managers should address four forms of equity: *external*, *internal*, *individual*, and *procedural*.¹⁰

- *External equity* refers to how a job's pay rate in one company compares to the job's pay rate in other companies.
- *Internal equity* refers to how fair a particular job's pay rate is when compared to other jobs within the same company.
- *Individual equity* refers to the fairness of an individual's pay as compared with what his or her coworkers are earning for the same or very similar jobs within the company, based on performance.
- *Procedural equity* refers to the "perceived fairness of the processes and procedures used to make decisions regarding the allocation of pay."¹¹

ADDRESSING EQUITY ISSUES Managers use various means to address these four equity issues. For example, they use salary surveys (surveys of what other employers are paying) to monitor and maintain external equity. They use job analysis and comparisons of each job ("job evaluation") to maintain internal equity. They use performance appraisal and incentive pay to maintain individual equity. And they use communications, grievance mechanisms, and employee participation to help ensure that employees view the pay process as procedurally fair. Some firms administer surveys to monitor employees' pay satisfaction. Questions typically include, "How satisfied are you with your pay?" and "What factors do you believe are used when your pay is determined?"¹²

To head off discussions that might prompt feelings of internal inequity, some firms maintain strict secrecy over pay rates, with mixed results.¹³ But for external equity, online pay sites like Salary.com preclude such secrecy.

Davis-Bacon Act (1931)

A law that sets wage rates for laborers employed by contractors working for the federal government.

Walsh-Healey Public Contract Act (1936)

A law that requires minimum wage and working conditions for employees working on any government contract amounting to more than \$10,000.



Title VII of the 1964 Civil Rights Act

This act makes it unlawful for employers to discriminate against any individual with respect to hiring, compensation, terms, conditions, or privileges of employment because of race, color, religion, sex, or national origin.

Fair Labor Standards Act (FLSA; 1938)

This act provides for minimum wages, maximum hours, overtime pay, and child labor protection. The law, amended many times, covers most employees.

Legal Considerations in Compensation

Employers do not have free reign in designing pay plans. Various laws specify things like minimum wages, overtime rates, and benefits.¹⁴ The 1931 **Davis-Bacon Act** lets the secretary of labor set wage rates for laborers and mechanics employed by contractors working for the federal government. The 1936 **Walsh-Healey Public Contract Act** sets basic labor standards for employees working on any government contract that amounts to more than \$10,000. It contains minimum wage, maximum hour, and safety and health provisions, and requires time-and-a-half pay for any hours worked over 40 hours a week (for instance, 1.5 times the person's usual hourly pay for those hours worked over 40 hours). **Title VII of the 1964 Civil Rights Act** makes it unlawful for employers to discriminate against any individual with respect to hiring, compensation, terms, conditions, or privileges of employment because of race, color, religion, sex, or national origin.¹⁵

THE 1938 FAIR LABOR STANDARDS ACT The **Fair Labor Standards Act (FLSA)**, originally passed in 1938 and since amended many times, contains minimum wage, maximum hours, overtime pay, equal pay, record-keeping, and child labor provisions that are familiar to most working people.¹⁶ It covers virtually all U.S. workers engaged in the production and/or sale of goods for interstate and foreign commerce. It also covers most agricultural workers. State fair labor standards laws cover most employers not covered by the FLSA.¹⁷

One familiar provision governs *overtime pay*. It says employers must pay overtime at a rate of at least one-and-a-half times normal pay for any hours worked over 40 in a workweek. Thus, if a covered worker works 44 hours in one week, he or she must be paid for 4 of those hours at a rate

equal to one-and-a-half times the hourly or weekly base rate. For example, if the person earns \$12 an hour for a 40-hour week, he or she would receive \$18 per hour (\$12 times 1.5) for each of the 4 overtime hours worked, or a total of \$72 for the extra 4 hours. If the employee instead receives time off for the overtime hours, the employer must also compute the number of hours granted off at the one-and-a-half-times rate. So the person would get 6 hours off for the 4 hours of overtime, in lieu of overtime pay. Employers need to monitor when employees clock in and out, lest the employees accumulate extra minutes, obligating the employer for extra overtime pay.¹⁸ A new Department of Labor smartphone app (<http://www.dol.gov/dol/apps/timesheet.htm>) lets employees independently track their work hours.¹⁹

The FLSA also sets a *minimum wage*, which sets a floor for employees covered by the act (and usually bumps up wages for most workers when Congress raises it). The minimum wage for the majority of those covered by the act was \$7.25 in 2012.²⁰ Many states have their own minimum wage laws. About 80 localities, including Boston and Chicago, require businesses that have contracts with the city to pay employees wages ranging from \$8 to \$12 an hour.²¹ FLSA *child labor provisions* prohibit employing minors between 16 and 18 years old in hazardous occupations, and carefully restrict employment of those under 16.

EXEMPT/NONEXEMPT Specific categories of employees are *exempt* from the FLSA or certain provisions of the act, and particularly from the act’s overtime provisions—they are “exempt employees.” A person’s exemption depends on his or her responsibilities, duties, and salary. Bona fide executive, administrative (like office managers), and professional employees (like architects) are generally exempt from the minimum wage and overtime requirements of the act.²² A white-collar worker earning more than \$100,000 and performing any one exempt administrative, executive, or professional duty is automatically ineligible for overtime pay. Other employees can generally earn up to \$23,660 per year and still automatically get overtime pay (so most employees earning less than \$455 per week are nonexempt and earn overtime).²³ Figure 1 lists some examples of typically exempt and nonexempt jobs.

If an employee is exempt from the FLSA’s minimum wage provisions, then he or she is also exempt from its overtime pay provisions. However, certain employees are *always* exempt from overtime pay provisions, for example agricultural employees, live-in household employees, taxi drivers, and motion picture theater employees.²⁴

Identifying exemptions is tricky.²⁵ As noted, some jobs—for example, top managers and lawyers—are clearly exempt. Others—such as office workers earning less than \$23,660 per year—are clearly nonexempt. Unfortunately, beyond the obvious jobs, it’s advisable to analyze

FIGURE 1
Some Typical Exempt, Nonexempt Job Titles

Source: Based on www.flsa.com/coverage.html, accessed August 5, 2011; and <http://www.dol.gov/elaws/esa/flsa/screen75.asp>, accessed October 15, 2012.

Exempt	Nonexempt
Lawyers	Paralegals
Medical doctors	Accounting clerks
Dentists	Bookkeepers
Engineers (with degrees)	Licensed practical nurses
Teachers	Clerical employees
Scientists Registered nurses	Most secretaries (although some, such as the CEO’s secretary, might be exempt)
General managers	Lab technicians
Pharmacists	
Administrative employees*	

*The administrative exemption is designed for relatively high-level employees whose main job is to “keep the business running.” Some examples of administrative functions, whose high-level employees are typically exempt, include labor relations and human resources employees, payroll and finance (including budgeting and benefits management), records maintenance, accounting and tax, marketing and advertising (as differentiated from direct sales), quality control, public relations, legal and regulatory compliance, and some computer-related jobs (such as Internet and database administration).

DEVELOPING COMPENSATION PLANS

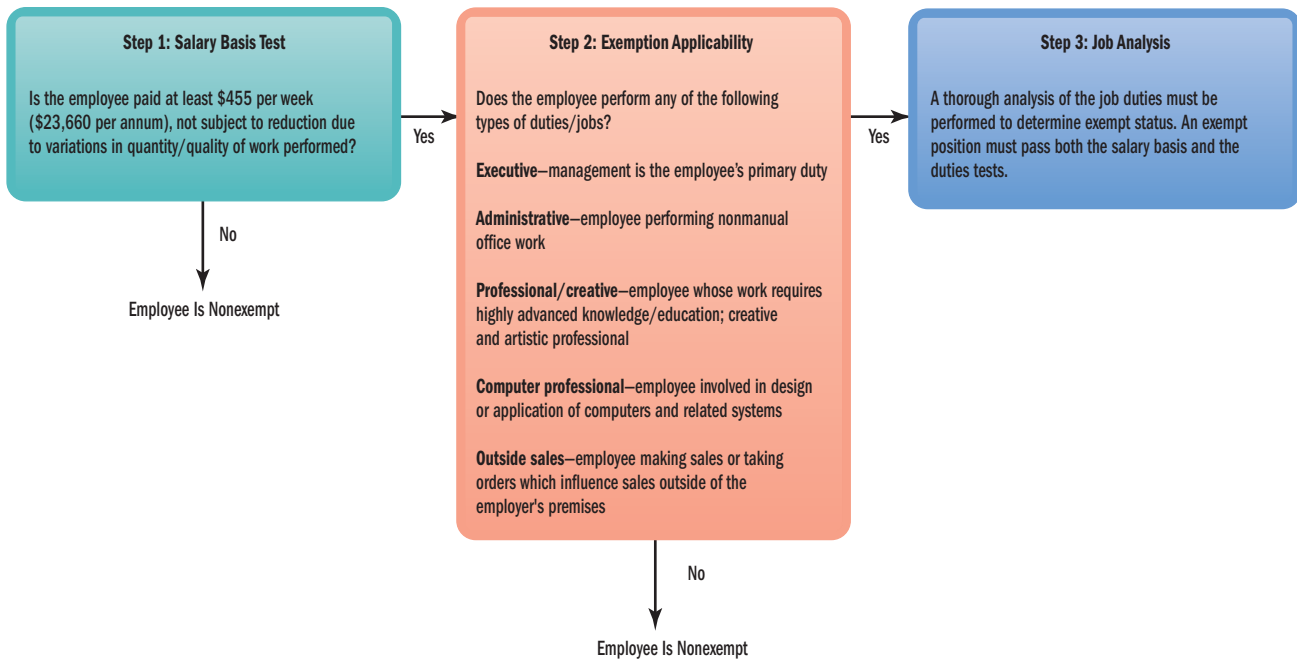


FIGURE 2

Who Is Exempt? Who Is Not Exempt?

the job before classifying it as exempt or nonexempt. For example, even supervisors are filing wage and hour suits, saying they don't really supervise two or more employees.²⁶ Figure 2 presents a procedure for making this decision. In all but the clearest situations, carefully review the job description.²⁷ Eleven states recently joined with the U.S. Labor Department to coordinate fighting misclassification.²⁸

THE INDEPENDENT CONTRACTOR Whether the person is an employee or an *independent contractor* is a continuing issue for employers.²⁹

There are advantages to claiming that someone is an independent contractor. For example, the FLSA's overtime requirements do not apply. For another, the employer does not have to pay unemployment compensation payroll taxes, Social Security taxes, or city, state, and federal income taxes or compulsory workers' compensation for that worker.

The problem is that many so-called independent contractor relationships aren't independent contractor relationships. There is no single rule or test for determining whether someone is an independent contractor. Overall, *the more the employer controls what the worker does and how he or she does it*, the more likely it is that the courts will declare the worker an employee. For example, a federal court ruled that most FedEx ground package drivers are independent contractors; although FedEx encourages them to work fast, that didn't mean it controls the means by which drivers achieved that result.³⁰ Figure 3 lists some factors courts will consider. The IRS lists rules at <http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Independent-Contractor-%28Self-Employed-or-Employee%3F>.

Minimizing the risks of misclassification entails several steps.³¹ Execute written agreements with all independent contractors. Do not impose work rules on or attempt to prohibit independent contractors from working for others. Require independent contractors to provide their own tools and to be separately incorporated business entities.³²

1963 EQUAL PAY ACT The **Equal Pay Act**, an amendment to the Fair Labor Standards Act, states that employees of one sex may not be paid wages at a rate lower than that paid to employees of the opposite sex for doing roughly equivalent work. Specifically, if the work requires equal skills, effort, and responsibility and involves similar working conditions, employees of both sexes must receive equal pay, unless the differences in pay stem from a seniority system, a merit system, the quantity or quality of production, or "any factor other than sex."

1974 EMPLOYEE RETIREMENT INCOME SECURITY ACT The **Employee Retirement Income Security Act (ERISA)** provided for the creation of government-run, employer-financed

Equal Pay Act (1963)

An amendment to the Fair Labor Standards Act designed to require equal pay for women doing the same work as men.

Employee Retirement Income Security Act (ERISA)

The law that provides government protection of pensions for all employees with company pension plans. It also regulates vesting rights (employees who leave before retirement may claim compensation from the pension plan).

FIGURE 3

Independent Contractor

Source: “Independent Contractor” Copyright © 2012 by BLR - Business & Legal Resources (www.HR.BLR.com). Reprinted with permission.

Independent Contractor			
Managers are to use the following checklist to classify individuals as independent contractors. If more than three questions are answered “yes,” the manager will confer with human resources regarding the classification. (EE = Employees, IC = Independent Contractors)			
Factors which show control:			
	Yes/EE	No/IC	N/A
1. Worker must comply with instructions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Worker is trained by person hired.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Worker’s services are integrated in business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Worker must personally render services.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Worker cannot hire or fire assistants.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Work relationship is continuous or indefinite.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Work hours are present.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Worker must devote full time to this business.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Work is done on the employer’s premises.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Worker cannot control order or sequence.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Worker submits oral or written reports.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Worker is paid at specific intervals.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. Worker’s business expenses are reimbursed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. Worker is provided with tools or materials.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. Worker has no significant investment.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. Worker has no opportunity for profit/loss.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17. Worker is not engaged by many different firms.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18. Worker does not offer services to public.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. Worker may be discharged by employer.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20. Worker can terminate without liability.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

corporations to protect employees against the failure of their employers’ pension plans. In addition, it sets regulations regarding vesting rights (*vesting* refers to the equity or ownership the employees build up in their pension plans should their employment terminate before retirement). ERISA also regulates *portability rights* (the transfer of an employee’s vested rights from one organization to another). It also contains employer fiduciary standards to prevent dishonesty in pension plan funding.

OTHER LEGISLATION AFFECTING COMPENSATION Various other laws influence compensation decisions. For example, the *Age Discrimination in Employment Act* prohibits age discrimination against employees who are 40 years of age and older in all aspects of employment, including compensation.³³ The *Americans with Disabilities Act* prohibits discrimination against qualified persons with disabilities in all aspects of employment, including compensation. The *Family and Medical Leave Act* entitles eligible employees, both men and women, to take up to 12 weeks of unpaid, job-protected leave for the birth of a child or for the care of a child, spouse, or parent.

Historically, the wage rate has been the main issue in collective bargaining. However, unions also negotiate other pay-related issues, including time off with pay, income security, cost-of-living adjustments, and health care benefits.

Source: Deklofenak/Shutterstock



And various executive orders require federal government contractors or subcontractors to not discriminate and take affirmative action in compensation.

Each state has its own *workers' compensation laws*. Among other things, these aim to provide prompt, sure, and reasonable income to victims of work-related accidents. The *Social Security Act of 1935* (as amended) provides for unemployment compensation for workers unemployed through no fault of their own, generally for up to 26 weeks, and for retirement benefits. The federal wage garnishment law limits the amount of an employee's earnings that employers can withhold (garnish) per week, and protects the worker from discharge due to garnishment.

Union Influences on Compensation Decisions

Unions and labor relations laws also influence pay plan design. The National Labor Relations Act of 1935 (Wagner Act) granted employees the right to unionize, and to bargain collectively. Historically, the wage rate has been the main issue in collective bargaining. However, unions also negotiate other pay-related issues, including time off with pay, and health care benefits.

The Wagner Act created the National Labor Relations Board (NLRB) to oversee employer practices and ensure that employees receive their rights. For example, the NLRB says that employers must give the union a written explanation of the employer's "wage curves"—the graph that relates job to pay rate. The union is also entitled to know its members' salaries.³⁴

Pay Policies

The employer's compensation strategy will manifest itself in *pay policies*. For example, a top hospital might have a policy of paying nurses 20% above the prevailing market wage. Pay policies can influence the employer's performance and profitability, as the accompanying HR as a Profit Center illustrates.

Managers need to formulate pay policies covering various issues. One is whether to emphasize *seniority* or *performance*. For example, it takes 18 years (seniority) for a U.S. federal employee to progress from step 1 to step 9 of the government's pay scale. Seniority-based pay may be advantageous to the extent that seniority is an objective standard. On the downside, top performers may get the same raises as poor ones. Seniority-based pay might seem to be outdated. However, one recent survey found that 60% of employees responding thought high-seniority employees got the most pay. Only about 35% said their companies paid high performers more.³⁵

How to distinguish between *high and low performers* is a related policy issue. For example, for many years, Payless ShoeSource was paternal in giving raises—it paid everyone about the same. However, after its market share dropped, management decided on a turnaround strategy.

This necessitated revising the firm's compensation policies to differentiate more aggressively between top performers and others.³⁶ Other pay policies may cover salary increases and promotions, overtime pay, probationary pay, leaves for military service, jury duty, and holidays.

GEOGRAPHY How to account for geographic differences in cost of living is another big pay policy issue. For example, the average base pay for an office supervisor ranges from \$47,210 in Florida to \$51,120 in Texas to \$57,970 in New York.³⁷

Employers handle cost-of-living differentials for transferees in several ways. For example, one employer pays a differential of \$6,000 per year to people earning \$35,000 to \$45,000 whom it transfers from Atlanta to Minneapolis. Others simply raise the employee's base salary. The problem is more complicated when you're sending employees overseas. Here the person typically gets cost-of-living, relocation, housing, education, and hardship allowances (the latter for countries with a relatively hard quality of life).³⁸

HR AS A PROFIT CENTER

Wegmans Food Markets, Inc.

As we saw, Wegmans' pay policies aim to produce the employee behaviors the company needs to achieve its strategic aims. It is likely that those pay policies are one reason for the firm's exceptional profitability. For example, Wegmans' employee turnover (from 38% for part-timers to 6%–7% for full-timers) is well below the industry's average total of about 47%.³⁹ Its stores (which at about 120,000 square feet are much larger than competitors') average about \$950,000 a week in sales (compared to a national average of \$361,564), or about \$46 million in sales annually, compared with a typical Walmart store's grocery sales of \$23.5 million.)⁴⁰ Wegmans' human resource head has said, "Our pay and benefits are at or above our competition's. . . . It helps us attract a higher caliber of employee." As she also said, good employees ensure higher productivity, which translates into better bottom-line results.⁴¹



LEARNING OBJECTIVE 2

Define and give an example of how to conduct a job evaluation.

job evaluation

A systematic comparison done in order to determine the worth of one job relative to another.

compensable factor

A fundamental, compensable element of a job, such as skills, effort, responsibility, and working conditions.

JOB EVALUATION METHODS

Employers use two basic approaches to setting pay rates: *market-based approaches* and *job evaluation methods*. Many firms, particularly smaller ones, simply use a *market-based* approach. Doing so involves conducting formal or informal salary surveys to determine what others in the relevant labor markets are paying for particular jobs. They then use these figures to price their own jobs. *Job evaluation methods* involve assigning values to each of the company's jobs. This helps produce a pay plan in which each job's pay is equitable based on its value to the employer. However, we'll see that even with the job evaluation approach, managers must adjust pay rates to fit the market.⁴²

Job evaluation is a formal and systematic comparison of jobs to determine the worth of one job relative to another. Job evaluation aims to determine a job's relative worth. Job evaluation eventually results in a *wage or salary structure* or hierarchy (this shows the pay rate for various jobs or groups of jobs). The basic principle of job evaluation is this: Jobs that require greater qualifications, more responsibilities, and more complex job duties should receive more pay than jobs with lesser requirements.⁴³ The basic job evaluation procedure is to compare jobs in relation to one another—for example, in terms of required effort, job complexity, and skills. Suppose you know (based on your job evaluation) the relative worth of the key jobs in your firm. You then conduct a salary survey to see what others are paying for similar jobs. Now you are on your way to being able to price all the jobs in your organization equitably.

Compensable Factors

You can use two basic approaches to compare the worth of several jobs. First, you can take an intuitive approach. You might decide that one job is more important than another is, and not dig any deeper. As an alternative, you could compare the jobs by focusing on certain basic factors the jobs have in common. Compensation management specialists call these **compensable factors**. They are the factors that establish how the jobs compare to one another, and that determine the pay for each job.

Some employers develop their own compensable factors. However, most use factors popularized by packaged job evaluation systems or by federal legislation. For example, the Equal Pay

Act uses four compensable factors—skills, effort, responsibility, and working conditions. The method popularized by the Hay Group consulting firm emphasizes three factors: know-how, problem solving, and accountability.⁴⁴ Walmart uses knowledge, problem-solving skills, and accountability requirements.

Identifying compensable factors plays a central role in job evaluation. You usually compare each job with all comparable jobs using the same compensable factors. However, the compensable factors you use depend on the job and the job evaluation method. For example, “decision making” might make sense for a manager’s job, but not for a cleaner’s job.⁴⁵

Preparing for the Job Evaluation

Job evaluation is a judgmental process and demands close cooperation among supervisors, HR specialists, and employees and union representatives. The main steps include identifying the need for the program, getting cooperation, and then choosing an evaluation committee. The committee then performs the actual evaluation.

Identifying the need for job evaluation should not be difficult. For example, dissatisfaction reflected in high turnover, work stoppages, or arguments may result from paying employees different rates for similar jobs. Managers may express uneasiness with an informal way of assigning pay rates.

Employees may fear that a systematic evaluation of their jobs may reduce their pay rates, so *getting employees to cooperate* in the evaluation is important. For example, you can tell employees that because of the impending job evaluation program, pay rate decisions will no longer be made just by management whim, and that no current employee’s rate will be adversely affected because of the job evaluation.

Third, *choose a job evaluation committee*. The committee usually consists of about five members, most of whom are employees. Management has the right to serve on such committees, but employees may view this with suspicion. However, a human resource specialist can usually be justified to provide expert assistance. Union representation is possible. In most cases, though, the union’s position is that it is accepting the results of the job evaluation only as an initial decision and is reserving the right to appeal actual job pricing decisions through grievance or bargaining channels.⁴⁶ Once appointed, each committee member should receive a manual explaining the job evaluation process, and how to conduct the job evaluation.

The evaluation committee performs three main functions. First, it usually identifies 10 or 15 key **benchmark jobs**. These will be the first jobs they’ll evaluate and will serve as the anchors or benchmarks against which the relative importance or value of all other jobs is compared. Next, the committee may select *compensable factors* (although the human resources department will

benchmark job

A job that is used to anchor the employer’s pay scale and around which other jobs are arranged in order of relative worth.

Members of the job evaluation committee first usually identify 10 or 15 key benchmark jobs. These will be the first jobs they and their committee colleagues will evaluate.

Source: Image Source/Alamy



usually choose these). Finally, the committee performs its most important function—actually *evaluating the worth of each job*. For this, the committee will probably use one of the following methods: ranking, job classification, or point method.

Job Evaluation Methods: Ranking

The simplest job evaluation method ranks each job relative to all other jobs, usually based on some overall factor like “job difficulty.” There are several steps in the job **ranking method**.

ranking method
The simplest method of job evaluation that involves ranking each job relative to all other jobs, usually based on overall difficulty.

1. **Obtain job information.** Job analysis is the first step. Here job descriptions for each job are prepared, and the information they contain about the job’s duties is usually the basis for ranking jobs. (Sometimes job specifications are also prepared. However, the ranking method usually ranks jobs based on the whole job, rather than on several compensable factors. Therefore, job specifications, which tend to list job demands in terms of compensable factors such as problem solving, decision making, and skills, are not as important with this method as they are for other job evaluation methods.)
2. **Select and group jobs.** It is usually not practical to make a single ranking for all jobs in an organization. The usual procedure is to rank jobs by department or in clusters (such as factory workers or clerical workers). This eliminates the need for direct comparison of, say, factory jobs and clerical jobs.
3. **Select compensable factors.** In the ranking method, it is common to use just one factor (such as job difficulty) and to rank jobs based on the whole job. Regardless of the number of factors you choose, it’s advisable to explain the definition of the factor(s) to the evaluators carefully so that they all evaluate the jobs consistently.
4. **Rank jobs.** For example, give each rater a set of index cards, each of which contains a brief description of a job. Then they rank these cards from lowest to highest. Some managers use an “alternation ranking method” for making the procedure more accurate. Here you take the cards, first choosing the highest and the lowest, then the next highest and next lowest, and so forth, until you’ve ranked all the cards. Table 2 illustrates a job ranking. Jobs in this small health facility rank from orderly up to office manager. The corresponding pay scales are on the right. After ranking, it is possible to slot additional jobs between those already ranked and to assign an appropriate wage rate. Online programs, as at www.hr-guide.com/data/G909.htm, can help you rank (and check the rankings of) your positions.
5. **Combine ratings.** Usually, several raters rank the jobs independently. Then the rating committee (or the employer) can simply average the raters’ rankings.

This is the simplest job evaluation method, as well as the easiest to explain. And it usually takes less time than other methods. Some of its drawbacks derive more from how it’s used than from the method itself. For example, there’s a tendency to rely too heavily on “guesstimates” (of things like overall difficulty), since ranking usually does not use compensable factors. Similarly, ranking provides no yardstick for quantifying the value of one job relative to another. For example, job number 4 may in fact be five times “more valuable” than job number 5, but with the ranking method all you know is that one job ranks higher than the other. Ranking is usually more appropriate for small employers that can’t afford the time or expense of developing a more elaborate system.

TABLE 2 Job Ranking at Jackson Hospital

Ranking Order	Annual Pay Scale
1. Office manager	\$43,000
2. Chief nurse	42,500
3. Bookkeeper	34,000
4. Nurse	32,500
5. Cook	31,000
6. Nurse’s aide	28,500
7. Orderly	25,500

Note: After ranking, it becomes possible to slot additional jobs (based on overall job difficulty, for instance) between those already ranked and to assign each an appropriate wage rate.

The *factor comparison method* is a special ranking method. It requires ranking each of a job’s “factors” (such as education required, experience, and complexity), and then adding up the points representing the number of “degrees” of each factor each job has. It is seldom used today.

Job Evaluation Methods: Job Classification

Job classification (or **job grading**) is a simple, widely used job evaluation method in which raters categorize jobs into groups; all the jobs in each group are of roughly the same value for pay purposes. We call the groups **classes** if they contain similar jobs, or **grades** if they contain jobs that are similar in difficulty but otherwise different. Thus, in the federal government’s pay grade system, a “press secretary” and a “fire chief” might both be graded “GS-10” (GS stands for “General Schedule”). On the other hand, in its job class system, the state of Florida might classify all “secretary IIs” in one class, all “maintenance engineers” in another, and so forth.

In practice, there are several ways to categorize jobs. One is to write class or grade descriptions or summaries (similar to job descriptions) and place jobs into classes or grades based on how well they fit these descriptions. A second is to write a set of compensable factor–based rules for each class (for instance, how much independent judgment, skill, and physical effort does the class of jobs require?). Then categorize the jobs according to these rules.

The usual procedure is to choose compensable factors and then develop class or grade descriptions that describe each class (or grade) in terms of the amount or level of the factors in those jobs. For example, the U.S. government’s classification system uses the following compensable factors: (1) difficulty and variety of work, (2) supervision received and exercised, (3) judgment exercised, (4) originality required, (5) nature and purpose of interpersonal work relationships, (6) responsibility, (7) experience, and (8) knowledge required. Based on these compensable factors, raters write a **grade definition** like that in Figure 4. This one shows one grade description (GS-7) for the federal government’s pay grade system. Then the evaluation committee reviews all job descriptions and slots each job into its appropriate grade, by comparing each job description to the rules in each grade description. For instance, the federal government system classifies the positions automotive mechanic, welder, electrician, and machinist in grade GS-10.

The classification method has several advantages. The main one is that most employers usually end up grouping jobs into classes or grades anyway, regardless of the evaluation method they use. They do this to avoid having to price separately dozens or hundreds of jobs. Of course, the job classification automatically groups the employer’s jobs into classes. The disadvantages are that it is difficult to write the class or grade descriptions, and considerable judgment is required to apply them. Yet many employers use this method with success.

Job Evaluation Methods: Point Method

The **point method**’s overall aim is to determine the degree to which the jobs you’re evaluating contain selected compensable factors. It involves identifying several compensable factors for the jobs, as well as the degree to which each factor is present in each job. Assume there are five degrees of the compensable factor “responsibility” a job could contain. Further, assume you assign a different number of points to each degree of each compensable factor. Once the evaluation committee determines the degree to which each compensable factor (like “responsibility” and “effort”) is present in a job, it can calculate a total point value for the job by adding up the corresponding degree points for each factor. The result is a quantitative point rating for each job. The point method of job evaluation is the most popular job evaluation method today.⁴⁷

job classification (or grading) method

A method for categorizing jobs into groups.

classes

Grouping jobs based on a set of rules for each group or class, such as amount of independent judgment, skill, physical effort, and so forth, required. Classes usually contain similar jobs.

grades

A job classification system like the class system, although grades often contain dissimilar jobs, such as secretaries, mechanics, and firefighters. Grade descriptions are written based on compensable factors listed in classification systems.

grade definition

Written descriptions of the level of, say, responsibility and knowledge required by jobs in each grade. Similar jobs can then be combined into grades or classes.

point method

The job evaluation method in which a number of compensable factors are identified and then the degree to which each of these factors is present on the job is determined.

FIGURE 4
Example of a Grade Level Definition

Source: “Grade Level Guide for Clerical and Assistance Work” from U.S. Office of Personnel Management, June 1989.

Grade	Nature of Assignment	Level of Responsibility
GS-7	Performs specialized duties in a defined functional or program area involving a wide variety of problems or situations; develops information, identifies interrelationships, and takes actions consistent with objectives of the function or program served.	Work is assigned in terms of objectives, priorities, and deadlines; the employee works independently in resolving most conflicts; completed work is evaluated for conformance to policy; guidelines, such as regulations, precedent cases, and policy statements require considerable interpretation and adaptation.

Computer-aided job evaluation can streamline the job evaluation process.



“PACKAGED” POINT PLANS A number of groups (such as the Hay Group, the National Electrical Manufacturer’s Association, and the National Trade Association) have developed standardized point plans. Many thousands of employers use these systems. They contain ready-made factor and degree definitions and point assessments for a wide range of jobs. Employers can often use them with little or no modification.

Computerized Job Evaluations

Using quantitative job evaluation methods such as the point method can be time-consuming. Accumulating the information about “how much” of each compensable factor the job contains is a tedious process. The evaluation committees must debate the level of each compensable factor in each job. They then write down their consensus judgments and compute each job’s point values or rankings.

Computer-aided job evaluation streamlines this process (see the accompanying screen grab). Most of these computerized systems have two main components. There is, first, a structured questionnaire. This contains items such as “enter total number of employees who report to this position.” Second, all such systems use statistical models. These allow the computer program to price jobs more or less automatically, by assigning points.

KNOWLEDGE BASE

LEARNING OBJECTIVE 3

Explain in detail how to establish a market-competitive pay plan.

HOW TO CREATE A MARKET-COMPETITIVE PAY PLAN

As we said, many firms simply price their jobs based on what other employers are paying—they use a market-based approach. However, most employers also base their pay plans on job evaluations. These evaluations assign values (such as point values) to each job. This helps produce a pay plan in which each job’s pay is internally equitable, based, as it is, on the job’s value to the employer (as measured, for instance, by how many points it warrants). However, even with the job evaluation approach, managers must adjust pay rates to fit the market.⁴⁸ After all, you want employees’ pay to be equitable internally—relative to what their colleagues in the firm earning—but also competitive to what other employers are paying. In a *market-competitive pay plan* a job’s compensation reflects both the job’s value in the company, as well as what other employers are paying for similar jobs in the marketplace. Because the point method (or “point-factor method”) is so popular, we’ll use it as the centerpiece of our step-by-step example for creating a market-competitive pay plan.⁴⁹ The 16 steps in creating a market-competitive pay plan begin with choosing benchmark jobs.

1. Choose Benchmark Jobs

Particularly when an employer has dozens or hundreds of different jobs, it’s impractical and unnecessary to evaluate each of them separately. Therefore, the first step in the point method

is to select benchmark jobs. Benchmark jobs are representative of the entire range of jobs the employer needs to evaluate. Like “accounting clerk” they should be common among employers (thus making it easier to survey what competitors are paying for similar jobs).⁵⁰

2. Select Compensable Factors

The choice of compensable factors depends on tradition (as noted, the Equal Pay Act of 1963 uses four compensable factors: skill, effort, responsibility, and working conditions), and on strategic and practical considerations. For example, if your firm’s competitive advantage is quality, you might substitute “responsibility for quality” for working conditions, or simply add it as a fifth factor.⁵¹ Similarly, using “working conditions” makes little practical sense for evaluating executive jobs.

The employer should carefully define each factor. This is to ensure that the evaluation committee members will each apply the factors with consistency. Figure 5 shows (on top) one such definition, in this case for the factor job complexity. The human resource specialist often draws up the definitions.

3. Assign Weights to Compensable Factors

Having selected compensable factors, the next step is to determine the relative importance (or weighting) of each factor (for instance, how much more important is “skill” than “effort”?). This is important because for each cluster of jobs some factors are bound to be more important than others are. Thus, for executive jobs the “mental requirements” factor would carry far more weight than would “physical requirements.” To assign weights, we assume we have a total 100 percentage points to allocate for each job. Then (as an illustration), assign percentage weights of 60% for the factor job complexity, 30% for effort, and 10% for working conditions.⁵²

4. Convert Percentages to Points for Each Factor

Next, we want to convert the percentage weights assigned to each compensable factor into point values for each factor (this is, after all, the point method). It is traditional to assume we are working

FIGURE 5
Illustrative Point Values and Degree Definitions for the Factor Job Complexity

Copyright Gary Dessler, PhD

Factor Definition: What Is Job Complexity? Job complexity generally refers to the amount of judgment, initiative, ingenuity, and complex data analysis that doing the job requires. To what extent does the person doing this job confront unfamiliar problems, deal with complex decisions, and have to exercise discretion?		
Degree	Points	Job Complexity Degree Definitions: What to Look for in the Job
First	120	Here the job is routine and consists of repetitive operations requiring little or no choice of action and the automatic application of easily understood rules and procedures. For example, a filing clerk.
Second	240	Here the employee follows detailed instructions but may have to make limited decisions based on previously prescribed instructions that lay out prescribed alternatives. For example, a billing clerk or a receptionist.
Third	360	Here the employee again follows detailed instructions but because the number of matters to consider is more varied the employee needs to exhibit initiative and independent judgment, under direct supervision. For example, a nurse’s aide.
Fourth	480	Here the employee can generally follow standard practices but the presence of nonroutine problems requires that the employee be able to use initiative and judgment to analyze and evaluate situations, possibly modifying the standard procedures to adjust to the new situations. For example, a nurse.
Fifth	600	On this job, the employee needs to use independent judgment and plan and perform complex work under only general supervision, often working independently toward achieving overall results. For example, a medical intern.

with a total number of 1,000 points (although you could use some other figure). To convert percentages to points for each compensable factor, *multiply the percentage weight for each compensable factor (from the previous step) by 1,000.*⁵³ This will tell you the *maximum number of points* for each compensable factor. The example above would translate into $1,000 \times 0.60 = 600$ maximum points for job complexity, $1,000 \times 0.30 = 300$ points for effort, and $1,000 \times 0.10 = 100$ points for working conditions.

5. Define Each Factor’s Degrees

Next, split each factor into degrees, and define each degree so that raters may judge the amount or degree of a factor existing in a job. Thus, for a factor such as “job complexity” you might choose to have five degrees, ranging from “here the job is routine” to “uses independent judgment.” (Definitions for each degree are shown in Figure 5 under “Degree definitions: What to look for in each job”). The number of degrees usually does not exceed five or six, and the actual number depends mostly on judgment. Thus, if all employees work either in a quiet, air-conditioned office or in a noisy, hot factory, then two degrees would probably suffice for the factor “working conditions.” You need not have the same number of degrees for each factor, and you should limit degrees to the number necessary to distinguish among jobs.

6. Determine for Each Factor Its Factor Degrees’ Points

The evaluation committee must be able to determine the number of points each job is worth. To do this, the committee must be able to examine each job and (from each factor’s degree definitions) determine what degree of each compensable factor that job has. For them to do this, we must first assign points to *each degree of each compensable factor*. For example, in our illustration, we have five possible degrees of job complexity, and the job complexity compensable factor is worth up to 600 points maximum. In our case, we decide that the first degree level of job complexity is worth 120 (or one-fifth of 600) points, the second degree level is worth 240 points, the third degree level is worth 360 points, the fourth degree level is worth 480 points, and the fifth degree is worth the full 600 points (see Figure 5).⁵⁴ Do this for each factor (as in Table 3).

7. Review Job Descriptions and Job Specifications

The heart of job *evaluation* involves determining the amount or degree to which the job contains the selected compensable factors such as effort, job complexity, and working conditions. The team conducting the job evaluation will frequently do so by reviewing each job’s job description and job specification. It is through the job analysis that the manager identifies the job’s duties and responsibilities and writes the job description and job specification. Ideally, the job analysis should therefore include an explicit attempt to gather information about the compensable factors (such as job complexity) around which the employer plans to build its compensation plan.⁵⁵

8. Evaluate the Jobs

The preceding steps provide us with the information on points and degrees we need to evaluate the jobs. Therefore, the committee now gathers job descriptions and job specifications for the benchmark jobs they want to focus on. Then for each of these jobs, the committee reviews the job description and job specification.

TABLE 3 Points Assigned to Factors and to Their Degrees (Revised)

Factors	First-Degree Points	Second-Degree Points	Third-Degree Points	Fourth-Degree Points	Fifth-Degree Points
Job complexity (Total maximum points equal 600)	120	240	360	480	600
Effort (Total maximum points equal 300)	60	120	180	240	300
Working conditions (Total maximum points equal 100)	20	40	60	80	100

From this, the committee *determines the degree to which each compensable factor is present in each job*. Thus for, say, a job of master mechanic, the team might conclude (after studying the job description and job specification) that the master mechanic’s job deserves the third-degree level of *job complexity* points, the first-degree level of *effort*, and the first-degree level of *working conditions*.

Knowing the job complexity, effort, and working conditions degrees for each job, *and knowing the number of points we previously assigned to each degree* of each compensable factor, we can now determine how many job complexity, effort, and working conditions points each benchmark job should contain. (We know the degree level for each factor for each job, so we merely check the corresponding points (see Table 3) that we previously assigned to each of these degrees.)

Finally, we add up these degree points for each job to determine each job’s total number of points.⁵⁶ (The master mechanic job gets $360 + 60 + 20 = 440$ points from Table 3.) This enables us to list a hierarchy of jobs, based on each job’s points. We can then turn to assigning wage rates to each job (step 9). But first, we should define market-competitive pay plan, and **wage curve**.

wage curve

Shows the relationship between the value of the job and the average wage paid for this job.

market-competitive pay system

A pay system in which the employer’s actual pay rates are competitive with those in the relevant labor market.

WHAT IS A MARKET-COMPETITIVE PAY PLAN? What should the pay rate be for each job? Of course, jobs with more points should command higher pay. The question is what pay rate to use. Our company’s current, “internal” pay rates? Or pay rates based on what the “external” market is paying?⁵⁷

With a **market-competitive pay system**, the employer’s actual pay rates are competitive with those in the relevant labor, as well as equitable internally.⁵⁸ Put simply, the basic approach is to compare what the employer is *currently* paying for each job (“internal pay”) with what the market is paying for the same or similar job (“external pay”), and then to combine this information to produce a market-competitive pay system.

WHAT ARE WAGE CURVES? Wage curves play a central role in assigning wage rates to jobs. The wage curve typically shows the pay rates paid for jobs, relative to the points or rankings assigned to each job by the job evaluation. Figure 6 presents an example. Note that it shows pay rates for jobs on the vertical axis, and point values for these jobs along the horizontal axis. The purpose of the wage curve is to show the relationships between (1) the value of the job (expressed in points) as determined by one of the job evaluation methods and (2) the pay rates for the job. (We’ll see that many employers may combine jobs into classes or grades. Here the wage curve shows the relationship between average pay rates for each grade, and each grade’s average point value.) The pay rates on the wage curve are traditionally those now paid by the employer. However, if there is reason to believe the current pay rates are out of step with the market rates for these jobs, the employer will have to adjust them. One way to do this is to compare a wage curve that shows the jobs’ *current* wage rates relative to the jobs’ points, with a second curve that shows *market* wage rates relative to points. We do this as follows.

9. Draw the Current (Internal) Wage Curve

First, to study how each job’s points relates to its current pay rate, we start by drawing an *internal wage curve*. Plotting each job’s points and the wage rate the employer is now paying for each job (or wage rates, if there are several for each job) produces a scatter plot as in Figure 7 (left). We

FIGURE 6
Plotting a Wage Curve

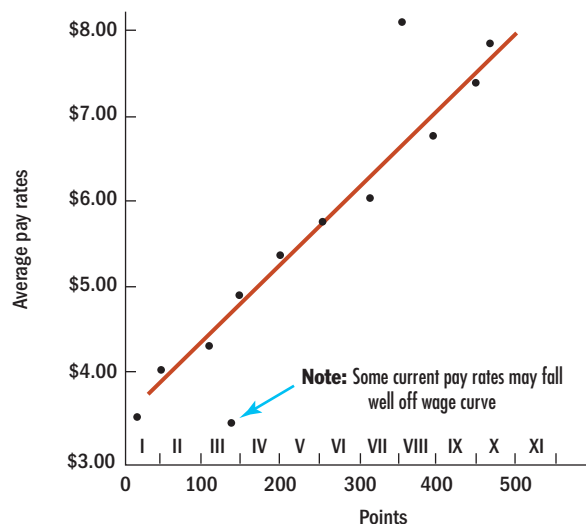
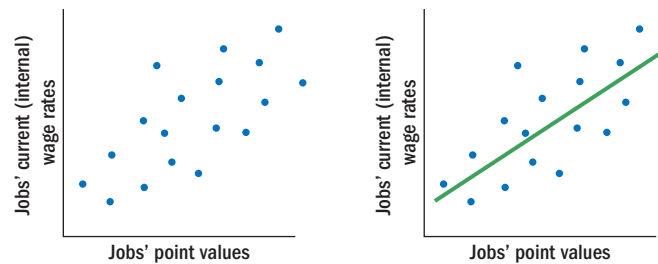


FIGURE 7
The Current/Internal
Wage Curve



now draw a wage curve (on the right) through these plots that shows how point values relate to current wage rates. We can draw this wage line by just estimating a line that best fits the plotted points (by minimizing the distances between the plots and the curve). Or we can use regression, a statistical technique. Using the latter will produce a current/internal wage curve that best fits the plotted points. In any case, we show the results in Figure 7 (right).⁵⁹

10. Conduct a Market Analysis: Salary Surveys

salary survey

A survey aimed at determining prevailing wage rates. A good salary survey provides specific wage rates for specific jobs. Formal written questionnaire surveys are the most comprehensive, but telephone surveys and Internet and newspaper help-wanted ads are also sources of information.

Next, we must compile the information needed to draw an *external wage curve* for our jobs, based on what other employers are paying for similar jobs. **Salary surveys**—surveys of what others are paying—play a big role in pricing jobs.⁶⁰ Employers use salary surveys in three ways. First, they use survey data to price benchmark jobs. Benchmark jobs are the anchor jobs around which they slot their other jobs, based on each job's relative worth to the firm. Second, employers typically price 20% or more of their positions directly in the marketplace (rather than relative to the firm's benchmark jobs), based on a survey of what comparable firms are paying for comparable jobs. (Google might do this for jobs like systems engineer, whose salaries fluctuate widely and often.) Third, surveys also collect data on benefits like insurance, sick leave, and vacations for decisions regarding employee benefits.

Salary surveys can be formal or informal. *Informal* phone or Internet surveys are good for checking specific issues, such as when a bank wants to confirm the salary at which to advertise a newly open teller's job, or whether some banks are really paying tellers an incentive. Some large employers can afford to send out their own *formal* surveys to collect compensation information from other employers. These ask about things like number of employees, overtime policies, starting salaries, and paid vacations.

COMMERCIAL, PROFESSIONAL, AND GOVERNMENT SALARY SURVEYS Many employers use surveys published by consulting firms, professional associations, or government agencies. For example, the U.S. Department of Labor's Bureau of Labor Statistics' (BLS) *National Compensation Survey (NCS)* provides comprehensive reports of occupational earnings, compensation cost trends, and benefits (www.bls.gov/bls/wages.htm).

Detailed occupational earnings are available from the NCS for over 800 occupations in the United States, regions, states, and many metropolitan areas (http://stats.bls.gov/oes/current/oes_nat.htm). The Current Employment Statistics survey is a monthly survey of the payroll records of business establishments that provides data on earnings of production and nonsupervisory workers at the national level. This provides information about earnings as well as production bonuses, commissions, and cost-of-living increases. The National Compensation Survey—Benefits provides information on the share of workers who participate in specified benefits, such as health care, retirement plans, and paid vacations. These data also show the details of those benefits, such as amounts of paid leave. Internationally, the BLS reports comparative hourly compensation costs in local currencies and U.S. dollars for production workers and all employees in manufacturing in its international labor comparisons tables.

Private consulting and/or executive recruiting companies like Hay Group, Heidrick & Struggles, Watson Wyatt Data Services, and Hewitt Associates publish data covering compensation for top and middle management and boards of directors. Professional organizations like the Society for Human Resource Management and the Financial Executives Institute publish surveys of compensation practices among members of their associations.⁶¹

USING THE INTERNET TO DO COMPENSATION SURVEYS A rapidly expanding array of Internet-based options makes it easy for anyone to access published compensation survey information. Table 4 shows some popular salary survey websites.

TABLE 4 Some Pay Data Websites

Sponsor	Internet Address	What It Provides	Downside
Salary.com	Salary.com	Salary by job and zip code, plus job and description, for hundreds of jobs	Adapts national averages by applying local cost-of-living differences
U.S. Office of Personnel Management	www.opm.gov/oca/09Tables/index.asp	Salaries and wages for U.S. government jobs, by location	Limited to U.S. government jobs
Job Star	http://jobstar.org/tools/salary/sal-prof.php	Profession-specific salary surveys	Necessary to review numerous salary surveys for each profession
cnnmoney.com	cnnmoney.com	Input your current salary and city, and this gives you comparable salary in destination city	Based on national averages adapted to cost-of-living differences

Many of these sites, such as Salary.com, provide national salary levels for jobs that the site then arithmetically adjusts to each locale based on cost-of-living formulas. To get a real-time picture of what employers in your area are actually paying for, say, accounting clerks, it's useful to access the online Internet sites of one or two of your local newspapers. For example, the *South Florida Sun-Sentinel* (and many papers) uses a site called CareerBuilder.com. It lists career opportunities—in other words, just about all the jobs listed in the newspaper by category and, in many instances, their wage rates (www.sun-sentinel.com/classified/jobs).

11. Draw the Market (External) Wage Curve

The current/internal wage curve from step 9 is helpful. For example, showing, as it does, how a job's current pay rate compares with its points helps the employer identify jobs for which pay rates are currently too high or too low, relative to others in the company. (For example, if a job's current wage rate is well above the internal wage curve, it suggests that the present wage rate for that job is inequitably high, given the number of points we've assigned to that job.)

What the current (internal) wage curve does *not* reveal is whether our pay rates are too high, too low, or just right relative to what other firms are paying. For this, we need to draw a *market* or *external wage* curve.

To draw the market/external wage curve, we produce a scatter plot and wage curve as in Figure 8 (left and right). However, instead of using our firm's current wage rates, we use market wage rates (obtained from salary surveys). The market/external wage curve compares our jobs' points with market pay rates for our jobs.

12. Compare and Adjust Current and Market Wage Rates for Jobs

How different are the market rates others are paying for our jobs and the current rates we are now paying for our jobs? To determine this, we can draw both the current/internal and market/external wage curves on one graph, as in Figure 9. The market wage curve might be higher than our current wage curve (suggesting that our current pay rates may be too low), or below our current wage curve (suggesting that our current wage rates might be too high). Or perhaps market wage rates are higher for some of our jobs, and lower for others.⁶²

Based on comparing the current/internal wage curve and market/external wage curve in Figure 9, we must decide whether to adjust the current pay rates for our jobs, and if so how. This calls for a policy decision by management. Strategic considerations influence this decision. Do our strategic aspirations suggest we should pay more, the same, or less than competitors? For

FIGURE 8
The Market/External Wage Curve

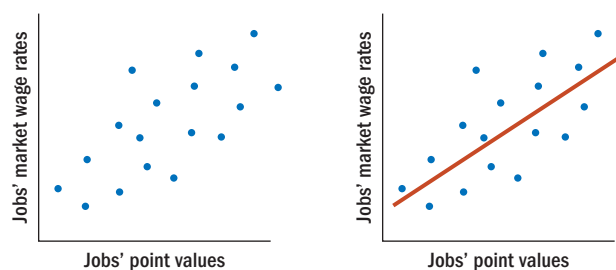
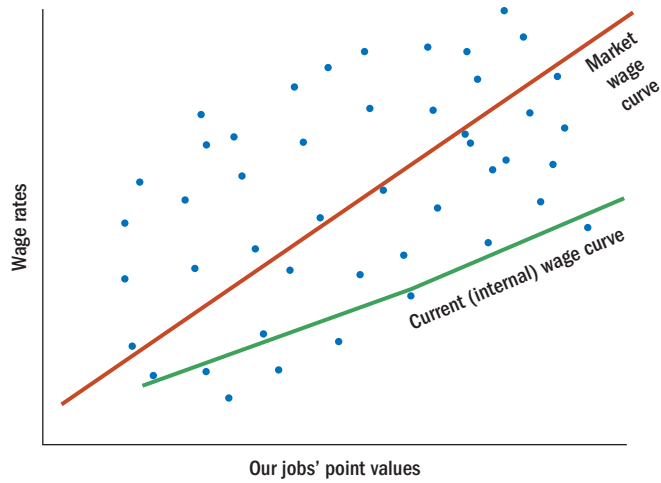


FIGURE 9
Plotting Both the Market and Internal Wage Curves

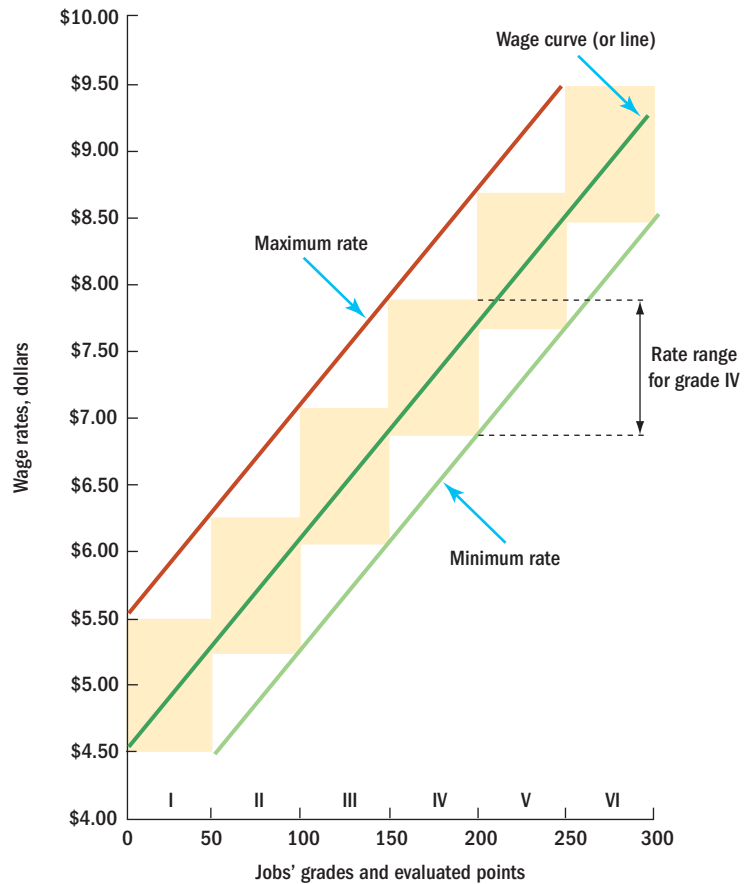


example, we might decide to move our current internal wage curve up (and thereby give everyone a raise), or down (and thereby perhaps withhold pay increases for some time), or adjust the slope of the internal wage curve to increase what we pay for some jobs and decrease what we pay for others. In any case, the wage curve we end up (the dark green line in Figure 10) should now be equitable internally (in terms of the point value of each job) and equitable externally (in terms of what other firms are paying).⁶³

13. Develop Pay Grades

Employers typically group similar jobs (in terms of points) into grades for pay purposes. Then, instead of having to deal with hundreds of job rates, you might only have to focus on, say, pay rates for 10 or 12 pay grades. For example, Serco, a services firm that operates a London, England, light railway system, set up pay grades after ranking jobs using a point

FIGURE 10
Wage Structure



system based on knowledge, management complexity, and the job’s magnitude and impact on the organization.⁶⁴

pay (or wage) grade

A pay grade is comprised of jobs of approximately equal difficulty.

A **pay (or wage) grade** is comprised of jobs of approximately equal difficulty or importance as determined by job evaluation. If you used the point method of job evaluation, the pay grade consists of jobs falling within a range of points. If the ranking method was used, the grade consists of a specific number of ranks. If you use the classification system, then your jobs are already categorized into classes (or grades).

DETERMINING THE NUMBER OF PAY GRADES It is standard to establish grades of equal point spread. (In other words, each grade might include all those jobs falling between 50 and 100 points, 100 and 150 points, 150 and 200 points, etc.) Since each grade is the same width, the main issue involves determining how many grades to have. There doesn’t seem to be any optimal number, although 10 to 16 grades for a given job cluster (shop jobs, clerical jobs, etc.) seems to be common. You need more pay grades if there are, say, 1,000 jobs to be graded than if there are only 100.

14. Establish Rate Ranges

Most employers do not pay just one rate for all jobs in a particular pay grade. For example, GE’s Medical Division won’t want to pay all its accounting clerks, from beginners to long tenure, at the same rate, even though they may all be in the same pay grade. Instead, employers develop vertical pay (or “rate”) ranges for each of the horizontal pay grades (or pay classes). These **pay (or rate) ranges** often appear as vertical boxes within each grade, showing minimum, maximum, and midpoint pay rates for that grade, as in Figure 10. (Specialists call this graph a *wage structure*. Figure 10 graphically depicts the range of pay rates—in this case, per hour—paid for each pay grade.) Alternatively, you may depict the pay range for each class or grade as steps in a table, such as Table 5. Here you will have specific corresponding pay rates for each step within each grade in tabular form. Thus Table 5 shows the pay rates and steps for some federal government grades. As of the time of this pay schedule, for instance, employees in positions classified in grade GS-10 could be paid annual salaries between \$45,771 and \$59,505, depending on the level or step at which they were hired into the grade, the amount of time they were in the grade, and any merit increases they’ve received.

DEVELOPING RATE RANGES As in Figure 10 the wage curve usually anchors the average pay rate for each vertical pay range. The firm might then arbitrarily decide on a maximum and

pay (or rate) ranges

A series of steps or levels within a pay grade, usually based on years of service.

TABLE 5 Federal Government Salary Table⁶⁵
Salary Table 2009-GS Incorporating the 2.90% General Schedule Increase Effective January 2011

Annual Salary Rates by Grade and Step										
Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10
1	17,803	18,398	18,990	19,579	20,171	20,519	21,104	21,694	21,717	22,269
2	20,017	20,493	21,155	21,717	21,961	22,607	23,253	23,899	24,545	25,191
3	21,840	22,568	23,296	24,024	24,752	25,480	26,208	26,936	27,664	28,392
4	24,518	25,335	26,152	26,969	27,786	28,603	29,420	30,237	31,054	31,871
5	27,431	28,345	29,259	30,173	31,087	32,001	32,915	33,829	34,743	35,657
6	30,577	31,596	32,615	33,634	34,653	35,672	36,691	37,710	38,729	39,748
7	33,979	35,112	36,245	37,378	38,511	39,644	40,777	41,910	43,043	44,176
8	37,631	38,885	40,139	41,393	42,647	43,901	45,155	46,409	47,663	48,917
9	41,563	42,948	44,333	45,718	47,103	48,488	49,873	51,258	52,643	54,028
10	45,771	47,297	48,823	50,349	51,875	53,401	54,927	56,453	57,979	59,505
11	50,287	51,963	53,639	55,315	56,991	58,667	60,343	62,019	63,695	65,371
12	60,274	62,283	64,292	66,301	68,310	70,319	72,328	74,337	76,346	78,355
13	71,674	74,063	76,452	78,841	81,230	83,619	86,008	88,397	90,786	93,175
14	84,697	87,520	90,343	93,166	95,989	98,812	101,635	104,458	107,281	110,104
15	99,628	102,949	106,270	109,591	112,912	116,233	119,554	122,875	126,196	129,517

minimum rate for each grade, such as 15% above and below the wage curve. As an alternative, some employers allow the pay range for each grade to become wider (they include more pay rates) for the higher pay ranges, reflecting the greater demands and performance variability inherent in more complex jobs. As in Figure 10, most employers structure their rate ranges to overlap a bit, so an employee in one grade who has more experience or seniority may earn more than would someone in an entry-level position in the next higher pay grade.⁶⁶

There are several reasons to use pay ranges for each pay grade. First, it lets the employer take a more flexible stance in the labor market. For example, it makes it easier to attract experienced, higher-paid employees into a pay grade at the top of the range, since the starting salary for the pay grade's lowest step may be too low to attract them. Pay ranges also let companies provide for performance differences between employees within the same grade or between those with different seniorities.

Compensation experts sometimes use *compa ratios*. The **compa ratio** equals an employee's pay rate divided by the pay range midpoint for his or her pay grade. A compa ratio of 1 means the employee is being paid exactly at the pay range midpoint. If the compa ratio is above 1 then the person's pay rate exceeds the midpoint pay for the job. If it is below then the pay rate is less than the midpoint. The compa ratio can help reveal how many jobs in each pay grade are paid above and below competitive market pay rates.⁶⁷

compa ratio

Equals an employee's pay rate divided by the pay range midpoint for his or her pay grade.

15. Address Remaining Jobs

To this point, we have focused our job evaluation on a limited number of benchmark jobs, as is traditional. We now want to add our remaining jobs to the wage structure. We can do this in two ways. We can evaluate each of the remaining jobs using the same process we just went through. Or we can simply slot the remaining jobs into the wage structure where we feel they belong, without formally evaluating and assigning points to these jobs. Jobs similar to our benchmark jobs we can easily slot into the wage structure. Jobs we're not sure about should undergo the same job evaluation process; we assign points to them and precisely slot them into the wage structure.⁶⁸

16. Correct Out-of-Line Rates

Finally, the wage rate the firm is now paying for a particular job may fall well off the wage curve or well outside the rate range for its grade, as illustrated in Figure 6. This means that the average pay for that job is currently too high or too low, relative to other jobs in the firm. For underpaid jobs, the solution is clear: Raise the wages of underpaid employees to the minimum of the rate range for their pay grade.

Current pay rates falling above the rate range are a different story. These are “red circle,” “flagged,” or “overrates.” There are several ways to cope with this problem. One is to freeze the rate paid to these employees until general salary increases bring the other jobs into line. A second option is to transfer or promote the employees involved to jobs for which you can legitimately pay them their current pay rates. The third option is to freeze the rate for 6 months, during which time you try to transfer or promote the overpaid employees. If you cannot, then cut the rate you pay these employees to the maximum in the pay range for their pay grade.



Payroll Administration

Designing a pay plan isn't enough: the plan must be administered.

Administering the payroll system—keeping track of each employee's worker status, wage rate, dependents, benefits, overtime, tax status, and so on; computing each paycheck; and then directing the actual printing of checks or direct deposits—is a time-consuming and technologically specialized task. The job is complicated by having to comply with many federal, state, and local wage, hour, and other laws.

Many employers do perform this function in-house, usually with a payroll processing software package. QuickBooks's *Basic Payroll 2012* lets the employer “[e]nter hours worked and get instant paycheck calculations, including earnings, payroll taxes, and deductions. Then print paychecks yourself. *Basic Payroll* calculates federal and state payroll taxes for you, so you can easily e-pay federal taxes and write a check for state taxes.”⁶⁹ Kronos's *Workforce Payroll* automates the payroll process, and offers self-service features. For example (see www.kronos.com-HR/Payroll-Software/Payroll-Software.aspx), *Workforce Payroll* will “[l]et your employees see pay stubs and earning histories, make changes to direct deposit and W-4 forms, print W-2s, and even check out how changes to their deductions will affect their paychecks.”

On the other hand, many employers do outsource payroll administration to vendors such as ADP. These vendors offer a range of payroll processing options. For instance, smaller employers may opt to call in their payroll data to the vendor's specialists, while larger ones may have these data processed automatically online.

SHRM recommends using a set of criteria to evaluate the initial list of prospective vendors, based on the employer's goals for the relationship. These goals will include not just the relative economic benefits of outsourcing the function (rather than doing it in-house), but also the desirability of integrating the employer's internal systems with the vendor's, streamlining tax compliance and filings, and increasing employee self-service.⁷⁰

LEARNING OBJECTIVE 4

Explain how to price managerial and professional jobs.

KNOWLEDGE BASE

PRICING MANAGERIAL AND PROFESSIONAL JOBS

Developing compensation plans for managers or professionals is similar in many respects to developing plans for any employee. The basic aim is the same: to attract, motivate, and retain good employees. And job evaluation is about as applicable to managerial and professional jobs (below the top executive levels) as to production and clerical ones.

There are differences, though. Managerial jobs tend to stress harder-to-quantify factors like judgment and problem solving more than do production and clerical jobs. There is also more emphasis on paying managers and professionals based on their performance or on what they can do, rather than on static job demands like working conditions. And one must compete in the marketplace for executives who sometimes have the pay of rock stars. So, job evaluation, although still important, usually plays a secondary role to issues like bonuses, incentives, market rates, and benefits.

Compensating Executives and Managers

Compensation for a company's top executives usually consists of four main elements.⁷¹ *Base pay* includes the person's fixed salary as well as, often, guaranteed bonuses such as "10% of pay at the end of the fourth fiscal quarter, regardless of whether or not the company makes a profit." *Short-term incentives* are usually cash or stock bonuses for achieving short-term goals, such as year-to-year increases in sales revenue. *Long-term incentives* aim to encourage the executive to take actions that drive up the value of the company's stock and include things like stock options; these generally give the executive the right to purchase stock at a specific price for a specific period. Finally, *executive benefits and perks* include things such as supplemental executive retirement pension plans, supplemental life insurance, and health insurance without a deductible or coinsurance. With so many complicated elements, employers must also be alert to the tax and securities law implications of their executive compensation decisions.⁷²

What Determines Executive Pay?

For top executive jobs (especially the CEO), job evaluation typically has little relevance. The traditional wisdom is that company size and performance significantly affect top managers' salaries. Yet studies from the early 2000s showed that size and performance explained only about 30% of CEO pay: "In reality, CEO pay is set by the board taking into account a variety of factors such as the business strategy, corporate trends, and most importantly where they want to be in a short and long term."⁷³ One recent study concluded that three main factors, *job complexity* (span of control, the number of functional divisions over which the executive has direct responsibility, and management level), the employer's *ability to pay* (total profit and rate of return), and the executive's *human capital* (educational level, field of study, work experience) accounted for about two-thirds of executive compensation variance.⁷⁴ In practice, CEOs may have considerable influence over the boards of directors who theoretically set their pay. So, their pay sometimes doesn't reflect strictly arms-length negotiations.⁷⁵



CEO pay is set by the board taking into account a variety of factors such as the business strategy, corporate trends, and most importantly where they want to be in a short and long term.

Source: Monkey Business Images/Shutterstock

Shareholder activism and government oversight have tightened the restrictions on what companies pay top executives. For example, the banking giant HSBC shelved plans to raise its CEO's pay by over a third after shareholders rejected the proposals.⁷⁶

MANAGERIAL JOB EVALUATION Many employers use job evaluation for pricing managerial jobs (at least, below the top jobs). The basic approach is to classify all executive and management positions into a series of grades, each with a salary range.

As with nonmanagerial jobs, one alternative is to rank the executive and management positions in relation to each other, grouping those of equal value. However, firms also use the job classification and point evaluation methods. They use compensable factors like position scope, complexity, and difficulty. Job analysis, salary surveys, and the fine-tuning of salary levels around wage curves also play roles.

Compensating Professional Employees

In compensating professionals, employers should first ensure that each employee is actually a “professional” under the law. The Fair Labor Standards Act “provides an exemption from both minimum wage and overtime pay for employees employed as bona fide executive, administrative, professional and outside sales employees.”⁷⁷ However, calling someone a professional doesn't make him or her so. In addition to earning at least \$455 per week, the person's main duty must “be the performance of work requiring advanced knowledge,” and “the advanced knowledge must be customarily acquired by a prolonged course of specialized intellectual instruction.”⁷⁸ One company hired a high school graduate as an exempt “Product design specialist II,” earning \$62,000 per year. The job required 12 years of relevant experience, but no particular education. The court ruled the job was nonexempt.⁷⁹

What to compensate is another problem. Jobs like engineer and scientist emphasize compensable factors such as creativity and problem solving, factors not easily measured or compared.⁸⁰ Furthermore, how do you measure performance? For example, the success of an engineer's invention depends on how well the firm markets it. Employers can use job evaluation for professionals. Compensable factors here may include problem solving, creativity, job scope, and technical knowledge and expertise.

Yet in practice, firms rarely rely on just job evaluation for pricing professional jobs. Factors like creativity are hard to measure, and other issues often influence professionals' job decisions. Competing for engineers in Silicon Valley illustrates the problem. Google recently raised its employees' salaries by 10% in the face of defections by even their highest-paid professionals, such as the head of its Chrome OS team.⁸¹ Many of these Google professionals, although well paid by national standards, still felt underpaid. Some undoubtedly moved to jobs they hoped would have more challenges. Many also probably felt that the best way to hit it big in terms of pay was to join a younger, faster-growing firm with stock options.

Most employers therefore use a market-pricing approach. They price professional jobs in the marketplace as best they can, to establish the values for benchmark jobs. Then they slot these benchmark jobs and their other professional jobs into a salary structure. Each professional discipline usually ends up having four to six grade levels, each with a broad salary range. This helps employers remain competitive when bidding for professionals who literally have global employment possibilities.⁸²

LEARNING OBJECTIVE 5

Explain the difference between competency-based and traditional pay plans.

competency-based pay

Where the company pays for the employee's range, depth, and types of skills and knowledge, rather than for the job title he or she holds.

CONTEMPORARY TOPICS IN COMPENSATION

How employers pay employees is evolving. In this final section, we'll look at six important contemporary compensation topics, competency-based pay, broadbanding, talent management, comparable worth, board oversight, and total rewards.

Competency-Based Pay

Some question whether job evaluations' aim to slot jobs into narrow cubbyholes (“Machinist I,” “Machinist II,” and so on) might not actually be counterproductive in high-performance work systems. Systems like these depend on flexible, multiskilled job assignments, and on teamwork. There's thus no place here for employees to say “That's not my job.” **Competency-based pay** (and broadbanding, explained later) aims to avoid that problem.⁸³ With competency- or

skill-based pay, you pay the employee for the skills and knowledge he or she is capable of using rather than for the responsibilities or title of the job currently held.⁸⁴ Experts variously call this competence-, knowledge-, or skill-based pay. With competency-based pay, an employee in a class I job who could (but may not have to at the moment) do class II work gets paid as a class II worker, not a class I. *Competencies* are demonstrable personal characteristics such as knowledge, skills, and behaviors. Why pay employees based on the skill levels they achieve, rather than based on the jobs they're assigned to? With more companies organizing around teams, you want to encourage employees to get the skills required to rotate among jobs.

Competency- or skill-based pay programs generally contain five elements. The employer *defines* specific required skills and chooses a *method* for basing the person's pay on his or her skills. A *training* system lets employees acquire skills. There is a formal competency *testing* system. And, the work is *designed* so that employees can easily move among jobs of varying skill levels. In practice, competency-based pay usually comes down to pay for knowledge or skill-based pay.⁸⁵ As an example, see the British Petroleum (BP) skills matrix. For this job, BP lists the minimum level for each skill (such as Technical Expertise, and Problem Solving) someone holding this job must attain. As an employee achieves each level of each skill, he or she would assumedly receive a bump in pay.

A recent survey found that only about 12% of employers use skill-based pay and 13% use competency-based pay.⁸⁶ In challenging economic times, the efficiencies of job evaluation sometimes outweigh the flexibility that comes with competency-based pay.

LEARNING OBJECTIVE 6

List and explain important trends in compensation management.

Broadbanding

Most firms end up with pay plans that slot jobs into classes or grades, each with its own vertical pay rate range. For example, the U.S. government's pay plan consists of 18 main grades (GS-1 to GS-18), each with its own pay range. For an employee whose job falls in one of these grades, the pay range for that grade dictates his or her minimum and maximum salary.

The question is, "How wide should the salary grades be, in terms of the number of job evaluation points they include?" (For example, might the U.S. government want to collapse its 18 salary grades into 6 or 7 broader bands?) There is a downside to having (say, 18) narrow grades. For instance, if you want someone whose job is in grade 2 to fill in for a time in a job that happens to be in grade 1, it's difficult to reassign that person without lowering his or her salary. Similarly, if you want the person to learn about a job that happens to be in grade 3, the employee might object to the reassignment without a corresponding raise to grade 3 pay. Traditional grade pay plans thus may foster inflexibility.

That is why some firms broadband their pay plans. **Broadbanding** means collapsing salary grades into just a few wide levels or bands, each of which contains a relatively wide range of jobs and pay levels. Figure 11 illustrates this. Here we consolidated the company's previous six pay grades into two broad grades or "broadbands."

A company may create broadbands for all its jobs, or for specific groups such as professionals. The pay rate range of each broadband is relatively large, since it ranges from the minimum pay of the lowest grade the firm merged into the broadband up to the maximum pay of the highest merged grade. Thus, for example, instead of having 10 salary grades, each of which contains a salary range of \$15,000, the firm might collapse the 10 grades into three broadbands, each with a set of jobs such that the difference between the lowest- and highest-paid jobs might be \$40,000 or more. There is thus a much wider range of pay rates. You can move an employee from job to job within the broadband more easily, without worrying about the employee's moving outside the relatively narrow rate range associated with a traditional narrow pay grade.

PROS AND CONS The basic advantage is that broadbanding injects greater flexibility into employee assignments.⁸⁷ For example, "the employee who needs to spend time in a lower-level job to develop a certain skill set can receive higher-than-usual pay for the work, a circumstance considered impossible under traditional pay systems."⁸⁸

On the other hand, broadbanding can be unsettling. "There's a sense of permanence in the set of job responsibilities often attached to job titles," says one expert. That sense of permanence isn't as clear when employees move frequently among jobs.⁸⁹

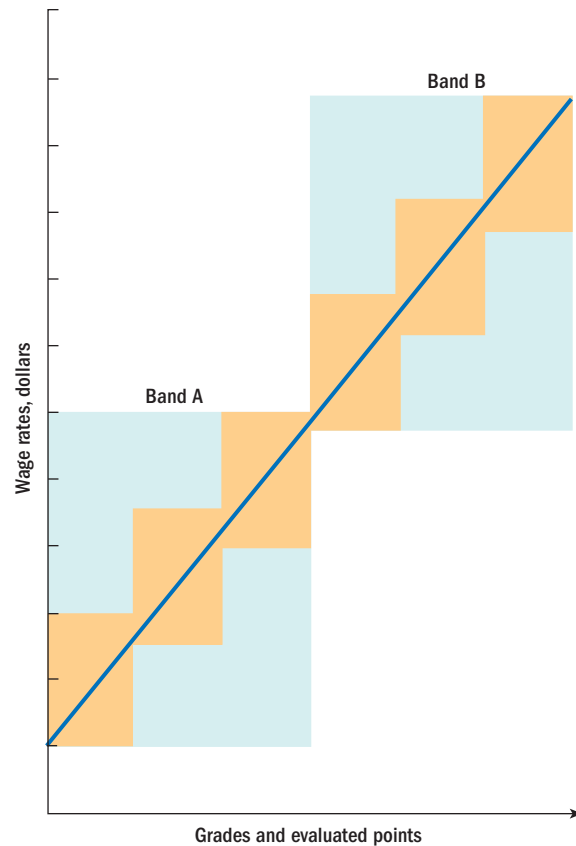
Actively Managing Compensation Allocations, and Talent Management

Employers are increasingly segmenting their employees and actively assigning more resources to those they deem "mission-critical" in terms of the firm's

broadbanding

Consolidating salary grades and ranges into just a few wide levels or "bands," each of which contains a relatively wide range of jobs and salary levels.

FIGURE 11
Broadbanded Structure
and How It Relates to
Traditional Pay Grades
and Ranges



strategy. Recall, for instance, that Accenture uses a 4×4 matrix to plot employees by Performance (exceptional, high, medium, low) and Value to the Organization (mission-critical, core, necessary, nonessential). It then allocates pay and other resources based on where the employee places in the matrix.⁹⁰

Many employers are taking this more active, segmentation approach. For example, one telecommunications firm previously spread development money and compensation evenly over its 8,000 employees. When the recession came, it segmented its talent into business impact, high performers, high potentials, and critical skills. Then they shifted their dollars away from low performers and those not making an impact to high performers and high potentials.⁹¹

Comparable Worth

Comparable worth refers to the requirement to pay men and women equal wages for jobs that are of *comparable* (rather than strictly *equal*) value to the employer. Thus, comparable worth may mean comparing quite dissimilar jobs, such as nurses to truck mechanics or secretaries to technicians. The question “comparable worth” seeks to address is this: Should you pay women who are performing jobs *equal* to men’s or just *comparable* to men’s the same as men? If it’s only for equal jobs, then the tendency may be to limit women’s pay to that of the other, lower-paid jobs in which women tend to predominate.

County of Washington v. Gunther (1981) was a pivotal case for comparable worth. It involved Washington County, Oregon, prison matrons who claimed sex discrimination. The county had evaluated roughly comparable but nonequal men’s jobs as having 5% more “job content” (based on a point evaluation system) than the women’s jobs, but paid the men 35% more.⁹² Why should there be such a pay discrepancy for roughly comparable jobs? Washington County finally agreed to pay 35,000 employees in female-dominated jobs almost \$500 million in pay raises over 7 years to settle the suit.

Comparable worth has implications for job evaluation. Virtually every comparable worth case that reached a court involved the point method of job evaluation. By assigning points to dissimilar jobs, point plans facilitate comparability ratings among different jobs. Should employers

comparable worth

The concept by which women who are usually paid less than men can claim that men in comparable rather than in strictly equal jobs are paid more.

still use point-type plans? Perhaps the wisest approach is for employers to price their jobs as they see fit (with or without point plans). However ensure that women have equal access to all jobs. In other words, eliminate sex-segregated jobs.

THE PAY GAP All this notwithstanding, women in the United States earn only about 81% as much as men.⁹³ In general, education may reduce the wage gap somewhat.⁹⁴ However, gaps remain. For example, new female medical doctors earn about \$17,000 per year less than their male counterparts do.⁹⁵ Reasons put forward for the male–female gap range from the outdated notion that employers view women as having less leverage, to the fact that professional men change jobs more often (gaining more raises in the process) and that women tend to end up in departments that pay less.⁹⁶ In any case, it’s a problem employers should recognize and address.

Board Oversight of Executive Pay

Several years ago, the antivirus company McAfee apparently pushed out its president and saw its CEO leave after “a stock options investigation found accounting problems that will require financial restatements.”⁹⁷

There are various reasons for boards clamping down on executive pay.⁹⁸ For one thing, the Sarbanes-Oxley Act makes executives personally liable, under certain conditions, for corporate financial oversight lapses. In any event, lawyers specializing in executive pay suggest that boards of directors (board compensation committees usually make executive pay decisions in large firms)⁹⁹ ask themselves these questions:

- Has our compensation committee thoroughly identified its duties and processes?
- Is our compensation committee using the appropriate compensation advisors?
- Are there particular executive compensation issues that our committee should address?¹⁰⁰
- Do our procedures demonstrate diligence and independence? (This demands careful deliberations and records.)
- Is our committee appropriately communicating its decisions? How will shareholders react?¹⁰¹



Total Rewards and Tomorrow’s Pay Programs

Companies face severe economic and competitive challenges.¹⁰² There is what McKinsey & Co. calls a “war for talent” as companies vie to hire and retain top employees. With reduced Social Security and company pensions, employees have to build their own wealth for retirement. And younger applicants join the workforce with greater expectations for recognition and feedback.

Tomorrow’s pay programs will therefore probably exhibit several features. Every company has jobs that are strategically crucial to their futures, and others, which while important, are supportive. Talent management–oriented employers will have to identify the strategically crucial jobs and pay them accordingly. Millennial employees should know what’s expected of them, and get continuing feedback. Incentives are increasingly a component of every pay package. And nonfinancial rewards including personal recognition will grow in importance as supplements to financial rewards.

That last point highlights the trend toward viewing rewards not just in terms of pay, incentives, and benefits, but as *total rewards*. As noted earlier, *total rewards* encompass the traditional compensation components, but also things such as recognition and redesigned more challenging jobs, telecommuting programs, health and well-being programs, and training and career development. Some employers even distribute annual total rewards statements to employees, to help them appreciate the full range of rewards that they are receiving.¹⁰³

Review

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SUMMARY

1. In establishing strategic pay plans, managers first need to understand some basic factors in determining pay rates. Employee compensation includes both direct financial payments and indirect financial statements. The factors determining the design of any pay plan include legal, union, company strategy/policy, and equity. Legal considerations include, most importantly, the Fair Labor Standards Act, which governs matters such as minimum wages and overtime pay. Specific categories of employees are exempt from the act or certain provisions of the act, particularly its overtime provisions. The Equal Pay Act of 1963 and the Employee Retirement Income Security Act are other important laws.
2. The process of establishing pay rates while ensuring external, internal, and procedural equity consists of several activities: conducting a salary survey, determining the worth of each job, doing a job evaluation, grouping jobs comprised of approximately equal difficulty and pricing each pay grade with wage curves, and fine-tuning pay rates.
 - Salary surveys may be informal phone or Internet surveys, or formal surveys conducted by the employer or utilizing commercial, professional, and/or government salary surveys.
 - Job evaluation is a systematic comparison done in order to determine the worth of one job relative to another based on compensable factors.
 - Compensable factors refer to compensable elements of a job such as skills and efforts.
 - Popular job evaluation methods include ranking, job classification, the point method, and factor comparison. With ranking, for instance, you conduct a job analysis, group jobs by department, and have raters rank jobs.
 - Once the committee uses job evaluation to determine the relative worth of each job, it can turn to the task of assigning pay rates to each job; it would usually first want to group jobs into pay grades to streamline the process.
3. Pricing managerial and professional jobs involves some special issues. Managerial pay typically consists of base pay, short-term incentives, long-term incentives, and executive benefits and, particularly at the top levels, doesn't lend itself to job evaluation but rather to understanding the job's complexity, the employer's ability to pay, and the need to be competitive in attracting top talent.
4. More employers are moving from paying jobs based on their intrinsic duties toward paying jobs based on the competencies the job requires. The main reason for doing so is to encourage employees to develop the competencies they need to move seamlessly from job to job.
5. We addressed several important special topics in compensation. Broadbanding means consolidating several rates and ranges into a few wide levels or "bands," each of which contains a relatively wide range of jobs in salary levels. Broadbanding encourages employees to move freely from job to job and facilitates implementing team-based high-performance management systems. Comparable worth refers to the requirement to pay men and women equal pay for jobs that are of comparable rather than strictly equal value to the employee. With many stockholders concerned with excessive executive remuneration, board oversight of executive pay has become an important issue, and boards of directors should use qualified advisers and exercise diligence and independence in formulating executive pay plans. Total rewards encompass the traditional compensation components, but also things such as recognition and redesigned more challenging jobs.

KEY TERMS

employee compensation
 direct financial payments
 indirect financial payments
 Davis-Bacon Act (1931)
 Walsh-Healey Public Contract Act (1936)

Title VII of the 1964 Civil Rights Act
 Fair Labor Standards Act (FLSA; 1938)
 Equal Pay Act (1963)
 Employee Retirement Income Security Act (ERISA)
 job evaluation

compensable factor
 benchmark job
 ranking method
 job classification (or grading) method
 classes
 grades
 grade definition
 point method
 wage curve

market-competitive pay system
 salary survey
 pay (or wage) grade
 pay (or rate) ranges
 compa ratio
 competency-based pay
 broadbanding
 comparable worth

DISCUSSION QUESTIONS

1. What is the difference between exempt and nonexempt jobs?
2. What is the relationship between compensable factors and job specifications?
3. Compare and contrast the following methods of job evaluation: ranking, classification, factor comparison, and point method.
- ★ 4. What are the pros and cons of broadbanding, and would you recommend your current employer (or some other firm you're familiar with) use it? Why or why not?
- ★ 5. It was reported in the news that the average pay for most university presidents was around \$250,000 per year, but that a few earned much more. For example, the president of Yale University received more than \$1 million in 2012. Discuss why you would (or would not) pay university presidents as much as or more than many corporate CEOs.
6. Define and give an example of how to conduct a job evaluation.
7. Explain in detail how to establish a market-competitive pay plan.
8. Explain how to price managerial and professional jobs.

INDIVIDUAL AND GROUP ACTIVITIES

1. Working individually or in groups, conduct salary surveys for the following positions: entry-level accountant and entry-level chemical engineer. What sources did you use, and what conclusions did you reach? If you were the HR manager for a local engineering firm, what would you recommend that you pay for each job?
2. Working individually or in groups, develop compensation policies for the teller position at a local bank. Assume that there are four tellers: two were hired in May and the other two were hired in December. The compensation policies should address the following: appraisals, raises, holidays, vacation pay, overtime pay, method of pay, garnishments, and time cards.
3. Working individually or in groups, access relevant websites to determine what equitable pay ranges are for these jobs: chemical engineer, marketing manager, and HR manager, all with a bachelor's degree and 5 years' experience. Do so for the following cities: New York, New York; San Francisco, California; Houston, Texas; Denver, Colorado; Miami, Florida; Atlanta, Georgia; Chicago, Illinois; Birmingham, Alabama; Detroit, Michigan; and Washington, DC. For each position in each city, what are the pay ranges and the average pay? Does geographic location impact the salaries of the different positions? If so, how?
4. The PHR and SPHR Knowledge Base appendix lists the knowledge someone studying for the HRCI certification exam needs to have in each area of human resource management (such as in Strategic Management, Workforce Planning, and Human Resource Development). In groups of four to five students, do four things: (1) review that appendix now; (2) identify the material in this chapter that relates to the required knowledge the appendix lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so the students in other teams can take each others' exam questions.
5. Some of America's executives have come under fire because their pay seemed to some to be excessive, given their firms' performances. To choose just two of many: one Citigroup division head was due a \$97 million bonus, and Merrill Lynch paid tens of millions in bonuses soon after Bank of America rescued it. However, big institutional investors are no longer sitting back and not complaining. For example, pension manager TIAA-CREF is talking to 50 companies about executive pay. Do you think they are right to make a fuss? Why?



APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Salary Inequities at AstraZeneca

More than 50 years after passage of the Equal Pay Act, women in America still earn about 81 cents for every dollar earned by a man. That adds up to a loss for the average female worker of about \$380,000 over a lifetime.

Recently, the U.S. Department of Labor's Office of Federal Contract Compliance Programs (OFCCP) entered into an agreement with AstraZeneca, a large international pharmaceuticals firm, for the company to pay some of its female sales associates a total of \$250,000.¹⁰⁴ AstraZeneca had a contract valued at over \$2 billion with the U.S. Department of Veterans Affairs to provide drugs to hospitals around the country. That made it subject to Executive Order 11246, which aims to ensure that employees of U.S. contractors and subcontractors with federal contracts pay their employees fairly without regard to sex, race, color, religion and national origin.

After conducting a compliance review, the OFCCP concluded that AstraZeneca violated Executive Order 11246 by failing to ensure certain women employees were paid fairly. According to the OFCCP lawsuit, AstraZeneca's Wayne, PA Philadelphia Business Center had routinely paid some of its female "primary care" and "specialty care" level III pharmaceutical sales specialists an average of \$1,700 less than men with the same positions. Because

of the company's pay secrecy policies, many of the women didn't know they were being paid less. In addition to the financial settlement, AstraZeneca and OFCCP will review records of the firm's female employees in 14 states. If they find additional statistical evidence of wage discrimination, the company must remedy it.

Questions

AstraZeneca has brought you in as a compensation consultant. Here are the questions they would like you to answer for them:

1. Although the case with OFCCP is closed, we wonder if there are any less discriminatory explanations possible for why our women sales reps on average earned less than men. If so, what are they?
2. Our company now uses a point method to evaluate jobs for pay purposes, and each resulting job class also has a rate range associated with it. Sales associates are now paid a salary, not based on incentive pay. List three specific things we can do to ensure that a similar problem (inequitable pay based on gender) does not arise again, assuming they continue using the point plan.
3. What sort of compensation plan would you recommend for us, and why?

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company

The New Pay Plan

Carter Cleaning Centers does not have a formal wage structure nor does it have rate ranges or use compensable factors. Wage rates are based mostly on those prevailing in the surrounding community and are tempered with an attempt on the part of Jack Carter to maintain some semblance of equity between what workers with different responsibilities in the stores are paid.

Carter does not make any formal surveys when determining what his company should pay. He peruses the want ads almost every day and conducts informal surveys among his friends in the local chapter of the laundry and cleaners trade association. While Jack has taken a "seat-of-the-pants" approach to paying employees, his salary schedule has been guided by several basic pay policies. Although many of his colleagues adhere to a policy of paying minimum rates, Jack has always followed a policy of paying his employees about 10% above what he feels are the prevailing rates,

a policy that he believes reduces turnover while fostering employee loyalty. Of somewhat more concern to Jennifer is her father's informal policy of paying men about 20% more than women for the same job. Her father's explanation is, "They're stronger and can work harder for longer hours, and besides they all have families to support."

Questions

1. Is the company at the point where it should be setting up a formal salary structure based on a complete job evaluation? Why?
2. Is Jack Carter's policy of paying 10% more than the prevailing rates a sound one, and how could that be determined?
3. Similarly, is Carter's male-female differential wise? If not, why not?
4. Specifically, what would you suggest Jennifer do now with respect to her company's pay plan?

EXPERIENTIAL EXERCISE

Ranking the College's Administrators

Purpose: The purpose of this exercise is to give you experience in performing a job evaluation using the ranking method.

Required Understanding: You should be thoroughly familiar with the ranking method of job evaluation and obtain job descriptions for your college's dean, department chairperson, director of admissions, library director, registrar, and your professor.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. The groups

will perform a job evaluation of the positions of dean, department chairperson, and professor using the ranking method.

1. Perform a job evaluation by ranking the jobs. You may use one or more compensable factors.
2. If time permits, a spokesperson from each group can put his or her group's rankings on the board. Did the groups end up with about the same results? How did they differ? Why do you think they differed?

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Should the job evaluation depend on an appraisal of the jobholder's performance? Why? Why not?
2. Do small companies need to develop a pay plan? Why or why not?
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

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Pay for Performance and Employee Benefits

Pay for Performance and Employee Benefits

OVERVIEW:
In this chapter,
we will cover . . .

INDIVIDUAL EMPLOYEE INCENTIVE PLANS

TEAM AND ORGANIZATIONWIDE INCENTIVE PLANS

BENEFITS AND SERVICES: THE BENEFITS PICTURE TODAY

PAY FOR TIME NOT WORKED AND INSURANCE BENEFITS

RETIREMENT AND OTHER BENEFITS

PERSONAL SERVICES AND FAMILY-FRIENDLY BENEFITS

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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Discuss the main incentives for individual employees.
2. Discuss the pros and cons of commissions versus straight pay for salespeople.
3. Name and define the most popular organizationwide incentive plans.
4. List and discuss the main pay for time not worked and insurance benefits.
5. Describe the main retirement benefits.
6. List and discuss the popular personal services and family-friendly benefits.

INTRODUCTION

As at many employers, cost control is part of NES Rentals Holdings, Inc.'s strategy. NES supplies construction equipment, such as aerial lifts.¹ The question is, how can it cut employee costs while maintaining its great reputation?

Most employers' total compensation packages today offer incentive pay, such as year-end bonuses. And virtually all offer benefits such as insurance plans. We'll look at incentives and benefits plans in this chapter, starting with incentives.



Source: Joy Brown/Shutterstock


 KNOWLEDGE
BASE

LEARNING OBJECTIVE 1

Discuss the main incentives for individual employees.

variable pay

Any plan that ties pay to productivity or profitability, usually as one-time lump payments.

piecework

A system of pay based on the number of items processed by each individual worker in a unit of time, such as items per hour or items per day.


 KNOWLEDGE
BASE
straight piecework

An incentive plan in which a person is paid a sum for each item he or she makes or sells, with a strict proportionality between results and rewards.

standard hour plan

A plan by which a worker is paid a basic hourly rate but is paid an extra percentage of his or her rate for production exceeding the standard per hour or per day. Similar to piecework payment but based on a percent premium.


 KNOWLEDGE
BASE
merit pay (merit raise)

Any salary increase awarded to an employee based on his or her individual performance.

INDIVIDUAL EMPLOYEE INCENTIVE PLANS

Employers use many incentives. To arrange our discussion, we will organize the following incentive plan sections around *individual employee incentive (and recognition) plans*, and *team and organizationwide incentive plans*. Then we will turn to benefits plans.

Traditionally, all incentive plans are *pay-for-performance* plans because they all tie workers' pay to performance.² The term **variable pay** usually refers to incentive plans that tie *a group's* pay to the firm's profitability;³ *profit-sharing plans* (discussed later) are one example. However, some experts do use the term *variable pay* to include incentive plans for individual employees.⁴ We begin our discussion with individual incentive plans—plans aimed primarily at incentivizing individual workers.

Piecework Plans

Piecework is the oldest and most popular individual incentive plan. Here you pay the worker a sum (called a *piece rate*) for each unit he or she produces. (Of course, the worker must make at least the minimum wage, so the plan should guarantee at least that, perhaps with pay-per-piece beyond that.) The crucial issue is the production standard, and industrial engineers often set this—for instance, in terms of a standard number of e-mail leads per hour. But in practice, most employers set the piece rates more informally.

Piecework generally implies **straight piecework**, which entails a strict proportionality between results and rewards regardless of output. The **standard hour plan** allows for sharing productivity gains between employer and worker; here the worker receives extra income (such as more per piece) for some above-normal production.⁵

Employee Incentives and the Law

There are legal considerations with piecework and other incentive plans. Perhaps most notably, under the Fair Labor Standards Act, if the incentive is in the form of a prize or cash award, the employer generally must *include the value of that award* when calculating the worker's overtime pay for that pay period.⁶ Suppose an employee who earns \$10 per hour for 40 hours also got an incentive payment of \$60 last week. Then his actual hourly pay last week was $\$460/40 = \11.50 per hour. If so, the employee would have to be paid one-and-one-half times \$11.50 (not times \$10) for any overtime hours worked.

Certain bonuses are excludable from overtime pay calculations. For example, Christmas and gift bonuses that are not based on hours worked, or are so substantial that employees don't consider them a part of their wages, do not have to be included. Similarly, discretionary bonuses in which the employer retains discretion over how much if anything to pay are excludable.

Merit Pay as an Incentive

Merit pay or a **merit raise** is any salary increase the firm awards to an individual employee based on his or her individual performance. It is different from a bonus in that it usually becomes part of the employee's base salary, whereas a bonus is a one-time payment. Although the term *merit pay* can apply to the incentive raises given to any employee, the term is more often used for white-collar employees, particularly professional, office, and clerical employees.

Merit pay is the subject of much debate. Advocates argue that just awarding pay raises across the board (without regard to individual merit) may actually detract from performance, by showing employees they'll be rewarded regardless of how they perform. Detractors argue, for instance, that since many appraisals are unfair, so too is the merit pay you base them on.⁷ The solution is more effective appraisal. Merit plan effectiveness depends on differentiating among employees. For example, base pay increases by U.S. employers for their highest ranked employees recently were 5.6%, compared with only 0.6% for the lowest-rated employees.⁸

AN OPTION One adaptation ties merit awards to both individual and organizational performance. Company performance and the employee's performance receive equal weight in computing the merit pay. In Table 1 an outstanding performer would receive 70% of his or her maximum lump-sum award even if the organization's performance were marginal. However, employees with marginal or unacceptable performance would get no lump-sum awards even in years in which the firm's performance was outstanding.

TABLE 1 Merit Award Determination Matrix (an Example)

The Employee's Performance Rating (Weight = 0.50)	The Company's Performance (Weight = 0.50)				
	Outstanding	Excellent	Good	Marginal	Unacceptable
Outstanding	1.00	0.90	0.80	0.70	0.00
Excellent	0.90	0.80	0.70	0.60	0.00
Good	0.80	0.70	0.60	0.50	0.00
Marginal	—	—	—	—	—
Unacceptable	—	—	—	—	—

Note: To determine the dollar value of each employee's award: (1) multiply the employee's annual, straight-time wage or salary as of June 30 times his or her maximum incentive award (as determined by management or the board—such as, "10% of each employee's pay") and (2) multiply the resultant product by the appropriate percentage figure from this table. For example, if an employee had an annual salary of \$40,000 on June 30 and a maximum incentive award of 7% and if her performance and the organization's performance were both "excellent," the employee's award would be \$2,240: $(\$40,000 \times 0.07 \times 0.80 = \$2,240)$.

Incentives for Professional Employees

Professional employees are those whose work involves the application of learned knowledge to the solution of the employer's problems, such as lawyers and engineers.

Making incentive pay decisions for professional employees is challenging. For one thing, firms usually pay professionals well anyway. For another, they're already driven to produce high-caliber work.

However, it is unrealistic to assume that people like Google engineers work only for professional gratification. So, for example, Google reportedly pays higher incentives to engineers working on important projects.⁹ And of course, such professionals also bask in the light of potentially millionaire-making stock option grants.

Dual-career ladders are another way to manage professionals' pay. At many employers, a bigger salary requires rerouting from engineering to management. However, not all professionals want such paths. Therefore, many employers institute one path for managers, and another for technical experts, allowing the latter to earn higher pay without switching to management.¹⁰

Making incentive pay decisions for professional employees is challenging. For one thing, firms usually pay professionals well anyway. For another, they're already driven to produce high caliber work.

Source: Paul Bradbury/Alamy





Nonfinancial and Recognition-Based Awards

Recognition programs are one type of nonfinancial reward. The term *recognition program* usually refers to formal programs, such as employee-of-the-month programs. *Social recognition program* generally refers to informal manager–employee exchanges such as praise, or expressions of appreciation. *Performance feedback* means providing quantitative or qualitative information on task performance to change or maintain performance; showing workers a graph of their performance trend is an example.¹¹ Nonfinancial and recognition awards are part of an employee’s total rewards.

Studies show that recognition has a positive impact on performance, either alone or in conjunction with financial rewards.¹² In one survey, 89% of surveyed companies reported having formal recognition programs in place, for instance to recognize performance, attendance, safety, and major life events.¹³

Many employers are automating their recognition programs. For example, Intuit shifted its employee recognition, years of service, patent awards, and wellness awards programs from several vendors to Globoforce several years ago. This move “allowed us to build efficiencies and improved effectiveness” into the programs’ management.¹⁴ One survey found that the most-used rewards to motivate employees (top–down, from most used to least) were:¹⁵

- Employee recognition
- Gift certificates
- Special events
- Cash rewards
- Merchandise incentives
- E-mail/print communications
- Training programs
- Work–life benefits
- Variable pay
- Group travel
- Individual travel
- Sweepstakes



GLOBAL PERSPECTIVE The manager should consider cultural factors when making such awards. One company gave a four dollar award to its Singapore employees as a gesture for the Chinese New Year, only to discover that in many Asian cultures “four” connotes death.¹⁶

JOB DESIGN Although not usually considered an “incentive,” job design can significantly influence employee motivation and retention. One study concluded that job responsibility and feedback from a job were the fifth and seventh most important drivers of employee engagement.¹⁷ Job design is thus a useful part of an employer’s total rewards program.



Improving Productivity through HRIS

Online and IT-Supported Awards

Incentive programs can be expensive and complicated to administer.¹⁸ Tracking the performance of dozens or hundreds of measures and then computing individual employees’ incentives is time-consuming. As one solution, vendors provide *enterprise incentive management (EIM)* systems. These automate the planning, analysis, and management of incentive compensation plans.¹⁹

Administering recognition programs is similarly challenging. Internet sites for awarding incentive/recognition rewards include www.premierechoiceaward.com/secure/home.asp, www.giveanything.com, www.incentivecity.com, and www.kudoz.com.

LEARNING OBJECTIVE 2

Discuss the pros and cons of commissions versus straight pay for salespeople.

Incentives for Salespeople

Sales compensation plans may focus on salary, commissions, or some combination.²⁰

SALARY PLAN Some firms pay salespeople fixed salaries (perhaps with occasional incentives in the form of bonuses, sales contest prizes, and the like).²¹ Straight salaries make sense when the main task involves prospecting (finding new clients) or account servicing (such as participating in trade shows). A Buick–GMC dealership in Lincolnton, North Carolina, offers straight salary as an option to salespeople who sell an average of at least eight vehicles a month (plus a small “retention bonus” per car sold).²²

The straight salary approach also makes it easier to switch territories or to reassign salespeople, and it can foster sales staff loyalty. The main disadvantage is that it may not motivate high performers.²³

COMMISSION PLAN Straight commission plans pay salespeople only for results. Such plans tend to attract high-performing salespeople who see that effort produces rewards. Sales costs are proportionate to sales rather than fixed, and the company's fixed sales costs are thus lower. It's a plan that's easy to understand and compute. Alternatives include quota bonuses (for meeting particular quotas), straight commissions, management by objectives programs (pay is based on specific metrics), and ranking programs (these reward high achievers but pay little or no bonuses to the lowest-performing salespeople).²⁴

However, problems abound. For example, in poorly designed plans, salespeople may focus on making the sale and neglect duties such as pushing hard-to-sell items.²⁵ Also, in most firms, a significant portion of the sales in one year reflects a "carry-over" (sales that would repeat even without any efforts by the sales force) from the prior year. Why pay the sales force a commission on all the current year's sales if some of those sales aren't "new" sales from the current year?²⁶

Combination Plan

Most companies therefore pay salespeople a combination of salary and commissions. An incentive mix of about 70% base salary/30% incentive seems typical; this cushions the salesperson's downside risk (of earning nothing), while limiting the risk that the commissions could get out of hand from the firm's point of view.²⁷

There are numerous options. Thus in a "commission-plus-drawing-account" plan, the salesperson is paid based on commissions, but can draw on future earnings to get through low sales periods. In the "commission-plus-bonus" plan, the firm pays its salespeople mostly based on commissions. However, they also get a small bonus for directed activities like selling slow-moving items. A survey reveals that, among other things, high-performing salespeople spend 264 more hours per year on high-value sales activities (e.g., prospecting, making sales presentations, and closing) than low performers do.²⁸



Incentives for Managers and Executives

The executives' reward package—base salary, short- and long-term incentives, and perks—must align with each other and with the goal of achieving the company's strategic aims. Compensation experts first ask, "What is our strategy and what are our strategic goals?" Then decide what long-term behaviors (boosting sales, cutting costs, and so on) the executives must exhibit to achieve the firm's strategic goals. Then shape each component of the executive compensation package (base salary, short- and long-term incentives, and perks) and group them into a balanced plan that makes sense in terms of motivating the executive to achieve these aims. The rule is this: each pay component should help focus the manager's attention on the behaviors required to achieve the company's strategic goals.²⁹ Therefore, using multiple, strategy-based performance criteria is best. These criteria include financial performance, number of strategic goals met, performance assessment by the board, employee productivity measures, and employee morale surveys.

One expert estimates that the typical CEO's salary accounts for about one-fifth of his or her pay. A bonus based on explicit performance standards accounts for another fifth, and long-term incentive awards such as stock options and long-term performance plans account for the remaining three-fifths.³⁰



SARBANES-OXLEY Congress passed the Sarbanes-Oxley Act of 2002 to inject more responsibility into executives' and board members' decisions. It makes them personally liable for violating their fiduciary responsibilities to their shareholders. The act also requires CEOs and CFOs of a public company to repay any bonuses, incentives, or equity-based compensation received from the company during the 12-month period following the issuance of a financial statement that the company must restate due to material noncompliance stemming from misconduct.³¹



Short-Term Managerial Incentives and the Annual Bonus

For better or worse, surveys suggest that employers are shifting away from long-term incentives to put more emphasis on short-term performance and incentives.³² Most firms have

annual bonus

Plans that are designed to motivate short-term performance of managers and which are tied to company profitability.

annual bonus plans for motivating managers’ short-term performance. Such short-term incentives can easily produce plus or minus adjustments of 25% or more to total pay. Four factors influence one’s bonus: eligibility, fund size, individual performance, and formula.

ELIGIBILITY Employers traditionally based annual bonus eligibility on job level/title, base salary, and/or officer status. Some simply based eligibility on job level or job title, or salary.³³ Recently, however, more employers are offering executives as well as employees below the executive level single annual incentive plans “in which both executives and other employees participate.”³⁴ The change reflects the fact that more employees—not just top managers—are now responsible for measurable contributions.

FUND SIZE How does one determine how big the annual bonus fund should be? Most employers (33% in a recent survey) traditionally use the Sum of Targets approach.³⁵ Specifically, they estimate the likely bonus for each eligible (“target”) employee, and total these up to arrive at the bonus pool’s size.

However, more employers (32%) are funding the short-term bonus fund based on financial results. For example, if profits were \$200,000, the management bonus fund might be 20% of \$200,000, or \$40,000. Most employers use more than one financial measure, with sales, earnings per share, and cash flow the most popular.³⁶

INDIVIDUAL PERFORMANCE AND FORMULA Deciding the actual individual award involves rating the person’s performance, and then applying a predetermined bonus formula. Most often, the employer sets a target bonus (as well as maximum bonus, perhaps double the target bonus) for each eligible position. The actual award the manager gets then reflects his or her performance. Other firms tie short-term bonuses to both organizational and individual performance. Thus, a manager might be eligible for an individual performance bonus of up to \$10,000, but receive only \$2,000 at the end of the year, based on his or her individual performance. But the person might also receive a second bonus of \$3,000, based on the firm’s profits for the year. One drawback here is that marginal performers still get bonuses. One way to avoid this is to make the bonus a product of both individual and corporate performance. For example, (Table 2) multiply the target bonus by 1.00, .80, or zero, depending on the person’s performance (and assuming excellent company performance). Then managers whose performance is poor receive no bonus. Some employers allocate bonuses based on multi-factor formulas. For example, oil rig firm Transocean Ltd. uses a formula that includes several factors such as new rig contracts and safety.



Executives’ Strategic Long-Term Incentives

To avoid a manager boosting short-term profits by, for instance, delaying required maintenance, employers use long-term incentives to inject a long-term perspective into executives’ decisions. In addition to cash, popular long-term incentives include stock options, stock, stock appreciation rights, and phantom stock. Procter & Gamble Co.’s CEO was paid \$15.2 million in 2012, including a base salary of \$1.6 million, a cash-based bonus of \$2.4 million, stock options valued at \$4.4 million, stock awards of \$6.45 million, plus perks such as air travel.³⁷

stock option

The right to purchase a stated number of shares of a company stock at today’s price at some time in the future.

STOCK OPTIONS A **stock option** is the right to purchase a specific number of shares of company stock at a specific price during a specific period. The executive thus hopes to profit by exercising his or her option in the future but at today’s price. This assumes the stock will go up.³⁸ When stock markets dropped, many employers including Intel and Google modified option plans to increase the likely payout.³⁹

TABLE 2 Multiplier Approach to Determining Annual Bonus

Individual Performance (Based on Appraisal, Weight = 0.50)	Company Performance (Based on Sales Targets, Weight = 0.50)			
	Excellent	Good	Fair	Poor
Excellent	1.00	0.90	0.80	0.70
Good	0.80	0.70	0.60	0.50
Fair	0.00	0.00	0.00	0.00
Poor	0.00	0.00	0.00	0.00

Note: To determine the dollar amount of a manager’s award, multiply the maximum possible (target) bonus by the appropriate factor in the matrix.

STOCK OPTION PROBLEMS The chronic problem with stock options is that they often reward even managers who have lackluster performance, but there are also other issues. Some executives manipulated the dates they received their options to maximize their returns. Options may also encourage executives to take perilous risks in pursuit of higher (at least short-term) profits.⁴⁰ A study of CEOs of Standard & Poor’s 1,500 companies found that 57% received pay increases although company performance didn’t improve.⁴¹

OTHER STOCK PLANS The trend is toward tying rewards more explicitly to performance goals. For example, instead of stock options, more firms are granting various types of performance shares such as *performance-contingent restricted stock*; the executive receives his or her shares only if he or she meets the preset performance targets.⁴² With *restricted stock plans*, the firm usually awards rights to the shares without cost to the executive but the employee is restricted from acquiring (and selling) the shares for, say, 5 years. The employer’s aim is to retain the employee’s services during that time.⁴³

Stock appreciation rights (SARs) permit the recipient to exercise the stock option (by buying the stock) or to take any appreciation in the stock price in cash, stock, or some combination of these. Under *phantom stock plans*, executives receive not shares but “units” that are similar to shares of company stock. Then at some future time, they receive value (usually in cash) equal to the appreciation of the “phantom” stock they own.

OTHER EXECUTIVE INCENTIVES Companies also provide incentives to persuade executives not to leave the firm. **Golden parachutes** are extraordinary payments companies make to executives in connection with a change in ownership or control of a company. For example, a company’s golden parachute clause might state that, with a change in ownership of the firm, the executive would receive a one-time payment of \$2 million.⁴⁴

golden parachute

A payment companies make in connection with a change in ownership or control of a company.

LEARNING OBJECTIVE 3

Name and define the most popular organizationwide incentive plans.

TEAM AND ORGANIZATIONWIDE INCENTIVE PLANS

We’ve focused on individual employee incentives such as executive bonuses. We look now at incentives for teams, and for all employees companywide.

Firms increasingly rely on teams to manage their work. They therefore need incentive plans that encourage teamwork and focus team members’ attention on performance.

Source: Vasily Smirnov/Shutterstock



team (or group) incentive plan

A plan in which a production standard is set for a specific work group, and its members are paid incentives if the group exceeds the production standard.

organizationwide incentive plan

Plans in which all or most employees can participate, and that generally tie the reward to some measure of companywide performance.

profit-sharing plan

A plan whereby employees share in the company's profits.

gainsharing plan

An incentive plan that engages employees in a common effort to achieve productivity objectives and share the gains.

How to Design Team Incentives

Firms increasingly rely on teams to manage their work. They therefore need incentive plans that encourage teamwork and focus team members' attention on performance. **Team (or group) incentive plans** pay incentives to the team based on the team's performance.

The main question here is how to reward the team's performance, and the wrong choice can prove lethal. Levi Strauss installed a team incentive plan that rewarded the team as a whole for its output, neglecting the fact that some employees worked harder than others did. The faster ones soon slowed down, production declined, and Levi's closed its U.S. factories.

Yet the usual approach is still to tie rewards to some overall standard of group performance, such as "total labor hours per car."⁴⁵ One company established such an overall standard for its teams. If the firm reached 100% of its goal, the employees would share in about 5% of the improvement (in labor costs saved). The firm divided the 5% pool by the number of employees to compute the value of a "share." If the firm achieved less than 100% of its goal, the bonus pool was less. The results of this plan—in terms of changing employee attitudes and focusing teams on strategic goals—were reportedly "extraordinary."⁴⁶

Many employers take the team incentive idea to the next logical level. **Organizationwide incentive plans** are plans in which all or most employees can participate, and which generally tie the reward to some measure of companywide performance. Plans include profit sharing, Scanlon/gainsharing plans, and employee stock ownership (ESOP) plans.

Profit-Sharing Plans

Profit-sharing plans are plans in which all or most employees receive a share of the firm's annual profits.⁴⁷

There are several types of profit-sharing plans. With *current profit-sharing* or cash plans, employees share in a portion of the employer's profits quarterly or annually. In cash plans, the firm simply distributes a percentage of profits (usually 15% to 20%) as profit shares to employees at regular intervals. The Home Depot instituted a cash program for its store workers. It started paying store associates a bonus if their stores meet certain financial goals. In one year, The Home Depot distributed a total of \$90 million under that companywide incentive plan.⁴⁸

With *deferred profit-sharing* plans, the employer puts cash awards into trust accounts for the employees' retirement.⁴⁹ These are essentially defined contribution pension plans (discussed below) "in which the employer has discretion to determine when and how much the company pays into the plan."⁵⁰ The employer generally distributes the awards based on a percentage of the employee's salary, or some measure of the employee's contribution to company profits.⁵¹ Employees' income taxes on the distributions are deferred until the employee retires or withdraws from the plan.

Gainsharing Plans

Gainsharing is an incentive plan that engages many or all employees in a common effort to achieve a company's productivity objectives, with any resulting cost savings (gains) shared among employees and the company.⁵² Popular gainsharing plans include the Scanlon plan, and the Lincoln, Rucker, and Improshare plans. In general, all are characterized by a philosophy of labor-management cooperation, an emphasis on ensuring that employees are trained to do their jobs, and by their use of a formula to distribute gains to employees.

The basic difference among these plans is the formula employers use to determine employee bonuses. In one version of the *Lincoln incentive system*, first instituted at the Lincoln Electric Company of Ohio, employees work on a guaranteed piecework basis. The company distributes total annual profits (less taxes, 6% dividends to stockholders, and a reserve) each year among employees based on their merit rating.

Most firms that use gainsharing implement customized versions. Recent results—from various efforts in hospitals, as well as manufacturing plants—suggest that gainsharing plans can improve productivity and patient care, and reduce grievances, but often also entail considerable implementation costs.⁵³ Based on positive results, the U.S. Department of Health and Human Services' Office of Inspector General approved certain hospital gainsharing plans. Here the hospital pays physicians a share of any cost savings attributable in part to the physicians' efforts.⁵⁴

earnings-at-risk pay plan

Plan that puts some portion of employees' normal pay at risk if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals.

**employee stock ownership plan (ESOP)**

A qualified, tax deductible stock bonus plan in which employers contribute stock to a trust for eventual use by employees.

At-Risk Pay Plans

In an **earnings-at-risk pay plan**, employees agree to put some portion (say, 6%) of their normal pay at risk (forego it) if they don't meet their goals, in return for possibly obtaining a much larger bonus (say, 12%), if they exceed their goals. Suppose one department's employees' base pay will be 94% of their counterparts' in a not-at-risk department. If the at-risk department then achieves its goals, the employees get their full pay; if it exceeds its goals, they receive a 12% bonus.

Employee Stock Ownership Plans

Employee stock ownership plans (ESOPs) are companywide plans in which the employer contributes shares of its own stock (or cash to be used to purchase such stock) to a trust established to purchase shares of the firm's stock for employees. The firm generally makes these contributions annually in proportion to total employee compensation, with a limit of 15% of compensation. The trust holds the stock in individual employee accounts and distributes it to employees upon retirement (or other separation), assuming the person has worked long enough to earn ownership of the stock.

The company receives a tax deduction equal to the fair market value of the shares it transfers to the trustee, and can claim an income tax deduction for dividends paid on ESOP-owned stock. Employees, as noted, aren't taxed until they receive a distribution from the trust, usually at retirement. The Employee Retirement Income Security Act (ERISA) allows a firm to borrow against employee stock held in trust and then repay the loan in pretax rather than after-tax dollars, another tax incentive for using such plans.⁵⁵

BROAD-BASED STOCK OPTIONS Some companies offer "broad-based stock option plans" in which all or most employees can participate. The basic thinking is that sharing ownership in the company with employees makes motivational and practical sense.⁵⁶ However with current tax laws, companies must show the options as an expense when awarded, reducing their attractiveness as a "costless" reward. Therefore, some employers such as Microsoft now apparently feel awarding stock instead of options is a more direct way to link pay to performance.⁵⁷

Evidence-Based HR: How Effective Are Your Incentives?

Somewhat astonishingly, given the amount of money employers pay out in commissions, about 60% of employers track sales performance and sales commissions much as they did decades ago, using spreadsheets.⁵⁸ But to maximize performance, the sales manager typically needs evidence. For instance, is there a positive correlation between salesperson performance and commissions, and does our commission plan maximize sales of our most profitable products?⁵⁹ Spreadsheets don't easily support such analyses. Many employers therefore use *enterprise incentive management* software.⁶⁰ For example, with VUE Compensation Management the sales manager can analyze compensation and performance data, conduct "what-if" analyses and reports, and do trend analyses for performance data.⁶¹

Effective Incentive Plans⁶²

Roughly 70% of employees feel that their firms' incentive plans are ineffective. Historically the main culprit was unilaterally raising standards to keep employees' incentive payments down.

Other plans simply aren't motivational.⁶³ The worker should see that effort will in fact lead to reward. Psychologist Victor Vroom would say there should be a clear link between *effort and performance*, and between *performance and reward*, and that the reward must be *attractive* to the employee.

There are several practical implications. The employee or employees must have specific challenging goals.⁶⁴ The link between one's effort and getting the incentive should be clear. Employees must have the skills and training to do the job. Employers should support the incentive plan with performance feedback, so employees see how they are doing. The manager should *gather evidence* on the effects of the incentive plan over time. Ascertain whether it is indeed influencing performance as you intended.⁶⁵

**BENEFITS AND SERVICES:
THE BENEFITS PICTURE TODAY**

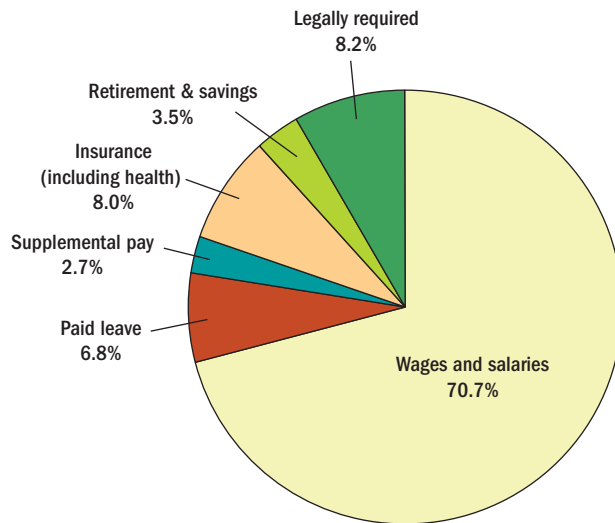
With wages and incentives, **benefits** are the third big component of one's total rewards. They are indirect financial and nonfinancial payments employees receive for continuing their employment with the company.⁶⁶ They include things like health and life insurance, pensions, time off with pay, and child care assistance.

benefits

Indirect financial and nonfinancial payments employees receive for continuing their employment with the company.

FIGURE 1
Relative Importance
of Employer Costs for
Employee Compensation,
March 2011

Source: www.bls.gov/news.release/ecec.nr0.htm, accessed June 1, 2011.



Virtually all employers offer some health insurance coverage.⁶⁷ Employee benefits account for between 33% and 40% of wages and salaries (or about 28% of total payrolls). Legally required benefits (like unemployment insurance) are the most expensive benefits costs, followed by health insurance. Figure 1 summarizes the breakdown of benefits as a percentage of employee compensation.

Health care benefit costs are rising. Health benefit costs rose an estimated 8.5% in 2012, making total 2012 health benefit costs per employee well over \$9,500.⁶⁸

Legal issues loom large. Federal laws mandate some benefits (such as Social Security) while other benefits are at the employer’s discretion (see Table 3). However, federal law also impacts discretionary benefits such as vacation leave. And employers must adhere to the laws of the states in which they do business. For example, California requires most state contractors to provide domestic partner benefits for employees.⁶⁹



LEARNING OBJECTIVE 4

List and discuss the main pay for time not worked and insurance benefits.

supplemental pay benefits

Benefits for time not worked such as unemployment insurance, vacation and holiday pay, and sick pay.

unemployment insurance (or compensation)

Provides benefits if a person is unable to work through some fault other than his or her own.

PAY FOR TIME NOT WORKED AND INSURANCE BENEFITS

Employers typically offer various pay for time not worked (also called **supplemental pay benefits**), as well as insurance benefits. We’ll start with the former. Common pay-for-time-not-worked includes, for instance, unemployment insurance, holidays, and sick leave.

Unemployment Insurance

All states have **unemployment insurance** (or **compensation**) laws. These provide benefits if a person is unable to work through no fault of his or her own. The benefits derive from a tax on employers that can range from 0.1% to 5% of taxable payroll in most states. An employer’s unemployment tax rate reflects its rate of employee terminations. While following federal guidelines, states have their own unemployment laws. Unemployment tax rates are rising in many states. For example,

TABLE 3 Some Required and Discretionary Benefits

Benefits Required by Federal or Most State Law	Benefits Discretionary on Part of Employer*
Social Security	Disability, health, and life insurance
Unemployment insurance	Pensions
Workers’ compensation	Paid time off for vacations, holidays, sick leave, personal leave, jury duty, etc.
Leaves under Family Medical Leave Act	Employee assistance and counseling programs, “family friendly” benefits for child care, elder care, flexible work schedules, etc., executive perquisites

*Although not required under federal law, all these benefits are regulated in some way by federal law, as explained in this chapter.

Unemployment insurance/compensation laws provide short-term benefits to people who lose their jobs through no fault of their own.

Source: Reuters/CORBIS



prior to the recent recession, Maryland's unemployment insurance tax rate was 0.3% or lower. The rate now averages 2.2% to 13.5% per employee, depending upon the employer's claim history.⁷⁰

Firms aren't required to let everyone they dismiss receive unemployment benefits—only those released through no fault of their own. The main rule is to keep a list of written warnings. Beyond that, following the checklist items in Table 4 can help demonstrate that the dismissal resulted from the person's inadequate performance.

Vacations and Holidays

Most firms offer vacation leave benefits. About 90% of full-time workers and 40% of part-timers get paid holidays, an average of 8 paid holidays off.⁷¹ The most common U.S. paid holidays include New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.⁷² On average, American workers get about 9 days of vacation leave after 1 year's employment, about 14 days after 5 years, and 17 after 10 years.⁷³

Firms have to make several holiday- and vacation-related policy decisions. They must decide, of course, how many days off employees will get, and which days (if any) will be the paid holidays. Other vacation policy decisions include, for instance, will employees get their regular base pay while on vacation, or vacation pay based on average earnings (which may include overtime)? And, will the firm pay employees for a holiday if they don't come to work the day before and the day after the holiday?

More firms are moving to a flexible vacation policy. For example, IBM gives each of its employees at least 3 weeks' vacation, but it doesn't formally track the vacation each person takes. Employees simply make informal vacation arrangements with their direct supervisors.⁷⁴

Wage surveys and websites like www.hrtools.com provide sample vacation policies for inclusion in the firm's employee manual.

SOME LEGAL ASPECTS OF VACATIONS AND HOLIDAYS Although federal law does not require vacation benefits, the employer must still formulate vacation policy with care. As an example, many employers' vacation policies say vacation pay accrues, say, on a biweekly basis. By doing so, these employers obligate themselves to pay employees pro rata vacation pay when they leave the firm. But if the employer's vacation policy requires that a new employee pass his or her first employment anniversary *before becoming entitled* to a vacation, the employee gets no vacation pay if he or she leaves during that first year.

Sick Leave

Sick leave provides pay to employees when they're out of work due to illness. Most sick leave policies grant full pay for a specified number of sick days—usually up to about 12 per year. The days usually accumulate at the rate of, say, 1 day per month of service.

The problem is that while many employees use their sick days only when sick, others use it whether sick or not. In one survey, personal illnesses accounted for only about 45% of

sick leave

Provides pay to an employee when he or she is out of work because of illness.

TABLE 4 An Unemployment Insurance Cost-Control Checklist**Do You:**

- Keep documented history of lateness, absence, and warning notices
- Warn chronically late employees before discharging them
- Have rule that 3 days' absence without calling in is reason for automatic discharge
- Request doctor's note on return to work after absence
- Make written approval for personal leave mandatory
- Stipulate date for return to work from leave
- Obtain a signed resignation statement
- Mail job abandonment letter if employee fails to return on time
- Document all instances of poor performance
- Require supervisors to document the steps taken to remedy the situation
- Document employee's refusal of advice and direction
- Require all employees to sign a statement acknowledging acceptance of firm's policies and rules
- File the protest against a former employee's unemployment claim on time (usually within 10 days)
- Use proper terminology on claim form and attach documented evidence regarding separation
- Attend hearings and appeal unwarranted claims
- Check every claim against the individual's personnel file
- Routinely conduct exit interviews to produce information for protesting unemployment claims

unscheduled sick leave absences. Family issues (27%), personal needs (13%), and a mentality of "entitlement" (9%) were other reasons cited.⁷⁵

COST-REDUCTION TACTICS Employers use several tactics to reduce excessive sick leave absence. Some repurchase unused sick leave at the end of the year by paying their employees a sum for each sick leave day not used. The problem is that legitimately sick employees may come to work. At Marriott, employees can trade the value of some sick days for other benefits. Other employers aggressively investigate all absences, for instance, calling the absent employees at their homes.⁷⁶

Many employers use *pooled paid leave plans* (or "banks").⁷⁷ These plans lump together sick leave, vacation, and personal days into a single leave pool. For example, one hospital previously granted new employees 25 days off per year (10 vacation days, 3 personal days, and 12 sick days). Employees used, on average, 5 of those 12 sick days (as well as all vacations and personal days).⁷⁸ The pooled paid leave plan allowed new employees to accrue 18 days to use as they saw fit. ("Catastrophic leaves" were handled separately.) The pooled plan reduced absences.⁷⁹

Some employers centralize their absence management programs (they call this "integrated absence management"). Proactively managing absences this way should begin with analysis. For instance, how many people are on leave; how many days of work the employer is losing on a full-time equivalent basis; how much the employer is spending to replace absent workers; and what units seem to have the attendance problems.⁸⁰ Then put in place solutions such as rigorous absence claims reviews. The accompanying HR as a Profit Center feature expands on this.

HR AS A PROFIT CENTER

Cutting Absences at the Driver and Vehicle Licensing Agency

When she became director of the United Kingdom's Driver and Vehicle Licensing Agency, Judith Whitaker saw she had to address its sickness absence rate.⁸¹ The rate had peaked at 14 days out per employee in 2005, at a cost of about \$20 million per year (£10.3 million).

The new director organized an initiative to address the sick leave absence problem.⁸² The agency set a goal of reducing absences by 30% by 2010. Agency directors received absence-reduction goals, and their progress was tracked. The agency introduced new policies to make it easier for employees to swap work shifts, and introduced a guaranteed leave day policy. The average annual sickness absence rate was soon down to 7.5 days per employee. Improved attendance probably contributed to a 7% productivity increase in 2009–2010. This translates into savings of about \$48 million dollars (£24.4 million).

Parental Leave and Sick Leave Legal Issues

Parental leave is an important benefit. About half of workers are women, and about 80% will become pregnant during their work lives. Furthermore, many people head single-parent households. Under the *Pregnancy Discrimination Act*, employers must treat women applying for pregnancy leave as they would any other employee requesting a leave under the employer's policies. Beyond this, Congress passed, as noted, the Family and Medical Leave Act of 1993 (FMLA). Among other things, it stipulates that:⁸³

1. Private employers of 50 or more employees must provide eligible employees (women or men) up to 12 weeks of unpaid leave for their own serious illness, the birth or adoption of a child, or the care of a seriously ill child, spouse, or parent.
2. Employers may require employees to take any unused paid sick leave or annual leave as part of the 12-week leave provided in the law.
3. Employees taking leave are entitled to receive health benefits while they are on FMLA leave, under the same terms and conditions as when they were on the job.
4. Employers must guarantee most employees the right to return to their previous or equivalent position with no loss of benefits at the end of the leave.

The employer who wants to avoid granting unnecessary FMLA leaves needs to understand the FMLA. For example, to be eligible for leave under the FMLA, the employee must have worked for the employer for at least a total of 12 months and have worked (not just been paid, as someone might be if on leave) for 1,250 or more hours in the past 12 consecutive months.⁸⁴ If these do not apply, no leave is required.

Some employers are enriching their parental leave plans to make it more attractive for mothers to return from maternity leave. Tactics include keeping in touch throughout the maternity leave, offering flexible jobs with reduced travel and hours, giving mothers fair access to bonuses and incentives, and facilitating longer leaves.⁸⁵

Other laws apply to sick leaves. Under the Americans with Disabilities Act (ADA), a qualified employee with a disability may be eligible for a leave if such a leave is necessary to accommodate reasonably the employee. Under various state workers' compensation laws, employees may be eligible for leave in connection with work-related injuries. Many states, such as California, also have more restrictive versions of the FMLA.⁸⁶

Employers need procedures for all leaves of absence (including those awarded under the FMLA). These include:

- Give no employee a leave until the reason for the leave is clear.
- If the leave is for medical or family reasons, the employer should obtain medical certification from the medical practitioner.
- Use a standard form to record both the employee's expected return date and the fact that, without an authorized extension, the firm may terminate his or her employment (see Figure 2).

Severance Pay

Many employers provide **severance pay**, a one-time separation payment when terminating an employee. Severance pay makes sense. It is humanitarian and good public relations. Furthermore, most managers expect employees to give notice if they plan to quit, so it seems equitable to provide severance pay when dismissing an employee. Reducing the chances of litigation from disgruntled former employees is another reason. Severance pay plans also help reassure employees who stay on after a downsizing that they'll receive some financial help if they're let go, too. In one survey of 3,000 human resource managers, 82% of responding organizations reported having a severance policy.⁸⁷

The reason for the dismissal affects who gets severance pay. About 95% of employees dismissed due to downsizings got severance pay, but only about a third of employers offer severance when terminating for poor performance. It is uncommon to pay when employees quit. The average maximum severance is 39 weeks for executives and about 30 weeks for other downsized employees.⁸⁸ About half of employers surveyed give white-collar and exempt employees 1 week of severance pay per year of service, and about one-third do the

severance pay

A one-time payment some employers provide when terminating an employee.

FIGURE 2
Online Request for Leave Form

Source: www.opm.gov/FORMS/PDF_FILL/opm71.pdf, accessed October 17, 2012.

Request for Leave or Approved Absence						
1. Name (Last, first, middle)				2. Employee or Social Security Number		
3. Organization						
4. Type of Leave/Absence						
Check appropriate box(es) and enter date and time below	Date		Time		Total Hours	
	From	To	From	To		
<input type="checkbox"/> Accrued annual leave						
<input type="checkbox"/> Restored annual leave						
<input type="checkbox"/> Advance annual leave						
<input type="checkbox"/> Accrued sick leave						
<input type="checkbox"/> Advance sick leave						
Purpose: <input type="checkbox"/> Illness/injury/incapacitation of requesting employee						
<input type="checkbox"/> Medical/dental/optical examination of requesting employee						
<input type="checkbox"/> Care of family member, including medical/dental/optical examination of family member, or bereavement						
<input type="checkbox"/> Care of family member with a serious health condition						
<input type="checkbox"/> Other						
<input type="checkbox"/> Compensatory time off						
<input type="checkbox"/> Other paid absence (specify in remarks)						
<input type="checkbox"/> Leave without pay						
5. Family and Medical Leave						
If annual leave, sick leave, or leave without pay will be used under the Family and Medical Leave Act of 1993 (FMLA), please provide the following information:						
<input type="checkbox"/> I hereby invoke my entitlement to family and medical leave for:						
<input type="checkbox"/> Birth/Adoption/Foster care						
<input type="checkbox"/> Serious health condition of spouse, son, daughter, or parent						
<input type="checkbox"/> Serious health condition of self						
Contact your supervisor and/or your personnel office to obtain additional information about your entitlements and responsibilities under the FMLA. Medical certification of a serious health condition may be required by your agency.						
6. Remarks						
7. Certification: I certify that the leave/absence requested above is for the purpose(s) indicated. I understand that I must comply with my employing agency's procedures for requesting leave/approved absence (and provide additional documentation, including medical certification, if required) and that falsification of information on this form may be grounds for disciplinary action, including removal.						
7a. Employee signature				7b. Date signed		
8a. Official action on request <input type="checkbox"/> Approved <input type="checkbox"/> Disapproved (if disapproved, give reason, if annual leave, initiate action to reschedule.)						
8b. Reason for disapproval						
8c. Signature				8d. Date signed		
<p>Privacy Act Statement</p> <p>Section 5311 of title 5, United States Code, authorizes collection of this information. The primary use of this information is by management and your payroll office to approve and record your use of leave. Additional disclosures of the information may be: To the Department of Labor when processing a claim for compensation regarding a job connected injury or illness; to a State unemployment compensation office regarding a claim; to Federal Life Insurance or Health Benefits carriers regarding a claim; to a Federal, State, or local law enforcement agency when your agency becomes aware of a violation or possible violation of civil or criminal law; to a Federal agency when conducting an investigation for employment or security reasons; to the Office of Personnel Management or the General Accounting Office when the information is required for evaluation of leave administration, or the General Services Administration in connection with its responsibilities for records management.</p> <p>Public Law 104-134 (April 26, 1996) requires that any person doing business with the Federal Government furnish a social security number or tax identification number. This is an amendment to title 31, Section 7701. Furnishing the social security number, as well as other data, is voluntary, but failure to do so may delay or prevent action on the application. If your agency uses the information furnished on this form for purposes other than those indicated above, it may provide you with an additional statement reflecting those purposes.</p>						
Office of Personnel Management 5-CFR 630		Local Reproduction Authorized			OPM Form 71 June 2001 Privacy Standard Form (SF) 71	
Print Form		Clear Form		Save Form		

supplemental unemployment benefits

Provide for a “guaranteed annual income” in certain industries where employers must shut down to change machinery or due to reduced work. These benefits are paid by the company and supplement unemployment benefits.

same for blue-collar workers.⁸⁹ If the employer obligates itself (for instance, in its employee handbook) to pay severance, then its “voluntary” plan must comply with additional rules under ERISA.⁹⁰

Supplemental Unemployment Benefits

In industries such as auto making, shutdowns to reduce inventories or change machinery are common, and laid-off or furloughed employees must depend on unemployment insurance. As the name implies, **supplemental unemployment benefits** are cash payments that supplement the employee’s unemployment compensation, to help the person maintain his or her standard of living while out of work.

Insurance Benefits

Employers also provide various required or voluntary insurance benefits, such as workers’ compensation and health insurance.



workers' compensation

Provides income and medical benefits to work-related accident victims or their dependents regardless of fault.

Workers' Compensation

Workers' compensation laws aim to provide sure, prompt income and medical benefits to work-related accident victims or their dependents, regardless of fault. Every state has its own workers' compensation law and commission, and some run their own insurance programs. However, most require employers to carry workers' compensation insurance with private, state-approved insurance companies. Neither the state nor the federal government contributes any funds for workers' compensation.

HOW BENEFITS ARE DETERMINED Workers' compensation can be monetary or medical. In the event of a worker's death or disablement, the person's dependents receive a cash benefit based on prior earnings—usually one-half to two-thirds the worker's average weekly wage, per week of employment. Most states have a time limit—such as 500 weeks—for which benefits can be paid. If the injury causes a specific loss (such as an arm), the employee may receive additional benefits based on a statutory list of losses, even though he or she may return to work. In addition to these cash benefits, employers must furnish medical, surgical, and hospital services as required for the employee.

For workers' compensation to cover an injury or work-related illness, the worker must only prove that it arose while on the job. It does not matter if the worker was at fault. For example, suppose you instruct all employees to wear safety goggles when at their machines. One worker does not and experiences an eye injury on the job. The company must still provide workers' compensation benefits.

Keep in mind that ADA provisions generally prohibit employers from inquiring about an applicant's workers' compensation history. Furthermore, failing to let an employee who is on injury-related workers' compensation return to work, or not accommodating him or her, could lead to lawsuits under ADA.

CONTROLLING WORKERS' COMPENSATION COSTS It is important to control workers' compensation claims (and therefore costs). The employer's insurance company usually pays the claim, but the costs of the employer's premiums reflect the amount of claims.⁹¹

There are several ways to reduce workers' compensation claims. Screen out accident-prone workers. Reduce accident-causing conditions in your facilities. And reduce the accidents and health problems that trigger these claims—for instance, by instituting effective safety and health programs and complying with government safety standards. Furthermore, although many workers' compensation claims are legitimate, some are not. Red flags include vague accident details, lack of witnesses, and late reporting.⁹²

Other workers' comp cost-control techniques include monitoring health care providers for compliance with their fee schedules and auditing medical bills.⁹³ *Case management* is a popular cost-control option. It is “the treatment of injured workers on a case-by-case basis by an assigned manager, usually a registered nurse, who coordinates with the physician and health plan to determine which care settings are the most effective for quality care and cost.”⁹⁴

Moving aggressively to support the injured employee and to get him or her back to work quickly is important. The involvement of an attorney and the duration of the claim both influence the workers claim cost.⁹⁵ Many firms have rehabilitation programs, such as physical therapy, to help get claim recipients back to work.

Hospitalization, Health, and Disability Insurance

Health insurance looms large in many people's choice of employer, because it is so expensive.⁹⁶ Hospitalization, health, and disability insurance helps protect employees against hospitalization costs and the loss of income arising from off-the-job accidents or illness. Many employers purchase insurance from life insurance companies, casualty insurance companies, or Blue Cross (for hospital expenses) and Blue Shield (for physician expenses) organizations. Others contract with health maintenance organizations or preferred provider organizations. The employer and employee usually both contribute to the plan. Table 5 lists some health-related benefits.

COVERAGE Most employer health plans provide at least basic hospitalization and surgical and medical insurance for all eligible employees at group rates. Insurance is generally available to all employees—including new nonprobationary ones—regardless of health or physical condition. Most basic plans pay for hospital room and board, surgery charges, and medical expenses (such as doctors' visits to the hospital). Some also provide “major medical” coverage to meet the medical expenses resulting from serious illnesses.

TABLE 5 Percentage of Employers Offering Some Popular Health Benefits—Change over Time

	Yes (%) 2005	Yes (%) 2011
Prescription drug program coverage	97	96
Dental insurance	95	94
Mail order prescription program	90	91
PPO (preferred provider organization)	87	84
Chiropractic coverage	56	83
Mental health insurance	72	82
Vision insurance	80	76
Employee assistance program	73	75
Medical/Flexible spending account	80	73
HMO (health maintenance organization)	53	33

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Most employers’ health plans also cover health-related expenses like doctors’ visits, eye care, and dental services. Other plans pay for general and diagnostic visits to the doctor’s office, vision care, hearing aids, and prescription drugs. *Disability insurance* provides income protection for salary loss due to illness or accident. Payments usually start when normal sick leave payments end. Disability benefits usually range from 50% to 75% of the employee’s base pay if he or she is disabled.

health maintenance organization (HMO)

A prepaid health care system that generally provides routine round-the-clock medical services as well as preventive medicine in a clinic-type arrangement for employees, who pay a nominal fee in addition to the fixed annual fee the employer pays.

preferred provider organizations (PPOs)

Groups of health care providers that contract with employers, insurance companies, or third-party payers to provide medical care services at a reduced fee.

HMOs Many employers offer membership in a **health maintenance organization (HMO)** as a hospital/medical insurance option. The HMO is a medical organization consisting of specialists, often operating out of a health care center. It provides routine medical services to employees who pay a nominal fee. Employees often have “gatekeeper” doctors who must approve appointments with specialists. The HMO receives a fixed annual fee per employee from the employer (or employer and employee), regardless of whether it provides that person service.

PPOs Preferred provider organizations (PPOs) are a cross between HMOs and the traditional doctor–patient arrangement.⁹⁷ Unlike HMOs, PPOs let employees select providers (such as doctors) from a relatively wide list, and see them in their offices, often without gatekeeper doctor approval. The providers agree to certain controls, for example on testing. Employers are shifting to PPOs.⁹⁸

MENTAL HEALTH BENEFITS Mental illnesses represent about 24% of all reported disabilities, more than disabling injuries, respiratory diseases, cardiovascular diseases, and cancer combined.⁹⁹

Mental health costs are rising. Reasons include widespread drug and alcohol problems, an increase in states that require employers to offer minimum mental health benefits, and the fact that mental health claims tend to trigger other health care claims. The Mental Health Parity Act of 1996 (as amended in 2008) sets minimum mental health care benefits; it also prohibits employer group health plans from adopting mental health benefits limitations without comparable limitations on medical and surgical benefits.¹⁰⁰



The Legal Side of Health Benefits

With the United States introducing new health insurance laws, federal influence over health benefits will increase substantially in the next few years.

PATIENT PROTECTION AND AFFORDABLE CARE ACT OF 2010 Signed into law by President Obama in 2010, employers will face a number of deadlines under the new Patient Protection and Affordable Care Act, unless Congress changes the law. For example, employers must begin reporting the value of health care benefits on employee’s W-2 statements; contributions to health care flexible spending arrangements will be limited to \$2,500 as of January 1, 2013; and in 2018 a 40% excise tax on

high-cost health insurance plans goes into effect.¹⁰¹ Individual and group health plans that already provide dependent coverage must expand eligibility up to age 26.¹⁰² Among many other things, the act encourages employers with 50 or more employees to offer health insurance or pay a “shared responsibility payment” if the government has to subsidize an employee’s health care.

Employers in one survey expected this act to quickly raise their health care expenses by 2% to 5%.¹⁰³ As the act phases in over the next few years (assuming Congress makes no changes), the excise tax on high-cost plans was the employers’ main cost concern. Other cost-raisers, the employers said, include the expanded coverage for older children, the ban on lifetime benefit dollar limits, the requirement that employers auto-enroll new hires into health plans, and the rule that employers must offer coverage to employees including those working less than 30 hours per week (many of whom now have no health benefits).¹⁰⁴

A survey suggests that employers plan to make substantial changes to their health care programs in response to the act. For example, 68% plan to boost employee contributions for dependents; 26% plan to end employer sponsorship of retiree medical coverage; and 33% plan to reward or penalize employees based on measurable criteria such as cholesterol levels.¹⁰⁵

COBRA The Consolidated Omnibus Budget Reconciliation Act (COBRA) requires most private employers to continue to make health benefits available to separated employees and their families for a time, generally 18 months after separation.¹⁰⁶ The former employee must pay for the coverage. Most importantly, you don’t want separated employees to leave and be injured, and then claim you never told them they could have continued their insurance. Therefore, new employees *must* acknowledge receiving an explanation of their COBRA rights. And, all separated employees should sign a form acknowledging that they received and understand those rights. (See Figure 3 for a checklist.)

OTHER LAWS Other federal laws are pertinent. For example, among other things, the *Employee Retirement Income Security Act (ERISA)* of 1974 sets minimum standards for most voluntarily established pension and health plans in private industry.¹⁰⁷ *The Newborn Mother’s Protection Act* of 1996 prohibits employers’ health plans from using incentives to encourage employees to leave the hospital after childbirth after less than the legislatively determined minimum stay. Employers that provide health care services must follow the privacy rules of the *Health Insurance Portability and Accountability Act (HIPAA)* of 1974.¹⁰⁸ Employers must provide the same health care benefits to employees over the age of 65 that they do to younger workers, even though the older workers are eligible for federal Medicare health insurance. Other relevant laws (covered earlier) include the *Americans with Disabilities Act*, the *Pregnancy Discrimination Act*, and the *Genetic Information Nondiscrimination Act (GINA)* of 2008.¹⁰⁹

Trends in Employer Health Care Cost Control

Employers are endeavoring to rein in health care costs. Many retain *cost-containment specialists* to help reduce such costs. And most negotiate more aggressively with their health care insurance providers.¹¹⁰ Most cost-control efforts necessarily start by instituting methods for measuring and tracking health care costs.¹¹¹

For many employers, deductibles and co-payments (co-pays) are the low-hanging fruit in health care cost control. For example, 22% of employers imposed deductibles of at least \$1,000 in 2011 for in-network services.¹¹² The Medicare Modernization Act of 2003 allows employers to establish tax-free “health savings accounts” [HSAs]. *Consumer-driven health plans (CDHPs)* are high-deductible plans that give employees access to, for instance, such a health savings account.¹¹³ After the employer, employee, or both deposit pretax (and thus tax sheltered) pay in the employees’ HSAs, employees or their families can use their HSA funds like bank accounts to pay for “low-dollar” (not catastrophic) medical expenses.¹¹⁴ The assumption is that this will motivate employees to utilize less expensive health care options, and thus avoid big deductibles.¹¹⁵ Employers generally offer CDHPs as an option to traditional plans such as PPOs.¹¹⁶ We’ll address other important cost-control tactics next.

WELLNESS PROGRAMS Many illnesses are preventable.¹¹⁷ Many employers therefore offer preventive services.¹¹⁸ *Clinical prevention* programs include things like mammograms and routine checkups. Walgreens owns companies that provide *on-site health care services* such as mammograms for employees.¹¹⁹ Employers should check the prospective vendor’s accreditation and certifications.¹²⁰ *Health promotion and disease prevention* programs include seminars and

FIGURE 3

COBRA Record-Keeping Compliance Checklist

Source: “COBRA Record-Keeping Compliance Checklist.” Copyright © 2012 by BLR—Business & Legal Resources (www.HR.BLR.com). Reprinted with permission.

Detailed record keeping is crucial for COBRA compliance. The following checklist is designed to ensure that the proper records are maintained for problem-free COBRA compliance.

	Yes	No
· Do you maintain records so that it is easily determined who is covered by your group health care plan?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you record terminations of covered employees as soon as terminations occur?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you track reduction of hours of employees covered by group health care plans?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you track deaths of employees covered by group health care plans?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you track leaves of absence of employees covered by group health care plans?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you track Medicare eligibility of employees covered by group health care plans?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you track the disability status of employees covered by group health care plans?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you track retirees covered by group health care plans?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you maintain current addresses of employees?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you maintain current addresses of individuals receiving COBRA benefits?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you require employees to provide a written acknowledgment that they have received notice of their COBRA rights?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you have a system to determine who has paid COBRA premiums on time?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you have a system to determine who has obtained other group health coverage so that they are no longer eligible for COBRA under your plan?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you maintain a telephone log of calls received about COBRA?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you maintain a record of changes in your plan?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you maintain a record of how premiums are calculated?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you maintain a log of those employees who are denied COBRA coverage?	<input type="checkbox"/>	<input type="checkbox"/>
· Do you maintain a log of why employees are denied COBRA coverage?	<input type="checkbox"/>	<input type="checkbox"/>

incentives aimed at improving unhealthy behaviors.¹²¹ Top wellness program trends include obesity management, stress management, senior health improvement, and tobacco cessation programs.¹²² Incentives, for instance, \$50–\$100, can boost wellness program participation but may backfire.¹²³ Whirlpool gives nonsmoker discounts on health care premiums worth about \$500 (but suspended 39 workers it caught smoking outside the plant after claiming they weren’t tobacco users). Employers are linking each employee’s health care premiums to his or her healthy behaviors.¹²⁴ Many wellness programs (such as healthy beverages in vending machines and lunchtime walking groups) require are simple and inexpensive.¹²⁵

CLAIM AUDITS The industry standard for percentage of claims errors is 3%, but a Towers Perrin survey found the *actual* percentage of claims with financial errors were about 6.3%. The industry standard for percentage of claims dollars actually paid in error was 1%; the *actual* percentage of claims dollars paid in error was 3.4%. So, setting standards for errors and then aggressively auditing claims may be the most direct way to reduce employer health care costs.¹²⁶

LIMITED PLANS Unlike health care plans that may have lifetime coverage limits of \$1 million or more, limited-benefit health care insurance (“mini”) medical plans have annual caps of about \$2,000–\$10,000 per year. Premiums are correspondingly lower.¹²⁷

OUTSOURCING Benefits management ranks high on the list of HR activities that employers outsource.¹²⁸ For example, in one survey, 94% outsourced management of flexible spending accounts, 89% outsourced defined contribution plans, 72% outsourced defined benefit plans, and 68% outsourced the auditing of dependents.¹²⁹

OTHER COST-CONTROL OPTIONS Employers are taking other steps. With *defined contribution health care plans* each employee gets a specific dollar amount allotment to use for co-pays or discretionary medical costs, rather than a specified health care benefits package with open-ended costs.¹³⁰ Many employers reduce subsidized health benefits for their future *retirees*.¹³¹ Small firms are joining *benefits purchasing alliances*, banding together to purchase health care benefits. Others are encouraging *medical tourism*, which means asking employees to have nonurgent medical procedures abroad, where costs are lower.¹³²

Others ensure that *dependents* are eligible for coverage.¹³³ Some, such as Viking Range Corp., have *self-funded* or self-insured health plans. Rather than paying premiums to insurance carriers, Viking pays employees' medical claims directly.¹³⁴ About 19% of almost 600 employers surveyed had some form of health care plan *spousal exclusion policies*, such as excluding a spouse when similar coverage was available from the spouse's employer.¹³⁵ Employers are demanding insurers use *accountable care organizations (ACO)*. These are vendors who help insurers oversee and coordinate the efforts of healthcare providers and others with the goal of improving costs and outcomes.¹³⁶ Also *make sure employees know the costs* of their medical benefits.¹³⁷ For example, periodically send a statement to each employee listing the employer's costs for each health benefit. *Online selection* lets employees choose the best of the employer's health care offerings, based on input from other employees on their experiences.

Long-Term Care

With baby boomers in their 60s, long-term care insurance—for things like nursing assistance to former employees in their old age—is a key benefit. The Health Insurance Portability and Accountability Act of 1996 lets employers and employees deduct the cost of long-term care insurance premiums from their annual income taxes, making this benefit more attractive.¹³⁸ Employers can also provide insurance benefits for several types of long-term care, such as adult day care, assisted living, and custodial care.

Life Insurance

In addition to hospitalization and medical benefits, most employers provide **group life insurance** plans. Employees can usually obtain lower rates in a group plan. And group plans usually accept all employees—including new, nonprobationary ones—regardless of health or physical condition.

In general, there are three key personnel life insurance policies to address: the benefits-paid schedule (the amount of life insurance benefits is usually tied to the employee's annual earnings), supplemental benefits (continued life insurance coverage after retirement, for instance), and financing (the amount and percentage the employee contributes).

Accidental death and dismemberment coverage provides a lump-sum benefit in addition to life insurance benefits when death is accidental, and benefits in case of accidental loss of limbs or sight.

Benefits for Part-Time and Contingent Workers

About 19 million people work part-time (less than 35 hours a week). Most firms provide holiday, sick leave, and vacation benefits to part-timers, and more than 70% offer some form of health care benefits to them.¹³⁹ As noted, the Patient Protection and Affordable Care Act will mandate such coverage. Again, employers should not misclassify part-timers as "independent contractors" to avoid benefits.¹⁴⁰

group life insurance

Provides lower rates for the employer or employee and includes all employees, including new employees, regardless of health or physical condition.

Social Security

Federal program that provides three types of benefits: retirement income at the age of 62 and thereafter; survivor's or death benefits payable to the employee's dependents regardless of age at time of death; and disability benefits payable to disabled employees and their dependents. These benefits are payable only if the employee is insured under the Social Security Act.



RETIREMENT AND OTHER BENEFITS

Social Security

Social Security actually provides three types of benefits. The familiar *retirement benefits* provide an income if you retire at age 62 or thereafter and are insured under the Social Security Act. Second are *survivor's* or *death benefits*. These provide monthly payments to your dependents

LEARNING OBJECTIVE 5

Describe the main retirement benefits.

pension plans

Plans that provide a fixed sum when employees reach a predetermined retirement age or when they can no longer work due to disability.

defined benefit pension plan

A plan that contains a formula for determining retirement benefits.

defined contribution pension plan

A plan in which the employer's contribution to employees' retirement savings funds is specified.

portability

Making it easier for employees who leave the firm prior to retirement to take their accumulated pension funds with them.

**401(k) plan**

A defined contribution plan based on section 401(k) of the Internal Revenue Code.

regardless of your age at death, if insured under act. Finally, there are *disability payments*. These provide monthly payments to employees who become disabled totally (and to their dependents) if they meet certain requirements. The Social Security system also administers the Medicare program, which provides health services to people age 65 or older. “Full retirement age” for non-discounted Social Security benefits traditionally was 65—the usual age for retirement. It is now 67 for those born in 1960 or later.¹⁴¹

A tax on the employee’s wages funds Social Security (technically, “Federal Old Age and Survivor’s Insurance”). As of 2012, the maximum amount of earnings subject to Social Security tax was \$110,000; the employer pays 7.65% and the employee 7.65%.

Pension Plans

Pension plans provide income to individuals in their retirement, and just over half of full-time workers participate in some type of pension plan at work.

We can classify pension plans in three basic ways: contributory versus noncontributory plans, qualified versus nonqualified plans, and defined contribution versus defined benefit plans.¹⁴² The employee contributes to the contributory pension plan, while the employer makes all contributions to the noncontributory pension plan. Employers derive certain tax benefits (such as tax deductions) for contributing to qualified pension plans (they are “qualified” for preferred tax treatment by the IRS); nonqualified pension plans get less favorable tax treatment.¹⁴³

With **defined benefit plans**, the employee’s pension is specified or “defined” ahead of time. Here the person knows ahead of time the pension benefits he or she will receive. There is usually a formula that ties the person’s pension to (1) a percentage of (2) the person’s preretirement pay (for example, to an average of his or her last 5 years of employment), multiplied by (3) the number of years he or she worked for the company. Due to tax law changes and other reasons, defined benefit plans now represent a minority of pension benefit plans.¹⁴⁴ However due to the economic crisis even younger employees now express a strong preference for defined benefit plans.¹⁴⁵

Defined contribution plans specify (“define”) what contribution the employee and employer will make to the employee’s retirement or savings fund. Here the contribution is defined, not the pension. With a *defined benefit* plan, the employee can compute what his or her retirement benefits will be upon retirement. With a *defined contribution* plan, the person only knows for sure what he or she is contributing to the pension plan; the actual pension will depend on the amounts contributed to the fund *and* on the success of the retirement fund’s investment earnings. Defined contribution plans are popular among employers today due to their relative ease of administration, favorable tax treatment, and other factors. And **portability**—making it easier for employees who leave the firm prior to retirement to take their accumulated pension funds with them—is easier with defined contribution plans. However, younger workers in particular reportedly prefer defined benefit plans. Some companies, such as Union Pacific, offer such plans as employee retention tools.¹⁴⁶

401(K) PLANS The most popular defined contribution plans are based on section 401(k) of the Internal Revenue Code, and called **401(k) plans**. The employee authorizes the employer to deduct a sum from his or her paycheck before taxes, and to invest it in the savings in his or her 401(k). The deduction is pretax, so the employee pays no tax on those dollars until after he or she retires—or removes the money from the 401(k) plan. The person can decide to deduct any amount up to the legal IRS maximum (now about \$15,000). The employer arranges, usually with an investment company such as Fidelity Investments, to administer the 401(k) plan and to make investment options available to the plan. The options typically include mutual stock funds and bond funds. As the recent downturn intensified, more employees made “hardship withdrawals” from their 401(k) plans (on which no taxes are due, for a time).¹⁴⁷

Employers must choose their 401(k) providers with care. The employer has a fiduciary responsibility to its employees; it must monitor the fund and its administration.¹⁴⁸ In addition to trustworthiness, the 401(k) plan provider should make it easy to enroll and participate in the plan.¹⁴⁹ Firms such as Vanguard, Fidelity, and others can establish Web-based 401(k) plans with online tools—such as an “asset allocation planner”—even for small firms. It’s also crucial that employers monitor 401(k) housekeeping issues. For example, the IRS recently reported the top 10 most common violations that 401(k) plans encounter, including late deposits and incorrect employer matching contributions.¹⁵⁰

savings and thrift plan

Plan in which employees contribute a portion of their earnings to a fund; the employer usually matches this contribution in whole or in part.

employee stock ownership plan (ESOP)

A qualified, tax-deductible stock bonus plan in which employers contribute stock to a trust for eventual use by employees.

**cash balance plans**

Defined benefit plans under which the employer contributes a percentage of employees' current pay to employees' pension plans every year, and employees earn interest on this amount.

Employee Retirement Income Security Act (ERISA) of 1975

Signed into law by President Ford in 1974 to require that pension rights be vested and protected by a government agency, the PBGC.

Pension Benefits Guarantee Corporation (PBGC)

Established under ERISA to ensure that pensions meet vesting obligations; also insures pensions should a plan terminate without sufficient funds to meet its vested obligations.

early retirement window

A type of offering by which employees are encouraged to retire early, the incentive being liberal pension benefits plus perhaps a cash payment.

OTHER DEFINED CONTRIBUTION PLANS The 401(k) plan is one example of a **savings and thrift plan**.¹⁵¹ In any savings and thrift plan, employees contribute a portion of their earnings to a fund, and the employer usually matches this contribution completely or in part. An **employee stock ownership plan (ESOP)** is a qualified, tax-deductible defined contribution plan in which employers contribute stock to a trust for eventual use by employees who retire.

CASH BALANCE PENSION PLANS One problem with *defined benefits* plans is that to get your maximum pension, you generally must stay with your employer until you retire—the formula, recall, takes the number of years you work into consideration. With *defined contribution* plans, your pension is more portable—you can leave with it at any time, perhaps rolling it over into your next employer's pension plan. Without delving into all the details, **cash balance plans** are a hybrid; they have defined benefit plans' more predictable benefits with defined contribution plans' portability advantages.¹⁵² The employer contributes a percentage of employees' current pay to the employees' pension plans every year, and employees earn interest on this amount.¹⁵³

Pension Planning and the Law

As a rule, it is impossible to formulate a plan without expert help.¹⁵⁴

The **Employee Retirement Income Security Act (ERISA) of 1975** is the basic law. It requires that employers have written pension plan documents and adhere to certain guidelines, such as regarding who is eligible for the employer's plan.¹⁵⁵ ERISA protects the employer's pension or health plans' assets by requiring that those who control the plans act responsibly, in the interest of participants and beneficiaries. Employers (and employees) want their pension contributions to be "qualified," or tax deductible, so they must adhere to the pertinent *income tax codes*. Under *labor relations laws*, the employer must let its unions participate in pension plan administration. The *Job Creation and Worker Assistance Act* provides guidelines regarding what rates of return employers should use in computing their pension plan values.

PBGC ERISA established the **Pension Benefits Guarantee Corporation (PBGC)** to oversee and insure a pension if a plan terminates without sufficient funds. The PBGC guarantees only defined benefit plans, not defined contribution plans. Furthermore, it will only pay an individual a pension of up to a maximum of about \$54,000 per year for someone 65 years of age with a plan terminating in 2011.¹⁵⁶

MEMBERSHIP REQUIREMENTS When does the employee become eligible for a pension? Under the Tax Reform Act of 1986, an employer can require that an employee complete a period of no more than 2 years' service to the company before becoming eligible to participate in the plan. However, if it requires more than 1 year of service before eligibility, the plan must grant employees full and immediate vesting rights at the end of that period.

VESTING *Vested funds* are the money employer and employee have placed in the latter's pension fund that cannot be forfeited for any reason. The *employees'* contributions are always theirs. Under ERISA, *employers* can choose one of two minimum vesting schedules (employers can allow funds to vest faster if they wish). With *cliff vesting*, the period for acquiring a nonforfeitable right to employer matching contributions (if any) is 3 years. So, the employee must have nonforfeitable rights to these funds by the end of 3 years. With the second (*graded vesting*) option, pension plan participants must receive nonforfeitable rights to the matching contributions as follows: 20% after 2 years, and then 20% for each succeeding year, with a 100% nonforfeitable right by the end of 6 years.

Pensions and Early Retirement

To trim their workforces or for other reasons, some employers are encouraging employees to retire early. Many of these plans take the form of **early retirement window** arrangements for specific employees (often age 50). The "window" means that for a limited time, the employees can retire early. The financial incentive is generally a combination of improved pension benefits plus a cash payment.

Early retirement programs can backfire. Some are too successful. When Verizon Communications offered enhanced pension benefits to encourage what it hoped would be 12,000 employees to retire, more than 21,000 took the plan. Verizon had to replace 16,000 managers.¹⁵⁷

Discrimination is the other potential problem. Unless structured properly, older employees can challenge early retirement programs as de facto ways for forcing them to retire against their will. Although it is generally legal to use incentives to encourage individuals to choose early retirement, the employee's decision must be voluntary. The Older Workers' Benefit Protection Act (OWBPA) imposes limitations. The employee's waiver must be knowing and voluntary, and give the employee ample time to think over the agreement and to seek legal advice, among other things.



Benefits Communications and Websites

Employers are adding new benefits services to their websites. In addition to offering things like self-enrollment, the insurance company USAA's website (www.usaa.com) helps employees achieve better work-life balance. For example, employees can respond to a list of words (such as *stressed*) and get suggestions for dealing with stress.¹⁵⁸ Boeing's Pay & Benefits Profile site gives employees real-time information about their salary and bonuses, benefits, pension, and special services such as child care referrals.¹⁵⁹ As here, employers should ensure that employees get periodic examples regarding the value of the benefits they're receiving.¹⁶⁰



PERSONAL SERVICES AND FAMILY-FRIENDLY BENEFITS

Although time off, insurance, and retirement benefits account for the lion's share of benefits costs, most employers also provide various services benefits.

LEARNING OBJECTIVE 6

List and discuss the popular personal services and family-friendly benefits.

Personal Services

Personal services benefits include employee assistance, credit unions, and social and recreational opportunities.¹⁶¹

employee assistance program (EAP)

A formal employer program for providing employees with counseling and/or treatment programs for problems such as alcoholism, gambling, or stress.

EMPLOYEE ASSISTANCE PROGRAMS Employee assistance programs (EAPs) provide advisory services, such as mental health counseling, personal legal and financial services, child and elder care referrals, and adoption assistance.¹⁶² More than 60% of larger firms offer such programs. One study found that personal mental health was the most common problem addressed by employee assistance programs, followed by family problems.¹⁶³

For employers, EAPs produce advantages, not just costs. For example, sick family members and problems like depression account for many of the sick days employees take. Employee assistance programs can reduce such absences by providing expert advice on issues like elder care referrals.¹⁶⁴ Few but the largest employers establish their own EAPs. Most contract for the necessary services with vendors such as Magellan Health Services and CIGNA Behavioral Health.¹⁶⁵

In either case, everyone involved, including supervisors, secretaries, and support staff, must understand the importance of *confidentiality*. Also, ensure files are locked, access is limited and monitored, and identifying information is minimized. *Be aware of legal issues.* For example, in most states counselors must disclose suspicions of child abuse to state agencies. And ensure vendors fulfill *professional and state licensing requirements*.

Family-Friendly (Work-Life) Benefits

Several trends have changed the benefits landscape. For example, there are more households where both adults work, more one-parent households, more women in the workforce, and more workers older than age 55.¹⁶⁶

These pressures have led many employers to bolster their **family-friendly (or work-life) benefits**. (The newer "work-life benefits" terminology recognizes the need to improve all employees' work-life situations, not just those with families.)¹⁶⁷ These benefits include child care, elder care, fitness facilities, and flexible work schedules.¹⁶⁸ We'll look at examples.

family-friendly (or work-life) benefits

Benefits such as child care and fitness facilities that make it easier for employees to balance their work and family responsibilities.

SUBSIDIZED CHILD CARE Employers that want to reduce the distractions associated with finding reliable child care can help in various ways. Some employers simply investigate day care facilities and recommend certain ones to employees. Others set up company-sponsored and subsidized day care facilities, both to attract employees and to reduce absenteeism. For example, Abbott Laboratories built a \$10 million child care center at its headquarters north of Chicago, daytime home to about 400 children of Abbott employees.¹⁶⁹

By establishing subsidized day care, employers assumedly can benefit in several ways. These include improved recruiting, lower absenteeism, improved morale, favorable publicity, and lower turnover. But, good planning is required. This often starts with a questionnaire to employees to answer questions like, “What would you be willing to pay for care for one child in a child care center near work?”

SICK CHILD BENEFITS One study found that unexpected absences climbed to about 2.4% of payroll hours recently, with a cost per absence to employers of about \$700 per episode (for temp employees and reduced productivity, for instance). More employers are thus offering emergency child care benefits, for example, when a young child’s regular babysitter is a no-show. Texas Instruments built a Web database its employees use to find last-minute child care providers. Others, like Canada’s CIBC, expanded their on-site child care centers to handle last-minute emergencies.¹⁷⁰

ELDER CARE More employers are also providing elder care services (such as for employees’ parents). For example, Ford Motor Company’s employee service provides an assessment of the elderly relative’s needs, and recommendations on the best care.¹⁷¹ The National Council on Aging has a website for finding benefit programs: www.benefitscheckup.org.

Other Job-Related Benefits

Employers provide various other job-related benefits.¹⁷² Google’s website lists benefits such as adoption assistance, the Google Child Care Center, free shuttle service from San Francisco, on-site dry cleaning, backup child care assistance, and on-site physician and dental care.¹⁷³ Home Depot offers a “nose to tail coverage” pet health insurance program. Ben & Jerry’s gives employees three pints of ice cream to take home daily. CVS Caremark, seeking to retain older employees, offers various elder-friendly benefits. Its “snowbird” program lets pharmacists spend their winters in Florida and return to work in the Northeast when it’s warmer, for instance.¹⁷⁴

EDUCATIONAL SUBSIDIES Many employers offer educational subsidies such as tuition refunds, although their availability is diminishing.¹⁷⁵ Some pay for college courses related to an employee’s present job and successfully completed. Others also reimburse non-job-related courses (such as a Web designer taking an accounting class) that pertain to the company business.¹⁷⁶

The problem is that you may be paying your best employees to leave. Researchers studied how the U.S. Navy’s tuition assistance program influenced job mobility. Taking tuition assistance significantly decreased the probability the person stayed in the Navy.¹⁷⁷

DOMESTIC PARTNER BENEFITS *Domestic partner benefits* provide employees’ same-sex or opposite-sex domestic partners the same benefits (health care, life insurance, and so forth) that the spouses or legal dependents of employees receive.¹⁷⁸ For example, Northrop Grumman Corp. extends domestic partner benefits to the 9,500 salaried workers at its Newport News shipyard.¹⁷⁹

Executive Perquisites

Executive perquisites (perks, for short) usually go to only top executives. Perks can range from substantial (company planes) to relatively insignificant (private bathrooms). Others include *management loans* (which typically enable senior officers to exercise their stock options); *financial counseling*; and *relocation benefits*, often including subsidized mortgages, purchase of the executive’s current house, and payment for the actual move. Publicly traded companies must itemize all executives’ perks (if they total more than \$100,000).

Flexible Benefits Programs

Employees prefer choice in their benefits plans. In one survey of working couples, for instance, 69% took advantage of the sorts of flexible-style benefits we’ll discuss next.¹⁸⁰ The job listing service Jobtrak.com asked college students and recent grads, “Which benefit do you desire most?” Thirty-five percent sought flexible hours; 19%, stock options; 13%, more vacation time; and 12%, a better health plan.¹⁸¹ Given this, it is prudent to survey employees’ benefits preferences and to provide for choice.

THE CAFETERIA APPROACH One way to provide choice is with an aptly named *cafeteria benefits plan*. (Pay specialists use **flexible benefits plan** and **cafeteria benefits plan** synonymously.)

flexible benefits plan/ cafeteria benefits plan

Individualized plans allowed by employers to accommodate employee preferences for benefits.

A *cafeteria plan* is one in which the employer gives each employee a benefits fund budget, and lets the person spend it on the benefits he or she prefers, subject to two constraints. First, the employer must of course limit the total cost for each employee’s benefits package. Second, each employee’s benefits plan must include certain required items—for example, Social Security, workers’ compensation, and unemployment insurance. Employees can often make midyear changes to their plans if, for instance, their dependent care costs rise and they want to divert contributions.¹⁸² IRS regulations require formal written plans describing the employer’s cafeteria plan, including benefits and procedures for choosing them.¹⁸³

TYPES OF PLANS Cafeteria plans come in several varieties. To give employees more flexibility in what benefits they use, about 70% of employers offer *flexible spending accounts* for medical and other expenses. This option lets employees pay for certain benefits expenses with pretax dollars (so the IRS, in effect, subsidizes some of the employee’s expense). To encourage employees to use this option without laying out cash, some firms offer *debit cards* that employees can use at their medical provider or pharmacy.¹⁸⁴ *Core plus option plans* establish a core set of benefits (such as medical insurance), which are usually mandatory for all employees. Beyond the core, employees can then choose from various benefits options.¹⁸⁵

FLEXIBLE WORK SCHEDULES Flexible work schedules are popular.¹⁸⁶ There are several flexible work options.

flextime

A plan whereby employees’ workdays are built around a core of mid-day hours, such as 11:00 A.M. to 2:00 P.M.

Flextime is a plan whereby employees’ workdays are built around a core of midday hours, such as 11:00 a.m. to 2:00 p.m. Workers individually determine their own starting and stopping hours, such as 7:00 a.m. to 3:00 p.m.¹⁸⁷ In practice though, the flextime usually gives an employee about 1 hour of leeway before 9:00 a.m. or after 5:00 p.m.

compressed workweek

Schedule in which employee works fewer but longer days each week.

Other employees like airline pilots and hospital nurses don’t work conventional 5-day, 40-hour workweeks. Workers like these typically have **compressed workweek** schedules. They work fewer days each week, but each day they work longer hours, such as 4-day workweeks with 10-hour days. Some workers—in hospitals, for instance—work three 12-hour shifts, and then are off for the next 4 days.¹⁸⁸

workplace flexibility

Arming employees with the information technology tools they need to get their jobs done wherever they are.

Workplace flexibility means providing the information technology tools (such as iPads) employees need to get their jobs done wherever they are.¹⁸⁹ A program at Capital One Bank seems to have led to about a 41% increase in overall workplace satisfaction, and a 53% increase in those who say their workplace enhances group productivity.¹⁹⁰ The Strategic Context feature illustrates *telecommuting* (or “*telework*”). Employers that offer *telecommuting* should meticulously calculate the program’s benefits and costs. Thus Delta Airlines spends an initial \$2,500 for each home-based reservation agent for computer and software licenses, but pays each such agent \$1.50 per hour less than their counterparts in call centers. Other expenses may be less obvious, such as having the IT department answer telecommuters’ technical questions.¹⁹¹

THE STRATEGIC CONTEXT

NES Rentals Holdings, Inc.

Each component of the employer’s total rewards program, including benefits, should help produce the employee behaviors that the company needs to achieve its strategic goals.

Seeking to cut costs while maintaining its reputation for great service, NES Rentals sent its employees home. Today, three-fourths of the company’s Chicago office customer support, collections, finance, and other back-office workers work from home (“telecommute”) at least part of the week.¹⁹² Productivity is up 20% and employee turnover is down. NES is also leasing less space. It estimates its total savings from its new telecommuting benefit at about \$350,000 annually. Introducing an employee benefit turned out to be a smart way to support NES’s strategy.¹⁹³

job sharing

Allows two or more people to share a single full-time job.

OTHER FLEXIBLE WORK ARRANGEMENTS **Job sharing** allows two or more people to share a single full-time job. For example, two people may share a 40-hour-per-week job, with one working mornings and the other working afternoons. About 22% of the firms in one survey indicated that they allow job sharing.¹⁹⁴ Job sharing can be particularly useful for retirement-aged employees. They reduce their hours while enabling the company to retain their expertise.¹⁹⁵

work sharing

Refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs.

Work sharing refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs. Thus, 400 employees may all agree to work (and be paid for) only 35 hours per week, to avoid a layoff of 30 workers.

Benefits and Employee Leasing

In brief, employee leasing firms (also called *professional employer organizations* or *staff leasing firms*) assume all or most of the employer's human resources chores. In doing so, they also become the employer of record (legal employer) for the employer's employees, by transferring them to the employee leasing firm's payroll. It usually handles employee-related activities such as recruiting, hiring (with client firms' supervisors' approvals), and paying taxes (Social Security payments, unemployment insurance, and so on).

Insurance and benefits are usually the big attraction. The employees are absorbed into a much larger insurable group, along with other employers' former employees. A small business owner may obtain health insurance that he or she couldn't otherwise afford.

**Global HR**

Most employers design benefits plans to be competitive with what others are paying, and to make sense in terms of what their strategies are. However, global employers also must account for multinational legal, cultural, and programmatic differences. For example, medical insurance is a prominent benefit in America, but not in the United Kingdom, which has a national health program.¹⁹⁶

Review

MyManagementLab

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

SUMMARY

- Several incentive plans are particularly suited for individual employee incentives and recognition programs. Piecework is an incentive plan in which a person is paid a sum for each item he or she makes. Merit pay refers to any salary increase awarded to an employee based on his or her individual performance. Nonfinancial and recognition-based awards employee recognition, gift certificates, and individual travel. Many employers use enterprise incentive management systems to automate their incentive plans. Incentives for salespeople are typically sales commissions. Most firms have annual bonus plans aimed at motivating managers' short-term performance. The actual award often depends on some combination of individual performance and organizational performance. Long-term incentives include stock options, "golden parachutes," and stock appreciation rights.
- With more employers organizing their efforts around teams, team and organizationwide incentive plans are important. With team incentive plans, the main question is whether to reward members based on individual or team performance; both have pros and cons. Organizationwide incentive plans are plans in which all or most employees can participate. These include profit-sharing plans in which employees share in the company's profits; gain-sharing plans engage employees in a common effort to achieve productivity objectives and thereby share the gains. Employee stock ownership plans are companywide plans in which the employer contributes shares of its own stock to a trust established to purchase shares of the firm's stock for employees.
- Because so many incentive plans fail, designing effective incentive programs is crucial. Make sure the program is motivational, set complete standards, and be scientific in terms of analyzing the effects of the incentive plan.
- Employers provide numerous pay for time not worked and insurance benefits. Unemployment insurance provides benefits if a person is unable to work due to some fault other than his or her own. Sick pay provides pay to an employee when he or she is out of work because of illness. Cost-reduction tactics include repurchasing unused

sick leave or simply using paid leave plans that lump sick leave, vacation, and holidays into one leave pool. The Family and Medical Leave Act requires larger employers to provide up to 12 weeks of unpaid leave for family-related issues. Severance pay is a one-time payment some employers provide when terminating an employee. Most employers also provide a number of required or voluntary insurance benefits. Workers' compensation laws aim to provide sure, prompt medical benefits to work-related accident victims or their dependents, regardless of fault. Hospitalization, health, and disability insurance costs are rising fast, and most employer health plans provide at least basic hospitalization and surgical and medical insurance for eligible employees. When an employee is terminated or terminates his or her employment, it is essential that the employer make the person aware of his or her COBRA rights.

5. Social Security is a federal program that provides retirement income at the age of 62 and thereafter, as well as other benefits. Many employers make available pension plans; these provide an income when employees reach retirement age or when they can no longer work due to

disability. Defined benefit plans contain a formula for determining retirement benefits, while defined contribution plans are plans in which the contribution to employees' retirement savings plans is specified. 401(k) plans are examples. The Employee Retirement Income Security Act of 1975 requires that employers have written pension plan documents, and established the Pension Benefits Guarantee Corporation to oversee employers' pension plans. Key pension policy issues include membership requirements and testing.

6. Most employers also provide various personal services and family-friendly benefits. These include credit unions, employee assistance programs, and subsidized child care and elder care. Flexible benefits or cafeteria benefits plans are individual plans that accommodate employee preferences for benefits. Some employers turn to employee leasing companies to capitalize on the advantage of the leasing firm's large employee base to get better employee benefits for their employees. Employers also are implementing various types of flexible work schedules, including flextime, compressed workweeks, and other flexible work arrangements such as job sharing.

KEY TERMS

variable pay
 piecework
 straight piecework
 standard hour plan
 merit pay (merit raise)
 annual bonus
 stock option
 golden parachute
 team (or group) incentive plan
 organizationwide incentive plan
 profit-sharing plan
 gainsharing plan
 earnings-at-risk pay plan
 employee stock ownership plan (ESOP)
 benefits
 supplemental pay benefits
 unemployment insurance (or compensation)
 sick leave
 severance pay
 supplemental unemployment benefits
 workers' compensation
 health maintenance organization (HMO)
 preferred provider organizations (PPOs)

group life insurance
 Social Security
 pension plans
 defined benefit pension plan
 defined contribution pension plan
 portability
 401(k) plan
 savings and thrift plan
 employee stock ownership plan (ESOP)
 cash balance plans
 Employee Retirement Income Security Act (ERISA)
 of 1975
 Pension Benefits Guarantee Corporation (PBGC)
 early retirement window
 employee assistance program (EAP)
 family-friendly (or work-life) benefits
 flexible benefits plan/cafeteria benefits plan
 flextime
 compressed workweek
 workplace flexibility
 job sharing
 work sharing

DISCUSSION QUESTIONS

1. Compare and contrast six types of incentive plans.
- ★ 2. What is merit pay? Do you think it's a good idea to award employees merit raises? Why or why not?
- ★ 3. You are applying for a job as a manager and are at the point of negotiating salary and benefits. What questions would you ask your prospective employer concerning benefits? Describe the benefits package you would try to negotiate for yourself.
4. What is unemployment insurance? Is an organization required to pay unemployment benefits to all dismissed employees? Explain how you would go about minimizing your organization's unemployment insurance tax.
5. Explain how ERISA protects employees' pension rights.
6. What is "portability"? Why do you think it is (or isn't) important to a recent college graduate?
7. What are the main provisions of the FMLA?
8. Describe the main retirement benefits.

INDIVIDUAL AND GROUP ACTIVITIES

1. Working individually or in groups, create an incentive plan for the following positions: chemical engineer, plant manager, used-car salesperson. What factors did you have to consider in reaching your conclusions?
 2. A state university system in the Southeast instituted a "Teacher Incentive Program" (TIP) for its faculty. Faculty committees within each university's colleges were told to award \$5,000 raises (not bonuses) to about 40% of their faculty members based on how good a job they did teaching undergraduates, and how many courses they taught per year. What are the potential advantages and pitfalls of such an incentive program? How well do you think it was accepted by the faculty? Do you think it had the desired effect?
 3. The PHR and SPHR Knowledge Base Appendix lists the knowledge someone studying for the HRCI certification exam needs to have in each area of human resource management (such as in Strategic Management, Workforce Planning, and Human Resource Development). In groups of four to five students, do four things: (1) review that appendix now; (2) identify the material in this chapter that relates to the required knowledge the appendix lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so the students in other teams can take each others' exam questions.
- KNOWLEDGE
BASE**
4. Working individually or in groups, research the unemployment insurance rate and laws of your state. Write a summary detailing your state's unemployment laws. Assuming Company X has a 30% rate of annual personnel terminations, calculate Company X's unemployment tax rate in your state.
 5. Assume you run a small business. Working individually or in groups, visit the website www.dol.gov/elaws. See the Small Business Retirement Savings Advisor. Write a one-page summary explaining (1) the various retirement savings programs available to small business employers, and (2) which retirement savings program you would choose for your small business and why.
 6. You are the HR consultant to a small business with about 40 employees. The owner has asked you to prepare a one page summary listing (1) the mandatory benefits the employer must provide, and (2) a strategy for figuring out what non-mandatory benefits the employer should also offer.

APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Striking for Benefits

Several years ago, the strike by Southern California grocery workers against the state's major supermarket chains was getting worse. Because so many workers were striking (70,000), and because of the issues involved, unions and employers across the country were closely following the negotiations. Indeed, grocery union contracts were set to expire in several cities later in 2004, and many believed the California settlement—assuming one was reached—would set a pattern.

The main issue was employee benefits, and specifically how much (if any) of the employees' health care costs the employees should pay themselves. Based on their existing contract, Southern California grocery workers had unusually good health benefits. For example, they paid nothing toward their health insurance premiums, and paid only \$10 co-payments for doctor visits. However, supporting these excellent health benefits cost the big Southern California grocery chains over \$4 per hour per worker.

The big grocery chains were not proposing cutting health care insurance benefits for their existing employees. Instead, they proposed putting any new employees hired after the new contract went into effect into a separate insurance pool, and contributing \$1.35 per hour for their health insurance coverage. That meant new employees' health insurance would cost each new employee perhaps \$10 per week. And, if that \$10 per week weren't enough to cover the cost of health care, then the employees would have to pay more, or do without some of their benefits.

It was a difficult situation for all the parties involved. For the grocery chain employers, skyrocketing health care costs were undermining their competitiveness; the current employees feared any step down the slippery slope that might eventually mean cutting their own health benefits. The unions didn't welcome a situation in which they'd end up representing two classes of employees, one (the existing employees) who had excellent health insurance benefits, and another (newly hired employees) whose benefits were

relatively meager, and who might therefore be unhappy from the moment they took their jobs and joined the union.

Questions

1. Assume you are mediating this dispute. Discuss five creative solutions you would suggest for how the grocers could reduce the health insurance benefits and the cost of their total benefits package without making any employees pay more.
2. From the grocery chains' point of view, what is the downside of having two classes of employees, one of which has superior health insurance benefits? How would you suggest they handle the problem?
3. Similarly, from the point of view of the union, what are the downsides of having to represent two classes of employees, and how would you suggest handling the situation?

Sources: Based on "Settlement Nears for Southern California Grocery Strike," by James F. Peltz and Melinda Fulmer from *Los Angeles Times*, February 26, 2004.

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company

The Incentive Plan

The question of whether to pay Carter Cleaning employees an hourly wage or an incentive of some kind has always intrigued Jack Carter.

His basic policy has been to pay employees an hourly wage, except that his managers do receive an end-of-year bonus depending, as Jack puts it, "on whether their stores do well or not that year."

However, he is considering using an incentive plan in one store. Jack knows that a presser should press about 25 "tops" (jackets, dresses, blouses) per hour. Most of his pressers do not attain this ideal standard, though. In one instance, a presser named Walt was paid \$8 per hour, and Jack noticed that regardless of the amount of work he had to do, Walt always ended up going home at about 3:00 p.m., so he earned about \$300 at the end of the week. If it was a holiday week, for instance, and there were a lot of clothes to press, he might average 22 to 23 tops per hour (someone else did pants) and so he'd earn perhaps \$300 and still finish each day in time to leave by 3:00 p.m. so he could pick up his children at school. But when things were very slow in the store, his productivity would drop to perhaps 12 to 15 pieces an hour, so that at the end of the week he'd end up earning perhaps \$280, and in fact not go home much earlier than he did when it was busy.

Jack spoke with Walt several times, and while Walt always promised to try to do better, it gradually became apparent to Jack that Walt was simply going to earn his \$300 per week no matter what. Though Walt never told him so directly, it dawned on Jack that Walt had a family to support and was not about to earn less than his "target" wage, regardless of how busy or slow the store was. The problem was that the longer Walt kept pressing each day, the longer the steam boilers and compressors had to be kept on to power his

machines, and the fuel charges alone ran close to \$6 per hour. Jack clearly needed some way short of firing Walt to solve the problem, since the fuel bills were eating up his profits.

His solution was to tell Walt that, instead of an hourly \$8 wage, he would henceforth pay him \$0.33 per item pressed. That way, said Jack to himself, if Walt presses 25 items per hour at \$0.33 he will in effect get a small raise. He'll get more items pressed per hour and will therefore be able to shut the machines down earlier.

On the whole, the experiment worked well. Walt generally presses 25 to 35 pieces per hour now. He gets to leave earlier and, with the small increase in pay, he generally earns his target wage. Two problems have arisen, though. The quality of Walt's work has dipped a bit, plus his manager has to spend a minute or two each hour counting the number of pieces Walt pressed that hour. Otherwise, Jack is fairly pleased with the results of his incentive plan, and he's wondering whether to extend it to other employees and other stores.

Questions

1. Should this plan be extended to pressers in the other stores?
2. Should other employees (cleaner/spotters, counter people) be put on a similar plan? Why or why not? If so, how, exactly?
3. Is there another incentive plan you think would work better for the pressers? Describe it.
4. A store manager's job is to keep total wages to no more than 30% of sales and to maintain the fuel bill and the supply bill at about 9% of sales each. Managers can also directly affect sales by ensuring courteous customer service and by ensuring that the work is done properly. What suggestions would you make to Jennifer and her father for an incentive plan for store managers?

EXPERIENTIAL EXERCISE

Revising the Benefits Package

Purpose: The purpose of this exercise is to provide practice in developing a benefits package for a small business.

Required Understanding: Be very familiar with the material presented in this chapter. Come to class prepared to share with your group the benefits package for the small business in which you work or in which someone with whom you're familiar works.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. Your assignment is as follows: Maria Cortes runs a small personnel

recruiting office in Miami and has decided to start offering an expanded benefits package to her 24 employees. At the current time, the only benefits are 7 paid holidays per year and 5 sick days per year. In her company, there are 2 other managers, as well as 17 full-time recruiters and 5 secretarial staff members. In the time allotted, your group should create a benefits package in keeping with the size and requirements of this firm.

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Describe the nature of some important management incentives.
2. In this chapter, we listed a number of guidelines for instituting a pay-for-performance plan. Do you think these points make sense? Why or why not?
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

VIDEO CASES APPENDIX

Video Title: Pay for Performance and Financial Incentives (Joie de Vivre Hospitality)

SYNOPSIS

Chip Conley is the founder of Joie de Vivre Hospitality (JDV), a collection of boutique hotels, restaurants, and spas in California. Conley aims to foster employee motivation using Maslow's hierarchy of needs and has written books and lectured on the subject. Joie de Vivre pays average wages, but experiences low turnover due to the nature of the relationships it has formed with each employee.

Discussion Questions

- ★ 1. Chip Conley, founder of Joie de Vivre Hospitality, believes that most companies frame their financial incentives in the

wrong way. Explain what he means. What does JDV do differently?

- ★ 2. Why does Joie de Vivre offer free hotel stays to all employees as part of its incentive plan?
- ★ 3. According to the video, what separates a world-class organization is its ability to care for its employees in good times and in bad? How did JDV accomplish this during the dot-com crash and post-9/11 industry recession?
- ★ 4. Of the compensation, benefits, and incentives practices we discussed in, which would you recommend JDV implement, and why?

Video Title: Compensation (Focus Pointe)

SYNOPSIS

In this video, two HR staff members, Cheryl and Gina, must determine if an employee, Angelo, is worthy of a pay raise. The company, Focus Pointe, provides market research services. One of these services involves recruiting consumer, medical, and other respondents for the market research industry. It's

important to get good, qualified respondents. To distinguish itself from its competitors, Focus Pointe uses a special "triple screening" process to ensure that the respondents it recruits meet its clients' specifications. In this case, Angelo seems to be recruiting inadequate respondents. The two HR staff members are trying to determine if giving Angelo a raise would solve the problem.

As Angelo says in the video, he'd like to be better compensated. Cheryl and Gina point out to him that his pay is falling because his recruits often don't qualify. They ask him what he would like—an increase in salary or an increase in the amount per recruit that he is paid. He responds that he'd like both. They tell them they will go along with his request but that they must see higher levels of recruit qualifications within 3 months. As the panel's human resource managers (including Paul, from BMG) point out in assessing this video, they don't necessarily agree with giving someone who is underperforming a raise. As Paul says, "They should have just told him to improve first."

Discussion Questions

- ★ 1. Do you think Angelo is underperforming as a result of motivation or something else, such as the need for improved training? How would you find out?
- ★ 2. Is it a good idea to give someone who is underperforming a raise? Does it send the wrong signal, insofar as it seems to suggest that poor performance leads to rewards?
- ★ 3. Do you think the idea of paying recruiters like Angelo per recruit might actually backfire, and if so how?

ENDNOTES

1. John Pletz, "Workers, Go Home," *Crain's Chicago Business* 34, no. 8 (February 21, 2011), pp. 2, 14.
2. See, for example, Mary Ducharme and Mark Podolsky, "Variable Pay: Its Impact on Motivation and Organisation Performance," *International Journal of Human Resources Development and Management* 6 (May 9, 2006), p. 68.
3. Ibid.
4. See, for example, Kenan Abosch, "Variable Pay: Do We Have the Basics in Place?" *Compensation & Benefits Review*, July/August 1998, pp. 2–22.
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Ethics, Employee Relations, and Fair Treatment at Work

Ethics, Employee Relations, and Fair Treatment at Work

OVERVIEW:
In this chapter,
we will cover . . .

BASICS OF ETHICS AND FAIR TREATMENT AT WORK
WHAT SHAPES ETHICAL BEHAVIOR AT WORK?
HR TOOLS FOR MANAGING ETHICS AND FAIR TREATMENT
MANAGING EMPLOYEE DISCIPLINE
MANAGING EMPLOYEE RELATIONS

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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Explain what is meant by ethical behavior.
2. Discuss important factors that shape ethical behavior at work.
3. Discuss at least four specific HR tools managers use to influence ethical behavior at work.
4. Explain how to use fair disciplinary practices.
5. Define *employee relations* and discuss at least four methods for managing it.

INTRODUCTION

The manager had on her desk a proposal from a firm that supplies special software monitoring tools. These tools would enable the manager's company to scrutinize what its employees and job candidates said and did on social networking sites like Facebook and LinkedIn. Now she had to decide if purchasing that monitoring software was a good idea.¹

BASICS OF ETHICS AND FAIR TREATMENT AT WORK

Is using such monitoring software a good idea, or would you view it as unethical—as “spying” on employees?

Most everyone reading this book rightfully views himself or herself as an ethical person, so we should start by asking, “Why include ethics in a human resource management book?” For three reasons. First, ethics is not theoretical. Instead, it greases the wheels that make businesses work. Managers who promise raises but don’t deliver, salespeople who say “the order’s coming” when it’s not, production managers who take kickbacks from suppliers—they all corrode the trust that day-to-day business transactions depend on, and eventually run the businesses into the ground. According to one lawsuit, marketers for Pfizer Inc. influenced the company to suppress unfavorable studies about one of its drugs; now plaintiffs are suing for billions.²

Second, human resource decisions are usually loaded with ethical consequences.³ For example, should we monitor our employees’ social network activities, or not? I know my team shouldn’t work on the machine until I’ve checked it for safety, but my boss is in a hurry: What should I do?

Third, most employers strive to maintain positive employee relations between themselves and their employees, and doing so is impossible if employees view the company or its managers as unethical or unfair. Let’s look first at what *ethics* means.

LEARNING OBJECTIVE 1

Explain what is meant by ethical behavior.

ethics

The study of standards of conduct and moral judgment; also the standards of right conduct.

The Meaning of Ethics

Ethics are “the principles of conduct governing an individual or a group”—the principles people use to decide what their conduct should be.⁴ However, ethical decisions don’t include just any type of conduct. Deciding which car to buy generally wouldn’t involve ethics. Instead, ethical decisions are always rooted in morality. *Morality* means society’s accepted standards of behavior and always involves basic questions of right and wrong, such as stealing, murder, and how to treat other people. How to treat employees is therefore almost always as much of an ethical question as a legal one.⁵

Ethics and the Law

In fact, the law is a far-from-perfect guide to what is ethical, because something may be legal but not right or right but not legal. Firing a 38-year-old employee with 20 years’ tenure without notice may be unethical, but still legal, for instance. A vice president for business practices at United Technologies Corp. (and a former trial lawyer) put it this way: “Don’t lie, don’t cheat, don’t steal. We were all raised with essentially the same values. *Ethics* means making decisions that represent what you stand for, not just what the laws are.”⁶

The law may not be a foolproof guide to what’s ethical, but some managers treat it as if it is. Businesses exist to produce a profit, so profitability tends to be the initial screen when managers make decisions. After profits, “Is it legal?” may be the next screen. Unfortunately, “Is it ethical” may then arise only as an afterthought, if at all.

Employee Rights and the Law

Knowing this, few societies rely solely on managers’ ethics or sense of fairness to ensure that they do what’s right by their employees. They also put in place various laws, which in turn give employees (or prospective employees, and sometimes past employees) numerous *rights*. For example, Title VII gives employees the right to equitable treatment and to sue if the employer discriminates against them. The Occupational Safety and Health Act gives employees the right to refuse to work under unsafe conditions.⁷ Figure 1 illustrates legal areas under which workers have rights.⁸

EXPANDING EMPLOYEES’ RIGHTS Over the past century, we’ve seen an expansion of employees’ legal rights, through the passage of union relations laws and equal employment laws, for instance. As another example, 11 states, including Connecticut, Hawaii, New Jersey, and New York, have debated legislation that would give victims of verbally abusive bosses the right to sue for damages.⁹

Workplace Unfairness

One way a company’s ethics manifest themselves is in how fairly it treats its employees. Anyone who’s suffered unfair treatment at work knows it is demoralizing. Unfair treatment reduces



FIGURE 1
Partial List of Legal Areas Under Which Workers Have Legal Rights



- Leave of absence and vacation rights
- Injuries and illnesses rights
- Noncompete agreement rights
- Employees' rights on employer policies
- Discipline rights
- Rights on personnel files
- Employee pension rights
- Employee benefits rights
- References rights
- Rights on criminal records
- Employee distress rights
- Defamation rights
- Employees' rights on fraud
- Rights on assault and battery
- Employee negligence rights
- Rights on political activity
- Union/group activity rights
- Whistleblower rights
- Workers' compensation rights

morale, increases stress, and has negative effects on performance. Employees of abusive supervisors are more likely to quit, and to report lower job and life satisfaction and higher stress.¹⁰

Sometimes workplace unfairness is subtle, and sometimes it's blatant. For example, unstated policies requiring CPA associates to work and travel 7 days per week may unfairly eliminate working mothers from partner tracks. Other unfairness is more blatant. For example, one survey of 1,000 U.S. employees concluded that about 45% said they had worked for abusive bosses.¹¹ At work, fair treatment reflects concrete actions such as "employees are treated with respect," and "employees are treated fairly" (see Figure 2).¹²

Why Treat Employees Fairly?

There are many reasons that managers should be fair. The golden rule is one obvious reason. What may not be so obvious is that employees' fairness perceptions also affect the company. For

FIGURE 2
Perceptions of Fair Interpersonal Treatment Scale

Source: "The Perceptions of Their Interpersonal Treatment Scale: Development and Validation of a Measure of Interpersonal Treatment in the Workplace" by Michelle Donovan, from Journal of Applied Psychology, 1998, Volume 83(5).

What is your organization like most of the time? Circle yes if the item describes your organization, No if it does not describe your organization, and? if you cannot decide.

IN THIS ORGANIZATION:

1. Employees are praised for good work	Yes	?	No
2. Supervisors yell at employees (R)	Yes	?	No
3. Supervisors play favorites (R)	Yes	?	No
4. Employees are trusted	Yes	?	No
5. Employees' complaints are dealt with effectively	Yes	?	No
6. Employees are treated like children (R)	Yes	?	No
7. Employees are treated with respect	Yes	?	No
8. Employees' question and problems are responded to quickly	Yes	?	No
9. Employees are lied to (R)	Yes	?	No
10. Employees' suggestions are ignored (R)	Yes	?	No
11. Supervisors swear at employees (R)	Yes	?	No
12. Employees' hard work is appreciated	Yes	?	No
13. Supervisors threaten to fire or lay off employees (R)	Yes	?	No
14. Employees are treated fairly	Yes	?	No
15. Coworkers help each other out	Yes	?	No
16. Coworkers argue with each other (R)	Yes	?	No
17. Coworkers put each other down (R)	Yes	?	No
18. Coworkers treat each other with respect	Yes	?	No

Note: R = the item is reverse scored.

People who bully use their power to control or harm, and the people being bullied may have a hard time defending themselves.

Source: auremar/Fotolia



example, victims exhibit more workplace deviance, such as theft and sabotage.¹³ Perceptions of fairness also relate to enhanced employee commitment; enhanced satisfaction with the organization, jobs, and leaders; and enhanced organizational citizenship behaviors.¹⁴ People who view themselves as victims of unfairness also suffer a range of ill effects including poor health, strain, and psychological conditions.¹⁵

EXAMPLE A study illustrates how unfairness works. College instructors first completed surveys concerning the extent to which they saw their colleges as treating them with *procedural* and *distributive justice*. (Procedural justice refers to fair processes; distributive justice refers to fair outcomes.) Procedural justice items included, for example, “In general, the department/college’s procedures allow for requests for clarification or for additional information about a decision.” Distributive justice items included, “I am fairly rewarded considering the responsibilities I have.” Then the instructors completed organizational commitment questionnaires, with items such as “I am proud to tell others that I am part of this department/college.” Their students then completed surveys, with items such as “The instructor was sympathetic to my needs,” and “The instructor treated me fairly.”

The results were impressive. Instructors who perceived high distributive and procedural justice were more committed. Furthermore, these instructors’ students reported higher levels of instructor effort, pro-social behaviors, and fairness, and had more positive reactions to their instructors.¹⁶

Bullying and Victimization

Again, some unfairness is blatant. Bullying—singling out someone to harass and mistreat them—is an increasingly serious problem. The U.S. government (www.stopbullying.gov/#) points out that while definitions of bullying vary, most would agree that bullying involves three things:

- **Imbalance of power:** People who bully use their power to control or harm and the people being bullied may have a hard time defending themselves.
- **Intent to cause harm:** Actions done by accident are not bullying; the person bullying has a goal to cause harm.
- **Repetition:** Incidents of bullying happen to the same the person over and over by the same person or group, and that bullying can take many forms, such as:
 - **Verbal:** name-calling, teasing
 - **Social:** spreading rumors, leaving people out on purpose, breaking up friendships
 - **Physical:** hitting, punching, shoving
 - **Cyberbullying:** using the Internet, mobile phones, or other digital technologies to harm others

Employers must have systems in place, similar to those we discuss elsewhere in this chapter, to ensure that the company can deal with unfair treatment expeditiously. (This includes having policies in place to monitor employees' harassing use of social media websites.)¹⁷

Undoubtedly, the perpetrator is to blame for bullying. However, how some people behave and their personalities make them more likely victims.¹⁸ These include submissive victims (who seem more anxious, cautious, quiet, and sensitive), provocative victims (who show more aggressive behavior), and victims low in self-determination (who seem to leave it to others to make decisions for them).

RESEARCH INSIGHT A study illustrates the interpersonal dynamics involved. Research suggests that people with higher intellectual capability often suffer bullying in school context—for instance, in the form of derogatory names such as *geek* and *nerd*. In this study, 217 employees of a health care organization completed a survey that measured cognitive ability, victimization, and how the person behaved at work.¹⁹ It wasn't just whether the person was very smart that determined if he or she was victimized. Instead, people with high cognitive ability who also behaved more independently were more likely to be bullying victims. Smart people who were team players were less likely to be victimized.

LEARNING OBJECTIVE 2

Discuss important factors that shape ethical behavior at work.

WHAT SHAPES ETHICAL BEHAVIOR AT WORK?

Why do people do bad things? It's complicated. For example, a recent review of over 30 years of ethics research concluded that three factors determine the ethical choices we make.²⁰ The authors titled their paper "Bad Apples, Bad Cases, and Bad Barrels." This title highlighted their conclusion that when

"Bad apples" (people who are inclined to make unethical choices), confront "Bad cases" (ethical situations that are ripe for unethical choices), while working in "Bad barrels" (environments that foster or condone unethical choices), and this brew combines to determine what someone's ethical choices will be.

We can summarize their findings as follows:

Individual characteristics—who are the bad apples? Some people are just more inclined to make unethical choices. Most importantly, people differ in their level of "cognitive moral development." The most principled people, with the highest level of cognitive moral development, think through the implications of their decisions and apply ethical principles.

Unfortunately, most adults don't do this. Instead, they base their judgment about what's right on the expectations of their colleagues and other important people with whom they interact, or on company policies and what the law says. People at the lowest level make their ethical choices solely based on obeying what they're told and on avoiding punishment.

Which ethical situations make for bad (ethically dangerous) situations? Some ethical dilemmas are more likely to lead to unethical choices. Perhaps surprisingly, "smaller" dilemmas prompt more bad choices. What determines "small"? Issues such as the harm that can befall victims of the choice, and the number of people potentially affected by the choice. The bottom line is that in "less serious" situations, it's more likely that someone will say, in effect, "it's okay to do this, even though it's wrong."

What are the "bad barrels"—the outside factors that mold ethical choices? Finally, the study suggests that some companies produce more poisonous social environments ("barrels") than do others; these environments in turn influence each employee's ethical choices.²¹ For example, companies that promote an "everyone for him- or herself" culture were more likely to also suffer from unethical choices. Those that encouraged employees to consider the well-being of everyone also had more ethical choices. Furthermore, companies whose managers put in place "a strong ethical culture that clearly communicates the range of acceptable and unacceptable behavior is associated with fewer unethical decisions in the workplace."²²

Let's look more closely at what makes for these bad apples and bad barrels.

The Person (What Makes Bad Apples?)

Because people bring to their jobs their own ideas of what is morally right and wrong, each person must shoulder much of the credit (or blame) for his or her ethical choices. Some people are just more principled. For example, researchers surveyed CEOs to study the CEOs' intentions to engage in two questionable practices: soliciting a competitor's technological secrets, and making illegal payments to foreign officials. The researchers concluded that the CEOs' personal predispositions more strongly affected their decisions than did outside pressures or characteristics of their firms.²³

TRAITS We can draw several conclusions about the traits of ethical or unethical people. One study surveyed 421 employees to measure the degree to which various traits influenced responses to ethical decisions. (Decisions included "doing personal business on company time" and "calling in sick to take a day off for personal use.") Older workers generally had stricter interpretations of ethical standards and made more ethical decisions than did younger ones.

"Moral disengagement" is a huge factor. People who are "morally disengaged" (more likely to do unethical things without feeling distressed) are much more likely to engage in unethical behavior. (Moral disengagement test items typically ask people to respond to statements such as "people who get mistreated have usually done something to bring it on themselves," and "it is okay to spread rumors to defend those you care about.")²⁴

Honesty testing also shows that some people are more inclined to make the wrong ethical choice. How would you rate your own ethics? Figure 3 presents a short self-assessment survey (you'll find other survey takers' answers on Ethics Quiz Answers section).

The spread of technology into the workplace has raised a variety of new ethical questions and many old ones still linger. Compare your answers with those of other Americans surveyed, on Ethics Quiz Answers section.

<p>Office Technology</p> <p>1. Is it wrong to use company e-mail for personal reasons? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>2. Is it wrong to use office equipment to help your children or spouse do schoolwork? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>3. Is it wrong to play computer games on office equipment during the workday? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>4. Is it wrong to use office equipment to do Internet shopping? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>5. Is it unethical to blame an error you made on a technological glitch? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>6. Is it unethical to visit pornographic Web sites using office equipment? <input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>Gifts and Entertainment</p> <p>7. What's the value at which a gift from a supplier or client becomes troubling? <input type="checkbox"/> \$25 <input type="checkbox"/> \$50 <input type="checkbox"/> \$100</p> <p>8. Is a \$50 gift to a boss unacceptable? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>9. Is a \$50 gift from the boss unacceptable? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>10. Of gifts from suppliers: Is it OK to take a \$200 pair of football tickets? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>11. Is it OK to take a \$120 pair of theater tickets? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>12. Is it OK to take a \$100 holiday food basket? <input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>13. Is it OK to take a \$25 gift certificate? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>14. Can you accept a \$75 prize won at a raffle at a supplier's conference? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Truth and Lies</p> <p>15. Due to on-the-job pressure, have you ever abused or lied about sick days? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>16. Due to on-the-job pressure, have you ever taken credit for someone else's work or idea? <input type="checkbox"/> Yes <input type="checkbox"/> No</p>
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FIGURE 3

The Wall Street Journal Workplace Ethics Quiz

Source: Ethics and Compliance Officer Association, Waltham, MA and The Ethical Leadership Group, Global Compliance's Expert Advisors, Wilmette, IL. (printed in *The Wall Street Journal*, October 21, 1999: B1-B4). © 1999 by Ethics and Compliance Officer Association. Reprinted by permission. All rights reserved.



Outside Forces That Shape Ethical Decisions (Bad Barrels)

JOB-RELATED PRESSURES If people did unethical things at work solely for personal gain, it perhaps would be understandable (though inexcusable). The scary thing is that personal interests often do not drive such behavior; instead, it's the pressures of the job. As one former executive said at his trial, "I took these actions, knowing they were wrong, in a misguided attempt to preserve the company to allow it to withstand what I believed were temporary financial difficulties."²⁵

One study illustrates this. It asked employees to list their reasons for taking unethical actions at work.²⁶ For most of these employees, "meeting schedule pressures," "meeting overly aggressive financial or business objectives," and "helping the company survive" were the three top causes. "Advancing my own career or financial interests" ranked about last. (A recent study suggests that people may not be so selfless. People who were more prone to take unethical actions were also more likely to expect reciprocity.)²⁷ In any case, reducing such pressures is crucial for heading off ethical lapses.

PRESSURE FROM THE BOSS It is hard to resist even subtle pressure from one's boss. According to one report, for instance, "the level of misconduct at work dropped dramatically when employees said their supervisors exhibited ethical behavior." Only 25% of employees who agreed that their supervisors "set a good example of ethical business behavior" said they had observed misconduct in the last year, compared with 72% of those who did not feel that their supervisors set good ethical examples.²⁸ Yet, in another poll, only about 27% of employees strongly agreed that their organizations' leadership is ethical.²⁹

Examples of how supervisors lead subordinates astray ethically include:

- Tell staffers to do whatever is necessary to achieve results.
- Overload top performers to ensure that work gets done.
- Look the other way when wrongdoing occurs.
- Take credit for others' work or shift blame.³⁰

ETHICS POLICIES AND CODES An ethics policy and code is another "outside force" that employers can use to signal that their companies are serious about ethics. For example, IBM's code of ethics says, in part:

Neither you nor any member of your family may, directly or through others, solicit or accept from anyone money, a gift, or any amenity that could influence or could reasonably give the appearance of influencing IBM's business relationship with that person or organization. If you or your family members receive a gift (including money), even if the gift was unsolicited, you must notify your manager and take appropriate measures, which may include returning or disposing of what you received.³¹

Beyond a code, some firms also urge employees to apply a quick "ethics test" to evaluate whether what they're about to do fits the company's code of conduct. For example, Raytheon Co. asks employees who face ethical dilemmas to ask:

- Is the action legal?
- Is it right?
- Who will be affected?
- Does it fit Raytheon's values?
- How will it "feel" afterward?
- How will it look in the newspaper?
- Will it reflect poorly on the company?³²

ENFORCEMENT However, codifying the rules without enforcing them is futile. As one study of ethics concludes, "strong statements by managers may reduce the risk of legal and ethical violations by their work forces, but enforcement of standards has the greatest impact."³³ More firms, such as Lockheed Martin Corp., therefore appoint chief ethics officers.³⁴ *Ethics audits* typically address topics like conflicts of interest, giving and receiving gifts, employee discrimination, and access to company information.³⁵

WHISTLEBLOWERS Some companies encourage employees to use hotlines and other means to “blow the whistle” to the company when they discover instances of fraud. In complying with the Dodd-Frank Act, the SEC recently established a whistleblower reward for people who report unethical corporate behavior to it.³⁶



organizational culture

The characteristic values, traditions, and behaviors a company's employees share.

THE ORGANIZATION'S CULTURE Leaders set a company's ethical tone.³⁷ Employees get their signals about what's acceptable not just from what managers say, but from what they do. For instance, a CEO who posts an ethics code and then ignores its precepts in what he or she actually does is hardly sending the right signal to employees. Those signals then mold the company's **organizational culture**. Culture is the “characteristic values, traditions, and behaviors a company's employees share.” A *value* is a basic belief about what is right or wrong, or about what you should or shouldn't do. (“Honesty is the best policy” would be a value.) Values are important because they guide and channel behavior. Managing people and shaping their behavior therefore depends on shaping the values they use as behavioral guides. For example, if management really believes “honesty is the best policy,” the things it does should reflect this value. Managers therefore have to think through how to send the right signals to their employees—in other words, create the right culture. Doing so includes:

- **Clarifying expectations.** First, managers should make clear their expectations with respect to the values they want subordinates to follow. For example, the IBM ethics statement makes it clear the company takes ethics seriously.
- **Using signs and symbols.** *Symbolism*—what the manager actually does and thus the signals he or she sends—ultimately does the most to create and sustain the company's culture. Managers need to “walk the talk.” They can't say “don't fudge the financials” and then do so themselves.
- **Providing physical support.** The physical manifestations of the manager's values—the firm's incentive plan, appraisal system, and disciplinary procedures, for instance—send strong signals regarding what employees should and should not do. Does the firm reward ethical behavior or penalize it?³⁸

FRAUD CONTROLS Fraud controls reduce occupational fraud. For example, the Association of Certified Fraud Examiners found that fraud controls such as hotlines, surprise audits, fraud training for employees, and mandatory vacations can each reduce internal theft by around 50%.³⁹

In Summary: Some Guidelines to Keep in Mind About Ethical Behavior at Work

Several experts reviewed the research concerning things that influence ethical behavior in organizations. Here is what their findings suggest for managers:⁴⁰

- Ethical behavior starts with *moral awareness*. In other words, ask, does the person even recognize that a moral issue exists in the situation?
- *Managers* should influence employee ethics by carefully cultivating the right norms, leadership, reward systems, and culture.
- Ethics suffer when people undergo *moral disengagement*. They don't feel the sort of distress (guilt) that would normally go with violating one's ethical standards. For example, you're more likely to harm others when you view the victims as “outsiders.”
- The most powerful morality comes from *within*. In effect, when the moral person asks, “Why be moral?” the answer is, “because that is who I am.” Then, failure to act morally creates emotional discomfort.⁴¹
- *Highly challenging goals* pursued blindly and job pressures can contribute to unethical behavior.⁴² As two experts put it, “A sales goal of \$147 an hour can lead auto mechanics to ‘repair’ things that weren't broken.”⁴³
- Don't reward *bad behavior*. For example, don't promote someone who got a big sale through devious means.⁴⁴
- *Punish unethical behavior*. Employees expect you to discipline the perpetrators.
- The degree to which employees *openly talk about ethics* is a good predictor of ethical conduct.
- Be aware that people tend to alter their *moral compasses* when they join organizations. They uncritically equate “what's best for this organization (or team, or department)” with “what's the right thing to do?”

LEARNING OBJECTIVE 3

Discuss at least four specific HR tools managers use to influence ethical behavior at work.

HR TOOLS FOR MANAGING ETHICS AND FAIR TREATMENT

The manager has various human resource management tools he or she can use to foster ethics and fair treatment. We'll address these next.

Selection Tools

One writer says, "The simplest way to tune up an organization, ethically speaking, is to hire more ethical people."⁴⁵ "Screening for ethics" should start before applicants even apply, with recruitment materials that emphasize the firm's commitment to ethics. (The Microsoft site in Figure 4 is an example.) Managers can then use screening tools like honesty tests, background checks, and questions such as "Have you ever observed someone stretching the rules at work? What did you do about it?" to screen out ethical undesirables.⁴⁶ Similarly, treat job applicants fairly. "If prospective employees perceive that the hiring process does not treat people fairly, they may assume that ethical behavior is not important in the company."⁴⁷

Training Tools

Ethics training is basically mandatory. Since 1991, federal sentencing guidelines have prescribed reduced penalties for employers accused of misconduct who implement codes of conduct and ethics training.⁴⁸ The Sarbanes-Oxley Act of 2002 makes ethics training even more important.

Ethics training usually involves showing employees how to recognize ethical dilemmas, how to apply codes of conduct to resolve problems, and how to use personnel activities like disciplinary practices in ethical ways.⁴⁹ The training should emphasize the moral underpinnings of the ethical choice and the company's deep commitment to integrity and ethics. Include participation by top managers in the program to underscore that commitment.⁵⁰



Improving Productivity through HRIS

Web-Based Ethics Training

Ethics training is often Internet-based. For example, Lockheed Martin's 160,000 employees take ethics and legal compliance training via the firm's intranet. Lockheed's online ethics program software

FIGURE 4

Using the Company Website to Emphasize Ethics

Source: Screenshot courtesy of Microsoft Corporation.

The screenshot shows the Microsoft Government website. The main heading is "Microsoft compliance with U.S. government gift and ethics rules". Below this, there is a "Notice to all U.S. government employees (including Military and Public Education personnel)" section. The text states: "At Microsoft, we want to ensure compliance with applicable government gift and ethics rules that prohibit government employees from accepting gifts from entities doing or seeking official business." It then lists "Public sector (government, military or education) events" and "Public events (open to the public - public sector and non-public sector attendees)". Under "Public events", there is a "Meals" section with three options: 1. Submit a signed approval letter from your agency or institution's ethics officer/legal counsel. 2. Pay for the meal(s) by sending a check for the cost of the meal(s) to Microsoft Corporation, Lincoln Square/20243, One Redmond Way, Redmond, WA 98052. 3. Do not accept or consume any meals at the event. There is also a "Give-away and other items of value" section.

also keeps track of how well the company and its employees are doing in terms of maintaining high ethical standards.⁵¹ Online ethics training tools include *Business Ethics for Managers* from SkillSoft (skillsoft.com).⁵² Some employers are switching from packaged ethics training to more company-relevant customized programs. For example, Yahoo! had a vendor produce an animated package containing ethical scenarios set in Yahoo! company offices around the world. The 45-minute program covers Yahoo!'s code of conduct as well as issues like the Foreign Corrupt Practices Act.⁵³

Performance Appraisal Tools

Unfair appraisals tend to suggest that the employer may condone unethical behavior. At a minimum:

- The employees' standards should be clear.
- Employees should understand the basis on which they're going to be appraised.
- The supervisor should perform the appraisal objectively and fairly.⁵⁴

Reward and Disciplinary Systems

Employees expect their employers to punish unethical conduct.⁵⁵ Furthermore, the employer should discipline executives, not just underlings, who misbehave.⁵⁶



Employee Privacy Policies⁵⁷

As heated discussions about airports' full-body scans suggest, many (or most) people view invasions of their privacy as both unethical and unfair. At work, employee privacy violations include *intrusion* (such as locker room and e-mail surveillance), *publication* of private matters, *disclosure* of medical records, and *appropriation* of an employee's name or likeness for commercial purposes.⁵⁸ Background checks, monitoring off-duty conduct and lifestyle, drug testing, workplace searches, and workplace monitoring activities trigger most privacy violations.⁵⁹ We'll look more closely at monitoring here.

EMPLOYEE MONITORING A few years ago, a New Jersey court found an employer liable when one of its employees used his company computer at work to distribute child pornography. (Someone had previously alerted the employer to the suspicious activity and the employer had not taken action.)⁶⁰

The increased use of blogging and Twitter-type tools has further expanded the options for distributing potentially questionable content.⁶¹ And with more employers letting employees use their own iPad and iPhone-type devices at work, new problems are arising.⁶² One employer gave employees iPods as a reward, and found the employees were now clogging the firm's servers with illegal music downloads.⁶³ Security is a problem, too. One "4-gigabyte MP3 player, such as the first generation of iPod Mini . . . can take home a lot of corporate data," said one employer (a process some graphically describe as "podslurping."⁶⁴ Allowing such devices' use at work thus seems to require some special planning and policies.

Instituting e-mail and privacy policies is an urgent problem. About one-third of U.S. companies recently investigated suspected leaks, via e-mail, of confidential or proprietary information. One hospital found that, to facilitate working at home, some medical staff were e-mailing patients' confidential records to themselves, violating federal privacy laws. Other employers face demands to produce employee e-mail as part of litigation, as when one employee sues another for sexual harassment.⁶⁵ A recent U.S. Federal Trade Commission decision may even make employers liable for deceptive company endorsements that employees post on their own blogs or on social media sites such as Facebook, even if the employers didn't authorize the statements.⁶⁶

It's therefore not surprising that in one survey 41% of employers with more than 20,000 employees had someone reading employee e-mails.⁶⁷ Ninety-six percent block access to adult websites, 61% to game sites.⁶⁸ Some check employees' personal blogs or Facebook sites to see if they're publicizing work-related matters.⁶⁹ Even Twitter is becoming a monitoring issue.⁷⁰

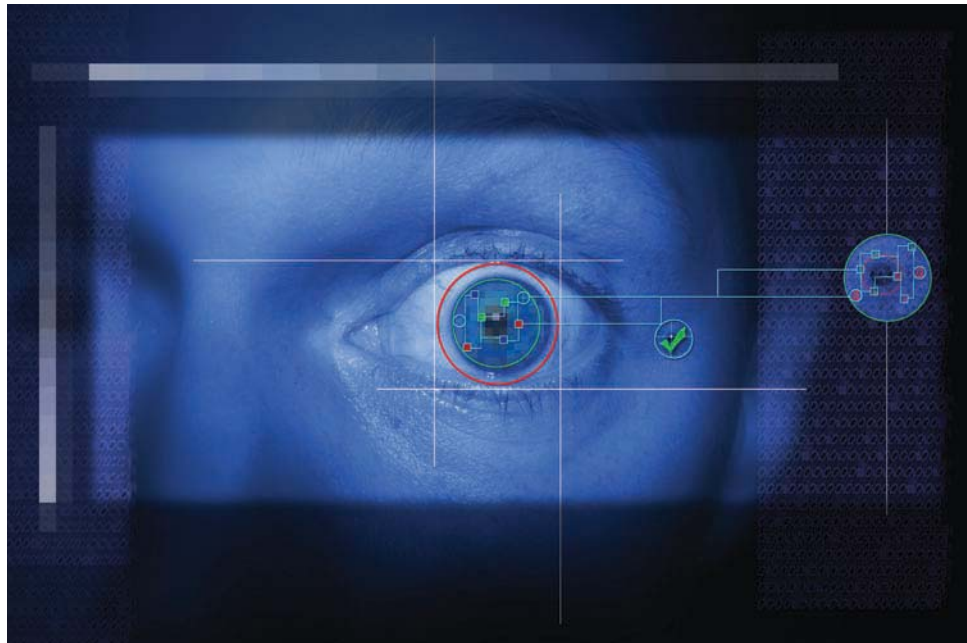
Monitoring today therefore goes far beyond listening in on phone lines. New York's Bronx Lebanon Hospital uses biometric scanners to ensure that employees who clock in really are who they say they are.⁷¹ Iris scanning tends to be the most accurate authorization device. Some organizations like the Federal Aviation Administration use it to control employees' access to its network information systems.⁷²

A SHRM survey found that 40% of employers surveyed have a formal policy governing social media used by employees. However, employers need to formulate such policies with care. For example, an overly broad restriction against "making disparaging comments about the company through any media, including online," probably would not be legally defensible.⁷³ On the other hand, prohibiting "plainly egregious conduct" such as obscene, intimidating, or unlawfully discriminatory comments probably would be.



More employers are using iris scanning to verify employee identity.

Source: tlorna/Fotolia



Location monitoring is becoming pervasive.⁷⁴ Employers ranging from United Parcel Service to the City of Oakland, California, use GPS units to monitor their truckers' and street sweepers' whereabouts.

Employers also routinely use software to monitor (usually secretly) what their employees are doing online. When one employer noticed that employees were piling up overtime claims, they installed new software and discovered many employees were spending hours each day shopping online instead of working. Such monitoring raises privacy issues, and is usually within the purview of the HR department. Some employers, such as Eastman Kodak, appoint chief privacy officers to ensure that the human resource and other departments don't endanger the company by conducting inappropriate investigations of applicants or employees.⁷⁵

LEGAL ISSUES Electronic eavesdropping is legal—up to a point. For example, federal law and most state laws allow employers to monitor employees' phone calls in the ordinary course of business. However, they must stop listening when it becomes clear the conversation is personal, not business. You can also intercept e-mail to protect the property rights of the e-mail provider. However, court cases suggest employers may have fewer rights to monitor e-mail than previously assumed.⁷⁶

To be safe, employers issue e-mail and online service usage policies. These warn employees that those systems should be used for business purposes only. Employers also have employees sign e-mail and telephone monitoring acknowledgment statements like that in Figure 5. Many employees probably assume that their communications using the corporate e-mail system are open to review, but that e-mails they send via the employer's system but using their personal e-mail accounts (such as Gmail) aren't. That is not necessarily the case. However, it's still not entirely a clear-cut situation. An attorney should review the e-mail policy, but at a minimum make it clear that employees should have no expectation of privacy in their e-mail and Internet usage,⁷⁷ and that all messages sent and received on the employer's e-mail system are company property and not confidential.⁷⁸

Videotaped workplace monitoring calls for more legal caution. Continuous video surveillance of employees in an office setting may not be a problem. But a Boston employer had to pay over \$200,000 to five workers it secretly videotaped in an employee locker room, after they sued.⁷⁹

discipline

A procedure that corrects or punishes a subordinate for violating a rule or procedure.



MANAGING EMPLOYEE DISCIPLINE

Few HR practices will poison employees' perceptions of "ethical and fair treatment" or undermine employee relations as will unfair disciplinary processes. The purpose of **discipline** is to encourage employees to adhere to rules and regulations. Discipline is necessary when an employee violates one of the rules.⁸⁰ However, the process must be well-thought out and fair.⁸¹

FIGURE 5**Sample E-Mail Monitoring Acknowledgment Statement**

I understand that XYZ Company periodically monitors any e-mail communications created, sent, or retrieved using this company's e-mail system. Therefore I understand that my e-mail communications may be read by individuals other than the intended recipient. I also understand that XYZ Company periodically monitors telephone communications, for example to improve customer service quality.

Signature _____ Date _____

Print Name _____ Department _____

LEARNING OBJECTIVE 4

Explain how to use fair disciplinary practices.

The Three Pillars

The manager builds a fair discipline process on three pillars: rules and regulations, a system of progressive penalties, and an appeals process.

RULES AND REGULATIONS A set of clear disciplinary rules and regulations is the first pillar. The rules should address issues such as theft, destruction of company property, drinking on the job, and insubordination. Examples of rules include:

Poor performance is not acceptable. Each employee is expected to perform his or her work properly and efficiently and to meet established standards of quality.

Alcohol and drugs do not mix with work. The use of either during working hours and reporting for work under the influence of either are both strictly prohibited.

The purpose of the rules is to inform employees ahead of time what is and is not acceptable behavior. Employees should be told, preferably in writing, what is not permitted. This usually occurs during the employee's orientation. The employee orientation handbook should contain the rules and regulations. The Managing the New Workforce feature provides another perspective.

MANAGING THE NEW WORKFORCE**Comparing Males and Females in a Discipline Situation**

What several researchers unfortunately call the "Evil Woman Thesis" certainly doesn't argue that women are evil.⁸² Instead, it "argues that women who commit [certain] offenses violate stereotypic assumptions about the proper behavior of women. These women will [then] be penalized for their inappropriate sex role behavior in addition to their other offenses." In other words, it argues that when a woman doesn't act the way other men and women think she should act, the men and women tend to overreact and treat her more harshly than they might if a man committed it.

While such a thesis might seem ridiculous on its face, the results of at least one careful study seem to support it. In this study, 360 graduate and undergraduate business school students reviewed a labor arbitration case. The case involved two employees, one male and one female, with similar work records and tenure with their employers. Both were discharged for violation of company rules related to alcohol and drugs. The case portrays one worker's behavior as a more serious breach of company rules: The more culpable worker (a male in half the study and a female in the other half) had brought the intoxicant to work. The students had to express their agreement with two alternative approaches to settling the dispute that arose after the discharge.

In their study, the researchers found bias against the female employee by both the male and female students. The female workers in the case received recommendations for harsher treatment from both the male and female students. As the researchers conclude, "women, as decision makers, appear to be as willing as men to impose harsher discipline on women than upon men."

PENALTIES A system of progressive penalties is the second pillar of effective discipline. The severity of the penalty usually depends on the offense and the number of times it has occurred. For example, most companies issue warnings for the first unexcused lateness. However, for a fourth offense, discharge is the usual disciplinary action.

APPEALS PROCESS Third, an appeals process should be part of the disciplinary process. The aim here is to ensure that supervisors mete out discipline fairly.

FedEx's **guaranteed fair treatment** multistep program illustrates this. In *step 1, management review*, the complainant submits a written complaint to a middle manager. The department head reviews all relevant information; holds a meeting with the complainant; makes a decision to either uphold, modify, or overturn management's action; and communicates the decision in writing to the complainant and the department's HR representative.

If not satisfied, then in *step 2, officer complaint*, the complainant submits a written appeal to the vice president or senior vice president of the division.

Finally, in *step 3, executive appeals review*, the complainant may submit a written complaint to the employee relations department. The complaint is then investigated and a case file prepared for the executive review appeals board. The appeals board—the CEO, the COO, the chief HR officer, and three senior vice presidents—then reviews all relevant information and makes a decision to uphold, overturn, or initiate a board of review or to take other appropriate action.

Some supervisory behavior may be impossible to overcome. For example, the employer can sometimes mitigate the effects of unfair disciplinary procedures by establishing disciplinary appeals processes. However, behaviors that attack the employee's personal and/or social identity are difficult to remedy.⁸³ The HR in Practice feature summarizes fair discipline guidelines.

guaranteed fair treatment

Employer programs aimed at ensuring that all employees are treated fairly, generally by providing formalized, well-documented, and highly publicized vehicles through which employees can appeal any eligible issues.

HR IN PRACTICE

Fair Discipline Guidelines

Useful discipline guidelines for supervisors to keep in mind include:⁸⁴

- **Make sure the evidence supports the charge of employee wrongdoing.** Arbitrators often cite that “the employer's evidence did not support the charge of employee wrongdoing” when reinstating discharged employees.
- **Make sure to protect the employees' due process rights.** Arbitrators normally reverse discharges and suspensions when the process that led to them is obviously unfair or violates due process.⁸⁵
- **Adequately warn the employee of the disciplinary consequences of his or her alleged misconduct.** Have the employee sign a form as in Figure 6.
- **The rule that allegedly was violated should be “reasonably related” to the efficient and safe operation of the particular work environment.**
- **Fairly and adequately investigate the matter before administering discipline.**
- **The investigation should produce substantial evidence of misconduct.**
- **Apply applicable rules, orders, or penalties without discrimination.**
- **Maintain the employee's right to counsel.** For example, all union employees generally have the right to bring a representative to an interview that they reasonably believe might lead to disciplinary action.
- **Don't rob your subordinate of his or her dignity.**
- **Remember that the burden of proof is on you.** In U.S. society, a person is considered innocent until proven guilty.
- **Get the facts.** Don't base your decision on hearsay evidence or on your general impression.
- **Don't act while angry.**
- **Use ombudsmen,** neutral counselors outside the chain of command to whom employees who believe they were treated unfairly can turn to for advice.⁸⁶

DISCIPLINE WITHOUT PUNISHMENT Traditional discipline has two main drawbacks. First, no one likes being punished. Second, punishment tends to gain short-term compliance, but not long-term cooperation.

Discipline without punishment (or alternative or nonpunitive discipline) aims to avoid these drawbacks. It does this by reducing the punitive nature of the discipline itself. Steps include:⁸⁷

1. Issue an oral reminder for a first infraction.
2. Should another incident arise within 6 weeks, issue a formal written reminder, and place a copy in the employee's personnel file. Also, hold a second private discussion with the employee.

FIGURE 6
Report of Employee
Discipline

Apex Telecommunications Corporation
Report of Disciplinary Action and Warning

Employee's Name _____
 Employee's Department _____
 Date of Misconduct _____ Today's Date _____

Description of Incident and misconduct (including witnesses, if any) _____

Witnesses to Incident _____

If the misconduct violated an Apex Co. policy or rule, state the policy or rule _____

Employee's explanation for misconduct, if any _____

Disciplinary action taken, if any _____

The employee was warned today that if misconduct such as this reoccurs at any time during the next _____ weeks, he or she may be subject to the following disciplinary action _____

 Supervisor's signature

 Employee's signature

 Print name

 Print name

3. **Give a paid, 1-day “decision-making leave.”** If another incident occurs in the next 6 weeks or so, tell the employee to take a 1-day leave with pay, and to consider whether he or she wants to abide by the company’s rules. When the employee returns to work, he or she meets with you and gives you a decision.
4. **If no further incidents occur in the next year or so, purge the 1-day paid suspension from the person’s file.** If the behavior is repeated, the next step is dismissal.

The process would not apply to exceptional circumstances. Criminal behavior or in-plant fighting might be grounds for immediate dismissal, for instance.

Finally, remember that the opportunity to express our opinions affects our perceptions of how fairly we’re treated. For example, one study concluded that three actions contributed to perceived fairness in business settings. One was *engagement* (involving individuals in the decisions that affect them by asking for their input and allowing them to refute the merits of one another’s ideas and assumptions). A second was *explanation* (ensuring that everyone involved and affected understands why final decisions are made as they are and the thinking that underlies the decisions). The third was *expectation clarity* (making sure everyone knows by what standards they will be judged and the penalties for failure).⁸⁸



MANAGING EMPLOYEE RELATIONS

As we said, most employers strive to maintain positive relations between themselves and their employees, and doing so is not possible if employees think the company disciplines them unfairly, bullies them, spies on them, or (in general) treats them unethically or unfairly. Therefore,

LEARNING OBJECTIVE 5

Define *employee relations* and discuss at least four methods for managing it.

KNOWLEDGE BASE**employee relations**

The activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.

KNOWLEDGE BASE

The owner of 11 IHOP restaurants reduced its employee turnover with an *online survey*. It lets new employees anonymously report their opinions about the hiring process.

Source: Jeff Greenberg/Alamy

policies that foster ethics, fair treatment, and fair discipline form the bedrock of positive employee relations. On that foundation, the employer can then build an effective employee relations program, to which we now turn.

What Is Employee Relations?

Employee relations is the activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.⁸⁹ Whether you're recruiting employees, managing union organizing campaigns, asking employees to work overtime, or doing some other task, it obviously makes sense to have employees "on your side." Most employers therefore endeavor to build positive employee relations on the sensible assumption that doing so beats building negative ones. Managing employee relations is usually assigned to HR, and is a topic the SHRM Knowledge Base addresses. In this section, we'll address managing employee relations in terms of three main topics: *improving and assessing employee relations through improved communications, developing employee recognition/relations programs, and using employee involvement strategies.*

Improving and Assessing Employee Relations through Better Communications

Employers use various communications tools to bolster their employee relations efforts. For example, one university's website says, "We believe in keeping our employees fully informed about our policies, procedures, practices and benefits."⁹⁰ This employer uses an *open-door policy* to encourage communication between employees and managers, an *employee handbook* covering basic employment information, and "the opportunity to keep abreast of University events and other information of interest through the *website, e-mail and hard copy memoranda.*"⁹¹ One writer notes that "no one likes to hear complaints, but soliciting them effectively remains critical to an employer's relationship with employees, ethics and employee relations."⁹² Doing so may include hosting *employee focus groups*, making available *ombudsman* and *suggestion boxes*, and implementing telephone and Web-based *hotlines*. Some employers use hotline providers to manage their hotlines. The vendor sets up the hotlines, receives the employees' comments, and provides ongoing feedback to the employer about employees' concerns, as well as periodic summaries of comments and trends. *Exit interviews* provide another opportunity to sample the quality of one's employee relations.⁹³ Individual supervisors can of course informally use methods such as open-door policies and "management by walking around" to informally monitor "how things are going."

Other employers use surveys, newsletters, and staff meetings to facilitate communications. The owner of 11 IHOP restaurants reduced its employee turnover with an *online survey*. It lets new employees anonymously report their opinions about the hiring process.⁹⁴ Feedback from that simple survey enabled them to recalibrate their firm's training and orientation methods, and reportedly reduced turnover by about a third. In Bonita Springs, Florida, Mel's Gourmet Diner keeps employees informed with a quarterly *newsletter*. It distributes copies at the chain's 10 locations, but also posts it on the company website, and plans to translate it into Spanish. "It sounds like a cliché, but our people are the keys to our success," says the owner. "We want to make sure we give them all the information and tools they need."⁹⁵ Sea Island Shrimp House in San Antonio, Texas, keeps employees in its seven restaurants communicating with what it calls "cascading huddles" (very quick meetings). At 9 a.m., top management meets in the first daily huddle. The next huddle is a conference call with store managers. Then, store managers meet with hourly employees at each location before the restaurants open, to make sure they've communicated the news of the day. "It's all about alignment and good, timely communications," says the company.⁹⁶

USING ORGANIZATIONAL CLIMATE SURVEYS Employee attitude, morale, or climate surveys play an important part in many employers' employee relations efforts. They use the surveys to



“take the pulse” of their employee’s attitudes toward a variety of organizational issues including leadership, safety, role clarity, fairness, and pay, and to thereby get a sense of whether their employee relations need improvement. The dividing lines between attitude surveys, satisfaction or morale surveys, and climate surveys are somewhat arbitrary; several experts define *organizational climate* as “the shared perceptions organizational members have about their organization and work environment.”⁹⁷

Many such surveys are available off the shelf. For instance, one SHRM sample survey has employees use a scale from 1 (“to a very little extent”) to 5 (“to a very great extent”) to answer survey questions. Questions include, “Are work activities sensibly organized?”, “Overall, how satisfied are you with your supervisor?”, “Overall, how satisfied are you with your job?”, “Do you have confidence and trust in your supervisor?”, “Is your work group’s work high in quality?”, and “Does doing your job well lead to things like recognition and respect from those you work with?”⁹⁸ Other employers create their own specialized surveys. Thus, the FedEx Survey Feedback Action (SFA) program lets employees express feelings anonymously about the company and their managers and (to some extent) about service, pay, and benefits. Each manager then has an opportunity to discuss the anonymous department results with his or her subordinates, and create an action plan for improving work group commitment. Sample questions include:

“I can tell my manager what I think.”

“My manager tells me what is expected.”

“My manager listens to my concerns.”

“My manager keeps me informed.”



Developing Employee Recognition/Relations Programs

Opportunities for two-way communications improve employee relations, but there are also other types of employee relations programs. Most notable here are employee recognition and award programs, particularly formal companywide programs such as employee-of-the-month awards. For example, one trade journal notes how “Winston–Salem N.C.–based Murray Supply Co. hosted a companywide recognition dinner in March, at which associates received awards based on the length of service, sales achievements and safe driving.”⁹⁹ Other employees received “corporate office employee of the year award,” “employee of the year for the entire company,” “branch employee of the year award,” and “manufacturers rep of the year” awards. Employers often distribute such awards with much fanfare at special events such as awards dinners. Such programs are ubiquitous. One SHRM survey found that 76% of organizations surveyed had employee recognition programs, and another 5% planned to implement one within the next year.¹⁰⁰

Instituting recognition and service award programs require some planning.¹⁰¹ For example, instituting a *service award program* requires reviewing the tenure of existing employees and establishing meaningful award periods (1 year, 5 years, etc.), plus establishing a budget, selecting awards, having a procedure for monitoring what awards to actually award, having a process for giving awards (such as special dinners or staff meetings), and periodically assessing program success. Similarly, instituting a *recognition program* requires developing criteria for recognition (such as customer service, cost savings, etc.), creating forms and procedures for submitting and reviewing nominations, selecting meaningful recognition awards, and establishing a process for actually awarding the recognition awards.



Creating Employee Involvement Strategies

Employee relations tend to improve when employees get involved with the company in positive ways, and so *employee involvement* is another useful employee relations strategy.

Getting employees involved in discussing and solving organizational issues actually provides double-barreled benefits. First, employees often know more about how to improve their work processes than anyone, so asking them can be and often is the simplest and most inexpensive way to boost performance. Second, getting them involved in addressing some process or issue will hopefully boost their sense of ownership of the process and signal to them that their opinions are valued, thereby contributing to better employee relations.

Employers use a variety of means to encourage employee involvement. Confronted by some issue, some employers organize focus groups. A *focus group* is comprised of a small sample of

employees who are presented with a specific question or issue and who interactively express their opinions and attitudes on that issue with the focus group's assigned facilitator. Others organize joint employee–management *committees* to work through issues and problems. Others use *social media* such as the pinboard-style social photo sharing website Pinterest.¹⁰² One employer, Red Door Interactive, used a Pinterest-based project it called “San Diego Office Inspiration” to encourage employees to contribute interior design, architectural, and decor ideas for its new offices.¹⁰³

suggestion teams

Temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity.

problem-solving teams

Teams that identify and research work processes and develop solutions to work-related problems.

quality circle

A special type of formal problem-solving team, usually composed of 6 to 12 specially trained employees who meet once a week to solve problems affecting their work area.

self-managing/self-directed work team

A highly trained group of around eight employees, fully responsible for turning out a well-defined segment of finished work.

USING EMPLOYEE INVOLVEMENT TEAMS Employers also use various types of teams to gain employees' involvement in addressing organizational issues. **Suggestion teams** are temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity. One employer, an airline, split employees such as baggage handlers and ground crew into separate teams, linking team members via its website for brainstorming and voting on ideas.¹⁰⁴ Some employers formalize this process by appointing semipermanent **problem-solving teams**. These teams identify and research work processes and develop solutions to work-related problems.¹⁰⁵ They usually consist of the supervisor and five to eight employees from a common work area.¹⁰⁶

A **quality circle** is a special type of formal problem-solving team, usually composed of 6 to 12 specially trained employees who meet once a week to solve problems affecting their work area.¹⁰⁷ The team first gets training in problem-analysis techniques (including basic statistics). Then it applies the problem-analysis process (problem identification, problem selection, problem analysis, solution recommendations, and solution review by top management) to solve problems in its work area.¹⁰⁸

In many facilities, specially trained teams of self-managing employees do their jobs with little or no oversight from supervisory personnel. A **self-managing/self-directed work team** is “a highly trained group of around eight employees, fully responsible for turning out a well-defined segment of finished work.”¹⁰⁹ The “well-defined segment” might be an entire jet engine, an Acura dashboard, or a fully processed insurance claim. In any case, the distinguishing features of self-directed teams are that (1) they are empowered to supervise and do virtually all of their own work, and (2) their work results in a singular, well-defined item or service.

For example, the GE aircraft engine plant in Durham, North Carolina, is a self-managing team-based facility. The plant's 170 workers work in teams, all of which report to the factory manager.¹¹⁰ In teams like these, employees “train one another, formulate and track their own budgets, make capital investment proposals as needed, handle quality control and inspection, develop their own quantitative standards, improve every process and product, and create prototypes of possible new products.”¹¹¹ Such autonomy can be highly involving for employees. As the vice president of one company said about organizing his firm around teams, “People on the floor were talking about world markets, customer needs, competitors' products, making process improvements—all the things managers are supposed to think about.”¹¹²

USING SUGGESTION SYSTEMS Most employers understand that employee suggestions can produce significant savings or revenue gains. For example, one study several years ago of 47 companies concluded that the firms had saved more than \$624 million in one year from their suggestion programs; more than 250,000 suggestions were submitted, of which employers adopted over 93,000 ideas.¹¹³ Furthermore, employees like to make suggestions. In one recent survey, 54% of the 497 employees surveyed said they made more than 20 suggestions per year, while another 24% said they made between 10 and 20 suggestions per year.¹¹⁴ The accompanying HR as a Profit Center feature provides another example.



HR AS A PROFIT CENTER

The Cost-Effectiveness Suggestion System¹¹⁵

A Lockheed Martin unit in Oswego, New York, developed what it called its “Cost-Effectiveness Plus” suggestion program to encourage and recognize employees for streamlining processes at the facility. With the Cost-Effectiveness Plus program, employees electronically submit their ideas. These are then evaluated and approved by the local manager and the program's coordinator (and by higher management when necessary). The program reportedly saves this Lockheed Martin facility about \$77,000 per implemented idea, or a total of more than \$100 million each year.

Today's suggestion systems therefore tend to be more sophisticated than the simple "suggestion boxes" of years ago.¹¹⁶ The main improvements are in how the manager formalizes and communicates the suggestion process. The head of one company that designs and installs suggestion systems for employers lists the essential elements of an effective employee suggestion system as follows:¹¹⁷

- Senior staff support
- A simple, easy process for submitting suggestions
- A strong process for evaluating and implementing suggestions
- An effective program for publicizing and communicating the program
- A program focus on key organizational goals

Review

MyManagementLab

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

SUMMARY

1. Unfair treatment reduces morale, increases stress, and has negative effects on performance. Managers, and HR management, can take steps to reduce such unfairness.
2. Ethics refers to the principles of conduct governing an individual or a group, and specifically to the standards you use to decide what your conduct should be.
3. Numerous factors shape ethical behavior at work. These include individual factors, organizational factors, the boss's influence, ethics policies and codes, and the organization's culture.
4. Employees have many legal and moral rights. Laws like Title VII don't just list what employers can and can't do in the workplace. They also give employees (or prospective employees, and sometimes past employees) numerous rights. For example, ERISA's so-called retaliation provision gives employees who believe they were denied profit-sharing or pension benefits due to discrimination the right to seek to redress the violations. On a broader level, many societies agree that people (workers included) share certain inalienable or moral rights—rights they have just because they are people living in civil societies. For example, the rights to "life, liberty, and the pursuit of happiness" are ingrained in American culture.
5. HR management can influence ethics and fair treatment at work in numerous ways. Having a fair and open selection process that emphasizes the company's stress on integrity and ethics, establishing special ethics training programs, measuring employees' adherence to high ethical standards during performance appraisals, and rewarding (or disciplining) ethical (or unethical) work-related behavior are some examples.
6. Firms give employees avenues through which to express opinions and concerns. For example, Toyota's hotline provides employees with an anonymous channel through which they can express concerns to top management. Firms such as FedEx engage in periodic anonymous opinion surveys.
7. Guaranteed fair treatment programs, such as the one at FedEx, help ensure that grievances are handled fairly and openly. Steps include management review, officer complaint, and executive appeals review.
8. A fair and just discipline process is based on three prerequisites: rules and regulations, a system of progressive penalties, and an appeals process. A number of discipline guidelines are important, including that discipline should be in line with the way management usually responds to similar incidents, that management must adequately investigate the matter before administering discipline, and that managers should not rob a subordinate of his or her dignity.
9. The basic aim of discipline without punishment is to gain an employee's acceptance of the rules by reducing the punitive nature of the discipline itself. In particular, an employee is given a paid day off to consider his or her infraction before more punitive disciplinary steps are taken.
10. Employee relations is the activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.

KEY TERMS

ethics
organizational culture
discipline
guaranteed fair treatment
employee relations

suggestion teams
problem-solving teams
quality circle
self-managing/self-directed work team

DISCUSSION QUESTIONS

1. Discuss important factors that shape ethical behavior at work.
2. Discuss at least four specific ways in which HR management can influence ethical behavior at work.
3. Give examples of four fair disciplinary practices.
- ★ 4. Describe the similarities and differences between a program such as FedEx's guaranteed fair treatment program and your college or university's student grievance process.
5. Explain how you would ensure fairness in disciplining, discussing particularly the prerequisites to disciplining, disciplining guidelines, and the discipline without punishment approach.
- ★ 6. What techniques would you use as alternatives to traditional discipline? What do such alternatives have to do with "organizational justice"? Why do you think alternatives like these are important, given industry's current need for highly committed employees?
7. Discuss at least four specific HR tools managers use to influence ethical behavior at work.
8. Define *employee relations* and discuss at least four methods for managing it.

INDIVIDUAL AND GROUP ACTIVITIES

1. Working individually or in groups, interview managers or administrators at your employer or college in order to determine the extent to which the employer or college endeavors to build two-way communication, and the specific types of programs used. Do the managers think they are effective? What do the employees (or faculty members) think of the programs in use at the employer or college?
2. Working individually or in groups, obtain copies of the student handbook for your local college and determine to what extent there is a formal process through which students can air grievances. Based on your contacts with students and others, has it been an effective grievance process? Why or why not?
3. Working individually or in groups, determine the nature of the academic discipline process in your college. Do you think it is effective? Based on what you read in this chapter, would you recommend any modifications?
4. What techniques would you use as alternatives to traditional discipline? What do such alternatives have to do with "organizational justice"? Why do you think alternatives like these are important, given industry's current need for highly committed employees?
5. Choose two companies, one (such as software firm SAS) that you believe is known for outstanding employee relations, and one that is known for less harmonious employee relations. Using any sources available, write a two-page report laying out the factors that you think explain the differences between the two companies' approaches to employee relations.
6. The PHR and SPHR Knowledge Base Appendix lists the knowledge someone studying for the HRCI certification exam needs to have in each area of human resource management (such as in Strategic Management, Workforce Planning, and Human Resource Development). In groups of four to five students, do four things: (1) review that appendix now; (2) identify the material in this chapter that relates to the required knowledge the appendix lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so the students in other teams can take each others' exam questions.



APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Enron, Ethics, and Organizational Culture

For many people, Enron Corp. still ranks as one of history's classic examples of ethics run amok. Even 10 years after the fact, courts (including the U.S. Supreme Court) were debating the fates of 362
 362 of Enron's top executives. During the 1990s and early 2000s,

Enron was in the business of wholesaling natural gas and electricity. Rather than actually owning the gas or electric, Enron made its money as the intermediary (wholesaler) between suppliers and customers. Without getting into all the details, the nature of

Enron's business, and the fact that Enron didn't actually own the assets, meant that its accounting procedures were unusual. For example, the profit statements and balance sheets listing the firm's assets and liabilities were unusually difficult to understand.

As most people know by now, it turned out that the lack of accounting transparency enabled the company's managers to make Enron's financial performance look much better than it actually was. Outside experts began questioning Enron's financial statements in 2001. In fairly short order Enron's house of cards collapsed, and several of its top executives were convicted of things like manipulating Enron's reported assets and profitability. Many investors (including former Enron employees) lost all or most of their investments in Enron.

It's probably always easier to understand ethical breakdowns like this in retrospect, rather than to predict they are going to happen. However, in Enron's case the breakdown is perhaps more perplexing than usual. As one writer said,

Enron had all the elements usually found in comprehensive ethics and compliance programs: a code of ethics, a reporting system, as well as a training video on vision and values led by [the company's top executives].¹¹⁸

Experts subsequently put forth many explanations for how a company that was apparently so ethical on its face could actually have been making so many bad ethical decisions without other managers (and the board of directors) noticing. The explanations ranged from a "deliberate concealment of information by officers" to more psychological explanations such as employees not wanting to contradict their bosses, and the "surprising role of irrationality in decision making."¹¹⁹

But perhaps the most persuasive explanation of how an apparently ethical company could go so wrong concerns organizational culture. Basically, the reasoning here is that it's not the rules but what employees feel they should do that determines ethical behavior. For example (speaking in general, not specifically about Enron), the executive director of the Ethics Officer Association put it this way:

[W]e're a legalistic society, and we've created a lot of laws. We assume that if you just knew what those laws meant that you would behave properly. Well, guess what? You can't write enough laws to tell us what to do at all times every day of the week in every part of the world. We've got to develop the critical thinking and critical reasoning skills of our people because most of the ethical issues that we deal with are in the ethical gray areas. Virtually every regulatory body in the last year has come out with language that has said in addition to law compliance, businesses are also going to be accountable to ethics standards and a corporate culture that embraces them.¹²⁰

How can one tell or measure when a company has an "ethical culture"? Key attributes of a healthy ethical culture include:

- Employees feel a sense of responsibility and accountability for their actions and for the actions of others.¹²¹
- Employees freely raise issues and concerns without fear of retaliation.
- Managers model the behaviors they demand of others.
- Managers communicate the importance of integrity when making difficult decisions.

Questions

1. Based on what you read in this chapter, summarize in one page or less how you would explain Enron's ethical meltdown.
2. It is said that when one securities analyst tried to confront Enron's CEO about the firm's unusual accounting statements, the CEO publicly used vulgar language to describe the analyst, and that Enron employees subsequently thought doing so was humorous. If true, what does that say about Enron's ethical culture?
3. This case and this chapter both had something to say about how organizational culture influences ethical behavior. What role do you think culture played at Enron? Give five specific examples of things Enron's CEO could have done to create a healthy ethical culture.

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company

Guaranteeing Fair Treatment

Being in the laundry and cleaning business, the Carters have always felt strongly about not allowing employees to smoke, eat, or drink in their stores. Jennifer was therefore surprised to walk into a store and find two employees eating lunch at the front counter. There was a large pizza in its box, and the two of them were sipping colas and eating slices of pizza and submarine sandwiches off paper plates. Not only did it look messy, but there were also grease and soda spills on the counter and the store smelled from onions and pepperoni, even with the four-foot-wide exhaust fan pulling air out through the roof. In addition to being a turnoff to customers, the mess on the counter increased the possibility that a customer's order might actually become soiled in the store.

While this was a serious matter, neither Jennifer nor her father felt that what the counter people were doing was grounds for immediate dismissal, partly because the store manager had apparently condoned their actions. The problem was, they didn't know what to do. It seemed to them that the matter called for more than just a warning but less than dismissal.

Questions

1. What would you do if you were Jennifer, and why?
2. Should a disciplinary system be established at Carter Cleaning?
3. If so, what should it cover, and how would you suggest it deal with a situation such as the one with the errant counter people?
4. How would you deal with the store manager?

EXPERIENTIAL EXERCISE

The Dismissal Dilemma

Purpose: The purpose of this exercise is to provide you with some experience in analyzing and handling employee relations and disciplinary situations.

Required Understanding: Students should be thoroughly familiar with the information provided in the following paragraph, and with our discussions in this chapter.

You are a mid-level manager working for the U.S. federal government. One of your subordinates has a long record of being difficult to deal with. In the most recent incident, after being warned on several occasions not to come in late, he again showed up 15 minutes late. You want to discipline this person. However, after reviewing the information on adverse actions and on related matters at <http://www.opm.gov/er/> it's not clear to you whether you can discipline this person.

person.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. Each group should answer the following questions:

1. Based on what the site says about adverse actions and performance-based actions are you in a strong position to discipline or dismiss this employee or not?
2. What appeals processes are open to this person?
3. What employee relations-building techniques we discussed in this chapter does the OPM use, according to its website?

ETHICS QUIZ ANSWERS

1. 34% said personal e-mail on company computers is wrong.
2. 37% said using office equipment for schoolwork is wrong.
3. 49% said playing computer games at work is wrong.
4. 54% said Internet shopping at work is wrong.
5. 61% said it's unethical to blame your error on technology.
6. 87% said it's unethical to visit pornographic sites at work.
7. 33% said \$25 is the amount at which a gift from a supplier or client becomes troubling, while 33% said \$50, and 33% said \$100.
8. 35% said a \$50 gift to the boss is unacceptable.
9. 12% said a \$50 gift from the boss is unacceptable.
10. 70% said it's unacceptable to take the \$200 football tickets.
11. 70% said it's unacceptable to take the \$120 theater tickets.
12. 35% said it's unacceptable to take the \$100 food basket.
13. 45% said it's unacceptable to take the \$25 gift certificate.
14. 40% said it's unacceptable to take the \$75 raffle prize.
15. 11% reported they lie about sick days.
16. 4% reported they take credit for the work or ideas of others.

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Explain what is meant by ethical behavior
2. What is employee relations? Why is it important and what would you do to improve the employee relations in a company where relations were bad.
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

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Working with Unions and Resolving Disputes

Working with Unions and Resolving Disputes

OVERVIEW:
In this chapter,
we will cover . . .

THE LABOR MOVEMENT

UNIONS AND THE LAW

THE UNION DRIVE AND ELECTION

THE COLLECTIVE BARGAINING PROCESS

WHAT'S NEXT FOR UNIONS?

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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Briefly describe the history and structure of the U.S. labor movement.
2. Discuss the nature of the major federal labor relations laws.
3. Describe the process of a union drive and election.
4. Discuss the main steps in the collective bargaining process.
5. Explain why union membership dropped, and what the prospects are for the union movement.

INTRODUCTION

Some call Costco “The Anti-Walmart” because Costco treats its workers and unions so well.¹ Walmart is famously anti-union. In comparison, when California grocery workers picketed several chains a few years ago, “Costco Wholesale Corp. avoided the fray, quietly renegotiating a separate contract with its union employees there.” The new contract boosted Costco workers’ wages and the firm’s contribution to their pension plans.²

LEARNING OBJECTIVE 1

Briefly describe the history and structure of the U.S. labor movement.

THE LABOR MOVEMENT

Don't underestimate unions. While union membership is down, about 14.8 million U.S. workers still belong to unions—around 11.8% of the total number of men and women working in America (about half the union members are in the private sector, half in the public sector).³ Many are still blue-collar workers, but many are professionals and even fashion models.⁴ (Thus in 2012, Boeing was battling with its unionized engineers to sign a new contract). Over 40% of America's 20 million federal, state, and municipal public employees belong to unions.⁵ And in some industries—including transportation and public utilities, where over 26% of employees are union members—it's hard to get a job without joining a union.⁶ Union membership also ranges widely by state, from over 20% in New York to about 4% in North Carolina. Seven big unions recently formed their own federation, with the aim of aggressively organizing workers (more on this below). U.S. union membership peaked at about 34% in 1955. It has drifted down since then due to factors such as the shift from manufacturing to service jobs, (although several years ago, for the first time in many years, union membership in America did rise a bit).⁷

Furthermore, don't assume that unions are bad for employers. For example, perhaps by professionalizing the staff and systematizing company practices, unionization may actually improve performance. In one study, heart attack mortality among patients in hospitals with unionized registered nurses were 5% to 9% lower than in nonunion hospitals.⁸

The accompanying Strategic Context feature provides another example.

THE STRATEGIC CONTEXT

The "Anti-Walmart"

It's not easy competing with Walmart's always-low prices, but Costco may have a way. Walmart Stores' Sam's Club is actually second in sales to Costco. How does Costco do it? In part with "strong labor relations, low employee turnover and liberal benefits."⁹ For example, Costco pays about 90% of the medical insurance for its 90,000-plus U.S. employees.¹⁰ And, its relations with labor unions are comparatively benign.

Costco's strategy is to neutralize Walmart's low wages and labor costs through higher productivity and better employee service. The strategy seems to be working. Costco's sales per employee are about \$500,000 a year versus \$340,000 at Sam's Clubs.¹¹ Turnover among employees with the company at least a year is about 6%, far below the industry average.¹² Aligning its labor relations strategy with its overall strategic aims is working for Costco.

Support for unions has always ebbed and flowed in America, and today pressures are building against unions. For example, critical recession-related budget problems in states such as Wisconsin and New Jersey prompted them to reduce public employees' numbers, pensions, and pay.

We'll look at unions and dealing with them in this chapter.

Why Do Workers Organize?

People have spent much time analyzing why workers unionize, and they've proposed many theories. Yet there is no simple answer.

It's clear that workers don't unionize just to get more pay, although the pay issue is important. In fact, union members' weekly earnings are higher than nonunion workers'. For example, the recent median weekly wage for union workers was \$781, while for nonunion workers it was \$717.¹³

But pay isn't always the issue. Often, the urge to unionize seems to boil down to the workers' belief that it's only through unity that they can protect themselves from management. For example, a butcher hired by Walmart said his new supervisor told him he'd be able to possibly move up to supervisor. The butcher started work, and bought a car to commute. However, after the butcher hurt his back at work his supervisor never mentioned the promotion again. Feeling cheated, the butcher went to the Grocery Workers Union, which sent an organizer. The store's meatcutters voted to unionize. Walmart soon announced it would switch to prepackaged meats, and that its stores no longer required butchers.¹⁴

RESEARCH FINDINGS A study in Australia found that employer unfairness does play a big role: "Individuals who believe that the company rules or policies were administered unfairly or to

their detriment were more likely to turn to unions as a source of assistance.”¹⁵ Employees were also more likely to join where they “perceived that the union was effective in the area of wages and benefits and protection against unfair dismissals.”¹⁶

In sum, employees turn to unions at least partly because they seek protection against the employer’s whims. One labor relations lawyer put it this way, “The one major thing unions offer is making you a ‘for cause’ instead of an ‘at will’ employee, which guarantees a hearing and arbitration if you’re fired.”¹⁷ Several years ago, Kaiser Permanente’s San Francisco Medical Center cut back on vacation and sick leave. The pharmacists’ union won back the lost vacation days. As one staff pharmacist said, “Kaiser is a pretty benevolent employer, but there’s always the pressure to squeeze a little.”¹⁸



What Do Unions Want?

We can generalize by saying that unions have two sets of aims, one for union security and one for improved wages, hours, working conditions, and benefits for their members.

UNION SECURITY First and probably foremost, unions seek to establish security for themselves. They fight hard for the right to represent a firm’s workers and to be the *exclusive* bargaining agent for all employees in the unit. (As such, they negotiate contracts for all employees, including those who are not members of the union.) Five types of union security are possible:

1. **Closed shop.**¹⁹ The company can hire only current union members. Congress outlawed closed shops in interstate commerce in 1947, but they still exist in some states for particular industries (such as printing). They account for less than 5% of union contracts.
2. **Union shop.** The company can hire nonunion people, but they must join the union after a prescribed period and pay dues. (If not, they can be fired.) This category accounts for about 73% of union contracts. Unions and employers also tend to negotiate versions of the union shop—for instance, letting older workers quit the union when the contract ends.
3. **Agency shop.** Employees who do not belong to the union still must pay the union an amount equal to union dues (on the assumption that the union’s efforts benefit *all* the workers).
4. **Preferential shop.** Union members get preference in hiring, but the employer can still hire nonunion members.
5. **Maintenance of membership arrangement.** Employees do not have to belong to the union. However, union members employed by the firm must maintain membership in the union for the contract period. These account for about 4% of union agreements.

Not all states give unions the right to require union membership as a condition of employment. **Right to work** “is a term used to describe state statutory or constitutional provisions banning the requirement of union membership as a condition of employment.”²⁰ Section 14(b) of the Taft-Hartley Act (an early labor relations act that we’ll discuss later) permits states to forbid the negotiation of compulsory union membership provisions, not just for firms engaged in interstate commerce but also for those in intrastate commerce. Right-to-work laws don’t outlaw unions. They do outlaw (within those states) any form of union security. This understandably inhibits union formation in those states. Recently, there were 23 right-to-work states.²¹ After Oklahoma became the 22nd state to pass right-to-work legislation Oklahoma’s union membership dropped dramatically in the next 3 years.²²

IMPROVED WAGES, HOURS, WORKING CONDITIONS, AND BENEFITS FOR MEMBERS Once their security is ensured, unions fight to better the lot of their members—to improve their wages, hours, and working conditions, for example. The typical labor agreement also gives the union a role in other HR activities, including recruiting, selecting, compensating, promoting, training, and discharging employees.

The AFL-CIO and the SEIU

The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) is a voluntary federation of about 56 national and international labor unions in the United States. The separate AFL and CIO merged in 1955. For many people in the United States, the AFL-CIO is still synonymous with the word *union*.

closed shop

A form of union security in which the company can hire only union members. This was outlawed in 1947 for interstate commerce, but still exists in some industries (such as printing).

union shop

A form of union security in which the company can hire nonunion people but they must join the union after a prescribed period of time and pay dues. (If they do not, they can be fired.)

agency shop

A form of union security in which employees who do not belong to the union must still pay union dues on the assumption that union efforts benefit all workers.

preferential shop

Union members get preference in hiring, but the employer can still hire nonunion members.

right to work

The public policy in a number of states that prohibits union security of any kind.

There are three layers in the structure of the AFL-CIO and most other U.S. unions. The worker joins the local union, to which he or she pays dues. The local is in turn a single chapter in the national union. For example, if you were a teacher in Detroit, you would belong to the local union there, which is one of hundreds of local chapters of the American Federation of Teachers, their national union (most unions actually call themselves international unions). The third layer in the structure is the national federation, in this case, the AFL-CIO.

Union federation membership is in flux. The Service Employees International Union (SEIU) is a fast-growing federation of more than 2.2 million members. It includes the largest health care union, with more than 1.1 million members, including registered nurses (RNs), licensed practical nurses (LPNs), and doctors. It also includes the second largest public employees union, with more than 1 million local and state government workers.²³ Several years ago, six big unions, including SEIU and the International Brotherhood of Teamsters, left the AFL-CIO and established their own federation, called the Change to Win Coalition. Together, the departing unions represented over one-quarter of the AFL-CIO's membership and budget. Change to Win plans to be more aggressive about organizing workers than they say the AFL-CIO was.²⁴ (The "UNITE HERE" union then left Change to Win, possibly slowing Change to Win's momentum.)

Some people think of the federation (such as the AFL-CIO or SEIU) as the most important part of the labor movement, but it is not. Thus, the president of the teachers' union wields more power in that capacity than in his capacity as a vice president of the AFL-CIO. Yet as a practical matter, the presidents of the AFL-CIO or SEIU do have considerable political influence.

KNOWLEDGE BASE

LEARNING OBJECTIVE 2

Discuss the nature of the major federal labor relations laws.

Norris-LaGuardia Act

This law marked the beginning of the era of strong encouragement of unions and guaranteed to each employee the right to bargain collectively "free from interference, restraint, or coercion."

Wagner Act

A law that banned certain types of unfair labor practices and provided for secret-ballot elections and majority rule for determining whether or not a firm's employees want to unionize.

National Labor Relations Board (NLRB)

The agency created by the Wagner Act to investigate unfair labor practice charges and to provide for secret-ballot elections and majority rule in determining whether or not a firm's employees want a union.

KNOWLEDGE BASE

UNIONS AND THE LAW

Until about 1930, there were no special labor laws. Employers didn't have to engage in collective bargaining with employees and were virtually unrestrained in their behavior toward unions. "Yellow dog" contracts, whereby management could require nonunion membership as a condition for employment, were widely enforced. Most union weapons—even strikes—were illegal.

This one-sided situation lasted in the United States from the Revolution to the Great Depression (around 1930). Since then, in response to changing public attitudes, values, and economic conditions, labor law has gone through three clear changes: from "strong encouragement" of unions, to "modified encouragement coupled with regulation," to "detailed regulation of internal union affairs."²⁵

Period of Strong Encouragement: The Norris-LaGuardia Act (1932) and the National Labor Relations Act (1935)

The **Norris-LaGuardia Act** set the stage for an era in which government encouraged union activity. The act guaranteed to each employee the right to bargain collectively "free from interference, restraint, or coercion." It declared yellow dog contracts unenforceable. It limited the courts' abilities to issue injunctions for activities such as peaceful picketing and payment of strike benefits.²⁶

Yet this act did little to restrain employers from fighting labor organizations. Therefore, the National Labor Relations (or **Wagner**) Act was passed in 1935 to add teeth to the Norris-LaGuardia Act. It did this by banning certain unfair labor practices, providing for secret-ballot elections and majority rule for determining whether a firm's employees were to unionize, and creating the **National Labor Relations Board (NLRB)** for enforcing these two provisions.

In addition to activities like overseeing union elections, the NLRB periodically issues interpretive rulings. For example, about 6 million employees fall under the "contingent" or "alternative" employee umbrella today. The NLRB therefore ruled that temporary employees could join the unions of permanent employees in the companies where their employment agencies assign them to work.²⁷

UNFAIR EMPLOYER LABOR PRACTICES The Wagner Act deemed as "statutory wrongs" (but not crimes) five unfair labor practices used by employers:

1. It is unfair for employers to "interfere with, restrain, or coerce employees" in exercising their legally sanctioned right of self-organization.
2. It is an unfair practice for company representatives to dominate or interfere with either the formation or the administration of labor unions. Among other management actions found to be unfair under practices 1 and 2 are bribing employees, using company spy systems, moving a business to avoid unionization, and blacklisting union sympathizers.

WORKING WITH UNIONS AND RESOLVING DISPUTES

3. Employers are prohibited from discriminating in any way against employees for their legal union activities.
4. Employers are forbidden to discharge or discriminate against employees simply because the latter file unfair practice charges against the company.
5. Finally, it is an unfair labor practice for employers to refuse to bargain collectively with their employees' duly chosen representatives.²⁸

An unfair labor practice charge may be filed (see Figure 1) with the NLRB. The board then investigates the charge. Possible actions include dismissal of the complaint, request for an injunction against the employer, and an order that the employer cease and desist.

FIGURE 1

NLRB Form 501: Filing an Unfair Labor Practice

Source: National Labor Relations Board, <http://www.nlr.gov/>.

FORM NLRB 501 (2 81)	UNITED STATES OF AMERICA NATIONAL LABOR RELATIONS BOARD CHARGE AGAINST EMPLOYER	FORM EXEMPT UNDER 44 U.S.C. 3512
INSTRUCTIONS: File an original and 4 copies of this charge with NLRB Regional Director for the region in which the alleged unfair labor practice occurred or is occurring.		DO NOT WRITE IN THIS SPACE
		CASE NO. _____ DATE FILE _____
1. EMPLOYER AGAINST WHOM CHARGE IS BROUGHT		
a. NAME OF EMPLOYER _____	b. NUMBER OF WORKERS EMPLOYED _____	
c. ADDRESS OF ESTABLISHMENT (street and number, city, State, and ZIP code) _____	d. EMPLOYER REPRESENTATIVE TO CONTACT _____	e. PHONE NO. _____
f. TYPE OF ESTABLISHMENT (factory, mine, wholesaler, etc.) _____	g. IDENTIFY PRINCIPAL PRODUCT OR SERVICE _____	
h. THE ABOVE-NAMED EMPLOYER HAS ENGAGED IN AND IS ENGAGING IN UNFAIR LABOR PRACTICES WITHIN THE MEANING OF SECTION 8(a), SUBSECTIONS (1) AND _____ OF THE NATIONAL LABOR RELATIONS ACT, AND THESE UNFAIR LABOR PRACTICES ARE UNFAIR LABOR PRACTICES AFFECTING COMMERCE WITHIN THE MEANING OF THE ACT. <i>(list subsections)</i>		
2. BASIS OF THE CHARGE (be specific as to facts, names, addresses, plants involved, dates, places, etc.) _____		
BY THE ABOVE AND OTHER ACTS, THE ABOVE-NAMED EMPLOYER HAS INTERFERED WITH, RESTRAINED, AND COERCED EMPLOYEES IN THE EXERCISE OF THE RIGHTS GUARANTEED IN SECTION 7 OF THE ACT.		
3. FULL NAME OF PARTY FILING CHARGE (if labor organization, give full name, including local name and number) _____		
4a. ADDRESS (street and number, city, State, and ZIP code) _____	4b. TELEPHONE NO. _____	
5. FULL NAME OF NATIONAL OR INTERNATIONAL LABOR ORGANIZATION OF WHICH IT IS AN AFFILIATE OR CONSTITUENT UNIT (to be filled in when charge is filed by a labor organization) _____		
6. DECLARATION		
I declare that I have read the above charge and that the statements therein are true to the best of my knowledge and belief.		
By _____ <small>(signature of representative or person filing charge)</small>		_____ <small>(title, if any)</small>
Address _____		_____ <small>(date)</small>
WILLFULLY FALSE STATEMENTS ON THIS CHARGE CAN BE PUNISHED BY FINE AND IMPRISONMENT <i>(U.S. CODE, TITLE 18, SECTION 1001)</i>		

FROM 1935 TO 1947 Union membership increased quickly after passage of the Wagner Act in 1935. Other factors such as an improving economy and aggressive union leadership contributed to this as well. But by the mid-1940s, the tide was turning. Largely because of a series of massive postwar strikes, public policy began to shift against what many viewed as the union excesses of the times.

Period of Modified Encouragement Coupled with Regulation: The Taft-Hartley Act (1947)

Taft-Hartley Act

A law prohibiting union unfair labor practices and enumerating the rights of employees as union members. It also enumerates the rights of employers.

The **Taft-Hartley Act** (or Labor Management Relations Act) reflected the public's less enthusiastic attitudes toward unions. It amended the Wagner Act with provisions aimed at limiting unions in four ways: by prohibiting unfair union labor practices, by enumerating the rights of employees as union members, by enumerating the rights of employers, and by allowing the president of the United States to temporarily bar national emergency strikes.

UNFAIR UNION LABOR PRACTICES The Taft-Hartley Act enumerated several labor practices that unions were prohibited from engaging in:

1. Unions were banned from restraining or coercing employees from exercising their guaranteed bargaining rights.
2. It is an unfair labor practice for a union to cause an employer to discriminate in any way against an employee in order to encourage or discourage his or her membership in a union.
3. It is an unfair labor practice for a union to refuse to bargain in good faith with the employer about wages, hours, and other employment conditions.

RIGHTS OF EMPLOYEES The Taft-Hartley Act also protected the rights of employees against their unions. For example, many people felt that compulsory unionism violated the basic U.S. right of freedom of association. The new *right-to-work laws* sprang up in 19 states (mainly in the South and Southwest); as noted, these outlawed labor contracts that made union membership a condition for keeping one's job.

In general, the National Labor Relations Act does not restrain unions from unfair labor practices to the extent that it does employers. Unions may not restrain or coerce employees. However, "violent or otherwise threatening behavior or clearly coercive or intimidating union activities are necessary before the NLRB will find an unfair labor practice."²⁹ Examples here would include physical assaults or threats of violence, economic reprisals, and mass picketing that restrains the lawful entry or leaving of a work site. In one typical case, *Pattern Makers v. National Labor Relations Board*, the U.S. Supreme Court found the union guilty of an unfair labor practice when it tried to fine some members for resigning from the union and returning to work during a strike.³⁰

RIGHTS OF EMPLOYERS The Taft-Hartley Act also explicitly gave employers certain rights. For example, it gave them full freedom to express their views concerning union organization. Thus, a manager can tell his or her employees that in his or her opinion unions are worthless, dangerous to the economy, and immoral. A manager can even hint, generally speaking, that unionization and subsequent high-wage demands *might* result in the permanent closing of the plant (but not in its relocation). Employers can set forth the union's record concerning violence and corruption, if appropriate, and can play on the racial prejudices of workers by describing the union's philosophy toward integration. The only major restraint is that there can be no threat of reprisal or force or promise of benefit.³¹

The employer also cannot meet with employees on company time within 24 hours of an election or suggest to employees that they vote against the union while they are at home or in the employer's office, although he or she can do so while in their work area or where they normally gather.

NATIONAL EMERGENCY STRIKES The Taft-Hartley Act also allows the U.S. president to intervene in **national emergency strikes**, which are strikes (for example, on the part of steel firm employees) that might imperil national health and safety. The president may appoint a board of inquiry and, based on its report, apply for an injunction restraining the strike for 60 days. If no settlement is reached during that time, the injunction can be extended for another 20 days. During this period, employees are polled in a secret ballot to ascertain their willingness to accept the employer's last offer.

national emergency strikes

Strikes that might "imperil the national health and safety."

Period of Detailed Regulation of Internal Union Affairs: The Landrum-Griffin Act (1959)

Landrum-Griffin Act

A law aimed at protecting union members from possible wrongdoing on the part of their unions.

In the 1950s, senate investigations revealed unsavory practices on the part of some unions, and the result was the **Landrum-Griffin Act** (officially, the Labor Management Reporting and Disclosure Act). An overriding aim was to protect union members from possible wrongdoing on the part of their unions. It was also an amendment to the Wagner Act.

The Landrum-Griffin Act contains a bill of rights for union members. Among other things, this provides for certain rights in the nomination of candidates for union office. It also affirms a member's right to sue his or her union. And, it ensures that no member can be fined or suspended without due process (including a list of charges, and a fair hearing).

The act also laid out rules regarding union elections. For example, national and international unions must elect officers at least once every 5 years, using some type of secret-ballot mechanism.

The senate investigators also discovered flagrant examples of employer wrongdoing. The Landrum-Griffin Act therefore also greatly expanded the list of unlawful employer actions. For example, companies can no longer pay their own employees to entice them not to join the union. The pendulum therefore again shifted a bit back toward strengthening unions.



LEARNING OBJECTIVE 3

Describe the process of a union drive and election.

THE UNION DRIVE AND ELECTION

It is through the union drive and election that a union tries to be recognized to represent employees. This process has five basic steps: initial contact, authorization cards, hearing, campaign, and election.

Step 1: Initial Contact

During the initial contact stage, the union determines the employees' interest in organizing, and establishes an organizing committee.

The initiative for the first contact between the employees and the union may come from the employees, from a union already representing other employees of the firm, or from a union representing workers elsewhere. Sometimes a union effort starts with a disgruntled employee contacting the local union to learn how to organize his or her place of work (as at Walmart). Sometimes, though, the campaign starts when a union decides it wants to expand to representing other employees in the firm or industry, or when the company looks like an easy one to organize. (For instance, the teamsters union, which was already firmly in place at UPS, began an intensive organizing campaign at FedEx.) In any case, there is an initial contact between a union representative and a few employees.

The Teamsters Union—already firmly in place at UPS—began an intensive organizing campaign at FedEx.

Source: Paul Sakuma/Associated Press



THE UNION REP When an employer becomes a target, a union official usually assigns a representative to assess employee interest. The representative visits the firm to determine whether enough employees are interested to make a union campaign worthwhile. He or she also identifies employees who would make good leaders in the organizing campaign and calls them together to create an organizing committee. The objective is to “educate the committee about the benefits of forming a union, the law and procedures involved in forming a local union, and the issues management is likely to raise during a campaign.”³²

CONTACT PROCEDURES The union must follow certain procedures when it starts contacting employees. The law allows union organizers to solicit employees for membership as long as it doesn’t endanger the performance or safety of the employees. Therefore, much of the contact occurs off the job. Organizers can also safely contact employees on company grounds during off hours (such as break time). Under some conditions, union representatives may solicit employees at their workstations, but this is rare. In practice, there will be much informal organizing at the workplace as employees debate organizing. In any case, this initial contact stage may be deceptively quiet. In some instances the first inkling management has of a union campaign is the distribution of a handbill soliciting union membership.³³

LABOR RELATIONS CONSULTANTS Both management and unions may use outside advisors. The use by management of consultants (whom unions often disparagingly refer to as *union busters*) has grown considerably. This so-called union avoidance industry includes the consultants, law firms, industry psychologists, and strike management firms that employers often turn to when the union comes to call.³⁴ One study found management consultants involved in 75% of the elections they surveyed.³⁵

One expert says an employer’s main goal shouldn’t be to win representation elections, but to avoid them altogether. He says doing so means taking fast action when the first signs of union activity appear. His advice in a nutshell: Don’t just ignore the union’s efforts while it spreads pro-union rumors, such as “If we had a union, we wouldn’t have to work so much overtime.” Retain an attorney and react at once.³⁶

union salting

A union organizing tactic by which workers who are employed by a union as undercover union organizers are hired by unwitting employers.

UNION SALTING Unions are also not without creative ways to win elections, one of which is union salting. The National Labor Relations Board defines **union salting** as “placing of union members on nonunion job sites for the purpose of organizing.” Critics claim that “salts” also often interfere with business operations and harass employees.³⁷ A U.S. Supreme Court decision, *NLRB v. Town and Country Electric*, held the tactic to be legal.



Improving Productivity through HRIS

Unions Go Online

As one expert asked, “If faster and more powerful ways of communicating enable companies to compete in a quickly changing and challenging environment, shouldn’t they also make unions stronger and more efficient as organizations and workplace representatives?”³⁸

In fact, e-mail and the Internet have supercharged many union campaigns. Unions now can publicize their efforts and gather donations online, as well as put membership and union authorization forms online. Of course, they also mass e-mail announcements to collective bargaining unit members, and use mass e-mail to reach supporters and government officials.

For example, the group trying to organize Starbucks workers (the Starbucks Workers’ Union) set up their own website (www.starbucksunion.org). It includes notes like, “Starbucks managers monitored Internet chatrooms and eavesdropped on party conversations in a covert campaign to identify employees agitating for union representation at the coffee chain, internal emails reveal.”³⁹

Step 2: Authorization Cards

For the union to petition the NLRB for the right to hold an election, it must show that a sizable number of employees may be interested in being organized. The next step is thus for union organizers to try to get the employees to sign **authorization cards** (Figure 2). Among other things, these usually authorize the union to seek a representation election and state that the employee has applied to join the union. Before the union can petition an election, 30% of the eligible employees in an appropriate bargaining unit must sign.

authorization cards

In order to petition for a union election, the union must show that at least 30% of employees may be interested in being unionized. Employees indicate this interest by signing authorization cards.

FIGURE 2
Sample Authorization
Card

SAMPLES UNIONS of AMERICA
Authorization for Representation

I hereby authorize Local 409 of the SAMPLES union to be my exclusive representative for the purposes of collective bargaining with my employer. I understand that my signature on this card may be used to obtain certification of Local 409 as our exclusive bargaining representative without an election.

This card will verify that I have applied for union membership and that effective _____ I hereby authorize you to deduct each pay period from my earnings an amount equal to the regular current rate of monthly union dues and initiation fee.

Employer: _____ **Worksite:** _____

Date: _____ **Name:** _____

Street Address: _____ **City:** _____ **Zip Code:** _____

Home Phone: _____ **Cell Phone:** _____ **Home E-Mail:** _____

Department: _____

Job Title/Classification: _____

Signature: _____

You must print and mail in this authorization card for it to be recognized. Only original cards are valid and should be submitted. Mail to:

SAMPLES Unions of America, Local 409
 301 Samples Way
 Miami, FL 33101

During this stage, both union and management typically use propaganda. The union claims it can improve working conditions, raise wages, increase benefits, and generally get the workers better deals. Management need not be silent; it can attack the union on ethical and moral grounds and cite the cost of union membership, for example. Management can also explain its record, express facts and opinions, and explain to its employees the law applicable to organizing campaigns and the meaning of the duty to bargain in good faith (if the union should win the election).

However, neither side can threaten, bribe, or coerce employees. Further, an employer may not make promises of benefits to employees or make unilateral changes in terms and conditions of employment that were not planned to be implemented prior to the onset of union organizing activity. Managers also should know that looking through signed authorization cards could be construed as spying on those who signed, which is an unfair labor practice.

During this stage, unions can picket the company, subject to three constraints: The union must file a petition for an election within 30 days after the start of picketing, the firm cannot already be lawfully recognizing another union, and there cannot have been a valid NLRB election during the past 12 months. The union would file a petition using NLRB Form 502.

Step 3: The Hearing

After the authorization cards are collected, one of three things can occur. The employer may choose not to contest union recognition, in which case no hearing is needed and a *consent election* is held immediately. The employer may choose not to contest the union's *right to an election* (and/or the scope of the bargaining unit, or which employees are eligible to vote in the election), in which case no hearing is needed and the parties can stipulate an election. Or, the employer may contest the union's right, in which case it can insist on a *hearing* to determine those issues. An employer's decision about whether to insist on a hearing is a strategic one based on the facts of each case, and whether it feels it needs more time to try to persuade a majority of its employees not to elect a union to represent them.

Most companies contest the union's right to represent their employees, and thus decline to voluntarily recognize the union: They claim that a significant number of their employees do not really want the union. It is at this point that the U.S. Labor Department's NLRB gets involved. The NLRB is usually contacted by the union, which requests a hearing. Based on this,

the regional director of the NLRB sends a hearing officer to investigate. (For example, did 30% or more of the employees in an appropriate bargaining unit sign the authorization cards?) The examiner sends both management and the union a notice of representation hearing that states the time and place of the hearing.

bargaining unit

The group of employees the union will be authorized to represent.

The **bargaining unit** is one decision to come out of the hearing; it is the group of employees that the union will be authorized to represent and bargain for collectively.

Finally, if the results of the hearing are favorable for the union, the NLRB directs that an election be held. It issues a Decision and Direction of Election notice to that effect and sends NLRB Form 666 (“Notice to Employees”) to the employer to post, notifying employees of their rights under federal labor relations law.

Step 4: The Campaign

During the campaign that precedes the election, the union and employer appeal to employees for their votes. The union emphasizes that it will prevent unfairness, set up a grievance/seniority system, and improve unsatisfactory wages. Union strength, they’ll say, will give employees a voice in determining wages and working conditions. Management emphasizes that improvements such as those the union promises don’t require unionization, and that wages are equal to or better than they would be with a union contract. Management also emphasizes the financial cost of union dues; the fact that the union is an “outsider”; and that if the union wins, a strike may follow.⁴⁰ It can even attack the union on ethical and moral grounds. But neither side can threaten, bribe, or coerce employees.



THE SUPERVISOR’S ROLE Target recently won a unionization election at its Valley Stream, New York, store, but a federal judge overturned it and required a new election. Among other things, the judge found that Target managers had violated labor law by telling employees they couldn’t wear union buttons or distribute flyers, and by threatening to discipline workers who discussed union matters. Target is appealing.⁴¹

Supervisors must know what they can and can’t do to hamper organizing activities legally, lest they commit unfair labor practices (see the HR in Practice feature). Such practices could cause a new election to be held after the company won a previous election. In another case, a plant superintendent prohibited distribution of union literature in the lunchroom. Because solicitation of off-duty workers in nonwork areas is generally legal, the company subsequently allowed the union to post and distribute union literature in the plant’s nonworking areas. However, the NLRB still ruled that the initial act of prohibiting distribution of the literature was an unfair labor practice. The NLRB used the superintendent’s action as one reason to invalidate an election that the company won.⁴²

HR IN PRACTICE

The Supervisor’s Role in the Unionizing Effort

Supervisors can remember what they may and may not do with respect to unionization with the acronyms TIPS and FORE.⁴³

Use TIPS to remember what *not* to do:

- T—Threaten.** Do not threaten or imply the company will take adverse action of any kind for supporting the union.⁴⁴ Do not threaten to terminate employees because of their union activities, and don’t threaten to close the facility if the union wins the election.
- I—Interrogate.** Don’t interrogate or ask employees their position concerning unions, or how they are going to vote in an election.
- P—Promise.** Don’t promise employees a pay increase, special favors, better benefits, or promotions.
- S—Spy.** Don’t spy at any union activities or attend a union meeting, even if invited.

Use FORE to remember what the supervisor *may do* to discourage unionization:

- F—Facts.** Do tell employees that by signing the authorization card the union may become their legal representative in matters regarding wages and hours, and do tell them that by signing a union authorization card it does not mean they must vote for the union.
- O—Opinion.** You may tell employees that management doesn’t believe in third-party representation, and that management believes in having an open-door policy to air grievances.
- R—Rules.** Provide factually correct advice such as telling employees that the law permits the company to permanently replace them if there’s a strike, and that the union can’t make the company agree to anything it does not want to during negotiations.
- E—Experience.** The supervisor may share personal experiences he or she may have had with a union.⁴⁵



RULES REGARDING LITERATURE AND SOLICITATION To avoid problems, employers should have rules governing distribution of literature and solicitation of workers and train supervisors in how to apply them.⁴⁶ For example:

- Nonemployees can always be barred from soliciting employees during their work time—that is, when the employee is on duty and not on a break.
- Employers can usually stop employees from soliciting other employees for any purpose if one or both employees are on paid-duty time and not on a break.
- Most employers (not including retail stores, shopping centers, and certain other employers) can bar nonemployees from the building's interiors and work areas as a right of private property owners.

Such restrictions are valid only if the employer does not discriminate. For example, if company policy permits employees to collect money for baby gifts or to engage in other solicitation during their working time, the employer will not be able to prohibit them from union soliciting during work time.

Finally, remember that there are more ways to commit unfair labor practices than just keeping union organizers off your private property. For example, one employer decided to have a cookout and paid day off 2 days before a union representation election. The NLRB held that this was too much of a coincidence and called a second election. The union had lost the first vote but won the second.⁴⁷

Figure 3 illustrates what the employer and union generally cannot do during campaigns.

Step 5: The Election

Finally, the election can be held within 30 to 60 days after the NLRB issues its Decision and Direction of Election. The election is by secret ballot. The NLRB provides the ballots (see Figure 4), as well as the voting booth and ballot box. It also counts the votes and certifies the results of the election. Historically, the more workers who vote, the less likely the union is to win. This is probably because more workers who are not strong union supporters end up voting. Which union is important, too. For example, the teamsters union is somewhat less likely than other unions to win a representation election.⁴⁸

FIGURE 3 NLRA Union Campaign Violations

Source: National Labor Relations Board, <http://www.nlr.gov/>.

Examples of Employer Conduct That Violates the NLRA:

- Threatening employees with loss of jobs or benefits if they join or vote for a union or engage in protected concerted activity (such as two or more employees together asking their employer to improve working conditions and pay)
- Threatening to close the plant if employees unionize
- Promising benefits to employees to discourage their union support
- Transferring, laying off, terminating, assigning employees more difficult work tasks, or otherwise punishing employees because they engaged in union or protected concerted activity
- Transferring, laying off, terminating, assigning employees more difficult work tasks, or otherwise punishing employees because they filed unfair labor practice charges or participated in an investigation by NLRB

Examples of Labor Organization Conduct That Violates the NLRA:

- Threatening employees with loss of jobs unless they support the union
- Seeking the suspension, discharge, or other punishment of an employee for not being a union member even if the employee has paid or offered to pay a lawful initiation fee and periodic fees thereafter
- Refusing to process a grievance because an employee has criticized union officials or because an employee is not a member of the union in states where union security clauses are not permitted
- Fining employees who have validly resigned from the union for engaging in protected concerted activities following their resignation or for crossing an unlawful picket line
- Engaging in picket line misconduct, such as threatening, assaulting, or barring nonstrikers from the employer's premises
- Striking over issues unrelated to employment terms and conditions or coercively enmeshing neutrals into a labor dispute

FIGURE 4
Sample NLRB Ballot

UNITED STATES OF AMERICA
National Labor Relations Board

FOR CERTAIN EMPLOYEES OF

Do you wish to be represented for purposes of collective bargaining by —

MARK AN “S” IN THE SQUARE OF YOUR CHOICE

YES	NO
<input type="checkbox"/>	<input type="checkbox"/>

DO NOT SIGN THIS BALLOT. Fold and drop in ballot box.
If you spoil this ballot return it to the Board Agent for a new one.

The union becomes the employees’ representative if it wins the election, and winning means getting a majority of the votes cast, not a majority of the workers in the bargaining unit. The union typically wins just over half of such elections. In one recent year, the union win rate rose to 66.8%, higher than it had been for decades.⁴⁹

Decertification Elections: When Employees Want to Oust Their Union

Winning an election and signing an agreement do not necessarily mean that the union is in the company to stay. The same law that grants employees the right to unionize also gives them a way to terminate legally the union’s right to represent them. The process is *decertification*. There are around 450 to 500 decertification elections each year, of which unions usually win around 30%.⁵⁰ That’s actually a more favorable rate for management than the rate for the original representation elections.

Decertification campaigns are similar to certification campaigns.⁵¹ The union organizes membership meetings and house-to-house visits, mails literature to homes, and uses phone calls, NLRB appeals, and (sometimes) threats and harassment to win the election. Managers use meetings—including one-on-one meetings, small-group meetings, and meetings with entire units—as well as legal or expert assistance, letters, improved working conditions, and subtle or not-so-subtle threats in its attempts to win a decertification vote.

collective bargaining

The process through which representatives of management and the union meet to negotiate a labor agreement.



LEARNING OBJECTIVE 4

Discuss the main steps in the collective bargaining process.

THE COLLECTIVE BARGAINING PROCESS

What Is Collective Bargaining?

When and if the union is recognized as a company’s employees’ representative, a day is set for meeting at the bargaining table. Representatives of management and the union meet to negotiate a labor contract that contains agreements on specific provisions covering wages, hours, and working conditions.

What exactly is **collective bargaining**? According to the Wagner Act:

For the purpose of (this act) to bargain collectively is the performance of the mutual obligation of the employer and the representative of the employees to meet at reasonable times and confer in good faith with respect to wages, hours, and terms and conditions of employment, or the negotiation of an agreement, or any question arising thereunder, and the execution of a written contract incorporating any agreement reached if requested by either party, but such obligation does not compel either party to agree to a proposal or require the making of a concession.

In plain language, this means that both management and labor are required by law to negotiate wages, hours, and terms and conditions of employment “in good faith.” We’ll see that court decisions have clarified the specific provisions that are negotiable.

good-faith bargaining

A term that means both parties are communicating and negotiating and that proposals are being matched with counterproposals, with both parties making every reasonable effort to arrive at agreements. It does not mean that either party is compelled to agree to a proposal.

What Is Good-Faith Bargaining?

Good-faith bargaining means that proposals are matched with counterproposals and that both parties make every reasonable effort to arrive at an agreement. It does not mean that either party is compelled to agree to a proposal. Nor does it require that either party make any specific concessions (although in practice, some may be necessary). In practice, good-faith bargaining includes things like the duty to meet and confer with the representative of the employees (or employer); the duty to supply, on request, information that is “relevant and necessary” to allow the employees’ representative to bargain intelligently; and the duty to deal with whoever the employees’ representative designates to carry on negotiations.⁵²

WHEN IS BARGAINING NOT IN GOOD FAITH? In assessing whether the party has violated its good-faith obligations, it is the *totality of conduct* by each of the parties that is of prime importance to the NLRB and the courts.⁵³ As interpreted by the NLRB and the courts, examples of a violation of the requirements for good-faith bargaining may include:

1. **Surface bargaining.** This involves going through the motions of bargaining without any real intention of completing a formal agreement.
2. **Proposals and demands.** The advancement of proposals is a positive factor in determining overall good faith.
3. **Withholding information.** The NLRB and courts expect management to furnish information on matters such as wages, hours, and other terms of employment that union negotiators request and legitimately require.⁵⁴
4. **Dilatory tactics.** The law requires that the parties meet and “confer at reasonable times and intervals.” It does not require management to meet at the time and place dictated just by the union.⁵⁵ However, inordinately delaying the meeting or refusing to meet with the other party may reflect bad-faith bargaining.
5. **Concessions.** The law does not require either party to make concessions. However, being willing to compromise during negotiations is a crucial ingredient of good-faith bargaining.
6. **Unilateral changes in conditions.** This is a strong indication that the employer is not bargaining with the required intent of reaching an agreement.

The Negotiating Team

Both union and management send a negotiating team to the bargaining table, and both teams usually go into the bargaining sessions having done their research. Union representatives have sounded out union members on their desires and conferred with union representatives of related unions.

Similarly, management compiles pay and benefit data, including comparisons to local pay rates and rates paid for similar jobs in the industry. Management also carefully “costs” the current labor contract and determines the increased cost—total, per employee, and per hour—of the union’s demands (see the HR as a Profit Center feature). It also tries to identify probable union demands and to size up the ones more important to the union. It uses information from grievances and feedback from supervisors to determine ahead of time what the union’s demands might be and thus prepare counteroffers and arguments ahead of time.

HR AS A PROFIT CENTER

Costing the Contract

Collective bargaining experts emphasize the need to cost the union’s demands carefully. One says,

The mistake I see most often is [HR professionals who] enter the negotiations without understanding the financial impact of things they put on the table. For example, the union wants three extra vacation days. That doesn’t sound like a lot, except that in some states, if an employee leaves, you have to pay them for unused vacation time. [So] now your employer has to carry that liability on their books at all times.⁵⁶

voluntary (permissible) bargaining items

Items in collective bargaining for which bargaining is neither illegal nor mandatory—neither party can be compelled to negotiate over those items.

illegal bargaining items

Items in collective bargaining that are forbidden by law; for example, the clause agreeing to hire “union members exclusively” would be illegal in a right-to-work state.

mandatory bargaining items

Items in collective bargaining that a party must bargain over if they are introduced by the other party—for example, pay.

Bargaining Items

Labor law sets out *voluntary*, *illegal*, and *mandatory* items that are subject to collective bargaining.

Voluntary (or permissible) bargaining items are neither mandatory nor illegal; they become a part of negotiations only through the joint agreement of both management and union. Neither party can be compelled against its wishes to negotiate over voluntary items. An employee cannot hold up signing a contract because the other party refuses to bargain on a voluntary item.

Illegal bargaining items are forbidden by law. The clause agreeing to hire “union members exclusively” would be illegal in a right-to-work state, for example.

About 70 **mandatory bargaining items** exist, some of which we present in Figure 5. These include wages, hours, rest periods, layoffs, transfers, benefits, and severance pay. Others are added as the law evolves. For instance, drug testing evolved into a mandatory item as a result of NLRB decisions.

Bargaining Stages⁵⁷

Bargaining typically goes through several stages.⁵⁸ First, each side presents its demands. At this stage, both parties are usually quite far apart on some issues. Indeed, labor negotiators use the term *blue-skying* to refer to demands (such as swimming pools and 17 paid holidays, including Valentine’s Day) that negotiators have been known to propose. Next, each side trades off some of its demands to gain others, a process called *trading points*. Third are the subcommittee studies: The parties form joint subcommittees or study groups to try to work out reasonable alternatives. Fourth, the parties reach an informal settlement, and each group goes back to its sponsor. Union representatives check informally with their superiors and the union members; management representatives check with top management. Finally, when everything is in order, the parties fine-tune, proofread, and sign a formal agreement.



BUILDING NEGOTIATING SKILLS Hammering out a satisfactory labor agreement requires negotiating skills. Experienced negotiators use *leverage*, *desire*, *time*, *competition*, *information*,

MANDATORY	PERMISSIBLE	ILLEGAL
Rates of pay	Indemnity bonds	Closed shop
Wages	Management rights as to union affairs	Separation of employees based on race
Hours of employment	Pension benefits of retired employees	Discriminatory treatment
Overtime pay	Scope of the bargaining unit	
Shift differentials	Including supervisors in the contract	
Holidays	Additional parties to the contract such as the international union	
Vacations	Use of union label	
Severance pay	Settlement of unfair labor charges	
Pensions	Prices in cafeteria	
Insurance benefits	Continuance of past contract	
Profit-sharing plans	Membership of bargaining team	
Christmas bonuses	Employment of strikebreakers	
Company housing, meals, and discounts		
Employee security		
Job performance		
Union security		
Management-union relationship		
Drug testing of employees		

FIGURE 5
Bargaining Items

Even professional hockey, baseball, basketball, and football players, all relatively well-paid, have gone on strike for better wages and benefits.

Source: modestil/Fotolia



credibility, and *judgment* to improve their bargaining positions. *Leverage* means using factors that help or hinder the negotiator, usually by putting the other side under pressure.⁵⁹ Things you can leverage include *necessity*, *desire*, *competition*, and *time*.⁶⁰ For example, the union knows that an employer that needs to fill a big order fast (time) is at a disadvantage. Being able to walk away (or to look like you can) wins the best terms.

Similarly, some contract terms (such as reduced pension benefits) may be crucial. However, the employer that makes its *desires* too obvious undercuts his or her position. *Competition* is important too. There is no more convincing ploy than subtly hinting you've got an alternative (like shifting services abroad). *Time* (and particularly your deadlines) can also tilt things for or against you.

Again, "knowledge is power" when negotiating. Having information about the other side and about the situation is advantageous. And since the other side will be trying to decide if you're bluffing, *credibility* is important. Finally, good negotiators need *judgment*: the ability to "strike the right balance between gaining advantages and reaching compromises, in the substance as well as in the style of [their] negotiating technique."⁶¹ The HR in Practice feature presents some negotiating guidelines.

Impasses, Mediation, and Strikes

IMPASSES Signing the agreement assumes that there are no insurmountable disagreements. If there are, the parties may instead declare an impasse. For example, a few years ago the National Hockey League informed the NLRB that it had reached an impasse in its negotiations with the National Hockey League Players' Association. The parties must get past the impasse for the contract to be agreed on and signed.

An impasse usually occurs because one party demands more than the other offers. Sometimes an impasse can be resolved through a *third party*, a disinterested person such as a mediator or arbitrator. If the impasse is not resolved in this way, the union might call a work stoppage, or *strike*, to pressure management.



HR IN PRACTICE

Negotiating Guidelines⁶²

1. Set clear objectives for every bargaining item and understand on what grounds the objectives are established.
2. Do not hurry.
3. When in doubt, caucus with your associates.
4. Be well prepared with firm data supporting your position.
5. Always strive to maintain some flexibility.
6. Don't just concern yourself with what the other party says and does; find out why.
7. Respect the importance of face saving for the other party.
8. Constantly be alert to the other party's real intentions.

9. Be a good *listener*.
10. Build a reputation for *being fair but firm*.
11. Learn to *control your emotions*.
12. Be sure as you make each bargaining move that you know its *relationship* to all other moves.
13. Measure each move against your *objectives*.
14. Pay close attention to the *wording* of every clause renegotiated; words and phrases are often sources of grievances.
15. Remember that collective bargaining negotiations are, by nature, part of a *compromise* process.
16. Consider the impact of present negotiations on those in *future years*.
17. Don't be so open, honest, and straightforward that you start making excessive concessions.⁶³

mediation

Labor relations intervention in which a neutral third party tries to assist the principals in reaching agreement.

fact-finder

In labor relations, a neutral party who studies the issues in a dispute and makes a public recommendation for a reasonable settlement.

arbitration

The most definitive type of third-party intervention, in which the arbitrator often has the power to determine and dictate the settlement terms.

THIRD-PARTY INVOLVEMENT Opposing parties use three types of third-party interventions to overcome an impasse: mediation, fact-finding, and arbitration. With **mediation**, a neutral third party tries to assist the principals in reaching agreement. The mediator usually holds meetings with each party to determine where each party's position and to find common ground. For example, the union representing U.S. Airways pilots, which had been seeking a new contract since U.S. Air merged with America West Holdings Corp. applied for federal mediation.⁶⁴

The mediator communicates assessments of the likelihood of a strike, the possible settlement packages available, and the like. The mediator does not have the authority to insist on a concession. However, he or she probably will make his or her position on some issue clear.

In certain situations (as in a national emergency dispute in which the president of the United States determines that a strike would be a national emergency), a fact-finder may be appointed. A **fact-finder** is a neutral party. He or she studies the issues and makes a public recommendation of what a reasonable settlement ought to be.

Arbitration is the most definitive type of third-party intervention because the arbitrator may have the power to decide and dictate settlement terms. Unlike mediation and fact-finding, arbitration can guarantee a solution to an impasse. With *binding arbitration*, both parties are committed to accepting the arbitrator's award. With *nonbinding arbitration*, they are not. Arbitration may also be voluntary or compulsory (in other words, imposed by a government agency). In the United States, voluntary binding arbitration is the most prevalent.

Arbitration may not always be as impartial as it's thought to be. Researchers studied 391 arbitrated cases in baseball over about 20 years. Arbitrator awards favored teams 61% of the time. They concluded that (at least in baseball) "self-interested behavior by arbitrators" might lead to bias against players, and particularly against players of African American and Latin ancestry.⁶⁵

SOURCES OF THIRD-PARTY ASSISTANCE Various public and professional agencies make arbitrators and mediators available. For example, the American Arbitration Association (AAA)

An economic strike results from a failure to agree on the terms of a contract—from an impasse, in other words.

Source: David Bagnall/Alamy



FIGURE 6
Form to Request
Mediation Services

Source: Federal Mediation and Conciliation Service.

Form Approved
OMB No. 3076-0005

**FEDERAL SECTOR LABOR RELATIONS
 NOTICE TO FEDERAL MEDIATION AND CONCILIATION SERVICE**

Mail To: Notice Processing Unit
FEDERAL MEDIATION AND CONCILIATION SERVICE
 2100 K Street, N.W.
 Washington, D.C. 20427

THIS NOTICE IS IN REGARD TO: (MARK "X")

① AN INITIAL CONTRACT (INCLUDED FLRA CERTIFICATION NUMBER) # _____
 A CONTRACT REOPENER REOPENER DATE: _____
 THE EXPIRATION OF AN EXISTING AGREEMENT EXPIRATION DATE: _____

OTHER REQUESTS FOR THE ASSISTANCE OF FMCS IN BARGAINING (MARK "X")

② SPECIFY TYPE OF ISSUE(S) _____

REQUEST FOR GRIEVANCE MEDIATION (SEE ITEM #10) (MARK "X")

③ ISSUE(S) _____

④ NAME OF FEDERAL AGENCY _____ NAME OF SUBDIVISION OR COMPONENT, IF ANY _____
 STREET ADDRESS OF AGENCY _____ CITY _____ STATE _____ ZIP _____
 AGENCY OFFICIAL TO BE CONTACTED _____ AREA CODE & PHONE NUMBER _____

⑤ NAME OF NATIONAL UNION OR PARENT BODY _____ NAME AND/OR LOCAL NUMBER _____
 STREET ADDRESS _____ CITY _____ STATE _____ ZIP _____
 UNION OFFICIAL TO BE CONTACTED _____ AREA CODE & PHONE NUMBER _____

LOCATION OF NEGOTIATIONS OR WHERE MEDIATION WILL BE HELD

⑥ STREET ADDRESS _____ CITY _____ STATE _____ ZIP _____

⑦ APPROX. # OF EMPLOYEES IN BARGAINING UNIT(S) >> _____ IN ESTABLISHMENT>> _____

⑧ THIS NOTICE OR REQUEST IS FILED ON BEHALF OF (MARK "X") UNION AGENCY

⑨ NAME AND TITLE OF OFFICIAL(S) SUBMITTING THIS NOTICE OR REQUEST _____ AREA CODE AND PHONE NUMBER _____
 STREET ADDRESS _____ CITY _____ STATE _____ ZIP _____

FOR GRIEVANCE MEDIATION, THE SIGNATURES OF BOTH PARTIES ARE REQUIRED:*

⑩ SIGNATURE (AGENCY) _____ DATE _____ SIGNATURE (UNION) _____ DATE _____

*Receipt of this form does not commit FMCS to offer its services. Receipt of this form will not be acknowledged in writing by FMCS. While use of this form is voluntary, its use will facilitate FMCS service to respondents. Public reporting burden for this collection of information is estimated to average 10 minutes per response, including time for reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to FMCS Division of Administrative Services, Washington, D.C. 20427, and to the Office of Management and Budget, Paperwork Reduction Project, Washington, D.C. 20603

For Instructions, See Back

economic strike

A strike that results from a failure to agree on the terms of a contract that involve wages, benefits, and other conditions of employment.

unfair labor practice strike

A strike aimed at protesting illegal conduct by the employer.

wildcat strike

An unauthorized strike occurring during the term of a contract.

sympathy strike

A strike that takes place when one union strikes in support of another's strike.

represents and provides the services of thousands of arbitrators and mediators to employers and unions requesting their services. The U.S. Office of Arbitration Services, part of the U.S. Office of Mediation & Conciliation Service (www.fmcs.gov/internet/), maintains a roster of arbitrators qualified to hear and decide disputes. Figure 6 shows the form employers or unions use to request arbitrator or mediator services from them.

STRIKES A strike is a withdrawal of labor. There are four main types of strikes. An **economic strike** results from a failure to agree on the terms of a contract—from an impasse, in other words. An **unfair labor practice strike** protests illegal conduct by the employer. A **wildcat strike** is an unauthorized strike occurring during the term of a contract. A **sympathy strike** occurs when one union strikes in support of the strike of another.

Strikes needn't be an inevitable result of the bargaining process. Instead, studies show that they are often avoidable, but occur because of mistakes during bargaining. Mistakes include discrepancies between union leaders' and rank-and-file members' expectations, and misperceptions regarding each side's bargaining goals.⁶⁶

The likelihood of and severity of a strike depends partly on the parties' willingness to "take a strike."⁶⁷ For instance, several years ago major league baseball owners were willing to take let

players strike and to lose a whole season, because they had “consistently agreed that the players had been ruining the game by getting too much money and that only a hard line against such excesses” would stop that.⁶⁸

Picketing is one of the first activities occurring during a strike. The purpose of picketing is to inform the public about the existence of the labor dispute and often to encourage others to refrain from doing business with the employer against whom the employees are striking.

DEALING WITH A STRIKE Employers can make several responses when they become the object of a strike. One is to halt their operations until the strike is over. A second alternative is to contract out work during the duration of the strike in order to blunt the effects of the strike on the employer. A third alternative is for the employer to continue operations, perhaps using supervisors and other nonstriking workers to fill in for the striking workers. A fourth alternative is to hire replacements for the strikers. In an economic strike, such replacements can be deemed permanent and would not have to be let go to make room for strikers who decided to return to work. If the strike were an unfair labor practice strike, the strikers would be entitled to return to their jobs if the employer makes an unconditional offer for them to do so. When Northwest Airlines began giving permanent jobs to 1,500 substitute workers it hired to replace striking mechanics, the strike by the Aircraft Mechanics Fraternal Association basically fell apart.⁶⁹

OTHER RESPONSES Management and labor both use other methods to try to break an impasse. The union, for example, may resort to a *corporate campaign*. This is an organized effort by the union that exerts pressure on the employer by pressuring the company’s other unions, shareholders, directors, customers, creditors, and government agencies, often directly. For example, a member of the company’s board of directors might find that the union has organized its members to **boycott**—stop doing business with—the director’s own business. The head of the United Auto Workers recently said the union planned to begin a new campaign to organize hourly factory workers at foreign-owned car plants in the United States. As part of its campaign, the union began picketing the U.S. dealerships for Hyundai, Daimler, Toyota, and Nissan.⁷⁰

Unions use corporate campaigns to good effect. Sometimes also called *advocacy* or *comprehensive campaigns*, they helped unions organize several health care firms, including Sutter Health in California, for instance.⁷¹

Inside games are union efforts to convince employees to impede or to disrupt production. They might do this, for example, by slowing the work pace, refusing to work overtime, holding sickouts, filing mass charges with governmental agencies, or refusing to do work without receiving detailed instructions from supervisors (even though such instruction has not previously been required).

LOCKOUTS Employers can try to break an impasse with lockouts. A **lockout** is a refusal by the employer to provide opportunities to work. The company (often literally) locks out employees and prohibits them from doing their jobs (and thus from being paid). Faced with a new contract that might slash their wages by 50%, Canadian Auto Workers Union employees from a local Caterpillar plant found themselves locked out after 6 months of negotiations failed to produce a settlement.⁷²

The NLRB does not generally view a lockout as an unfair labor practice. For example, if your product is perishable (such as vegetables), then a lockout may legitimately serve to neutralize union power. The NLRB views a lockout as an unfair labor practice only when the employer acts for a prohibited purpose. It is not a prohibited purpose to try to bring about a settlement of negotiations on terms favorable to the employer. However, employers are usually reluctant to cease operations when employees are willing to continue working (even though there may be an impasse at the bargaining table).

INJUNCTIONS During the impasse, both employers and unions can seek injunctive relief if they believe the other side is taking actions that could irreparably harm the other party. To obtain such relief, the NLRB must show the district court that an unfair labor practice—such as interfering with the union organizing campaign—if left unremedied, will irreparably harm the other party’s statutory rights. (For example, if the employer is unfairly interfering with the union’s organization campaign, or if the union is retaliating against employees for trying to gain access to the NLRB,

boycott

The combined refusal by employees and other interested parties to buy or use the employer’s products.

lockout

A refusal by the employer to provide opportunities to work.



the other side might press the NLRB for 10[j] injunctive relief.) Such relief is requested after the NLRB issues an unfair labor practices complaint. The *injunctive relief* is a judicial order calling for a cessation of certain actions deemed injurious.⁷³

The Contract Agreement

The contract agreement itself may be 20 or 30 pages long or longer. The main sections of a typical contract cover subjects such as:

1. Management rights
2. Union security and automatic payroll dues deduction
3. Grievance procedures
4. Arbitration of grievances
5. Disciplinary procedures
6. Compensation rates
7. Hours of work and overtime
8. Benefits such as vacation, holidays, insurance, and pension
9. Health and safety provisions
10. Employee security seniority provisions
11. Contract expiration date



Handling Grievances

Signing the labor agreement is not the end of the process, because questions will always arise about what various clauses really mean. The *grievance process* addresses these issues. It is the process or steps that the employer and union have agreed to follow to ascertain whether some action violated the agreement. The grievance process is not supposed to renegotiate contract points. Instead, the aim is to clarify what those points really mean, in the context of addressing grievances regarding things like time off, disciplinary action, and pay. When the Cleveland Browns' head coach fined one of his players \$1,701 for not paying the hotel's bill for a \$3 bottle of water, players quickly filed grievances with the NFL.⁷⁴

CONTRACT ADMINISTRATION In unionized companies, grievance handling is often called *contract administration*, because no labor contract can ever be so complete that it covers all contingencies and answers all questions. For example, suppose the contract says you can discharge an employee only for "just cause." You subsequently discharge someone for speaking back to you in harsh terms. Was speaking back to you harshly "just cause"? The grievance procedure would handle and settle disagreements like these. It involves interpretation only, generally not renegotiating the agreement.


SOURCES OF GRIEVANCES Employees will use just about any issue involving wages, hours, or conditions of employment as the basis of a grievance. Discipline cases and seniority problems (including promotions, transfers, and layoffs) would probably top the list. Others would include grievances growing out of job evaluations and work assignments, overtime, vacations, incentive plans, and holidays.

Sometimes the grievance process gets out of hand. For example, members of American Postal Workers Union, Local 482, filed 1,800 grievances at the Postal Service's Roanoke, Virginia, mail processing facility (the usual rate is about 800 grievances per year). The employees apparently were responding to job changes, including transfers triggered by the Postal Service's efforts to further automate its processes.⁷⁵

THE GRIEVANCE PROCEDURE Whatever the source of the grievances, many firms today (and virtually all unionized ones) do (or should) give employees some means through which to air and settle their grievances. Grievance procedures are invariably a part of the labor agreement. But, even in nonunion firms, such procedures can help ensure that labor–management peace prevails.

Grievance procedures are typically multistep processes. For example, step one might be to file a form like that in Figure 7. Step two might require the grievant to try to work out an agreement with his or her supervisor, perhaps with a union officer or colleague present.

FIGURE 7
Sample Grievance Form



WAKE FOREST
UNIVERSITY

Human Resources

STAFF GRIEVANCE FORM

This form is to be used by staff employees of Wake Forest University to initiate a **formal** grievance (Step II) that seeks resolution of a work-related problem or complaint. An employee who wishes to pursue a formal grievance must first have attempted to resolve the grievance informally through a discussion with his/her immediate supervisor (Step I) as outlined in *Staff Employee Grievance and Appeal Process*. Upon completion, this form is to be submitted to the Human Resources Department (Employee Relations), 116 Reynolda Hall.

Grievant: _____ Telephone #: _____

Job Title: _____

Employing Department/Office: _____

Name of Immediate Supervisor: _____

Date Grievance was informally discussed with immediate supervisor (Step I): _____

EMPLOYEE STATEMENT OF GRIEVANCE:
(Provide a concise statement of facts, including dates, to identify the work-related problem or complaint. Attach a continuation page, if necessary.)

REMEDY OR REDRESS SOUGHT BY THE GRIEVANT:
(Be specific as to what resolution you are seeking)

GRIEVANT'S SIGNATURE

DATE

DATE THE GRIEVANCE WAS RECEIVED BY HUMAN RESOURCES

INITIALS

PO Box 7424 | Winston-Salem, NC 27109 | p 336.758.4700 | f 336.758.6127 | askhr@wfu.edu

WFU-HR-0013
Issued: 5-17-00
Revised: 11-6-01

Appeals may then go to the supervisor’s boss, then that person’s boss, and perhaps finally to an arbitrator.

GUIDELINES FOR HANDLING GRIEVANCES It is generally best, but not always possible, to develop a work environment in which grievances don’t occur in the first place. Doing so depends on being able to recognize, diagnose, and correct the underlying causes of potential employee dissatisfaction before they become grievances. Typical causes include allegedly unfair appraisals, inequitable wages, or poor communications. Yet, in practice, grievances can be minimized, but not eradicated. There is almost always a need to interpret what some contract clause means. The HR in Practice feature presents important guidelines.



Effective Dispute Resolution Practices

Disputes often arise as part of the bargaining process, and as part of managing personnel. Strikes trigger corporate campaigns and negotiations; negotiations break down and require mediators; and disciplinary actions lead to grievances, for instance. Mediators, arbitrators, grievance processes, and negotiating are all important dispute resolution mechanisms—ways to manage and resolve disputes.⁷⁶

HR IN PRACTICE

Guidelines for How to Handle a Grievance⁷⁷

- | | |
|--|--|
| <p>Do</p> <ul style="list-style-type: none"> • Investigate and handle every case as though it may eventually result in an arbitration hearing. • Talk with the employee about his or her grievance; give the person a full hearing. • Require the union to identify specific contractual provisions allegedly violated. • Comply with the contractual time limits for handling the grievance. • Visit the work area of the grievance. • Determine whether there were any witnesses. • Examine the grievant's personnel record. • Fully examine prior grievance records. • Treat the union representative as your equal. • Hold your grievance discussion privately. • Fully inform your own supervisor of grievance matters. | <p>Don't</p> <ul style="list-style-type: none"> • Discuss the case with the union steward alone—the grievant should be there. • Make arrangements with individual employees that are inconsistent with the labor agreement. • Hold back the remedy if the company is wrong. • Admit to the binding effect of a past practice. • Relinquish to the union your rights as a manager. • Settle grievances on the basis of what is "fair." Instead, stick to the labor agreement. • Bargain over items not covered by the contract. • Treat as subject to arbitration claims demanding the discipline or discharge of managers. • Give long written grievance answers. • Trade a grievance settlement for a grievance withdrawal (or try to make up for a bad decision in one grievance by bending over backward in another). • Deny grievances on the premise that your "hands have been tied by management." • Agree to informal amendments in the contract. |
|--|--|

While union–management relations trigger many or most of the obvious employment disputes, other personnel actions cause their share of disputes. For example, an applicant believes the employer discriminated against him due to age. Potential disputes like this are the reason that more employers have applicants sign mandatory alternative dispute resolution forms.

Most firms, though, don't seem to be doing a very good job of managing disputes. For example, one survey in the United Kingdom found that⁷⁸

- 79% of respondents said disputes were not handled very well in most organizations, and
- 65% agreed that emotions and personal pride affected their chances of reaching a solution.

Given the influence of personal emotions in resolving disputes, employers cannot rely on only dispute resolution mechanisms like grievance procedures. Instead, it's best that disputes don't take root. Positive employee relations are important. Beyond that, employers can do at least three things to help achieve this.

EMPHASIZE FAIRNESS First, employers need policies that encourage employees to treat each other with *fairness and respect*. For example, many grievances stem from disciplinary matters. So, prior to disciplining someone, make sure the evidence supports the charge, protect the employees' due process rights, and warn the employee of the disciplinary consequences of his or her alleged misconduct.

CULTIVATE TRUST Second, whether dealing with disciplinary matters, grievances, or union negotiations, behave in a way that *fosters trust*. Behaviors that signal trustworthiness include:

- **Integrity**—honestly and truthfulness⁷⁹
- **Competence**—technical and interpersonal knowledge and skills
- **Consistency**—reliability, predictability, and good judgment in handling situations
- **Loyalty**—willingness to protect and save face for a person
- **Openness**—willingness to share ideas and information freely⁸⁰
- **Community**—willingly offer materials and resources to help the team move ahead
- **Respect**—recognize the strengths and abilities of others⁸¹
- **Cooperation**—behave cooperatively, and put oneself in the other person's position
- **Dependability**—partners "promise cautiously, and then keep their promises"

MANAGE INTERPERSONAL CONFLICT Third, when disagreements do arise, some *interpersonal conflict resolution approaches* are better than others. For example, having the parties confront the facts and hammer out a solution is usually better than ignoring problems. Yet there are times when letting things cool down is advisable.

In practice, people usually don't rely on a single conflict-resolution style; they use several simultaneously. A study of police sergeants and subordinates illustrates this. At least for these police sergeants, using three conflict resolution styles together—*problem solving* while being moderately *accommodating* and still maintaining a strong hand in *controlling* the conflict-resolution process—was an especially effective combination.

LEARNING OBJECTIVE 5

Explain why union membership dropped, and what the prospects are for the union movement.

WHAT'S NEXT FOR UNIONS?

For years, construction trade unions in western New York State placed a huge inflatable rat balloon in front of construction sites that they were targeting. However, as the business manager for the local plumbers union put it, “our philosophy for the past 15 years hasn't created any more market share for us. We have been viewed as troublemakers. . . . Now we are going to use [public relations] to dispel those perceptions.”⁸²

Why the Union Decline?

Several factors contributed to the decline in union membership over the past 60 or so years. Unions traditionally appealed mostly to blue-collar workers, and the proportion of blue-collar jobs has been decreasing as service-sector and white-collar service jobs have increased. Furthermore, several economic factors, including intense international competition, have put unions under further pressure. Globalization increases competition, and competition increases pressures on employers to cut costs and boost productivity. This in turn puts unions in a squeeze. Other factors pressuring employers and unions include the deregulation of trucking, airlines, and communications; outdated equipment and factories; mismanagement; new technology; and laws (such as Title VII) that somewhat substituted for and reduced the need for unions. As noted, the recent recession triggered budget cuts in both the public and private sectors, prompting anti-union public policy attitudes, and the loss of about one million public sector union jobs. Bankruptcies, such as those that swept the U.S. airline industry, often end with courts imposing less favorable contract terms on union employees.⁸³

The effect of all this has been the permanent layoff of hundreds of thousands of union members, the permanent closing of company plants, the relocation of companies to nonunion settings (either in the United States or abroad), and mergers and acquisitions that eliminated union jobs and affected collective bargaining agreements. Union membership as a percentage of people working has dropped by about two-thirds over 50 years.⁸⁴

Card Check and Other New Union Tactics

Of course, unions are not sitting idly by, and the recent uptick may reflect their new tactics.⁸⁵ The priorities of the Change to Win Coalition (whose members broke off from the AFL-CIO) illustrate the new union strategies to

make it our first priority to help millions more workers form unions so we can build a strong movement for rewarding work in America [and] unite the strength of everyone who works in the same industry so we can negotiate with today's huge global corporations for everyone's benefit.⁸⁶

In practice, this means several things. Change to Win will be very aggressive about trying to organize workers, will focus on organizing women and minority workers, will focus more on organizing temporary or contingent workers, and will target specific multinational companies for international campaigns.⁸⁷

MORE AGGRESSIVE Unions are in fact becoming more aggressive. Unions are pushing Congress to pass the *Employee Free Choice Act*. This would make it easier for employees to unionize. Instead of secret-ballot elections, the act would institute a “card check” system. Here the union would win recognition when a majority of workers signed authorization cards saying they want the union. Several large companies, including Cingular Wireless, have already agreed to the card check process.⁸⁸ The act would also require binding arbitration to set a first

contract's terms if the company and union can't negotiate an agreement within 120 days.⁸⁹ Unions are also using *class action lawsuits* to support employees in nonunionized companies, to pressure employers. For example, unions recently used class action lawsuits to support workers' claims under the Fair Labor Standards Act, and the Equal Pay Act.⁹⁰

EXAMPLE The steps that the Union of Needletrades, Industrial and Textile Employees (UNITE) took against Cintas Corp. illustrate some unions' new tactics. In their effort against Cintas, UNITE (which later merged with another union to form UNITE HERE) didn't petition for an NLRB election. Instead, UNITE proposed using the card check process. They also filed a \$100 million class action suit against the company. Then, Cintas workers in California filed a lawsuit claiming that the company was violating a nearby municipality's "living wage" law. UNITE then joined forces with the teamsters union, which in turn began targeting Cintas's delivery people.⁹¹

COORDINATION Unions are becoming more proactive in terms of coordinating their efforts.⁹² For example, consider what UNITE, now part of UNITE HERE) did. They used their "Voice at Work" campaign to coordinate 800 workers at one employer's distribution center with others at the employer's New York City headquarters and with local activists and international unions throughout Europe. This forced the employer's parent company, a French conglomerate, to cease resisting the union's organizing efforts. In its "Union Cities" campaigns, AFL-CIO planners work with local labor councils and individual unions to gain the support of a target city's elected officials. In Los Angeles, this helped the service workers' union organize janitors in that city.

GLOBAL CAMPAIGNS Unions are also forcefully extending their reach overseas, as the Global Issues in HR feature illustrates.

GLOBAL ISSUES IN HR

Unions Go Global

Walmart recently had to agree to let the workers in its stores in China join unions. Walmart's China experience stems in part from efforts by the Service Employees International Union (SEIU). SEIU's global campaigns reflect the belief, as SEIU puts it, that "huge global service sector companies routinely cross national borders and industry lines as they search for places where they can shift operations to exploit workers with the lowest possible pay and benefits."

SEIU is therefore strengthening its alliances with unions in other countries with the goal of uniting workers in specific multinational companies and industries around the globe.⁹³ Thus SEIU worked with China's All China Federation of Trade Unions (ACFTU) to help the latter organize China's Walmart stores.⁹⁴ And recently, America's United Steelworkers merged with the largest labor union in Britain to create "Workers Uniting" to better help the new union deal with multinational employers.⁹⁵ Furthermore the UAW is training activists and sending them abroad to help organize workers at car plants overseas.⁹⁶ So, any company that thinks it can avoid unionization by sending jobs abroad may be in for a surprise. More U.S. companies are actually bringing jobs back "home," in part due to rising wages abroad.

Cooperative Clauses

News reports tend to highlight adversarial labor-management relations. For example, when AT&T's workers threatened recently to strike if the company insisted on raising workers' health care premiums, AT&T began training its managers to fill in for workers on jobs like answering call-center phones.⁹⁷

But the history of labor-management relations is also sprinkled with instances of cooperation. For example, more than 50 years ago, General Motors and Toyota created a joint venture they called New United Motor Manufacturing Inc. (NUMMI). NUMMI reopened a former GM plant in Fremont, California, that had suffered from such poisonous labor relations GM had to close it. The partners hoped to merge GM's marketing expertise with Toyota's famous team-based management system.⁹⁸ NUMMI and the United Auto Workers (UAW) agreed to run the plant based on a new cooperative philosophy. They agreed that management and labor would work together as a team, give workers a voice in decision making, and build the highest-quality cars at the lowest cost. NUMMI and the UAW installed a new labor-management system in the plant. For example, NUMMI sent workers to Japan for three weeks of training in continuous improvement

and teamwork. The former GM plant's 95 job classifications gave way to just 3 skilled and 1 unskilled classification. Its 2,400 hourly workers were organized around teams of 5 to 10 members who rotated among 15 tasks. NUMMI reduced the number of supervisors.⁹⁹ The plant was soon very successful (although both parties eventually ended their joint venture).

Since then, many labor–management agreements have included so-called cooperative agreements. These cooperative agreements generally commit union and management to adapt one or more cooperative themes. For example, one analysis of labor contracts expiring between 1997 and 2007 found that roughly half of the 1,041 contracts studied contained cooperative clauses. These clauses included commitments to adhere to one or more of these cooperative themes (in descending order of frequency-of-mention in the agreements):¹⁰⁰

- Intent to cooperate
- A statement of commitment to cooperate
- Committees to review mutual concerns that arise
- Decisions on traditional issues
- Guarantees of employment security
- Commitments to high-performance practices
- Decisions on strategic issues
- Full cooperation

At one extreme, for example, Alcoa's agreement contained a full "Cooperative Partnership Clause." This included provisions for joint management–labor decision-making committees, and a commitment to maintain employee security under catastrophic market conditions.¹⁰¹ At the other extreme, many contain only a statement of intent to cooperate. Most include an intent to cooperate clause, as well as other themes, such as to cooperate on decisions on so-called traditional issues like drug abuse, health care, and safety.

STRATEGIES FOR COOPERATIVE LABOR–MANAGEMENT RELATIONS The question is, "What management strategy does an employer follow to foster such cooperation?" In brief, one that emphasizes the sorts of fairness and openness we discussed earlier. As two researchers conclude, "perceptions of a cooperative labor relations climate are positively influenced by procedural justice, the union's willingness to adopt an integrative [cooperative] approach to bargaining, and management willingness to share information with the union."¹⁰² There's little doubt, as another study argues, that unions "that have a cooperative relationship with management can play an important role in overcoming barriers to the effective adoption of practices that have been linked to organizational competitiveness."¹⁰³ But the bottom line (as this same study argues) is that employers who want to capitalize on that potential must change how they think, by avoiding adversarial industrial relations and instead emphasizing a cooperative partnership.¹⁰⁴

Review

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SUMMARY

1. The labor movement is important. About 14.8 million U.S. workers belong to unions—around 11.8% of the total. In addition to improved wages and working conditions, unions

seek security when organizing. There are five possible arrangements, including the closed shop, union shop, agency shop, preferential shop, and maintenance of membership.

2. The AFL-CIO is a national federation comprising about 100 national and international unions. It can exercise only the power it is allowed to exercise by its constituent national unions.
3. During the period of strong encouragement of unions, the Norris-LaGuardia Act and the Wagner Act were passed; these marked a shift in labor law from repression to strong encouragement of union activity. They did this by banning certain types of unfair labor practices, by providing for secret-ballot elections, and by creating the NLRB.
4. The Taft-Hartley Act reflected the period of modified encouragement coupled with regulation. It enumerated the rights of employees with respect to their unions, enumerated the rights of employers, and allowed the U.S. president to temporarily bar national emergency strikes. Among other things, it also enumerated certain union unfair labor practices. For example, it banned unions from restraining or coercing employees from exercising their guaranteed bargaining rights. And employers were explicitly given the right to express their views concerning union organization.
5. The Landrum-Griffin Act reflected the period of detailed regulation of internal union affairs. It grew out of discoveries of wrongdoing on the part of both management and union leadership and contained a bill of rights for union members. (For example, it affirms a member's right to sue his or her union.)
6. There are five steps in a union drive and election: the initial contact, authorization cards, a hearing with the NLRB, the campaign, and the election itself. Remember that the union need only win a majority of the votes cast, *not* a majority of the workers in the bargaining unit.
7. Bargaining collectively in good faith is the next step if and when the union wins the election. Good faith means that both parties communicate and negotiate, and that proposals are matched with counterproposals. Some hints on bargaining include do not hurry, be prepared, find out why, and be a good listener.
8. An impasse occurs when the parties aren't able to move further toward settlement. Third-party involvement—namely, arbitration, fact-finding, or mediation—is one alternative. Sometimes, though, a strike occurs. Responding to the strike involves such steps as shutting the facility, contracting out work, or possibly replacing the workers. Boycotts and lockouts are two other anti-impasse weapons sometimes used by labor and management.
9. Disputes are part of the bargaining process. Mediators, arbitrators, grievance processes, and negotiating are all important ways to manage and resolve disputes. Most firms, though, don't seem to be doing a very good job of managing disputes. Employers can do at least three other things to help reduce disputes. Employers need policies and practices that encourage employees to treat each other with fairness and respect, behave in a way that fosters trust, and, when disagreements do arise, some interpersonal conflict-resolution approaches are better than others.
10. Unions are not sitting idly by watching their numbers dwindle. For example, Change to Win will be very aggressive about trying to organize workers. Unions are pushing Congress to pass the Employee Free Choice Act. This would, among other things, make it more difficult for employers to inhibit workers from trying to form a union. Unions are also using class action lawsuits to support employees in nonunionized companies, so as to pressure employers. And unions are becoming more proactive in terms of coordinating their efforts.
11. Employers that want to capitalize on the potential of improved labor-management relations must change how they think, by avoiding adversarial industrial relations and instead emphasizing a cooperative partnership.

KEY TERMS

closed shop
 union shop
 agency shop
 preferential shop
 right to work
 Norris-LaGuardia Act
 Wagner Act
 National Labor Relations Board (NLRB)
 Taft-Hartley Act
 national emergency strikes
 Landrum-Griffin Act
 union salting
 authorization cards
 bargaining unit

collective bargaining
 good-faith bargaining
 voluntary (permissible) bargaining items
 illegal bargaining items
 mandatory bargaining items
 mediation
 fact-finder
 arbitration
 economic strike
 unfair labor practice strike
 wildcat strike
 sympathy strike
 boycott
 lockout

DISCUSSION QUESTIONS

1. Briefly describe the history and structure of the U.S. union movement.
- ★ 2. Discuss the nature of the major federal labor relations laws.
- ★ 3. Discuss the main steps in the collective bargaining process.
4. Explain why union membership dropped, and what the prospects are for the union movement.
5. Why do employees join unions? What are the advantages and disadvantages of being a union member?
6. What actions might make employers lose elections?
7. Describe important tactics you would expect the union to use during the union drive and election.
8. What is meant by good-faith bargaining? Using examples, explain when bargaining is not in good faith.
9. Define impasse, mediation, and strike, and explain the techniques that are used to overcome an impasse.

INDIVIDUAL AND GROUP ACTIVITIES

1. You are the manager of a small manufacturing plant. The union contract covering most of your employees is about to expire. Working individually or in groups, discuss how to prepare for union contract negotiations.
2. Working individually or in groups, use Internet resources to find situations where company management and the union reached an impasse at some point during their negotiation process, but eventually resolved the impasse. Describe the issues on both sides that led to the impasse. How did they move past the impasse? What were the final outcomes?
3. Several years ago, 8,000 Amtrak workers agreed not to disrupt service by walking out, at least not until a court hearing was held. Amtrak had asked the courts for a temporary restraining order, and the Transport Workers Union of America was actually pleased to postpone its walkout. The workers were apparently not upset at Amtrak, but at Congress, for failing to provide enough funding for Amtrak. What, if anything, can an employer do when employees threaten to go on strike, not because of what the employer did, but because of what a third party—in this case, Congress—has done or not done? What laws would prevent the union from going on strike in this case?
4. The Kaiser Permanente Health System is often held out as an employer with very good labor relations. What can you discern from websites such as www.kaiserpermanentejobs.org/jobs.aspx that might explain such a reputation?
5. What does www.seiu.org/ tell you about this union's aims and how it intends to achieve them?
6. The PHR and SPHR Knowledge Base Appendix lists the knowledge someone studying for the HRCI certification exam needs to have in each area of human resource management (such as in Strategic Management, Workforce Planning, and Human Resource Development). In groups of four to five students, do four things: (1) review that appendix now; (2) identify the material in this chapter that relates to the required knowledge the appendix lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so the students in other teams can take each others' exam questions.



APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

Negotiating with the Writers Guild of America

The talks between the Writers Guild of America (WGA) and the Alliance of Motion Picture & Television Producers (producers) started off tense a few years ago, and then got tenser. In their first meeting, the two sides got nothing done. As *Law & Order* producer Dick Wolf said, “everyone in the room is concerned about this.”¹⁰⁵

The two sides were far apart on just about all the issues. However, the biggest issue was how to split revenue from new media, such as when television shows move on to DVDs or the Internet. The producers said they wanted a profit-splitting system rather than the current residual system. Under the residual system, writers continue to receive “residuals,” or income from shows they write, every time they’re shown (such as when *Seinfeld* appears in reruns, years after the last original show was shot). Writers Guild executives did their homework. They argued, for instance, that the

projections showed producers’ revenues from advertising and subscription fees jumped by about 40% between 2002 and 2006.¹⁰⁶ Writers wanted part of that.

The situation grew tenser. After the first few meetings, one producers’ representative said, “We can see after the dogfight whose position will win out. The open question there, of course, is whether each of us take several lumps at the table, reaches an agreement then licks their wounds later—none the worse for wear—or whether we inflict more lasting damage through work stoppages that benefit no one before we come to an agreement.”¹⁰⁷ Even after meeting six times, it seemed that “the parties’ only apparent area of agreement is that no real bargaining has yet to occur.”¹⁰⁸

In October 2007, the Writers Guild asked its members for strike authorization, and the producers were claiming that the

Guild was just trying to delay negotiations until the current contract expired (at the end of October). As the president of the television producers association said, “We have had six across the table sessions and there was only silence and stonewalling from the WGA leadership. . . . We have attempted to engage on major issues, but no dialogue has been forthcoming from the WGA leadership. . . . The WGA leadership apparently has no intention to bargain in good faith.”¹⁰⁹ As evidence, the producers claimed that the WGA negotiating committee left one meeting after less than an hour at the bargaining table.

Both sides knew timing in these negotiations was very important. During the fall and spring, television series production is in full swing. So, a strike now by the writers would have a bigger impact than waiting until, say, the summer to strike. Perhaps not surprisingly, by January 2008 some movement was discernible. In a separate set of negotiations, the Directors Guild of America reached an agreement with the producers that addressed many of the issues that the writers were focusing on, such as how to divide up the new media income.¹¹⁰ In February 2008, the WGA and producers finally reached agreement. The

new contract was “the direct result of renewed negotiations between the two sides, which culminated Friday with a marathon session including top WGA officials and the heads of the Walt Disney Co. and News Corp.”¹¹¹

Questions

1. The producers said the WGA wasn’t bargaining in good faith. What did they mean by that, and do you think the evidence is sufficient to support the claim?
2. The WGA did eventually strike. What tactics could the producers have used to fight back once the strike began? What tactics do you think the WGA used?
3. This was basically a conflict between professional and creative people (the WGA) and TV and movie producers. Do you think the conflict was therefore different in any way than are the conflicts between, say, the auto workers or teamsters unions against auto and trucking companies? Why?
4. What role did negotiating skills seem to play in the WGA–producers negotiations? Provide examples.

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company

The Grievance

On visiting one of Carter Cleaning Company’s stores, Jennifer was surprised to be taken aside by a long-term Carter employee, who met her as she was parking her car. “Murray (the store manager) told me I was suspended for 2 days without pay because I came in late last Thursday,” said George. “I’m really upset, but around here the store manager’s word seems to be law, and it sometimes seems like the only way anyone can file a grievance is by meeting you or your father like this in the parking lot.” Jennifer was very disturbed by this revelation and promised the employee she would look into it and discuss the situation with her father. In the car heading back to headquarters she began mulling over what Carter Cleaning Company’s alternatives might be.

Questions

1. Do you think it is important for Carter Cleaning Company to have a formal grievance process? Why or why not?
2. Based on what you know about the Carter Cleaning Company, outline the steps in what you think would be the ideal grievance process for this company.
3. In addition to the grievance process, can you think of anything else that Carter Cleaning Company might do to make sure that grievances and gripes like this one get expressed and also get heard by top management?

EXPERIENTIAL EXERCISE

An Organizing Question on Campus¹¹²

Purpose: The purpose of this exercise is to give you practice in dealing with some of the elements of a union organizing campaign.

Required Understanding: You should be familiar with the material covered in this chapter, as well as the following incident.

Art Tipton is a human resources director of Pierce University, a private university located in a large urban city. Ruth Ann Zimmer, a supervisor in the maintenance and house-keeping services division of the university, has just come into his office to discuss her situation. Zimmer’s division

of the university is responsible for maintaining and cleaning physical facilities of the university. Zimmer is one of the department supervisors who supervise employees who maintain and clean on-campus dormitories.

In the next several minutes, Zimmer proceeds to express her concerns about a union-organizing campaign that has begun among her employees. According to Zimmer, a representative of the Service Workers Union has met with a number of the employees, urging them to sign union authorization cards. She has observed several of her employees “cornering” other employees to talk to them about joining the union and urge them to sign union authorization (or

representation) cards. Zimmer even observed this during the working hours as employees were going about their normal duties in the dormitories. Zimmer says a number of employees have asked her for her opinions about the union. They reported to her that several other supervisors in the department had told their employees not to sign any union authorization cards and not to talk about the union at any time while they were on campus. Zimmer also reports that one of her fellow supervisors told his employees in a meeting that anyone who was caught talking about the union or signing a union authorization card would be disciplined and perhaps terminated.

Zimmer says that the employees are very dissatisfied with their wages and many of the conditions that they have endured from students, supervisors, and other staff people. She says that several employees told her that they had signed union cards because they believed that the only way university administration would pay attention to their concerns

was if the employees had a union to represent them. Zimmer says that she made a list of employees whom she felt had joined or were interested in the union, and she could share these with Tipton if he wanted to deal with them personally. Zimmer closes with the comment that she and other department supervisors need to know what they should do in order to stomp out the threat of unionization in their department.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. Assume that you are labor relations consultants retained by the college to identify the problems and issues involved and to advise Art Tipton about what to do next. Each group will spend about 45 minutes discussing the issues and outlining those issues as well as an action plan for Tipton. What should he do now?

If time permits, a spokesperson from each group should list on the board the issues involved and the group's recommendations.

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Explain in detail each step in a union drive and election.
2. Briefly illustrate how labor law has gone through a cycle of repression and encouragement.
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

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Improving Occupational Safety, Health, and Risk Management

Improving Occupational Safety, Health, and Risk Management

OVERVIEW:
In this chapter,
we will cover . . .

EMPLOYEE SAFETY AND HEALTH: AN INTRODUCTION

WHAT CAUSES ACCIDENTS?

HOW TO PREVENT ACCIDENTS

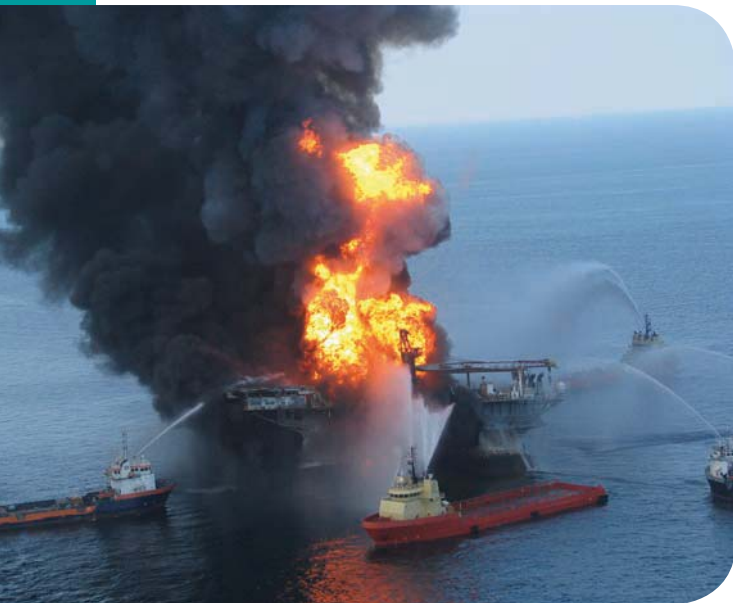
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KNOWLEDGE BASE LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

1. Discuss OSHA and how it operates.
2. Explain in detail three basic causes of accidents.
3. Explain how to prevent accidents at work.
4. Discuss major health problems at work and how to remedy them.
5. Discuss the main elements in an occupational security and risk management programs.

INTRODUCTION

The explosion several years ago on British Petroleum's Deepwater Horizon oil rig in the Gulf of Mexico took 11 oil rig workers' lives.¹ Reports from the scene said a malfunctioning blowout preventer failed to activate, causing the disaster. Past critics of BP's safety practices weren't so sure.

EMPLOYEE SAFETY AND HEALTH: AN INTRODUCTION

Why Employee Safety and Health Are Important

Providing a safe work environment is important for several reasons, one of which is the staggering number of work-related accidents. In one recent year, 4,551 U.S. workers died in workplace incidents.² And, while the accident rate is falling, workplace accidents in the United States cause over 3.8 million occupational injuries and illnesses per year.³ More than 80% of the workers in one survey ranked workplace safety as more important than minimum wages, sick days, and maternity leave.⁴

Accidents are also expensive. For example, the health care costs of a forklift accident might be \$4,500. However, forklift damage and lost production time could raise the bill to \$18,000 or more.⁵ And the psychological costs to the worker may be incalculable.

Dangerous workplaces aren't limited to manufacturing. For example, in restaurants, slips and falls account for about a third of all worker injury cases. Employers could eliminate most of these by requiring slip-resistant shoes.⁶



Management's Role in Safety

On the next few pages, we'll see that reducing accidents often boils down to reducing accident-causing conditions and accident-causing acts. However, safety always starts at the top. Telling supervisors to "watch for spills" and employees to "work safely" is futile unless everyone knows management is serious about safety.⁷

Historically, for instance, DuPont's accident rate has been much lower than that of the chemical industry as a whole. This good safety record is partly due to an organizational commitment to safety, which is evident in the following description:

One of the best examples I know of in setting the highest possible priority for safety takes place at a DuPont Plant in Germany. Each morning at the DuPont Polyester and Nylon Plant, the director and his assistants meet at 8:45 to review the past 24 hours. The first matter they discuss is not production, but safety. Only after they have examined reports of accidents and near misses and satisfied themselves that corrective action has been taken do they move on to look at output, quality, and cost matters.⁸

What Top Management Can Do

Such policies start at the top.⁹ The employer should institutionalize top management's commitment with a safety policy, and publicize it. It should give safety matters high priority in meetings: Louisiana-Pacific Corp., which makes building products, starts all meetings with a brief safety message.¹⁰ Georgia-Pacific reduced its workers' compensation costs by requiring managers to halve accidents or forfeit 30% of their bonuses. The Strategic Context feature provides another example.

THE STRATEGIC CONTEXT

Deepwater Horizon

To many critics of BP's safety practices, the Deepwater Horizon disaster wasn't just due to a malfunctioning blowout preventer. To them, rightly or wrongly, the accident reflected the fact that BP's corporate strategy had long emphasized cost cutting and profitability at the expense of safety. For example, 5 years earlier, a report by the Chemical Safety Board blamed a huge blast at BP's Texas City, Texas, oil refinery on cost cutting, and on a safety strategy that left in place "unsafe and antiquated equipment." To the board and to some others who studied BP's safety practices, Deepwater was another example of how safety must start at the top, and how top management's strategy can trump efforts to improve employee safety behaviors.¹¹

Safety is not just a case of legality or humanitarianism. One study concluded that safety activities paid for themselves by a ratio of 10 to 1, just in savings of workers' compensation expenses over 4 years.¹²

The Supervisor's Role in Safety

After inspecting a work site where workers were installing pipes in a 4-foot trench, an OSHA inspector cited an employer for violating the rule requiring employers to have a “stairway, ladder, ramp, or other safe means of egress” in deep trench excavations.¹³ As in most such cases, the local supervisor was responsible for the day-to-day inspections. Here, the supervisor did not properly inspect, and the trench collapsed, injuring several employees.

The moral is that safety inspections should always be part of the supervisor's daily routine. For example, “a daily walk-through of your workplace—whether you are working in outdoor construction, indoor manufacturing, or any place that poses safety challenges—is an essential part of your work.”¹⁴ Figure 4 and the HR in Practice feature present safety checklists.

LEARNING OBJECTIVE 1

Discuss OSHA and how it operates.



Occupational Safety and Health Act of 1970

The law passed by Congress in 1970 “to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources.”

Occupational Safety and Health Administration (OSHA)

The agency created within the Department of Labor to set safety and health standards for almost all workers in the United States.

A Manager's Briefing on Occupational Law

Congress passed the **Occupational Safety and Health Act of 1970**¹⁵ “to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources.” The act covers most employers. The main employers it doesn't cover are self-employed persons, farms employing only the employer's immediate family members, and certain workplaces protected by other federal agencies or statutes. The act covers federal agencies. It usually doesn't apply to state and local governments in their role as employers.

The act created the **Occupational Safety and Health Administration (OSHA)** within the Department of Labor. OSHA's basic purpose is to administer the act and to set and enforce the safety and health standards that apply to almost all workers in the United States. Recently, OSHA had about 2,150 employees, including 1,100 inspectors working from branch offices throughout the country.¹⁶ With a limited number of inspectors, OSHA recently has focused on fair and effective enforcement, combined with outreach, education, and compliance assistance, and various OSHA–employer cooperative programs.¹⁷

OSHA STANDARDS OSHA operates under the “general duty clause” that each employer

shall furnish to each of his [or her] employees employment and a place of employment which are free from recognized hazards that are causing or are likely to cause death or serious physical harm to his [or her] employees.

To carry out this basic mission, OSHA is responsible for promulgating enforceable standards. The standards cover just about every conceivable hazard, in detail. Figure 1 shows part of the standard governing scaffold handrails.

OSHA RECORD-KEEPING PROCEDURES Under OSHA, employers with 11 or more employees must maintain a record of, and report, occupational injuries and occupational illnesses. An *occupational illness* is any abnormal condition or disorder caused by exposure to environmental factors associated with employment. This includes acute and chronic illnesses caused by inhalation, absorption, ingestion, or direct contact with toxic substances or harmful agents.

As summarized in Figure 2, employers must report all occupational illnesses.¹⁸ They must also report most occupational injuries, specifically those that result in medical treatment (other than first aid), loss of consciousness, restriction of work (1 or more lost workdays), restriction of motion, or transfer to another job.¹⁹ If an on-the-job accident results in the death of an employee or in the hospitalization of five or more employees, all employers, regardless of size, must report the accident to the nearest OSHA office.²⁰

OSHA's latest record-keeping rules streamline the job of reporting occupational injuries or illnesses. The rules continue to presume that an injury or work illness that resulted from an event in or exposure to the work environment is work related. However, it allows the employer to conclude that the event was not job related (and needn't be reported) if the facts so warrant—such as if a worker breaks a wrist after catching his leg on his car's bumper when parked on the company lot.

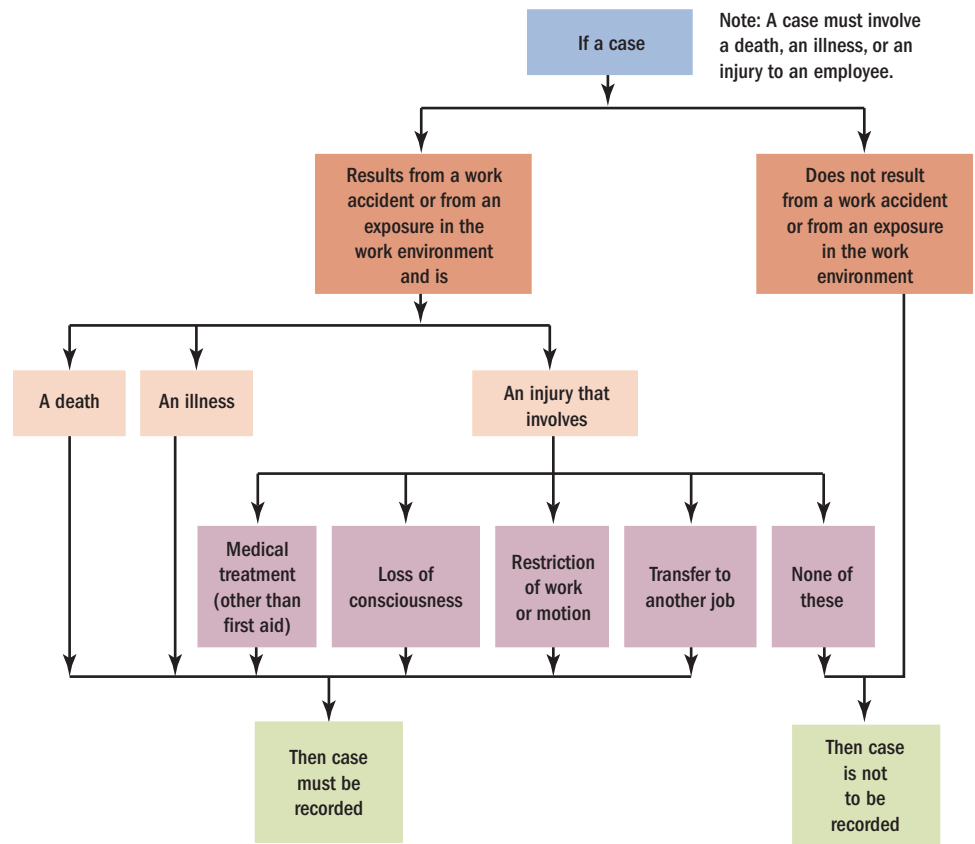
FIGURE 1

OSHA Standards Example

Source: Occupational Safety and Hazard Administration (OSHA).

Guardrails not less than 2" × 4" or the equivalent and not less than 36" or more than 42" high, with a midrail, when required, of a 1" × 4" lumber or equivalent, and toeboards, shall be installed at all open sides on all scaffolds more than 10 feet above the ground or floor. Toeboards shall be a minimum of 4" in height. Wire mesh shall be installed in accordance with paragraph [a] [17] of this section.

FIGURE 2
What Accidents Must Be Reported Under the Occupational Safety and Health Act (OSHA)?



Knowing OSHA’s standards is not enough. The employer should develop and communicate its own written safety and health rules to employees, monitor violations, and discipline employees who violate the rules.²¹

OSHA Inspections and Citations

OSHA enforces its standards through inspections and (if necessary) citations. The inspection is usually unannounced. OSHA may not conduct warrantless inspections without an employer’s consent.²² With a limited number of inspectors, OSHA recently has focused on “fair and effective enforcement,” combined with outreach, education and compliance assistance, and various OSHA–employer cooperative programs (such as its Voluntary Protection Programs).²³

VOLUNTARY CONSULTATION With only about 1,000 inspectors, OSHA has tried to encourage cooperative safety programs rather than rely just on inspections and citations.²⁴ So, for example, OSHA provides free on-site safety and health services for small businesses. This service uses safety experts from state governments to provide safety consultations, usually at the employer’s workplace. According to OSHA, this consultation program is separate from the OSHA inspection effort, and no citations are issued or penalties proposed.

The employer triggers this process by contacting the nearest OSHA area office to speak to the compliance assistance specialist about a voluntary consultation. When the president of one steel installation company in Colorado realized her workers’ compensation costs were higher than her payroll, she joined with similar Colorado firms for help. At the group’s request, OSHA helped draft new safety systems, created educational materials, and provided inspections that were more cooperative than adversarial. Accidents and workers’ compensation costs subsequently dropped markedly.²⁵

INSPECTION PRIORITIES However, OSHA still makes extensive use of inspections, taking a “worst-first” approach to setting priorities. Priorities include, from highest to lowest, imminent dangers, catastrophes and fatal accidents, employee complaints, high-hazard industries inspections, and follow-up inspections.²⁶ In one recent year, there were a total of about 95,000 federal or state OSHA safety inspections.²⁷

THE INSPECTION OSHA inspectors look for violations of all types, but some potential problem areas—such as scaffolding, fall protection, and inadequate hazard communications—grab more of their attention.

After the inspector submits the report to the local OSHA office, the area director determines what citations, if any, to issue. The citations inform the employer and employees of the regulations and standards that have been violated and of the time set for rectifying the problem.

PENALTIES OSHA can also impose penalties. In general, OSHA calculates these based on the violation’s gravity, but it also usually considers factors like the size of the business, the firm’s compliance history, and the employer’s good faith. Penalties generally range from \$5,000 up to \$70,000 for willful or repeat serious violations (although they can be in the millions). The OSHA area director may enter into settlement agreements that revise citations and penalties to avoid prolonged legal disputes. Therefore, many cases are settled before litigation. OSHA then issues the citation and agreed-on penalties simultaneously, after the employers initiate negotiation settlements.²⁸

In practice, OSHA must have a final order from the independent Occupational Safety and Health Review Commission (OSHRC) to enforce a penalty. An employer can drag out an appeal for years.

Inspectors and their superiors don’t look just for specific hazards but also for a comprehensive safety approach. For example, factors contributing to a firm’s OSHA liability include lack of a systematic safety approach; sporadic or irregular safety meetings; lack of responsiveness to safety audit recommendations; and failure to inspect the workplace regularly.²⁹

Some employers understandably view OSHA inspections with some trepidation. However, the inspection tips in Figure 3—such as “check the inspector’s credentials” and “accompany the inspector and take detailed notes”—can help ensure a smooth inspection.³⁰

OSHA Responsibilities and Rights of Employers and Employees

Both employers and employees have responsibilities and rights under the Occupational Safety and Health Act. For example, employers are responsible for providing “a workplace free from recognized hazards,” for being familiar with mandatory OSHA standards, and for examining workplace conditions to make sure they conform to applicable standards (see poster on the next page).

FIGURE 3
OSHA Inspection Tips

Initial Contact

- Refer the inspector to your OSHA coordinator.
- Check the inspector’s credentials.
- Ask why he or she is inspecting. Is it a complaint? Programmed visit? Fatality or accident follow-up? Imminent danger investigation?
- If the inspection is the result of a complaint, the inspector won’t identify the complainant, but you are entitled to know whether the person is a current employee.
- Notify your OSHA counsel, who should review all requests from the inspector for documents and information. Your counsel also should review the documents and information you provide to the inspector.

Opening Conference

- Establish the focus and scope of the planned inspection: Does the inspector want to inspect the premises or simply study your records?
- Discuss the procedures for protecting trade-secret areas, conducting employee interviews, and producing documents.
- Show the inspector that you have safety programs in place. He or she may not go to the work floor if paperwork is complete and up-to-date.

Walk-Around Inspection

- Accompany the inspector and take detailed notes.
- If the inspector takes a photo or video, you should too.
- Ask the inspector for duplicates of all physical samples and copies of all test results.
- Be helpful and cooperative, but don’t volunteer information.
- To the extent possible, immediately correct any violation the inspector identifies.

You Have a Right to a Safe and Healthful Workplace. IT'S THE LAW!

- You have the right to notify your employer or OSHA about workplace hazards. You may ask OSHA to keep your name confidential.
- You have the right to request an OSHA inspection if you believe that there are unsafe and unhealthful conditions in your workplace. You or your representative may participate in the inspection.
- You can file a complaint with OSHA within 30 days of discrimination by your employer for making safety and health complaints or for exercising your rights under the OSH Act.
- You have a right to see OSHA citations issued to your employer. Your employer must post the citations at or near the place of the alleged violation.
- Your employer must correct workplace hazards by the date indicated on the citation and must certify that these hazards have been reduced or eliminated.
- You have the right to copies of your medical records or records of your exposure to toxic and harmful substances or conditions.
- Your employer must post this notice in your workplace.



The Occupational Safety and Health Act of 1970 (OSH Act), PL. 91-596, assures safe and healthful working conditions for working men and women throughout the Nation. The Occupational Safety and Health Administration, in the U.S. Department of Labor, has the primary responsibility for administering the OSH Act. The rights listed here may vary depending on the particular circumstances. To file a complaint, report an emergency, or seek OSHA advice, assistance, or products, call 1-800-321-OSHA or your nearest OSHA office: • Atlanta (404) 562-2300 • Boston (617) 565-9860 • Chicago (312) 353-2220 • Dallas (214) 767-4731 • Denver (303) 844-1600 • Kansas City (816) 426-5861 • New York (212) 337-2378 • Philadelphia (215) 861-4900 • San Francisco (415) 975-4310 • Seattle (206) 553-5930. Teletypewriter (TTY) number is 1-877-889-5627. To file a complaint online or obtain more information on OSHA federal and state programs, visit OSHA's website at www.osha.gov. If your workplace is in a state operating under an OSHA-approved plan, your employer must post the required state equivalent of this poster.

1-800-321-OSHA
www.osha.gov

U.S. Department of Labor • Occupational Safety and Health Administration • OSHA 3165

Employees also have rights and responsibilities, but OSHA can't cite them for violations of their responsibilities. They are responsible, for example, for complying with all applicable OSHA standards, for following all employer safety and health rules and regulations, and for reporting hazardous conditions to the supervisor. Employees have a right to demand safety and health on the job without fear of punishment. Employers are forbidden to punish or discriminate against workers who complain to OSHA about job safety and health hazards.³¹ However, employers must make "a diligent effort to discourage, by discipline if necessary, violations of safety rules by employees."³²



WHAT CAUSES ACCIDENTS?

Accidents occur for three main reasons: chance occurrences, unsafe working conditions, and unsafe acts by employees. Chance occurrences (such as walking in a park just as a tree branch falls) contribute to accidents but are more or less beyond management's control; we will therefore focus on unsafe conditions and unsafe acts.

Unsafe Working Conditions

Unsafe conditions are one main cause of accidents. These include:

- Faulty scaffolds
- Improperly guarded equipment
- Frayed wiring

LEARNING OBJECTIVE 2
Explain in detail three basic causes of accidents.

- Unsafe storage, such as overloading
- Improper illumination
- Improper ventilation

The basic remedy here is to eliminate or minimize the unsafe conditions. OSHA standards address potentially accident-causing mechanical and physical working conditions like these. The manager can also use a checklist of unsafe conditions, as in the HR in Practice feature. The Environmental Health and Safety (EHS) Today magazine website (<http://ehstoday.com/>) is another good source for safety, health, and industrial hygiene information.

Although accidents can occur anywhere, there are some high-danger zones. Many industrial accidents occur around forklift trucks, wheelbarrows, and other handling and lifting areas. The most serious accidents usually occur near metal and woodworking machines and saws, or around transmission machinery such as gears, pulleys, and flywheels.

SAFETY CLIMATE After BP’s Gulf of Mexico rig exploded in 2010, critics alleged that rig managers had ignored numerous warning signs and taken a lax approach to safety.

But not all causes of accidents are obvious. Sometimes the workplace suffers from a toxic “safety climate,” in other words, from a set of mostly psychological factors that set the stage for employees to act unsafely.

One early study focused on the fatal accidents suffered by offshore British oil workers in the North Sea.³³ Employees who are under stress, a strong pressure to quickly complete the work, and, generally, a poor safety climate—for instance, supervisors who never mention safety—were some of the not-so-obvious working conditions that set the stage for oil rig accidents.

The participants in another safety climate study were nurses working in 42 large U.S. hospitals. The researchers measured safety climate with items like “the nurse manager on this unit emphasizes safety.” The results revealed that “safety climate predicted medication errors, nurse back injuries, urinary tract infections, [and] patient satisfaction.”³⁴



People usually cause accidents, and no one has a surefire way to eliminate an unsafe act.

Source: thieury/Shutterstock

OTHER WORKING CONDITION FACTORS Work schedules and fatigue also affect accident rates. Accident rates usually don’t increase too noticeably during the first 5 or 6 hours of the workday, but after 6 hours, the accident rate accelerates. This is due partly to fatigue and partly to the fact that accidents occur more often during night shifts. With reduced headcounts, employee fatigue is rising.³⁵ Many employers are banning mandatory overtime.

Accidents also occur more frequently in plants with a high seasonal layoff rate, hostility among employees, and blighted living conditions. Temporary stress factors such as high workplace temperature, poor illumination, and a congested workplace also relate to accident rates.

Unsafe Acts

In practice, it’s impossible to eliminate accidents just by reducing unsafe conditions. People usually cause accidents, and no one has a surefire way to eliminate *unsafe acts* such as:

- Throwing materials
- Operating or working at unsafe speeds
- Making safety devices inoperative by removing, adjusting, or disconnecting them
- Lifting improperly

There is no one explanation for why an employee may behave in an unsafe manner. Sometimes, as noted, the working conditions may set the stage for unsafe acts. For instance, stressed-out oil rig employees may behave unsafely even if they know better. Sometimes, employees aren’t trained adequately in safe work methods; some companies don’t supply employees with the right safe procedures, and employees may simply develop their own (often bad) work habits.

WHAT TRAITS CHARACTERIZE “ACCIDENT-PRONE” PEOPLE? Unsafe acts like these can undo even the best attempts to reduce unsafe conditions.

The problem is that there are no easy answers to the question of what causes people to act recklessly.

It may seem intuitively obvious that some people are simply accident prone, but the research is mixed.³⁶ On closer inspection, some apparently accident-prone people were just unlucky, or may have been more meticulous about reporting their accidents.³⁷ However, there is evidence that people with specific traits may indeed be accident prone. For example, people who are impulsive, extremely extroverted, and less conscientious (less fastidious and dependable) have more accidents.³⁸

Furthermore, the person who is accident prone on one job may not be so on a different job. Driving is one example. Personality traits that correlate with filing vehicular insurance claims include *entitlement* (“bad drivers think there’s no reason they should not speed or run lights”); *impatience* (“drivers with high claim frequency were ‘always in a hurry’”); *aggressiveness* (“always the first to want to move when the red light turns green”); and *distractibility* (“easily and frequently distracted by cell phones, eating, drinking, and so on”). A study in Thailand similarly found that drivers who are naturally *competitive* and prone to *anger* are particularly risky drivers.³⁹



HOW TO PREVENT ACCIDENTS

Following an accident in which four workers died, managers at the Golden Eagle refinery east of San Francisco Bay shut down the facility for 4 months. They retrained all employees in safety methods and took other remedies.⁴⁰ In practice, we’ve seen that accident causes tend to be multifaceted, so employers must take a multifaceted approach to preventing them. We present about 16 methods here.

LEARNING OBJECTIVE 3

Explain how to prevent accidents at work.

Reduce Unsafe Conditions

Reducing unsafe conditions is always an employer’s first line of defense in accident prevention. Safety engineers should design jobs to remove or reduce physical hazards. For example, slippery floors in commercial kitchens often cause slips and falls. Employers work with safety engineers to “engineer out” potentially hazardous conditions like these, for instance, by placing non-slip mats in kitchens, or guardrails around moving machines. For machinery, for example, employees can use emergency stop devices like the one shown in the photo below to cut power to hazardous machines.⁴¹ *Lockout/tagout* is a formal procedure to disable equipment, such as power saws, to avoid unexpected releases of electrical or other energy. It involves disarming the device and affixing a “disabled” tag to the equipment.⁴² The manager can use checklists such as that in the accompanying HR in Practice feature or in Figure 4 to identify hazardous conditions.

For machinery, for example, employees can use emergency stop devices to cut power to hazardous machines.

Source: donvictorio@o2.pl/Shutterstock



FIGURE 4
Supervisor's Safety Checklist

Source: Office of the Chief Information Officer, United States Department of Commerce.

FORM CD-574
(9/02)

**U.S. Department of Commerce
Office Safety Inspection Checklist for
Supervisors and Program Managers**

Name:	Division:
Location:	Date:
Signature:	

This checklist is intended as a guide to assist supervisors and program managers in conducting safety and health inspections of their work areas. It includes questions relating to general office safety, ergonomics, fire prevention, and electrical safety. Questions which receive a "NO" answer require corrective action. If you have questions or need assistance with resolving any problems, please contact your safety office. More information on office safety is available through the Department of Commerce Safety Office website at <http://ohrm.doc.gov/safetyprogram/safety.htm>.

Work Environment

- | Yes | No | N/A | |
|-----------------------|-----------------------|----------------------------------|--|
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are all work areas clean, sanitary, and orderly? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Is there adequate lighting? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Do noise levels appear high? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Is ventilation adequate? |

Walking / Working Surfaces

- | Yes | No | N/A | |
|-----------------------|-----------------------|----------------------------------|--|
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are aisles and passages free of stored material that may present trip hazards? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are tile floors in places like kitchens and bathrooms free of water and slippery substances? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are carpet and throw rugs free of tears or trip hazards? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are hand rails provided on all fixed stairways? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are treads provided with anti-slip surfaces? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are step ladders provided for reaching overhead storage areas and are materials stored safely? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are file drawers kept closed when not in use? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are passenger and freight elevators inspected annually and are the inspection certificates available for review on-site? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are pits and floor openings covered or otherwise guarded? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are standard guardrails provided wherever aisle or walkway surfaces are elevated more than 48 inches above any adjacent floor or the ground? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Is any furniture unsafe or defective? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are objects covering heating and air conditioning vents? |

Ergonomics

- | Yes | No | N/A | |
|-----------------------|-----------------------|----------------------------------|---|
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are employees advised of proper lifting techniques? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are workstations configured to prevent common ergonomic problems?
(Chair height allows employees' feet to rest flat on the ground with thighs parallel to the floor, top of computer screen is at or slightly below eye level, keyboard is at elbow height. Additional information on proper configuration of workstations is available through the Commerce Safety website at http://ohrm.doc.gov/safetyprogram/safety.htm) |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are mechanical aids and equipment, such as; lifting devices, carts, dollies provided where needed? |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | Are employees surveyed annually on their ergonomic concerns? |

(Continued)

FIGURE 4 (Continued)

FORM CD-574
(9/02)

Emergency Information (Postings)

Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are established emergency phone numbers posted where they can be readily found in case of an emergency?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are employees trained on emergency procedures?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are fire evacuation procedures/diagrams posted?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is emergency information posted in every area where you store hazardous waste?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is established facility emergency information posted near a telephone?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are the OSHA poster, and other required posters displayed conspicuously?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are adequate first aid supplies available and properly maintained?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are an adequate number of first aid trained personnel available to respond to injuries and illnesses until medical assistance arrives?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is a copy of the facility fire prevention and emergency action plan available on site?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are safety hazard warning signs/caution signs provided to warn employees of pertinent hazards?

Fire Prevention

Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are flammable liquids, such as gasoline, kept in approved safety cans and stored in flammable cabinets?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are portable fire extinguishers distributed properly (less than 75 feet travel distance for combustibles and 50 feet for flammables)?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are employees trained on the use of portable fire extinguishers?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are portable fire extinguishers visually inspected monthly and serviced annually?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is the area around portable fire extinguishers free of obstructions and properly labeled?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is heat-producing equipment used in a well ventilated area?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are fire alarm pull stations clearly marked and unobstructed?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is proper clearance maintained below sprinkler heads (i.e., 18" clear)?

Emergency Exits

Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are doors, passageways or stairways that are neither exits nor access to exits and which could be mistaken for exits, appropriately marked "NOT AN EXIT," "TO BASEMENT," "STOREROOM," etc.?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are a sufficient number of exits provided?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are exits kept free of obstructions or locking devices which could impede immediate escape?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are exits properly marked and illuminated?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are the directions to exits, when not immediately apparent, marked with visible signs?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Can emergency exit doors be opened from the direction of exit travel without the use of a key or any special knowledge or effort when the building is occupied?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are exits arranged such that it is not possible to travel toward a fire hazard when exiting the facility?

(Continued)

FIGURE 4 (Continued)

FORM CD-574
(9/02)

Electrical Systems

(Please have your facility maintenance person or electrician accompany you during this part of the inspection)

Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are all cord and cable connections intact and secure?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are electrical outlets free of overloads?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is fixed wiring used instead of flexible/extension cords?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is the area around electrical panels and breakers free of obstructions?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are high-voltage electrical service rooms kept locked?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are electrical cords routed such that they are free of sharp objects and clearly visible?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are all electrical cords grounded?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are electrical cords in good condition (free of splices, frays, etc.)?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are electrical appliances approved (Underwriters Laboratory, Inc. (UL), etc.)?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are electric fans provided with guards of not over one-half inch, preventing finger exposures?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are space heaters UL listed and equipped with shutoffs that activate if the heater tips over?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are space heaters located away from combustibles and properly ventilated?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	In your electrical rooms are all electrical raceways and enclosures securely fastened in place?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are clamps or other securing means provided on flexible cords or cables at plugs, receptacles, tools, equipment, etc., and is the cord jacket securely held in place?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is sufficient access and working space provided and maintained about all electrical equipment to permit ready and safe operations and maintenance? (This space is 3 feet for less than 600 volts, 4 feet for more than 600 volts)

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(9/02)

Material Storage

Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are storage racks and shelves capable of supporting the intended load and materials stored safely?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are storage racks secured from falling?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are office equipment stored in a stable manner, not capable of falling?

HR IN PRACTICE

Checklist of Mechanical or Physical Accident-Causing Conditions⁴³

I. GENERAL HOUSEKEEPING

- Adequate and wide aisles—no materials protruding into aisles
- Parts and tools stored safely after use—not left in hazardous positions that could cause them to fall
- Even and solid flooring—no defective floors or ramps that could cause falling or tripping accidents
- Waste and trash cans—safely located and not overfilled
- Material piled in safe manner—not too high or too close to sprinkler heads
- All work areas clean and dry
- All exit doors and aisles clean of obstructions
- Aisles kept clear and properly marked; no air lines or electric cords across aisles

II. MATERIAL HANDLING EQUIPMENT AND CONVEYANCES

- On all conveyances, electric or hand, check to see that the following items are all in sound working condition:
- Brakes—properly adjusted
 - Not too much play in steering wheel

IMPROVING OCCUPATIONAL SAFETY, HEALTH, AND RISK MANAGEMENT

- Warning device—in place and working
- Wheels—securely in place; properly inflated
- Fuel and oil—enough and right kind
- No loose parts
- Cables, hooks, or chains—not worn or otherwise defective
- Suspended chains or hooks
- Safety loaded
- Properly stored

III. LADDERS, SCAFFOLDS, BENCHES, STAIRWAYS, ETC.

The following items of major interest to be checked:

- Safety feet on straight ladders
- Guardrails or handrails
- Treads, not slippery
- No splintered, cracked, or rickety stairs
- Ladders properly stored
- Extension ladder ropes in good condition
- Toeboards

IV. POWER TOOLS (STATIONARY)

- Point of operation guarded
- Guards in proper adjustment
- Gears, belts, shafting, counterweights guarded
- Foot pedals guarded
- Brushes provided for cleaning machines
- Adequate lighting
- Properly grounded
- Tool or material rests properly adjusted
- Adequate work space around machines
- Control switch easily accessible
- Safety glasses worn
- Gloves worn by persons handling rough or sharp materials
- No gloves or loose clothing worn by persons operating machines

V. HAND TOOLS AND MISCELLANEOUS

- In good condition—not cracked, worn, or otherwise defective
- Properly stored
- Correct for job
- Goggles, respirators, and other personal protective equipment worn where necessary

VI. SPRAY PAINTING

- Explosion-proof electrical equipment
- Proper storage of paints and thinners in approved metal cabinets
- Fire extinguishers adequate and suitable; readily accessible
- Minimum storage in work area

VII. FIRE EXTINGUISHERS

- Properly serviced and tagged
- Readily accessible
- Adequate and suitable for operations involved

job hazard analysis

A systematic approach to identifying and eliminating hazards before they occur, and focuses on the relationship between the worker, the task, the tools, and the work environment and ends by reducing the potential risks to acceptable levels.

JOB HAZARD ANALYSIS A Yale University science student was injured critically when her hair became caught in a spinning lathe. **Job hazard analysis** is a systematic approach to identifying and eliminating hazards before they occur. According to OSHA, job hazard analysis “focuses on the relationship between the worker, the task, the tools, and the work environment,” and ends by reducing the potential risks to acceptable levels.⁴⁴

Consider a safety analyst looking at the Yale science lab, with the aim of identifying potential hazards. Performing a job hazard analysis here might involve looking at the situation and asking these questions:

- **What can go wrong?** A student’s hair or clothing could touch the lathe, a rotating object that “catches” it and pulls it into the machine.

- **What are the consequences?** The student could receive a severe injury as his or her body part or hair is drawn to the spinning lathe.
- **How could it happen?** The accident could happen as a result of the student leaning too close to the lathe while working at the bench, or walking too close to the lathe, or bending to reach for an article that fell close to the lathe.
- **What are other contributing factors?** Speed is one contributing factor. The problem would occur so quickly that the student would be unable to take evasive action once the lathe ensnared the hair.

The job hazard analysis should provide the basis for creating countermeasures. Given the speed with which any such accident would occur, it's unlikely that training by itself would suffice. Instead, the lathe area should be ensconced in its own protective casing, and changes made to ensure that the lathe can't spin unless the student takes action via a foot pedal to keep the lathe power on.

OPERATIONAL SAFETY REVIEWS After the Fukushima nuclear power plant in northern Japan exploded in 2011, many wondered if the International Atomic Energy Agency (IAEA) had conducted the necessary operational safety reviews. **Operational safety reviews** (or safety operations reviews) are conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules. For example, under IAEA's Operational Safety Review Program, "international teams of experts conduct in-depth reviews of operational safety performance at a nuclear power plant."⁴⁵

operational safety reviews

Reviews conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules.

Use Personal Protective Equipment

After addressing unsafe conditions, management can make available personal protective equipment (PPE). For example, Prevent Blindness America estimates that each year, more than 700,000 Americans injure their eyes at work, and that employers could avoid 90% of these injuries with safety eyewear.⁴⁶

Getting employees to wear personal protective equipment is famously difficult.⁴⁷ In addition to providing reliable protection, protective gear should fit properly; be easy to care for, maintain, and repair; be flexible and lightweight; provide comfort and reduce heat stress; have rugged construction; and be relatively easy to put on and remove.⁴⁸

Of course, it makes sense to require the personal protective equipment before the accident, not after. For example, a combustible dust explosion at a sugar refinery killed 14 employees. The employer subsequently required that all employees wear fire-resistant clothing, unfortunately too late for the victims.⁴⁹

Note, though, that reducing unsafe conditions (such as enclosing noisy equipment) is always the first line of defense. Then use administrative controls (such as job rotation to reduce long-term exposure to the hazard). Only then turn to PPE.⁵⁰

The accompanying Managing the New Workforce feature expands on this.

MANAGING THE NEW WORKFORCE

Protecting Vulnerable Workers

Employers need to pay special attention to vulnerable workers, those who are "unprepared to deal with hazards in the workplace," either due to lack of education, ill-fitting personal protective equipment, physical limitations, or cultural reasons. Among others, these may include young workers, immigrant workers, aging workers, and women workers.⁵¹

For example, although about half of all workers today are women, most machinery and PPE (like gloves) are designed for men.⁵² (Hand injuries account for about one million emergency department visits annually by U.S. workers.)⁵³ Women may thus have to use makeshift platforms or stools to reach machinery controls, or wear safety goggles that don't really fit. The solution is to obtain equipment appropriate for their size.⁵⁴

Similarly, with more workers postponing retirement, older workers are doing more manufacturing jobs.⁵⁵ They can do these jobs very effectively. However, there are potential physical changes associated with aging, including loss of strength, loss of muscular flexibility, and reduced reaction time.⁵⁶ This means making special provisions, such as designing jobs to reduce heavy lifting.⁵⁷ The fatality rate for older workers is about three times that of younger workers.⁵⁸



Propaganda such as safety posters can help reduce unsafe acts. In an early study, their use apparently increased safe behavior by more than 20%.

Source: Mar Photographics/Alamy

Reduce Unsafe Acts

While reducing unsafe conditions is the first line of defense, human misbehavior can short-circuit even the best safety efforts. Sometimes the misbehavior is intentional, like disconnecting a safety switch, but often it's not. For example, distractions contribute to at least half of all car accidents. At work, not noticing moving or stationary objects or that a floor is wet often causes accidents.⁵⁹ And, ironically, "making a job safer with machine guards or PPE lowers people's risk perceptions and thus can lead to an increase in at-risk behavior."⁶⁰

Unfortunately, just telling employees to "pay attention" is usually not enough. First, identify and try to eliminate potential risks, such as unguarded equipment. Next, reduce potential distractions, such as noise, heat, and stress. Then, carefully screen and train employees, as we explain next.

Use Screening to Reduce Unsafe Acts

Accidents are similar to other types of poor performance, and psychologists have had success in screening out individuals who might be accident prone for some specific job. The basic technique is to identify the human trait (such as visual skill) that might relate to accidents on the specific job. Then determine whether scores on this trait predict accidents on the job. For example, screening prospective delivery drivers for traits like impatience and aggressiveness might be sensible.⁶¹

Use Posters and Other Propaganda

Propaganda such as safety posters can also help reduce unsafe acts. In an early study, their use apparently increased safe behavior by more than 20% below.⁶² However, employers should combine the safety poster with other techniques, such as screening and training, to reduce unsafe conditions and acts.

Provide Safety Training

Safety training reduces unsafe acts, especially for new employees. You should instruct employees in safe practices and procedures, warn them of potential hazards, and work on developing a safety-conscious attitude. OSHA's standards require more than training. Employees must demonstrate that they actually learned what to do. (For example, OSHA's respiratory standard requires that each employee demonstrate how to inspect, put on, and remove respirator seals.⁶³ OSHA has two booklets, "Training Requirements under OSHA" and "Teaching Safety and Health in the Workplace.")⁶⁴ Note, though, that the main aim of safety training is not to meet OSHA training standards but to reduce accidents. The "least engaging" training uses lectures, films, reading materials, and video-based training. The most engaging uses behavioral modeling, simulation, and hands-on training.⁶⁵



Improving Productivity through HRIS

Internet-Based Safety Improvement Solutions

Employers also use the Web to support their safety training. For example, PureSafety (www.puresafety.com) enables firms to create their own training websites, complete with a "message from the safety director." Once an employer installs the PureSafety website, it can populate the site with courses from companies that supply health and safety courses via PureSafety.com. PureSafety.com also develops or modifies existing courses for employers. OSHA, NIOSH (National Institute for Occupational Safety and Health), and numerous private vendors also provide online safety training solutions.⁶⁶

Websites make it easy for employers to launch a health and safety program for their employees, and to deliver individual courses efficiently. For example, go to www.puresafety.com/public/foodservice.asp. This site describes, among others, a safety course for drivers. The online course covers topics like Pre-trip Inspections, and Unloading products at customer locations.

SAFETY TRAINING FOR HISPANIC WORKERS With increasing numbers of Spanish-speaking workers in the United States, many employers offer special training for Hispanic workers.⁶⁷ One example was a 40-hour training course for construction workers at the Dallas/Fort Worth airport expansion project. Lessons learned here include:

1. *Teach the program in Spanish.* OSHA requirements already demand this.
2. Recruit instructors who are from the *ethnic groups* they are training, and preferably from (in this case) construction.
3. Provide for some *multilingual cross-training* for specific phrases. For example, the course teaches non-Hispanic trainees to say *peligro* (“danger”).⁶⁸
4. Address *cultural differences*. For example, some workers wanted to be greeted first, instead of just told, “you are doing something wrong.”
5. *Don’t skimp on training.* Because of the multilingual aspects, the 40-hour course at Dallas/Fort Worth cost about \$500 tuition per student (not counting the worker’s wages).

Use Incentives and Positive Reinforcement

Some firms award employees incentives like cash bonuses if they meet safety goals. Safety incentives needn’t be complicated. One organization uses a suggestion box. Employees make suggestions for improvements regarding unsafe acts or conditions. The best result in gift certificates.⁶⁹ Management at San Francisco’s Golden Eagle refinery instituted a safety incentive plan. Employees earn “WINGS” points for engaging in one or more of 28 safety activities, such as conducting safety meetings and taking emergency response training. Employees can earn up to \$20 per month per person by accumulating points.⁷⁰

THREE CAVEATS Some contend that safety incentive programs may do more harm than good. With respect to safety incentives, keep three potential drawbacks in mind.

First, such programs can’t replace comprehensive safety programs: “All other pieces/parts of a comprehensive safety program need to be in place,” says one expert.⁷¹ Second, some plans may just cut down on injury and illness *reporting*.⁷² OSHA may question any safety incentive that is so high that the award might dissuade reasonable workers from reporting safety problems.⁷³

Third, such programs aim to produce, through positive reinforcement, habitual safe behavior. But safety experts caution against this. Habitual behavior occurs without thinking. When it comes to safety, employers want employees paying attention to what they’re doing.⁷⁴ One option is giving employees recognition awards, for instance for attending safety meetings, or for demonstrating their safety proficiency.⁷⁵

Foster a Culture of Safety

Employers and supervisors should create a safety-conscious culture by showing that they take safety seriously. One study measured safety culture in terms of questions like “my supervisor says a good word whenever he sees the job done according to the safety rules” and “my supervisor approaches workers during work to discuss safety issues.” The workers here developed consistent perceptions concerning their supervisors’ safety commitment. In turn, these workers’ perceptions apparently influenced the workers’ safety behavior in the months following the survey.⁷⁶

According to one safety expert, a workplace with a safety-oriented culture exhibits:

1. *Teamwork*, in the form of management and employees both involved in safety;
2. Highly visible and interactive *communication and collaboration* on safety matters;
3. A *shared vision* of safety excellence (specifically, an overriding attitude that all accidents and injuries are preventable);
4. *Assignment* of critical safety functions to specific individuals or teams; and
5. A *continuous effort* toward identifying and correcting workplace safety problems and hazards.⁷⁷

Reducing Unsafe Acts By Creating a Supportive Environment

Although safety culture is a key safety preventive method a recent study suggests that creating a supportive supervisory environment is also important. “Organizations can develop a supportive

environment by training supervisors to be better leaders, emphasizing the importance of teamwork and social support, and establishing the value of safety.”⁷⁸

Establish a Safety Policy

The company’s written safety policy should emphasize that accident prevention is of the utmost importance at your firm, and that the firm will do everything practical to eliminate or reduce accidents and injuries.

Set Specific Loss Control Goals

Set specific safety goals to achieve. For example, set safety goals in terms of frequency of lost-time injuries per number of full-time employees.

Conduct Regular Safety and Health Inspections

Routinely inspect all premises for possible safety and health problems using checklists such as those in the HR in Practice feature and in Figure 4 as aids. Similarly, investigate all accidents and “near misses” and have a system in place for letting employees notify management about hazardous conditions.⁷⁹ The term *safety audit* means two things: It refers to the actual safety inspection using a checklist as in Figure 4. It also refers to the employer’s review and analysis of its safety-related data—for instance, regarding accidents, workers’ compensation claims, and days lost due to injuries. Metrics include, for example, include injury and illness rates, workers’ compensation cost per employee, at-risk behavior reduction, safety training exercises, and the percentage of conformance to safety-critical behaviors.⁸⁰ Effective safety management means identifying crucial metrics like these and then monitoring them. Other metrics might include the level of exposure present in the workplace as measured through valid samples, and the rate of adverse outcomes, such as injury rates.⁸¹



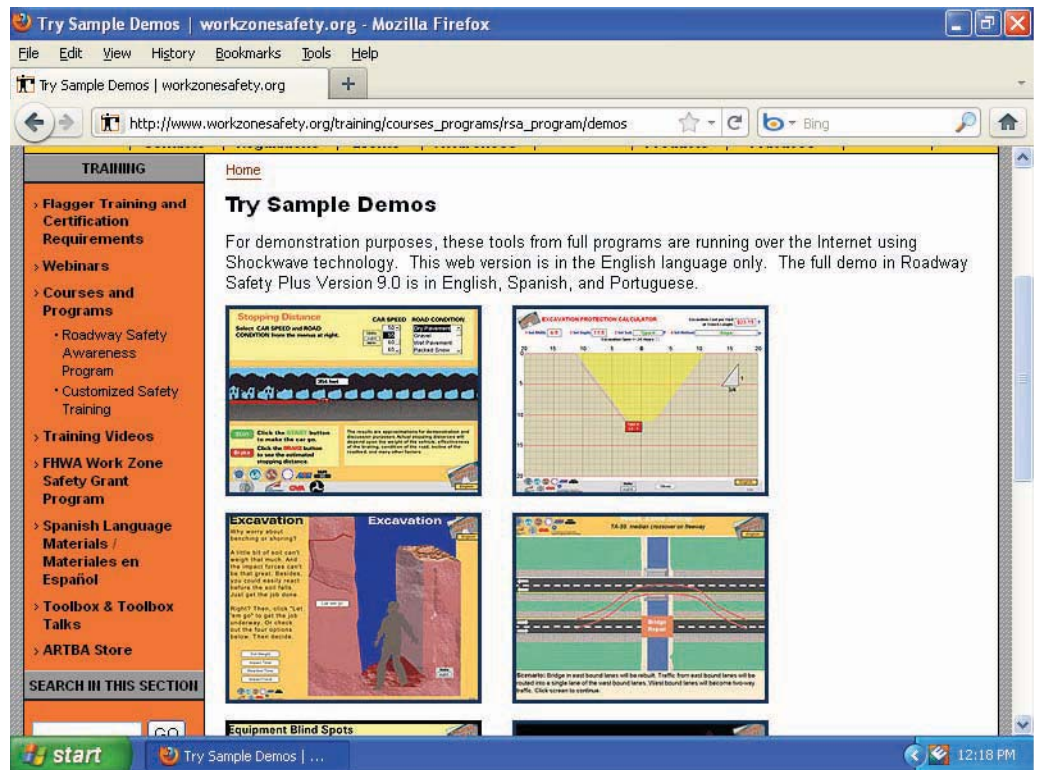
safety awareness program

Program that enables trained supervisors to orient new workers arriving at a job site regarding common safety hazards and simple prevention methods.

SAFETY AWARENESS PROGRAMS Employers also use safety awareness programs to improve employee safety behavior. A **safety awareness program** enables trained supervisors to orient new workers arriving at a job site regarding common safety hazards and simple prevention methods. For example, the Roadway Safety Awareness Program covers trucker safety issues such as stopping distances required at various speeds (see the accompanying screen grab).

The Roadway Safety Awareness Program covers trucker safety issues such as stopping distances required at various speeds.

Source: National Work Zone Safety Information Clearinghouse, a project of the American Road & Transportation Builders Association - Transportation Development Foundation



BEHAVIOR-BASED SAFETY Most safety experts believe unsafe acts account for the vast majority of accidents, and that the way to address this is to identify and rectify the unsafe acts that employees are committing on their jobs. Behavior-based safety means observing the employee’s unsafe (and safe) on-the-job behaviors and rectifying (through training and or feedback) the unsafe ones. The process usually begins with having a safety expert and/or safety committee compile a checklist of safe and unsafe behaviors for each job. Then periodically have supervisors or others (1) observe each employee’s on-the-job behavior, (2) complete the checklist of safe and unsafe behaviors, and then (3) reinforce the safe ones and rectify the unsafe ones.⁸²

Move Beyond Zero Accidents

The trend is away from making safety something “employees are supposed to do,” to making it part of how they live. One company calls its safety program “Zero 4 life.” “Zero” means zero injuries, hazards, and near misses. The “4” means the program’s four principles of accountability, behavior, communication, and dedication. “Life” means living safely all the time and sharing this value with family and friends.⁸³

Organize a Safety Committee

Employee safety committees can improve workplace safety. For example, when airborne sawdust became a problem at a Boise Cascade facility, plant management appointed an employee safety committee. The committee took on the role of safety watchdog, and trained its members in hazard identification. After talking to employees who worked with the woodchips where the sawdust originated, the committee members discovered the sawdust became airborne as the workers transferred the woodchips from one belt to another. They were able to correct the problem quickly.⁸⁴



Institute Texting Policies

Texting, particularly when driving, is a serious problem. The National Safety Council recently estimated that cell phone use was involved in 24% of all motor vehicle crashes.⁸⁵ Many businesses are therefore banning cell phone use and texting activities among their drivers.⁸⁶ Those driving commercial motor vehicles on interstate routes are banned by law from using handheld mobile telephones while driving.⁸⁷

Figure 5 summarizes these and other safety steps.⁸⁸



WORKPLACE HEALTH: PROBLEMS AND REMEDIES

Most workplace hazards aren’t obvious ones like unguarded equipment or slippery floors. Many are unseen hazards (like chemicals) that the company produces as part of its production processes. Other problems, like drug abuse, the employees may create for themselves. In either case, these hazards are often more dangerous to workers’ health and safety than are obvious hazards like slippery floors. Typical workplace exposure hazards include chemicals and other hazardous materials such as asbestos, as well as alcohol abuse, stressful jobs, ergonomic hazards (such as uncomfortable equipment), infectious diseases, smoking, and biohazards (such as mold and anthrax).⁸⁹

LEARNING OBJECTIVE 4

Discuss major health problems at work and how to remedy them.

FIGURE 5

Steps the Manager Can Take to Reduce Accidents

- Reduce unsafe conditions.
- Reduce unsafe acts.
- Use posters and other propaganda.
- Provide safety training.
- Perform a job hazard analysis.
- Conduct operational safety reviews.
- Encourage behavior-based safety.
- Foster a culture of safety.
- Use positive reinforcement.
- Emphasize top-management commitment.
- Emphasize safety.
- Establish a safety policy.
- Set specific loss control goals.
- Conduct safety and health inspections regularly.
- Conduct safety awareness programs.
- Establish texting policies.
- Move Beyond Zero Defects.



OSHA standards list exposure limits for about 600 chemicals. Hazardous substances like these require air sampling and other precautionary measures.

Source: Stock Connection Blue/Alamy

Chemicals and Industrial Hygiene

OSHA standards list exposure limits for about 600 chemicals such as benzene. Hazardous substances like these require air sampling and other precautionary measures.

Managing such exposure hazards comes under the area of *industrial hygiene*, and involves recognition, evaluation, and control. First, the facility’s health and safety officers must *recognize* possible exposure hazards. This typically involves activities like conducting plant/facility walk-around surveys.

Having identified a possible hazard, the *evaluation* phase involves determining how severe the hazard is. This requires measuring the exposure, comparing the measured exposure to some benchmark, and determining whether the risk is within tolerances.⁹⁰

Finally, the hazard *control* phase involves eliminating or reducing the hazard. Personal protective gear is the *last* option. Before relying on these, the employer must install engineering controls (such as ventilation) and administrative controls (including training); this is mandatory under OSHA regulations.⁹¹

HAZARD COMMUNICATION In, say, a dry cleaning store, it might not be apparent just by looking at it that the clear cleaning chemical hydrofluoric acid will eat through glass and blind an unsuspecting worker. Under OSHA’s regulations, employers must communicate the presence and nature of hazards like this to which workers might be exposed. OSHA’s *hazard communication standard*, recently revised, states that “in order to ensure chemical safety in the workplace, information about the identities and hazards of the chemicals must be available and understandable to workers. OSHA’s hazard communication standard (HCS) requires the development and dissemination of such information.” In line with this, says OSHA, chemical manufacturers and importers must label and

provide hazard safety data sheets to their customers. In turn, all employers must have labels and safety data sheets available for their exposed workers, and train workers to handle the chemicals appropriately.⁹²

More generally, the employer should make provision for communicating the full range of safety and security issues, including, for instance, safety policies, facilities security procedures, violence reduction policies and procedures, and how it plans to deal with natural or human-made disasters.⁹³



Air Quality

One of the downsides of opting for environmentally “green” office buildings is that sealed buildings can produce illnesses such as itchy eyes and trouble breathing, a phenomenon some call “sick building syndrome.” The problem is that emissions from printers and photocopiers and other chemical pollutants, left unmonitored, can dramatically reduce air quality.⁹⁴ The solution is to institute continuous monitoring systems.



Alcoholism and Substance Abuse

Alcoholism and substance abuse are problems at work. About two-thirds of people with an alcohol disorder work full-time.⁹⁵ Some estimates that almost 13 million workers use drugs illicitly.⁹⁶ About 15% of the U.S. workforce (just over 19 million workers) “has either been hung over at work, been drinking shortly before showing up for work, or been drinking or impaired while on the job at least once during the previous year.”⁹⁷ Employee alcoholism may cost U.S. employees about \$226 billion per year, for instance in higher absenteeism and accidents.⁹⁸

TESTING For many employers, dealing with substance abuse begins with substance abuse testing.⁹⁹ It’s unusual to find employers who don’t at least test job candidates for substance abuse before formally hiring them. And many states are instituting mandatory random drug testing for high-hazard workers. For example, New Jersey now requires random drug testing of electrical workers.¹⁰⁰

There is some debate about whether drug tests reduce workplace accidents. Pre-employment tests pick up only about half the workplace drug users, so ongoing random testing is advisable. One study, conducted in three hotels, concluded that pre-employment drug testing seemed to have little effect on workplace accidents. However, a combination of pre-employment and random ongoing testing was associated with a significant reduction in workplace accidents.¹⁰¹

DEALING WITH SUBSTANCE ABUSE Ideally, a drug-free workplace program includes five components:

1. A drug-free workplace policy
2. Supervisor training
3. Employee education
4. Employee assistance
5. Drug testing

The policy should state, at a minimum, “The use, possession, transfer, or sale of illegal drugs by employees is prohibited.” It should also explain the policy’s rationale, and the disciplinary consequences for violating it. Supervisors should be trained to monitor employees’ performance, and to stay alert to drug-related performance problems.

TOOLS Several tools are available to screen for alcohol or drug abuse. The most widely used self-reporting screening instruments for alcoholism are the 4-item CAGE and the 25-item Michigan Alcoholism Screening Test (MAST). The former asks questions like these: Have you ever (1) attempted to Cut back on alcohol, (2) been Annoyed by comments about your drinking, (3) felt Guilty about drinking, (4) had an Eye-opener first thing in the morning to steady your nerves?¹⁰²

As in Table 1, alcohol-related symptoms range from tardiness in the earliest stages of alcohol abuse to prolonged, unpredictable absences in its later stages.¹⁰³

A combination of pre-employment and ongoing random testing is best. Pre-employment drug testing discourages those on drugs from applying for or coming to work for employers who do testing. (One study found that over 30% of regular drug users employed full-time said they were less likely to work for a company that conducted pre-employment screening.)¹⁰⁴ Some applicants or employees may try to evade the test, for instance, by purchasing “clean” specimens. Several states—including New Jersey, North Carolina, Virginia, Oregon, South Carolina, Pennsylvania, Louisiana, Texas, and Nebraska—have laws making drug-test fraud a crime.¹⁰⁵ The newer oral fluid drug test eliminates the “clean specimen” problem and is much less expensive to administer.¹⁰⁶

TABLE 1 Observable Behavior Patterns Indicating Possible Alcohol-Related Problems

Alcoholism Stage	Some Possible Signs of Alcoholism Problems	Some Possible Alcoholism Performance Issues
Early	Late arrival at work	Reduced job efficiency
	Untrue statements	Misses deadlines
	Early departure from work	
Middle	Frequent absences, especially Mondays	Accidents
	Colleagues’ mention of erratic behavior	Warnings from boss
	Mood swings	Noticeably reduced performance
	Anxiety	
	Late returns from lunch	
Advanced	Frequent multiday absences	
	Personal neglect	Frequent falls, accidents
	Unsteady gait	Strong disciplinary actions
	Violent outbursts	Basically incompetent performance
	Blackouts and frequent forgetfulness	
	Possible drinking on job	

Sources: Gopal Patel and John Adkins Jr., “The Employer’s Role in Alcoholism Assistance,” *Personnel Journal* 62, no. 7 (July 1983), p. 570; Mary-Anne Enoch and David Goldman, “Problem Drinking and Alcoholism: Diagnosis and Treatment,” *American Family Physician*, February 1, 2002, www.aafp.org/afp/20020201/441.html, accessed July 20, 2008; Ken Pidd et al., “Alcohol and Work: Patterns of Use, Workplace Culture, and Safety,” www.nisu.flinders.edu.au/pubs/reports/2006/injcat82.pdf, accessed July 20, 2008.

The Problems of Job Stress and Burnout

Problems like alcoholism and drug abuse sometimes stem from *job stress*.¹⁰⁷ Northwestern National Mutual Life found that one-fourth of all employees it surveyed viewed their jobs as the number one stressor in their lives.¹⁰⁸

A variety of external factors can trigger stress. These include work schedule, pace of work, job security, route to and from work, workplace noise, and the number and nature of customers.¹⁰⁹ However, no two people react the same because personal factors also influence stress.¹¹⁰ For example, people who are **workaholics** and who feel driven to always be on time and meet deadlines normally put themselves under more stress than do others.

workaholic

People who feel driven to always be on time and meet deadlines and so normally place themselves under greater stress than do others.

CONSEQUENCES Job stress has serious consequences for employer and employee. The human consequences of job stress include anxiety, depression, anger, and various physical consequences, such as cardiovascular disease, headaches, accidents, and possibly even early-onset Alzheimer's disease.¹¹¹ Stress also has serious consequences for the employer. These include diminished performance, and increased absenteeism, turnover, grievances, and health care costs. A study of 46,000 employees concluded that health care costs of high-stress workers were 46% higher than those of their less-stressed coworkers.¹¹² A Danish study recently found that nurses working under excessive pressure had double the risk for heart attacks.¹¹³ Yet not all stress is dysfunctional. Some people, for example, are more productive as a deadline approaches.

REDUCING YOUR OWN JOB STRESS A person can do several things to alleviate stress. These include commonsense remedies like getting more sleep, eating better, finding a more suitable job, getting counseling, and planning each day's activities. Various experts suggest the following to reduce job stress:¹¹⁴

Build pleasant, cooperative relationships with as many of your colleagues as you can.

Work to resolve conflicts with other people.

Find time every day for detachment and relaxation.

Get away from your office from time to time for a change of scene and a change of mind.

Write down the problems that concern you, and what you're going to do about each.

Participate in something you don't find stressful, such as sports, social events, or hobbies.

Create realistic goals and deadlines for yourself, and set regular progress reviews.

Prepare a list of tasks and rank them in order of priority. Throughout the day, review your list and work on tasks in priority order.

Ask for help from a parent, friend, counselor, doctor, or pastor. Talk with them about the stress you feel and problems you face.

Take care of yourself:

- Eat a healthy, well-balanced diet.
- Exercise on a regular basis.
- Get plenty of sleep.
- Give yourself a break if you feel stressed out.

Meditation works for some. Choose a quiet place with soft light, sit comfortably, and then meditate by focusing your thoughts, for instance, by counting breaths or by visualizing a calming location such as a beach. When your mind wanders, come back to focusing on your breathing, or the beach.¹¹⁵

WHAT THE EMPLOYER CAN DO The employer can also help reduce job stress. Indeed, one's relationship with his or her immediate supervisor is an important factor in one's peace of mind at work.

One British firm follows a three-tiered approach to managing workplace stress.¹¹⁶ First is *primary prevention*, which focuses on ensuring that things like job designs are correct. Second is *intervention*, including individual employee assessment, attitude surveys to find sources of stress such as personal conflicts on the job, and supervisory intervention. Third is *rehabilitation* through employee assistance programs and counseling. One hospital introduced an on-site concierge service to help its employees.¹¹⁷ Several years ago, World Bank employees were experiencing high stress levels. Several times a week trainers from a Buddhist meditation instruction

company ran meditation classes at the bank. Employees generally felt the classes were useful.¹¹⁸ Employers recognize that employee wellness programs can reduce such problems. For example, beyond programs like weight management and smoking cessation, they're broadening their efforts to include high stress and depression.¹¹⁹

burnout

The total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal.

BURNOUT Burnout is closely associated with job stress. Experts define *burnout* as the total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal. Burnout doesn't just spontaneously appear. Instead, it builds gradually, leading to irritability, discouragement, entrapment, and resentment.¹²⁰

What can a burnout candidate do? In his book *How to Beat the High Cost of Success*, Dr. Herbert Freudenberger suggests:

- **Break your patterns.** Survey how you spend your time. The more well-rounded your life, the better protected you are against burnout.
- **Get away from it all periodically.** Schedule occasional periods during which you escape your usual routine.
- **Reassess your goals in terms of their intrinsic worth.** Are the goals you've set for yourself attainable? Are they worth the sacrifices?
- **Think about your work.** Could you do as good a job without being so intense?

One way to reduce burnout is to put your job aside once you go home. In one study, researchers measured psychological detachment from work during nonwork time with items such as “during after-work hours, I forget about work.”¹²¹ Lack of psychological detachment from work while off the job (not leaving your job behind once home) predicted higher emotional exhaustion one year later. Also stay active. A recent study concluded that “the increase in job burnout and depression was strongest among employees who did not engage in physical activity and weakest to the point of non-significance among those engaging in high physical activity.”¹²²

DEPRESSION Stress and burnout aren't the only psychological health problems at work.¹²³ For example, one *Journal of the American Medical Association* study calculated that depressed workers cost their employers \$44 billion per year in absenteeism or in reduced performance at work.¹²⁴

Employers apparently need to work harder to ensure that depressed employees utilize support services. Depression is an illness. It makes no more sense to tell a depressed person to “snap out of it” than it does to tell a heart patient to “stop acting tired.” One survey found that while about two-thirds of large firms offered employee assistance programs covering depression, only about 14% of employees with depression said they ever used one.¹²⁵ Training managers to recognize signs of depression—persistent sad moods, too little sleep, reduced appetite, difficulty in concentrating, and loss of interest in activities once enjoyed, for instance—and then making assistance more readily available can help.

Asbestos Exposure at Work

There are four major sources of occupational respiratory diseases: asbestos, silica, lead, and carbon dioxide. Of these, asbestos is a major concern, in part due to publicity surrounding huge lawsuits alleging asbestos-related diseases.

OSHA standards require several actions with respect to asbestos. They require that companies monitor the air whenever an employer expects the level of asbestos to rise to one-half the allowable limit (0.1 fiber per cubic centimeter). Engineering controls—walls, special filters, and so forth—are required to maintain an asbestos level that complies with OSHA standards. Respirators can be used only if they are then still required to achieve compliance.

Computer Monitor Health Problems and How to Avoid Them

Even with advances in computer screen technology, there's still a risk of monitor-related health problems. Problems include short-term eye burning, itching, and tearing, as well as eyestrain and eye soreness. Backaches and neck aches are also widespread. Computer users may also suffer from carpal tunnel syndrome, caused by repetitive use of the hands and arms at uncomfortable angles.¹²⁶ OSHA has no specific standards for computer workstations. It does have general standards that might apply regarding, for instance, radiation, noise, and electrical hazards.¹²⁷

NIOSH provides general recommendations regarding the use of computer screens. These include:

1. Have employees take a 3- to 5-minute break from working at the computer every 20 to 40 minutes, and use the time for other tasks, like making copies.
2. Design maximum flexibility into the workstation so it can be adapted to the individual operator and so that he or she doesn't stay in one position for long.
3. Reduce glare with devices such as recessed or indirect lighting.¹²⁸
4. Give workers a preplacement vision exam to ensure properly corrected vision.
5. Allow users to position their wrists at the same level as the elbow.
6. Put the screen at or just below the user's eye level, at a distance of 18 to 30 inches from the eyes.
7. Instruct users to let the wrists rest lightly on a pad for support.
8. Instruct users to put the feet flat on the floor, or provide a footrest.¹²⁹

Repetitive Motion Disorders

According to the U.S. National Institutes of Health, repetitive motion disorders include disorders such as carpal tunnel syndrome, bursitis, and tendonitis. They result from excessive repetitions of an activity or motion, or from unnatural motions such as twisting the arm or wrist, or incorrect posture. It usually affects people who perform repetitive tasks such as assembly-line work or computer work. Employers can reduce the problem, for instance, with programs to help workers adjust their pace of work.¹³⁰

Infectious Diseases

With many employees traveling to and from international destinations, monitoring and controlling infectious diseases has become an important safety issue.¹³¹

Employers can take steps to prevent the entry or spread of infectious diseases. These steps include:

1. Closely monitor the Centers for Disease Control and Prevention (CDC) travel alerts. Access this information at www.cdc.gov.
2. Provide daily medical screenings for employees returning from infected areas.
3. Deny access for 10 days to employees or visitors who have had contact with suspected infected individuals.
4. Tell employees to stay home if they have a fever or respiratory system symptoms.
5. Clean work areas and surfaces regularly. Make sanitizers containing alcohol easily available.
6. Stagger breaks. Offer several lunch periods to reduce overcrowding.

Special situations prompt special requirements. For example, a few years ago, the CDC advised employers that health care workers working with H1N1 patients should use special respirators to reduce virus inhalation risks.¹³²

Workplace Smoking

To some extent, the problem of workplace smoking is becoming moot. For example, states including Delaware, Connecticut, California, and New York have barred smoking in most workplaces.¹³³ Yet smoking continues to be a problem for employees and employers. Costs derive from higher health and fire insurance, as well as increased absenteeism and reduced productivity (which occurs when, for instance, a smoker takes a 10-minute break to smoke a cigarette outside).

WHAT YOU CAN AND CANNOT DO In general, you can probably deny a job to a smoker as long as you don't use smoking as a surrogate for prohibited discrimination. A "no-smokers-hired" policy does not seem to violate the Americans with Disabilities Act (since smoking is not considered a disability), and in general "employers' adoption of a no-smokers-hired policy is not illegal under federal law."¹³⁴ However, 17 states and the District of Columbia ban discriminating against smokers.¹³⁵ Most employers these days ban indoor smoking, often designating small outdoor areas for smokers. Many states and municipalities now ban indoor smoking in public areas (see www.smokefreeworld.com/usa.shtml for a list).

Most employers seem to have smoke-free workplace policies, but about 78% of smokers in these firms said the policies do *not* motivate them to quit.¹³⁶ Therefore, offering smoke-cessation benefits is important. The CDC ranks smoke-cessation policies (along with aspirin therapy and childhood vaccinations) as the number one cost-effective benefit employers can provide.¹³⁷ WEYCO Inc. first gave employees 15 months' warning and offered smoking-secession assistance, then began firing or forcing out all its workers who still smoked.¹³⁸

Smoking-cessation programs can more than pay for themselves. A smoking-cessation program that includes therapy and selected pharmaceuticals costs about \$0.45 per health plan member per month. However, it can produce annual savings of about \$210 per year per smoker who quits (by reducing costs like smoking-related heart disease).¹³⁹ The accompanying HR as a Profit Center feature illustrates the advantages.

WELLNESS PROGRAMS For many employers wellness is part of their safety and health initiatives. Wegmans Food Markets, Inc. has various health and fitness campaigns; for instance, it encourages its employees to eat 5 cups of fruit and vegetables and walk 10,000 steps each day.¹⁴⁰

HR AS A PROFIT CENTER

Wellness Pays

The payback for wellness programs isn't theoretical. For example, over the past 20 or so years, the percentage of employees at Johnson & Johnson who smoke has dropped by more than two-thirds, in part thanks to J&J's comprehensive wellness effort. It's been reported that the company's leaders estimate that such wellness programs have saved the company about \$250 million on health care costs from 2002 to 2008, a return of about \$2.71 for every dollar spent on the wellness programs.¹⁴¹

KNOWLEDGE BASE

LEARNING OBJECTIVE 5

Discuss the main elements in occupational security and risk management programs.

OCCUPATIONAL SECURITY AND RISK MANAGEMENT

Workplace *safety* relates to risks of injury or illness to employees. Workplace *security* relates to protecting employees from internal and external security risks such as criminal acts by outside perpetrators and threats of terrorism.¹⁴² According to SHRM, workplace security plans should address tasks such as establishing a formal security function, protecting the firm's intellectual property (for instance, through noncompete agreements), developing crisis management plans, establishing theft and fraud prevention procedures, preventing workplace violence, and installing facility security systems.¹⁴³

Most employers have security arrangements.¹⁴⁴ A SHRM survey found that about 85% of responding organizations now have some type of formal disaster plan.¹⁴⁵ Many firms also instituted special handling procedures for suspicious mail packages and hold regular emergency evacuation drills.

KNOWLEDGE BASE

Enterprise Risk Management

What plans to make reflects the risks you want to mitigate. Companies face a variety of risks, only some of which are direct risks to employees' health and safety. Potential risks include, for instance, natural disaster risks, financial risks, and risks to the firm's computer systems. However, *human capital risks* would also rank high. These include safety risks like those we discussed in this chapter (such as health hazards) as well as, for instance, risks from unionization and from inadequate staffing plans.¹⁴⁶

Identifying security and other corporate risks falls within the domain of *enterprise risk management*, which means identifying risks, and planning to and actually mitigating these risks. Thus, as part of its risk management, Walmart asks questions such as, "What are the risks? What will we do about them?"¹⁴⁷ Reducing occupational violence and enhancing facility security are two examples.

KNOWLEDGE BASE

Preventing and Dealing with Violence at Work

Violence against employees is a huge problem.¹⁴⁸ On average, 20 workers are murdered and 18,000 assaulted each week at work. Customers, not coworkers, are more often the perpetrators.¹⁴⁹ By one

early estimate, workplace violence costs employers about \$4 billion a year.¹⁵⁰ One report called bullying the “silent epidemic” of the workplace, “where abusive behavior, threats, and intimidation often go unreported.”¹⁵¹ Sadly, much of this involves acts by one intimate partner against another.¹⁵² According to one recent survey, 29% of workers who knew about or experienced workplace violence said nothing about it.¹⁵³ And workplace violence also manifests itself in sabotage.

REDUCING WORKPLACE VIOLENCE Workplace violence incidents by employees are predictable and avoidable. *Risk Management Magazine* estimates that about 86% of past workplace violence incidents were anticipated by coworkers, who had brought them to management’s attention prior to the incidents actually occurring. Yet management usually did little or nothing.¹⁵⁴ Human resource managers can take several steps to reduce the incidence of workplace violence:

HEIGHTEN SECURITY MEASURES Heightened security measures are the first line of defense, whether the violence derives from coworkers, customers, or outsiders. According to OSHA, measures should include those in Figure 6.

IMPROVE EMPLOYEE SCREENING With about 30% of workplace attacks committed by coworkers, screening out potentially violent applicants is the employer’s next line of defense.

Personal and situational factors correlate with workplace aggression. Men, and individuals scoring higher on “trait anger” (the predisposition to respond to situations with hostility), are more likely to exhibit workplace aggression. In terms of the situation, interpersonal injustice and poor leadership predict aggression against supervisors.¹⁵⁵

STEPS TO TAKE Employers can screen out potentially violent workers before they’re hired. Obtain an employment application, and check the applicant’s employment history, education, and references.¹⁵⁶ Sample interview questions include “What frustrates you?” and “Who was your worst supervisor and why?”¹⁵⁷ Certain background circumstances, such as the following, may call for a more in-depth background checking:¹⁵⁸

- An unexplained gap in employment
- Incomplete or false information on the résumé or application
- A negative, unfavorable, or false reference
- Prior insubordinate or violent behavior on the job¹⁵⁹
- A criminal history involving harassing or violent behavior
- A prior termination for cause with a suspicious (or no) explanation
- History of drug or alcohol abuse
- Strong indications of instability in the individual’s work or personal life as indicated, for example, by frequent job changes or geographic moves
- Lost licenses or accreditations¹⁶⁰

USE WORKPLACE VIOLENCE TRAINING You can also train supervisors to identify the clues that typify potentially violent current employees. Common clues include:¹⁶¹

- An act of violence on or off the job
- Erratic behavior evidencing a loss of perception or awareness of actions

FIGURE 6
How to Heighten Security in Your Workplace

- Improve external lighting.
- Use drop safes to minimize cash on hand.
- Post signs noting that only a limited amount of cash is on hand.
- Install silent alarms and surveillance cameras.
- Increase the number of staff on duty.
- Provide staff training in conflict resolution and nonviolent response.
- Close establishments during high-risk hours late at night and early in the morning.
- Issue a weapons policy; for instance, “firearms or other dangerous or deadly weapons cannot be brought onto the facility either openly or concealed.”*

*See “Creating a Safer Workplace: Simple Steps Bring Results,” *Safety Now*, September 2002, pp. 1–2. See also L. Claussen, “Disgruntled and Dangerous,” *Safety & Health* 180, no. 1 (July 2009), pp. 44–47.

- Overly confrontational or antisocial behavior
- Sexually aggressive behavior
- Isolationist or loner tendencies
- Insubordinate behavior with a threat of violence
- Tendency to overreact to criticism
- Exaggerated interest in war, guns, violence, mass murders, catastrophes, and so on
- Commission of a serious breach of security
- Possession of weapons, guns, knives, or like items in the workplace
- Violation of privacy rights of others, such as searching desks or stalking
- Chronic complaining and the raising of frequent, unreasonable grievances
- A retributory or get-even attitude

The U.S. Postal Service took steps to reduce workplace assaults. The steps include more background checks, drug testing, a 90-day probationary period for new hires, more stringent security (including a hotline that lets employees report threats), and training for managers to create a healthier culture.¹⁶² The HR in Practice feature lists useful guidelines for firing high-risk employees.

HR IN PRACTICE

Guidelines for Firing a High-Risk Employee

When firing a high-risk employee:

- Plan all aspects of the meeting, including its time, location, the people to be present, and agenda.
- Involve security enforcement personnel.
- Advise the employee that he or she is no longer permitted onto the employer's property.
- Conduct the meeting in a room with a door leading to the outside of the building.
- Keep the termination brief and to the point.
- Make sure he or she returns all company-owned property at the meeting.
- Don't let the person return to his or her workstation.
- Conduct the meeting early in the week and early in the morning so he or she has time to meet with employment counselors or support groups.
- Offer as generous a severance package as possible.
- Protect the employee's dignity by not advertising the event.¹⁶³

VIOLENCE TOWARD WOMEN AT WORK Men have more fatal occupational injuries than do women, but the proportion of women who are victims of assault is much higher. The Gender-Motivated Violence Act (part of the Violence Against Women Act) imposes liabilities on employers whose women employees become violence victims.¹⁶⁴ Of all females murdered at work, more than three-fourths are victims of random criminal violence carried out by an assailant unknown to the victim. Family members, coworkers, or acquaintances commit the remaining acts. Tangible security improvements including better lighting, cash-drop boxes, and similar steps can help. Women (and men) should have access to domestic crisis hotlines, such as www.ndvh.org, and to employee assistance programs.



Setting Up a Basic Security Program

As noted, workplace *security* relates to protecting employees from internal and external security risks. This often starts with facilities security.

In simplest terms, instituting a basic facility security program requires four steps: analyzing the current *level* of risk, and then installing *mechanical*, *natural*, and *organizational* security systems.¹⁶⁵ Many organizations establish cross-functional threat assessment teams. At one university, for instance, “The team meets regularly to discuss issues relating to violence, security and potential threats directed at students, faculty and staff at the Metropolitan Campus.”¹⁶⁶

Security programs ideally start with an analysis of the facility's *current level of risk*. Here, start with the obvious. For example, what is the neighborhood like? Does your facility (such as the office building you're in) house other businesses or individuals that might bring unsafe activities to your doorstep? As part of this initial threat assessment, also review these six matters:

1. **Reception area access**, including need for a “panic button”;
2. **Interior security**, including secure restrooms, and better identification of exits;
3. **Authorities' involvement**, in particular emergency procedures developed with local law enforcement;

4. **Mail handling**, including screening and opening mail;
5. **Evacuation**, including evacuation procedures and training; and
6. **Backup systems**, such storing data off site.

Having assessed the potential current level of risk, the employer then turns its attention to assessing and improving natural, mechanical, and organizational security.¹⁶⁷

NATURAL SECURITY *Natural security* means capitalizing on the facility’s natural or architectural features to minimize security problems. For example, does too many entrances now hamper controlling facility access?

MECHANICAL SECURITY *Mechanical security* is the utilization of security systems such as locks, intrusion alarms, access control systems, and surveillance systems to reduce the need for continuous human surveillance.¹⁶⁸ Many mail rooms use scanners to check incoming mail. Biometric scanners that read thumb or palm prints or retina or vocal patterns make it easier to enforce plant security.¹⁶⁹

ORGANIZATIONAL SECURITY Finally, *organizational security* means using good management to improve security. For example, it means properly training and motivating security staff and lobby attendants. Also ensure that the security staff has written orders that define their duties, especially in situations such as fire, elevator entrapment, hazardous materials spills, medical emergencies, hostile intrusions, suspicious packages, civil disturbances, and workplace violence.¹⁷⁰ Other questions to ask include; Are you properly investigating the backgrounds of new hires and contractors? Do you provide new employees with security orientations?



Basic Prerequisites for a Crime Prevention Plan

As one corporate security summary put it, “workplace security involves more than . . . installing an alarm system. . . .”¹⁷¹ Ideally, a comprehensive corporate anticrime program should start with the following:¹⁷²

1. **Company philosophy and policy on crime**—Make sure employees understand that the employer has a zero-tolerance policy with respect to workers who commit any crimes.
2. **Investigations of job applicants**—Always conduct full background checks.
3. **Crime awareness training**—Make it clear during training and orientation, that the employer is tough on workplace crime.
4. **Crisis management**—Establish and communicate what to do in the event of a bomb threat, fire, or other emergency.

Mechanical security is the utilization of security systems such as locks, intrusion alarms, access control systems, and surveillance systems to reduce the need for continuous human surveillance.

Source: Andrey Kekyalaynen/Shutterstock





Company Security and Employee Privacy

Security programs often entail monitoring employee communications and workplace activities. But as noted in earlier, monitoring requires considering employee privacy. Ideally, employers should get employees' consent for monitoring. However the employer may also monitor if it's clear from existing policies and notices that employees should have known monitoring might take place.

The employer can thus make it easier to legally investigate employees for potential security breaches. Steps include:¹⁷³

1. Distribute a policy that (a) says the company reserves the right to inspect and search employees as well as their personal property, electronic media, and files; and (b) that lockers and desks remain the property of the company and are subject to search.
2. Train investigators to focus on the facts and avoid making accusations.
3. Remember that employees can request that an employee representative be present during the investigative interview.
4. Make sure all investigations and searches are evenhanded and nondiscriminatory.



Business Continuity and Emergency Plans

The possibility of emergencies prompted by fires, attacks, and similar issues means that employers need facility continuity and emergency plans.¹⁷⁴ Such plans should cover *early detection of a problem, methods for communicating the emergency externally, and communications plans for initiating an evacuation*. Ideally, an initial alarm should come first. The employer should then follow the initial alarm with an announcement providing specific information about the emergency and letting employees know what action they should take. Many use social networks or text messaging.¹⁷⁵

It is also important to have plans for dealing with health issues.¹⁷⁶ Thus, in the case of the cardiac arrest emergency, early CPR and the use of an automated external defibrillator are essential. These devices should be available and one or more local employees trained in their use.¹⁷⁷ The Global Issues in HR feature provides another perspective.

Plans are also required for *business continuity* in the event of a disaster. The employer can designate a secure area of the company website for employee communications, listing such things as expected hours of operation, facilities opening schedules, and alternative work locations.¹⁷⁸ The disaster plans should include establishing a command center, and identification of employees considered essential in the event of a disaster, including responsibilities for each.



Terrorism

The employer can take several steps to protect its employees and physical assets from terrorist attack. These steps, now familiar at many workplaces, include:

- Screen the identities of everyone entering the premises.
- Check mail carefully.
- Identify ahead of time a lean “crisis organization” that can run the company on an interim basis after a terrorist threat.
- Identify in advance under what conditions you will close the company down, as well as what the shutdown process will be.
- Institute a process to put the crisis management team together.
- Prepare evacuation plans and make sure exits are well marked and unblocked.
- Designate an employee who will communicate with families and off-site employees.
- Identify an upwind, off-site location near your facility to use as a staging area for all evacuated personnel.
- Designate in advance several employees who will do headcounts at the evacuation staging area.
- Establish an emergency text-messaging policy and procedure to notify affected individuals that an emergency may exist.¹⁷⁹

GLOBAL ISSUES IN HR

Crime and Punishment Abroad

Particularly when traveling in areas where medical facilities may not meet developed-country standards, sudden illnesses or serious accidents can be very serious. Language difficulties, cultural misunderstandings,

and lack of normal support and infrastructure systems (such as telephones) can all combine to make an accident or illness a disaster. In one hospital abroad, for instance, the doctor would not perform a heart surgery without \$40,000 in cash.

As a result, many multinationals brief their business travelers and expatriates about what to expect and how to react when confronted with a health or safety problem abroad. One security expert says that employers need a way to track global employees, as well as methods for assessing overseas risks and a response plan should a crisis occur.¹⁸⁰ Many employers contract with international security firms. For example, International SOS has over 1,300 medical professionals staffing its regional centers and clinics.¹⁸¹

Review

MyManagementLab

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

SUMMARY

1. The area of safety and accident prevention is of concern to managers partly because of the staggering number of deaths and accidents occurring at work.
2. The purpose of OSHA is to ensure every working person a safe and healthful workplace. OSHA standards are complete and detailed, and are enforced through a system of workplace inspections. OSHA inspectors can issue citations and recommend penalties to their area directors.
3. There are three basic causes of accidents: chance occurrences, unsafe conditions, and unsafe acts on the part of employees. In addition, three other work-related factors—the job itself, the work schedule, and the psychological climate—also contribute to accidents.
4. Unsafe acts on the part of employees are a main cause of accidents. Such acts are to some extent the result of certain behavior tendencies on the part of employees, and these tendencies are possibly the result of certain personal characteristics.
5. Experts differ on whether there are accident-prone people who have accidents regardless of the job. Some traits do predict accidents, but the person who is accident prone in one job may not be on a different job. For example, vision is related to accident frequency for drivers and machine operators, but might not be for other workers, such as accountants.
6. There are several approaches to preventing accidents. One is to reduce unsafe conditions. The other approach is to reduce unsafe acts—for example, through selection and placement, training, positive reinforcement, propaganda, and top-management commitment.
7. Alcoholism, drug addiction, stress, and emotional illness are four important and growing health problems among employees. Alcoholism is a particularly serious problem that can drastically lower the effectiveness of your organization. Techniques including disciplining, discharge, in-house counseling, and referrals to an outside agency are used to deal with these problems.
8. Stress and burnout are other potential health problems at work. An employee can reduce job stress by getting away from work for a while each day, not putting off dealing with distasteful problems, and writing down the problems that concern you, and what you're going to do about it.
9. Violence against employees is an enormous problem at work. Steps that can reduce workplace violence include improved security arrangements, better employee screening, and violence-reduction training.
10. Basic facility security relies on natural security, mechanical security, and organizational security.

KEY TERMS

Occupational Safety and Health Act of 1970
Occupational Safety and Health Administration (OSHA)
citations
job hazard analysis

operational safety reviews
safety awareness program
workaholic
burnout

DISCUSSION QUESTIONS

- ★ 1. Discuss OSHA and how it operates.
2. Explain in detail three basic causes of accidents.
- ★ 3. Discuss major health problems at work and how to remedy them.
- ★ 4. Discuss the basic facts about OSHA—its purpose, standards, inspection, and rights and responsibilities.
5. Explain the supervisor's role in safety.
6. Explain what causes unsafe acts.
7. Explain how an employee could reduce stress at work.

INDIVIDUAL AND GROUP ACTIVITIES

1. Working individually or in groups, answer the question, "Is there such a thing as an accident-prone person?" Develop your answer using examples of actual people you know who seemed to be accident prone on some endeavor.
2. Working individually or in groups, compile a list of the factors at work or in school that create dysfunctional stress for you. What methods do you use for dealing with the stress?
3. An issue of the journal *Occupational Hazards* presented some information about what happens when OSHA refers criminal complaints about willful violations of OSHA standards to the U.S. Department of Justice (DOJ). In one 20-year period, OSHA referred 119 fatal cases allegedly involving willful violations of OSHA to the DOJ for criminal prosecution. The DOJ declined to pursue 57% of them, and some were dropped for other reasons. Of the remaining 51 cases, the DOJ settled 63% with pretrial settlements involving no prison time. So, counting acquittals, of the 119 cases OSHA referred to the DOJ, only 9 resulted in prison time for at least one of the defendants. "The Department of Justice is a disgrace," charged the founder of an organization for family members of workers killed on the job. One possible explanation for this low conviction rate is that the crime in cases like these is generally a misdemeanor, not a felony, and the DOJ generally tries to focus its attention on felony cases. What implications does this have for how employers should manage their safety programs? Why?
4. Recently, a 315-foot-tall, 2-million-pound crane collapsed on a construction site in East Toledo, Ohio, killing four ironworkers. Do you think accidents like this are avoidable? If so, what steps would you suggest the general contractor take to avoid a repeat?
5. In groups of three or four students, spend 15 minutes walking around the building in which your class is held or where you are now, listing possible natural, mechanical, and organizational security measures you'd suggest to the building's owner.
6. The PHR and SPHR Knowledge Base Appendix lists the knowledge someone studying for the HRCI certification exam needs to have in each area of human resource management (such as in Strategic Management, Workforce Planning, and Human Resource Development). In groups of four to five students, do four things: (1) Review that appendix now. (2) Identify the material in this chapter that relates to the required knowledge the appendix lists. (3) Write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam. And (4) if time permits, have someone from your team post your team's questions in front of the class, so the students in other teams can take each others' exam questions.



APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

The Office Safety and Health Program

LearnInMotion is a dot-com firm that delivers employee training, both online and via delivery of CD/DVDs. At first glance, a dot-com is probably one of the last places you'd expect to find potential safety and health hazards—or so the owners, Jennifer and Mel, thought. There's no danger of moving machinery, no high-pressure lines, no cutting or heavy lifting, and certainly no forklift trucks. However, there are safety and health problems.

In terms of accident-causing conditions, for instance, the one thing dot-com companies have is lots of cables and wires. WiFi notwithstanding, there are cables connecting the computers to each other and to the servers, and in many cases separate cables running from some computers to separate printers. There are 10 wireless telephones in the office, the bases of which are connected to 15-foot phone lines that always seem to be snaking around chairs and tables.

When the installation specialists wired the office (for electricity, high-speed cable, phone lines, burglar alarms, and computers), they estimated they used well over 5 miles of cables of one sort or another. Most of these are hidden in the walls or ceilings, but many of them snake their way from desk to desk, and under and over doorways. Several employees have tried to reduce the nuisance of having to trip over wires whenever they get up by putting their plastic chair pads over the wires closest to them. However, that still leaves many wires unprotected. In other cases, they brought in their own packing tape and tried to tape down the wires in those spaces where they're particularly troublesome, such as across doorways.

The cables and wires are only one of the more obvious potential accident-causing conditions. The firm's programmer, before he left the firm, had tried to repair the main server while the unit was still electrically alive. To this day, they're not sure exactly where he stuck the screwdriver, but the result was that he was "blown across the room," as Mel puts it. Carpal tunnel syndrome is another risk, as are eyestrain and strained backs.

One recent accident particularly scared them. The firm uses independent contractors to deliver the firm's book- and CD/DVD-based courses in New York and two other cities. A delivery person was riding his bike at the intersection of Second Avenue and East 64th Street in New York when he was struck by a car. Luckily, he was not hurt, but the bike's front wheel was wrecked, and the close call got Mel and Jennifer thinking about their lack of a safety program.

And it's not just the physical conditions. They also have some concerns about potential health problems such as job stress and

burnout. While the business may be (relatively) safe with respect to physical conditions, it is also relatively stressful in terms of the demands it makes in hours and deadlines. It is not at all unusual for employees to get to work by 7:30 or 8:00 in the morning and to work through until 11:00 or 12:00 at night. Just getting the company's new service operational required five of LearnInMotion's employees to work 70-hour workweeks for 3 weeks.

The bottom line is that both Jennifer and Mel feel they need to do something about implementing a health and safety plan. Now they want you to help them actually do it. Here's what they want you to do for them.

Questions

1. Based on your knowledge of health and safety matters and your actual observations of operations that are similar to ours, make a list of the potential hazardous conditions employees and others face at LearnInMotion. What should we do to reduce the potential severity of the top five hazards?
2. Would it be advisable for us to set up a procedure for screening out stress-prone or accident-prone individuals? Why? If so, how should we screen them?
3. Write a short position paper on what we should do to get all our employees to behave more safely at work.
4. Based on what you know and on what other dot-coms are doing, write a short position paper on what we can do to reduce the potential problems of stress and burnout in our company.

HR IN ACTION CASE INCIDENT 2

Carter Cleaning Company

Motivating Safe Behavior

Employees' safety and health are very important in the laundry and cleaning business. Each facility is a small production plant in which machines, powered by high-pressure steam and compressed air, work at high temperatures washing, cleaning, and pressing garments, often under very hot, slippery conditions. Chemical vapors are continually produced, and caustic chemicals are used in the cleaning process. High-temperature stills are almost continually "cooking down" cleaning solvents in order to remove impurities so that the solvents can be reused. If a mistake is made in this process—like injecting too much steam into the still—a boil over occurs, in which boiling chemical solvent erupts out of the still and over the floor, and on anyone who happens to be standing in its way.

As a result of these hazards and the fact that these stores continually produce chemically hazardous waste, several government agencies (including OSHA and the EPA) have strict guidelines regarding management of these plants. For example, posters must be placed in each store notifying employees of their right to be told what hazardous chemicals they are dealing with and what the proper method for handling each chemical is. Special waste-management firms must be used to pick up and properly dispose of the hazardous waste.

A chronic problem the Carters (and most other laundry owners) have is the unwillingness on the part of the cleaning-spotting workers to wear safety goggles. Not all the chemicals they use require safety goggles, but some—like the hydrofluorous acid used to remove rust stains from garments—are very dangerous. The latter is kept in special plastic containers, since it dissolves glass. The problem is safety goggles are somewhat uncomfortable, and they become smudged easily and thus reduce visibility. As a result, Jack has found it almost impossible to get these employees to wear their goggles.

Questions

1. How should the firm go about identifying hazardous conditions that should be rectified? Use data and checklists such as in Figure 4 and the HR in Practice feature to list at least 10 possible dry cleaning store hazardous conditions.
2. Would it be advisable for the firm to set up a procedure for screening out accident-prone individuals? How should it do so?
3. In general, how would you suggest the Carters get all employees to behave more safely at work?
4. Describe in detail how you would use motivation to get those who should be wearing goggles to do so.

EXPERIENTIAL EXERCISE

How Safe Is My University?

Purpose: The purpose of this exercise is to give you practice in identifying unsafe conditions.

Required Understanding: You should be familiar with material covered in this chapter, particularly that on unsafe conditions and that in Figure 4.

How to Set Up the Exercise/Instructions: Divide the class into groups of four. Assume that each group is a safety committee retained by your college or university's safety engineer to identify and report on any possible unsafe

conditions in and around the school building. Each group will spend about 45 minutes in and around the building you are now in for the purpose of identifying and listing possible unsafe conditions. (Make use of Figure 4, and the HR in Practice feature.)

Return to the class in about 45 minutes. A spokesperson for each group should list on the board the unsafe conditions you think you have identified. How many were there? Do you think these also violate OSHA standards? How would you go about checking?

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Explain how to prevent accidents at work.
2. How would you go about providing a safer work environment for your employees?
3. Mymanagementlab Only - comprehensive writing assignment for this chapter.

VIDEO CASES APPENDIX

Video Title: Union–Management Relations (UPS)

SYNOPSIS

The former human resources head for UPS describes what it's like (for both an employer and an employee) to work with a labor union. The roles and functions of labor unions are discussed, and the advantages and disadvantages that can accrue to both employees and management are explained. The future of unions, and other arrangements that fulfill some of the same roles, are also discussed.

Discussion Questions

- ★ 1. From what you know about UPS, what do you think would make the union believe that the company was ripe for being organized?
- ★ 2. Do you agree that unions “stifle creativity”? Why or why not?
- ★ 3. Do you agree that employees who excel in nonunion environments earn more than they would in unionized companies? Why?
- ★ 4. What other “replacements” for unions have helped reduce union membership, according to the chapter?

Video Title: Safety (California Health Foundation)

SYNOPSIS

Company initiatives to promote safety and emergency preparedness are discussed. These include proactive measures to encourage employee health and to prevent injuries, especially ergonomic ones. Different methods of preventing injuries are discussed, including employee health programs that reimburse employees for gym memberships, smoking-cessation, weight-loss, and other

programs. When the company helps foster better employee health, they are more likely to perform well and remain free of injuries.

Discussion Questions

- ★ 1. What are some ways of lowering stress that the California Health Foundation emphasizes?
- ★ 2. How are the employees at the California Health Foundation involved in ensuring an adequate response to an emergency?

- ★ 3. Why are proactive measures the most appropriate for addressing ergonomic injuries?
- ★ 4. Based on what you've seen to this point, how comprehensive would you say that the company's safety program is? What additional steps should it take?
- ★ 5. What are the other economic side effects of accidents?
- ★ 6. Do you agree that "safety in the office is a matter of attitude"? Why?
- ★ 7. What other steps would you suggest the company take to boost safety? For instance, what would you have supervisors do to improve the company's safety and accident record?

Video Title: Safety (City of Los Angeles)

SYNOPSIS

In this video, Randall Macfarlane says, among other things, the City of Los Angeles uses four methods to ensure safety and health: training, providing personal protective equipment, providing a special 8-hour training course for the staff, and holding biweekly safety meetings. He also says it trains supervisors to recognize behaviors or other things that may be warning signs. Furthermore, an in-house review every year aims to make sure all information and videos and so on are current. He also focuses on ergonomics in order to prevent problems like carpal tunnel syndrome. The city has periodic reviews from California's Occupational Safety and Health Administration.

Discussion Questions

- ★ 1. What should the city do prior to issuing personal protective equipment?
- ★ 2. What do you think of the safety program? What else would you suggest, and why?
- ★ 3. What are some of the issues and caveats the employer and its supervisors should follow when dealing with a visit from the Occupational Safety and Health Administration?
- ★ 4. If you were asked to put together a list of items that supervisors should keep in mind with respect to supervising safety and health at work, what would you include on your list?

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Module

Managing HR Globally

OVERVIEW: HR AND THE INTERNATIONALIZATION OF BUSINESS
In this module, we will cover . . .
IMPROVING INTERNATIONAL ASSIGNMENTS THROUGH SELECTION
TRAINING AND MAINTAINING INTERNATIONAL EMPLOYEES
HOW TO IMPLEMENT A GLOBAL HR SYSTEM

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HR AND THE INTERNATIONALIZATION OF BUSINESS

Companies increasingly do business abroad, and this confronts them with various management challenges. For one thing, managers now must formulate and execute their market, product, and production plans on a worldwide basis. Ford Motor, for instance,

recently implemented a new “One Ford” strategy aimed at offering similar Ford cars internationally.

Going abroad also means employers must address international human resource management issues. For example, “Should we staff our local offices in Europe with local or U.S. managers?” And, “How should we appraise and pay our Asia employees?”¹

The Human Resource Challenges of International Business

Dealing with global human resource challenges isn’t easy. The employer faces an array of political, social, legal, and cultural differences among countries abroad.

What works in one country may not work in another: An incentive plan may work in the United States, but backfire in some Eastern Europe countries, where workers need a predictable weekly wage to buy necessities. But in spite of these intercountry differences, the employer needs to create, for each country’s local facility and for the company as a whole, effective human resource practices.² Distance adds to the challenge. For example, how should Starbucks’ chief HR officer, based in Seattle, keep track of Starbucks’ top managers’ performers overseas? The accompanying Strategic Context feature illustrates how one company’s globalization efforts and intercountry differences combined to overrun the company’s HR strategy.

THE STRATEGIC CONTEXT

Unionizing Walmart Stores in China

Walmart Stores’s competitive strategy is to be retailing’s low-cost leader, and avoiding unions has been one of its main tactics for keeping down costs. With more than 2.1 million employees,³ Walmart wants to keep a tight reign on controlling employee staffing, performance, wages, and benefits. Unions probably would drive up Walmart’s labor costs, and impede its ability to make personnel changes the company views as desirable.

With its powerful government-backed All-China Federation of Trade Unions, China’s cultural, political, and labor relations and legal systems are (literally) a world away from what Walmart dealt with in America. Several years ago the union formed its first Walmart union in China.⁴ It didn’t take long for Walmart China to experience the difference unions can make. The company offered three options—transferring to outlets in other cities, accepting demotions, or leaving the company—to 54 local midlevel managers.⁵ Not wanting to change, the China managers sprang into action. One led 11 colleagues to the local municipal federation of trade unions for assistance. Whatever they did, it worked. Walmart apparently halted its planned reshuffle. Walmart had to adjust its HR strategy for China.

international human resource management (IHRM)

The human resource management concepts and techniques employers use to manage the human resource challenges of their international operations.

What Is International Human Resource Management?

Employers rely on **international human resource management (IHRM)** to deal with global HR challenges like these. We can define IHRM as the human resource management concepts and techniques employers use to manage the human resource challenges of their international operations. IHRM generally focuses on three main topics:⁶

1. **Managing human resources in global companies** (for example, selecting, training, and compensating employees who work or are assigned abroad)
2. **Managing expatriate employees** (those the employer posts abroad)
3. **Comparing human resource management practices** in a variety of different countries

How Intercountry Differences Affect Human Resource Management

As we said, the challenges of international human resource management don’t just stem from the distances involved (though this is important). The bigger issue is dealing with the cultural, political, legal, and economic differences among countries and their people. The result is that what works in one country might fail in another.



THE ISSUE Companies operating only within the United States generally have the luxury of dealing with a relatively limited set of economic, cultural, and legal variables. Different states and municipalities do have their own laws affecting HR. However, a basic federal framework helps produce a fairly predictable set of legal guidelines regarding matters such as employment discrimination, labor relations, and safety and health. Similarly, political risks within the United States are minimal. *Political risks* “are any governmental action or politically motivated event that could adversely affect the long-run profitability or value of the firm.”⁷ For example, Argentina’s president moved to nationalize a large oil company.

A company operating multiple units abroad isn’t blessed with such homogeneity. For example, even with the increasingly standardized European Union, minimum mandated holidays range from none in the United Kingdom to 5 weeks per year in Luxembourg. The point is that the need to adapt personnel policies and procedures to the differences among countries complicates human resource management in multinational companies.

CULTURAL FACTORS For one thing, countries differ widely in their cultures—in the basic values that their citizens share, and in how these values manifest themselves in the nation’s arts, social programs, and ways of doing things. *Cultural differences* mean people abroad react differently to the same or similar situations. For example, U.S. managers in one study were most concerned with getting the job done, and Chinese managers with maintaining a harmonious environment. Hong Kong managers fell between these two.⁸

The Hofstede Study. Studies by Professor Geert Hofstede illustrate international cultural differences. Hofstede says societies differ in five values, which he calls *power distance*, *individualism*, “*masculinity*,” *uncertainty avoidance*, and *long-term orientation*. For example, power distance represents the degree to which less powerful people accept the unequal distribution of power in society.⁹ He concluded that acceptance of such inequality was higher in some countries (such as Mexico) than in others (such as Sweden).¹⁰ In turn, such differences manifest themselves in different behaviors. To see how your country’s culture compares with others, go to www.geert-hofstede.com/hofstede_dimensions.php.

***Cultural differences* mean people abroad react differently to the same or similar situations**

Source: david pearson/Alamy



Cultural differences such as these help shape human resource policies. For example, in a recent study, power distance (acceptance of the unequal distribution of power) correlated positively with the gap between the CEO's and other workers' pay.¹¹



LEGAL FACTORS Employers expanding abroad must be familiar with the labor law systems in the countries they're entering. For example, in India, companies with more than 100 workers must get government permission to fire anyone.¹² In Brazil, some labor laws stem from the labor code of pre-World War II Italy, and can be fantastically costly to employers. Thus firing someone without "just cause" could trigger a fine of 4% of the total amount the worker ever earned.¹³

As other examples, the U.S. practice of employment at will does not exist in Europe, where firing or laying off workers is usually expensive. And in many European countries, **works councils**—formal, employee-elected groups of worker representatives—meet monthly with managers to discuss topics ranging from no-smoking policies to layoffs.¹⁴

Co-determination is the rule in Germany and several other countries. **Co-determination** means employees have the legal right to a voice in setting company policies. Workers elect their own representatives to the supervisory board of the employer.¹⁵

ECONOMIC SYSTEMS Similarly, differences in *economic systems* translate into differences in intercountry HR practices. Economists distinguish among market, planned, and mixed economies. In market economies (such as the United States) governments play a relatively restrained role in deciding things such as what will be produced and sold, at what prices. In planned economies (such as North Korea), the government decides and plans what to produce and sell, at what price. In mixed economies (such as China), many industries are still under direct government control, while others make pricing and production decisions based on market demand.

Labor costs also vary widely. For example, hourly compensation costs (in U.S. dollars) for production workers range from \$2.92 in Mexico, to \$6.58 in Taiwan, \$24.59 in the United States, \$29.73 in the United Kingdom, and \$37.66 in Germany.¹⁶

There are other labor costs to consider. For example, compared to the usual 2 or 3 weeks of U.S. vacation, workers in France can expect 2 1/2 days of paid holiday per full month of service per year.

EXAMPLE: EUROPE To appreciate the employment effects of cultural, economic, and legal differences like these, consider Europe. Over the past four decades, the separate countries of the former European Community (EC) unified into a common market for goods, services, capital, and even labor called the European Union (EU). Generally speaking, products and even labor can move from country to country with few impediments.

Companies doing business in Europe (including U.S.-based companies like Ford) must adjust their human resource policies and practices to both EU directives and to country-specific employment laws. The directives' objectives are binding on all member countries (although each member country can implement the directives as it so chooses). For example, the *confirmation of employment* directive requires employers to provide employees with written terms and conditions of their employment. However, these terms vary from country to country.¹⁷ In England, a detailed written statement is required, including things like rate of pay, date employment began, and hours of work. Germany doesn't require a written contract, but it's customary to have one.

The interplay of directives and country laws means that human resource practices vary from country to country in the EU. For example:¹⁸

- Most EU countries have *minimum wage systems* in place. Some set national limits. Others allow employers and unions to work out their own minimum wages.
- Europe has many levels of *employee representation*. In France, for instance, employers with 50 or more employees must consult with their employees' representatives on matters including working conditions, training, and profit-sharing plans, and layoffs. Most EU companies must "inform and consult" employees about employee-related actions, even if the firms don't operate outside their own countries' borders.¹⁹

works councils

Formal, employee-elected groups of worker representatives that meet monthly with managers to discuss topics ranging, for instance, from no-smoking policies to layoffs.

co-determination

The right to a voice in setting company policies; workers generally elect representatives to the supervisory board.



- We saw that in many European countries, works councils replace the informal or union-based worker-to-management mediations typical in U.S. firms. Similarly, co-determination is the rule in Germany and several other countries. In the United States, wages and benefits are set by the employer, or by the employer in negotiations with its labor unions. The co-determination laws, including the Works Constitution Act, largely determine the nature of HR policies in many German firms.



IMPROVING INTERNATIONAL ASSIGNMENTS THROUGH SELECTION

Increasingly today, *international human resource management* focuses on how employers should manage their global HR functions, for instance in terms of applying home office appraisal and compensation practices abroad. However *filling the employers jobs abroad* has traditionally been the heart of international human resource management. The process involves identifying and selecting the people who will fill the positions abroad, and then placing them in those positions.

International Staffing: Home or Local?

In general, we can classify an international company's employees as *expatriates*, *home-country nationals*, *locals (host-country nationals)*, or *third-country nationals*.²⁰ **Expatriates** are non-citizens of the countries in which they are working. Expatriates may also be **home-country nationals**, citizens of the country in which the company is headquartered. **Locals** (also known as *host-country nationals*) work for the company abroad and are citizens of the countries where they are working. **Third-country nationals** are citizens of a country other than the parent or the host country—for example, a French executive working in the Shanghai branch of a U.S. multinational bank.²¹

expatriates

Employees a company posts abroad, and who are noncitizens of the country in which they are working.

home-country nationals

Citizens of the country in which the multinational company has its headquarters.

locals

Employees who work for the company abroad and are citizens of the countries where they are working, also known as host-country nationals.

third-country nationals

Citizens of a country other than the parent or host country.

WHY LOCAL? Most of the employees will be “locals,” for good reason. Within the United States, it can be challenging bringing workers in from abroad, so using U.S. locals may be a necessity. (Under existing rules, U.S. employers must try to recruit U.S. workers before filing foreign labor certification requests with the Department of Labor.)²²

And abroad, cost is a big consideration in “hiring local.” Some companies don't realize what it costs to send expatriates abroad. Agilent Technologies estimated that it cost about three times the expatriate's annual salary to keep the person abroad for 1 year. But when Agilent hired an outside firm to handle its expatriate program, it discovered that the costs were much higher. Agilent then reduced the number of expats it sent abroad.²³ Yet cost may also work in the opposite direction. For example, difficulties attracting management trainees to work in relatively low-wage hospitality jobs in the United States prompts some hotel chains to hire in people from abroad to fill these jobs. Finally, the host country's government and citizens may view the multinational as a “better citizen” if it uses local management talent.

WHY EXPATS? There are also good reasons to use expatriates—either home-country or third-country nationals—for staffing subsidiaries. Employers often can't find local candidates with the required technical qualifications. As noted earlier, companies also view a successful stint abroad as a required step in developing top managers. Control is important too. The assumption is that home-country managers are already steeped in the firm's policies and culture, and thus more likely to implement headquarters' instructions and ways of doing things.

However, the trend is toward using locals. Posting expatriates abroad is expensive, security problems give potential expats pause, returning expats often leave for other employers, colleges are producing top-quality candidates abroad, and the recent recession made the cost of posting employees abroad even more unattractive. One survey found that about 47% of U.S. multinationals are maintaining the size of their expat workforces; 18% were increasing it, and 35% were decreasing the number of expatriates.²⁴ The human resource team needs to control expat expenses, as the accompanying HR as a Profit Center explains.

HR AS A PROFIT CENTER

Reducing Expatriate Costs

Given the expense of sending employees (often, dozens or hundreds of employees) abroad for overseas assignments, the employer's human resource team plays a central role in controlling and reducing expatriate costs. A recent survey by Mercer (*Mercer's International Assignments Survey 2010*) shows some of the steps HR managers are taking to reduce these expenses. (Mercer provides consulting, outsourcing, and investment services to employers worldwide.)²⁵ First, companies are upping the numbers of short-term assignments they make. This lets them use lower-cost short-term assignments to replace some long-term assignments that require supporting expats (and their families) abroad for extended periods. Fifty percent of the companies Mercer surveyed are also replacing some expatriate postings with local hires. With an eye on cutting costs, many employers were also reviewing their firms' policies regarding such things as housing, education, and home leave, along with expatriate allowances and premiums (cost-of-living allowance and mobility/quality-of-living premiums).²⁶

A HYBRID SOLUTION Today, the choice is not just between expatriate versus local employees; there's a hybrid solution. One survey found that about 78% of employers had some form of "localization" policy. This is a policy of transferring a home-country national employee to a foreign subsidiary as a "permanent transferee." The employer here does not treat the employee (who assumedly wants to move abroad) as an expatriate, but instead as, say, a French local hire.²⁷ For example, U.S. IBM employees originally from India eventually filled many of the 5,000 jobs that IBM recently shifted from the United States to India. These employees elected to move back to India, albeit at local, India pay rates.

OFFSHORING *Offshoring*—moving business processes such as manufacturing or call-center operations abroad, and thus having local employees abroad do jobs that the firm's domestic employees previously did in-house—is growing rapidly. About 3 million jobs will have moved offshore between 2000 and 2015.²⁸

Offshoring jobs from the United States to lower-wage countries entangles the employer's human resource team in the economic, political, and cultural issues we discussed earlier. The HR in Practice feature illustrates how human resource managers actually deal with some of these issues.

HR IN PRACTICE

What Human Resource Management Can Do to Facilitate Offshoring Operations

Human resource managers play a central role in offshoring decisions. IBM Business Consulting Services surveyed employers to see exactly what roles HR was actually playing in these decisions. Here's a sampling of what they found.²⁹

HR's Role in Choosing the Offshoring Site

It is inadvisable for employers to choose an offshoring location without input from the human resource team. For example, HR helps top management.³⁰

- To determine *total labor costs*. These include direct wages and benefits, as well as potential costs such as severance payments.
- To understand the *local labor markets*, for example, in terms of their size, education levels, unions, and language skills.
- To understand how the firm's current *employment-related reputation* in the locale may affect outsourcing to this locale.
- To decide how much the firm should *integrate the local workforce* into the parent firm's corporate organization. For example, employees performing strategic customer-related tasks (such as engineering) might best become employees. Others (such as call centers) might best remain independent contractors or employees of vendor firms.

KNOWLEDGE
BASE

HR's Role in Offshoring Recruitment and Selection

In IBM's discussions with offshoring employers, the latter emphasized three recruitment issues:

- **Skill shortages.** "Despite large candidate pools for entry-level workers, there is an ongoing 'war for talent' in many of these [low-wage] labor markets."³¹ This often requires getting employees from other local firms using signing bonuses, higher wages, and improved employee retention policies (for instance, improved promotion opportunities).
- **In-bulk hiring.** The need to hire hundreds or thousands of employees at once complicates hiring. Employers increasingly turn to employment agencies, employee referrals, and other means, including college recruiting.
- **Screening hurdle.** "Many respondents indicated that the sheer number of potential candidates often dwarfed the firms' capacity to screen and evaluate these individuals."³²

HR's Role in Offshoring Employee Retention

IBM found that "perhaps the greatest HR challenge facing globally distributed back-office and customer care centers is the retention of talented employees."³³ The high-pressure nature of these jobs combines with skill shortages to produce high attrition rates. To reduce high attrition, employers are taking steps such as:

- Deciding what is an acceptable *target attrition rate*, to measure the employer's retention performance.
- Identifying what "*levers*" reduce attrition. These levers include more training and development, better compensation and benefits, and improved career opportunities.

virtual teams

groups of geographically dispersed coworkers who interact using a combination of telecommunications and information technologies to accomplish an organizational task.

ethnocentric

A management philosophy that leads to the creation of home market-oriented staffing decisions.

polycentric

A management philosophy oriented toward staffing positions with local talent.

geocentric

A staffing policy that seeks the best people for key jobs throughout the organization, regardless of nationality.

USING TRANSNATIONAL VIRTUAL TEAMS Managing internationally may require the services of a "transnational" team composed of employees whose locations and activities span many countries.³⁴ Thus a European beverage manufacturer formed a 13-member "European Production Task Force," with members from its facilities in five countries. Its task was to analyze how many factories the firm should operate in Europe, what size they should be, and where to place them.³⁵

Often, such teams don't meet face-to-face, but work in virtual environments. **Virtual teams** are groups of geographically dispersed coworkers who interact using a combination of telecommunications and information technologies to accomplish an organizational task.

Values and International Staffing Policy

It's not just facts such as technical skills or attrition rates that influence whether employers use expats, locals, or offshore solutions. In addition, the top executives' values play a role. Some executives are just more "expat-oriented."

Experts sometimes classify people's values as **ethnocentric**, **polycentric**, or **geocentric**, and these values translate into corresponding corporate behaviors and policies.³⁶ In a firm whose top managers tend to be *ethnocentric*, "the prevailing attitude is that home-country attitudes, management style, knowledge, evaluation criteria, and managers are superior to anything the host country might have to offer."³⁷ In the *polycentric* corporation, "there is a conscious belief that only host-country managers can ever really understand the culture and behavior of the host-country market; therefore, the foreign subsidiary should be managed by local people."³⁸ *Geocentric* executives believe they must scour the firm's whole management staff on a global basis, on the assumption that the best manager for a specific position anywhere may be found in any of the countries in which the firm operates.

STAFFING POLICIES These values translate into three broad international staffing policies. With an *ethnocentric* staffing policy, the firm tends to fill key management jobs with home (parent-country) nationals. At Royal Dutch Shell, for instance, financial officers around the world tend to be Dutch nationals. A *polycentric*-oriented firm would staff its foreign subsidiaries with host-country nationals, and its home office with parent-country nationals. A *geocentric* staffing policy guides the firm to choose the best people for key jobs regardless of nationality.

Ethics and Codes of Conduct

In terms of values, employers also need to ensure that their employees abroad are adhering to their firm's ethics codes. Doing so requires more than promulgating to employees abroad the firm's employee handbook. For instance, few countries adhere to "employment at will," so even

handbooks that say employment is at will “can become binding contracts.”³⁹ Employees in many countries also have extensive rights to consultation on working conditions under their labor laws. Here, U.S.-style handbooks may breach an employer’s duty to provide workers information, consultation, and participation.⁴⁰

Sometimes, the employer’s main concern is establishing global standards for adhering to U.S. laws that have cross-border impacts. Here employers should set policies on things like discrimination, harassment, bribery, and Sarbanes-Oxley. For other firms the main concern may be enforcing codes of conduct for avoiding, for instance, sweatshop conditions. And bribery, abhorrent in most counties, is ignored in others. Recently, one company paid \$10 million to settle accusations that it had bribed Chinese and South Korean officials to get \$54 million in government contracts.⁴¹

Selecting International Managers

In most respects, screening managers for jobs abroad is similar to screening them for domestic jobs. Both candidates need the technical knowledge and skills to do the job, and the required intelligence and people skills.

However, foreign assignments are different. The expatriate and his or her family will have to cope with and adapt to colleagues whose culture may be drastically different from his or her own. And, there’s the stress of being in a foreign land.

In spite of this, one study concluded, “traditionally, most selection of expatriates appears to be done solely on the basis of successful records of job performance in the home country.”⁴² Whether the candidate could adapt to a new culture is often secondary.

Conversely, best practices in international assignee selection include providing *realistic previews* to prospective international assignees, facilitating *self-selection* to enable expatriate candidates to decide for themselves if the assignments are right for them, and using *traditional selection procedures* focusing on traits such as openness.⁴³ We’ll look at each.

TESTING Employers can take steps to improve the expat selection process, and testing is an obvious tool. For example, Performance Programs, Inc. (PPI) has used its Overseas Assignment Inventory (OAI) for over 30 years to help employers do a better job of selecting candidates for assignments abroad. According to PPI, “The OAI is an online assessment that measures nine attributes and six context factors crucial for successful adaptation to another culture. It is provided for both the expatriate job candidate and his or her spouse or partner. PPI establishes local norms, and conducts ongoing validation studies of the OAI.”⁴⁴

REALISTIC PREVIEWS Even in the most familiar foreign postings there will be language barriers, bouts of homesickness, and the need for children to adapt to new friends. Realistic previews about the problems as well as about the country’s cultural benefits are thus an important part of the screening process. The rule should always be to “spell it all out” ahead of time, as many multinationals do.⁴⁵

ADAPTABILITY SCREENING With flexibility and adaptability high on the list of what makes expats succeed, *adaptability screening* should be part of the screening process. Employers often use specially trained psychologists for this. Adaptability screening aims to assess the assignee’s (and spouse’s) probable success in handling the foreign transfer, and to alert them to issues (such as the impact on children) the move may involve.

Here, companies often look for overseas candidates whose work and nonwork experience, education, and language skills already demonstrate a facility for living and working with different cultures. Even several successful summers spent traveling overseas or in foreign student programs might provide some basis to believe the potential transferee can adjust when he or she arrives abroad.

SELECTION TRENDS The expat selection situation seems to be improving. Over the past two decades there’s been an increase in the number of selection criteria companies use to select expatriates. Employers now regularly use selection criteria such as technical/professional skills, expatriates’ willingness to go, experience in the country, personality factors (including flexibility), leadership skills, the ability to work with teams, and previous performance appraisals in the selection process. This may account for the decline in U.S. companies’ early return rates.⁴⁶ The Managing the New Workforce feature expands on this.

MANAGING THE NEW WORKFORCE

Sending Women Managers Abroad

While women represent about 50% of the middle management talent in U.S. companies, they represent only 21% of managers sent abroad. That's up from about 3% in the 1980s and 15% in 2005, but still low.⁴⁷ What accounts for this?

Many of the misperceptions that impeded women's progress over the years still exist.⁴⁸ Line managers make these assignments, and many assume that women don't want to work abroad, are reluctant to move their families abroad, or can't get their spouses to move.⁴⁹ In fact, this survey found, women do want international assignments, they are not less inclined to move their families, and their male spouses are not necessarily reluctant.

Safety is another issue. Employers tend to assume that women abroad are more likely to become crime victims. However, most surveyed women expats said that safety was no more an issue with women than it was with men.⁵⁰

Fear of cultural prejudices against women is another common issue. In some cultures, women do have to follow different rules than do men, for instance, in terms of attire. But as one expat said, "Even in the more harsh cultures, once they recognize that the women can do the job, once your competence has been demonstrated, it becomes less of a problem."⁵¹

Employers take several steps to overcome misperceptions like these, and to identify more women to assign abroad. For example, *formalize a process* for identifying employees who are willing to take assignments abroad. (At Gillette, for instance, supervisors use the performance review to identify the subordinate's career interests, including for assignments abroad.) *Train managers* to understand how employees really feel about going abroad, and what the real safety and cultural issues are. Let successful female expats *help recruit* prospective female expats. And provide the expat's spouse with *employment assistance*.⁵²

How to Avoid Having International Assignments Fail

Determining why foreign assignments fail is a cottage industry itself. A study of 750 U.S., European, and Japanese companies provides some clues. The employers with the best expat records focus their assignments on *leadership development*; assign people overseas whose technical skills are matched or exceeded by their *cross-cultural abilities*; and have expatriate assignments that include a deliberate *repatriation* process.⁵³

PERSONALITY In terms of personality, successful expatriate employees tend to be extroverted, agreeable, and emotionally stable individuals.⁵⁴ One study found three characteristics—extroversion, agreeableness, and emotional stability—were inversely related to the expatriate's desire to terminate the assignment; conscientiousness was positively related to the expatriate's performance. Not surprisingly, sociable, outgoing, conscientious people seem more likely to fit into new cultural settings.⁵⁵

Intentions are important too: For example, people who want expatriate careers try harder to adjust to such a life.⁵⁶ Similarly, expatriates who are more satisfied with their jobs abroad are more likely to adapt to the foreign assignment.⁵⁷

Studies also suggest that it's not how different culturally the host country is from the person's home country that causes problems; it's the person's ability to adapt.⁵⁸ Some people are so culturally at ease that they do fine transferred anywhere; others will fail anywhere.⁵⁹

FAMILY PRESSURES Studies underscore this fact: it's usually not technical or cultural factors but family and personal ones that undermine international assignees. Yet employers still tend to select expatriates based on technical competence rather than interpersonal skills or domestic situations.⁶⁰

The selection process is fundamentally flawed. . . . Expatriate assignments rarely fail because the person cannot accommodate to the technical demands of the job. . . . They fail because of family and personal issues and lack of cultural skills that haven't been part of the process.⁶¹ [The HR in Practice shows how to avoid this.]



It's usually not technical or cultural factors but family and personal ones that undermine international assignees.

Source: Corbis Bridge/Alamy

HR IN PRACTICE

Some Practical Solutions to the Expatriate Challenge

Managers can take several practical steps to improve the expat's success abroad.

- First, *provide realistic previews* of what to expect abroad, *careful screening* (of both the prospective expat and his or her spouse), *improved orientation*, and *improved benefits packages*.
- Simply *shorten the length* of the assignment.
- Use Internet-based *video technologies* and group decision-making software to enable global virtual teams to conduct business without relocation.⁶²
- Form "*global buddy*" programs. Here local managers assist new expatriates with advice on things such as office politics, norms of behavior, and where to receive emergency medical assistance.⁶³
- *Use executive coaches* to mentor and work with expatriate managers.⁶⁴



TRAINING AND MAINTAINING INTERNATIONAL EMPLOYEES

Careful screening is just the first step in ensuring the foreign assignee's success. The employee then requires special training. The firm must also address international human resource policies for appraising and compensating the firm's overseas employees, and for maintaining healthy labor relations.

Orienting and Training Employees on International Assignment

When it comes to the orientation and training required for expatriate success overseas, the practices of most U.S. employers reflect more talk than substance. Executives tend to agree that international assignees do best when they receive the special training (in things like language and culture) that they require. Fewer actually provide it.

Many vendors offer packaged cross-cultural predeparture training programs. In general, the programs use lectures, simulations, videos, and readings. One program aims to provide the trainee with (1) the basics of the new country's history, politics, business norms, education system, and demographics; (2) an understanding of how cultural values affect perceptions, values, and communications; and (3) examples of why moving to a new country can be difficult, and how to manage these challenges.⁶⁵ Another aims to boost self-awareness and cross-cultural understanding, to provide opportunities for anxieties to be addressed, and to reduce stress and provide coping strategies.⁶⁶ A third prepares individuals and their families "to interact successfully in daily life and business situations abroad."⁶⁷

Some employers use returning managers as resources. Bosch holds regular seminars, where new arrived returnees pass on their experience to managers and their families going abroad.

ONGOING TRAINING Beyond such predeparture training, more firms are providing continuing, in-country cross-cultural training during the early stages of an overseas assignment.

For example, managers abroad (both expats and locals) still need traditional skills-oriented development. At many firms, including IBM, this includes rotating assignments to help overseas managers grow professionally. IBM and other firms also have management development centers around the world where executives can hone their skills. And classroom programs (such as those at the London Business School or at INSEAD in France) provide overseas executives the educational opportunities (to acquire MBAs, for instance) that similar programs do for their U.S.-based colleagues.

In addition to honing these managers' skills, international development activities hopefully have other, less tangible benefits. For example, rotating assignments can help managers form bonds with colleagues around the world. These can help the managers form informal networks for making cross-border decisions more expeditiously.

PepsiCo encourages expatriates to engage in local social activities such as Latin dance lessons in Mexico City, and Ping-Pong tournaments in China to help them become acclimated faster to local cultures.⁶⁸

TRAINING EMPLOYEES ABROAD Extending the parent company's training to its local employees abroad is increasingly important. For Kimberly-Clark, for instance, average training per

employee abroad has quickly risen from almost none to about 38 hours per year.⁶⁹ Starbucks brings new management trainees from abroad to its Seattle, Washington, headquarters. This gives them “a taste of the west coast lifestyle and the company’s informal culture,” as well as the technical knowledge required to manage their local stores.⁷⁰ Other firms, as noted, arrange for classroom programs such as those at the London Business School. Figure 1 illustrates some corporate programs to develop global managers.

International Compensation

International compensation presents some tricky problems. On the one hand, there is some logic in having companywide pay scales. Here, for instance, the firm pays divisional marketing directors throughout the world within the same pay range. But this is usually not practical, given the large differences in cost of living among countries.

THE BALANCE SHEET APPROACH The most common approach to formulating expatriate pay is therefore to *equalize purchasing power* across countries, a technique known as the *balance sheet* approach.⁷¹

The basic idea is that each expatriate should enjoy the same standard of living he or she would have at home. With the balance sheet approach, the employer focuses on four main home-country groups of expenses—*income taxes, housing, goods and services, and discretionary expenses* (child support, car payments, and the like). The employer estimates what each of these four expenses would be in the expatriate’s home country, and what each will be in the host country. The employer then pays any differences—such as additional income taxes or housing expenses.

In practice, this usually boils down to building the expatriate’s total compensation around five or six separate components. For example, base salary will normally be in the same range as the manager’s home-country salary. In addition, however, there might be an overseas or foreign service premium. The executive receives this as a percentage of his or her base salary, to compensate for cultural and physical adjustments.⁷² There may also be several allowances, including a housing allowance and an education allowance for the expatriate’s children. Income taxes represent another area of concern. A U.S. manager posted abroad must often pay not just U.S. taxes but also income taxes in the host country.

Table 1 illustrates the balance sheet approach for someone transferring from the United States to Shanghai, China. The U.S. State Department estimates the cost of living in Shanghai at 128% of the United States.⁷³ In this case, the manager’s annual earnings are \$160,000, and she faces a U.S. income tax rate of 28%. Other costs are based on the index of living costs abroad published in the “U.S. Department of State Indexes of Living Costs Abroad, Quarters Allowances, and Hardship Differentials,” available at http://aoprals.state.gov/content.asp?content_id=186&menu_id=81.

To help the expatriate manage his or her home and foreign financial obligations, most employers use a *split pay* approach; they pay, say, half a person’s actual pay in home-country currency and half in the local currency.⁷⁴

EXPATRIATE PAY EXAMPLE As an example, expats working for the company CEMEX

get foreign service premium equal to a 10% increase in salary. Some get a hardship premium, depending on the country; it ranges from zero in a relatively comfortable posting

FIGURE 1

Corporate Programs to Develop Global Managers

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- Asea Brown Boveri (ABB) rotates about 500 managers around the world to different countries every 2 to 3 years to develop a management cadre of “transpatriates” to support their strategic aims.
- PepsiCo has an orientation program for its foreign managers, which brings them to the United States for 1-year assignments.
- At British Telecom, existing expatriate workers talk to prospective assignees about the cultural factors to expect.
- Honda of America Manufacturing gives its U.S. supervisors and managers extensive preparation in Japanese language, culture, and lifestyle and then sends them to the parent company in Tokyo for up to 3 years.
- General Electric gives their engineers and managers regular language and cross-cultural training so that they are equipped to conduct business with people around the world.

TABLE 1 The Balance Sheet Approach (Assumes U.S. Base Salary of \$160,000)

Annual Expense	Chicago, U.S.	Shanghai, China (US\$ Equivalent)	Allowance
Housing and utilities	\$35,000	\$ 44,800	\$ 9,800
Goods and services	6,000	7,680	1,680
Taxes	44,800	57,344	12,544
Discretionary income	10,000	12,800	2,800
Total	\$95,800	\$122,624	\$26,824

to, for example, 30% in Bangladesh. We pay for their housing. We pay for their children's schooling up to college. There's home leave—a ticket back to their home country for the entire family once a year. There are language lessons for the spouse. And we gross up the pay of all expats, to take out the potential effects of local tax law. Say you have an executive earning \$150,000. This person would cost close to \$300,000 as an ex-pat.⁷⁵

INCENTIVES While the situation is changing, performance-based incentives are still somewhat less prevalent abroad. In Europe, firms still tend to emphasize a guaranteed annual salary and companywide bonus. European compensation directors do want to see more performance-based pay.

The employer also needs to tie the incentives to local realities. In Eastern Europe, workers generally spend 35% to 40% of their disposable income on basics like food and utilities. They therefore require a higher proportion of more predictable base salary than do workers in, say, the United States.⁷⁶

However, incentives are popular in other countries. In Japan, a worker might expect to receive perhaps half (or more) of his or her total annual compensation near year end, as a sort of profit-sharing bonus. In Asia, including the People's Republic of China, incentives, even for production workers, are popular. However, many employers in Asia, to preserve group harmony, make incentive pay a small part of the pay package, and team incentives are advisable.⁷⁷

CRITERIA FOR A GLOBAL PAY SYSTEM The employer's global rewards program should ensure three things: (1) that the pay policies in each geographic location contribute to motivating the employee behaviors required to achieve its strategic plan; (2) that the separate geographic area compensation plans are consistent with each other; and (3) that the pay policies are responsive to local conditions.⁷⁸

Performance Appraisal of International Managers

Several things complicate appraising an expatriate's performance. Cultural differences are one. For example, a candid exchange is often the norm in the United States, but frowned upon in China, where "face" is a concern.

Another complication is, Who does the appraisal? Local management must have some input, but, again, cultural differences may distort the appraisals. (Thus, host-country bosses in Peru might evaluate a U.S. expatriate manager there somewhat negatively if they find his or her use of participative decision making culturally inappropriate.) On the other hand, home-office managers may be so out of touch that they can't provide valid appraisals. In one study, the surveyed managers knew that having appraisers from both the host and home countries, and more frequent appraisals, produced the best appraisals. But, in practice, most did not do this. Instead, they conducted appraisals less frequently, and had raters from the host or the home countries do the appraisals.⁷⁹

Suggestions for improving the expatriate appraisal process include:

1. Adapt the performance criteria to the local job and situation.
2. Weigh the evaluation more toward the on-site manager's appraisal than toward the home-site manager's.
3. If the home-office manager does the actual written appraisal, have him or her use a former expatriate from the same overseas location for advice.

Safety and Fair Treatment Abroad

Employee safety abroad is an important issue, for several reasons. For one thing, providing safety and fair treatment shouldn't stop at a country's borders. The United States has often taken the lead in occupational safety. However, other countries have such laws, with which all employers

must comply. In any case, it's hard to make a legitimate case for being less safety conscious or fair with workers abroad than you are with those at home. High-profile companies including Apple have received bad publicity for—and taken steps to improve—the working conditions for factory workers in countries such as China.

TERRORISM The increased threat of terrorism is another issue. Even stationing employees in assumedly safe countries is no guarantee there won't be problems. For example, when the protests erupted in Egypt in February 2011, Medex Global Solutions evacuated more than 500 of its clients' people from Egypt and had already been advising their employer clients about the possibilities for political unrest.⁸⁰ Employers have thus had to institute more comprehensive safety plans abroad, including, for instance, evacuation plans to get employees to safety. Many employers purchase intelligence services for monitoring potential terrorist threats abroad. The head of one intelligence firm estimates such services at costing \$6,000–\$10,000 per year.⁸¹

BUSINESS TRAVEL Keeping business travelers safe is a specialty all its own, but suggestions here include:⁸²

- Provide expatriates with training about the place they're going to, so they're more oriented.
- Tell them not to draw attention to the fact they're Americans—by wearing T-shirts with American names, for instance.
- Have travelers arrive at airports as close to departure time as possible and wait in areas away from the main flow of traffic.
- Equip the expatriate's car and home with security systems.
- Tell employees to vary their departure and arrival times and take different routes.
- Keep employees current on crime and other problems by regularly checking, for example, the State Department's travel advisories and warnings at <http://travel.state.gov/>.⁸³ Click on "Travel Alerts" and "Country Information."
- Advise employees to act confident at all times. Body language can attract perpetrators, and those who look like victims often become victimized.⁸⁴

Repatriation: Problems and Solutions

As noted, about 40% to 60% of expats will probably quit within 3 years of returning home. A 3-year assignment abroad for one employee with a base salary of about \$100,000 may cost the employer \$1 million, once extra living costs, transportation, and family benefits are included.⁸⁵ Given the investment, it obviously makes sense to do everything possible to keep them with the firm.

For many returnees, coming home is a shock. Dual-career couples listed "the perceived impact of the international assignments upon returning to the U.S." as an important issue in their willingness to relocate.⁸⁶ Yet one survey found that only about 31% of employers surveyed had formal repatriation programs for executives.⁸⁷

Formal repatriation programs are useful. For instance, one study found that about 5% of returning employees resigned if their firms had formal repatriation programs, while about 22% of those left if their firms had no such programs.⁸⁸

STEPS IN REPATRIATION The guiding principle of any repatriation program is this: Make sure that the expatriate and his or her family don't feel that the company has forgotten them. For example, one firm has a three-part repatriation program.⁸⁹

First, the firm matches the expat and his or her family with a psychologist trained in repatriation issues. The psychologist meets with the family before they go abroad. The psychologist discusses the challenges they will face abroad, assesses with them how well they think they will adapt to their new culture, and stays in touch with them throughout their assignment.

Second, the program makes sure that the employee always feels that he or she is still "in the home-office loop." For example, the expat gets a mentor, and travels back to the home office periodically for meetings.

Third, once it's time for the expat employee and his or her family to return home, there's a formal repatriation service. About 6 months before the overseas assignment ends, the psychologist and an HR representative meet with the expat and the family to start preparing them for return. For example, they help plan the employee's next career move, help the person update his or her résumé, and begin putting the person in contact with supervisors back home.⁹⁰

At the end of the day, probably the simplest thing employers can do is value expats' experience more highly. As one returnee put it: "My company was, in my view, somewhat indifferent to my experience in China as evidenced by a lack of monetary reward, positive increase, or leverage to my career in any way." Such feelings prompt former expats to look elsewhere for opportunities.⁹¹

HOW TO IMPLEMENT A GLOBAL HR SYSTEM

With employers increasingly relying on local rather than expatriate employees, transferring one's selection, training, appraisal, pay, and other human resource practices abroad is a top international HR priority. Is it realistic for a company to try to institute a standardized human resource management system in its facilities around the world?

A study suggests that the answer is "yes." The results show that employers may have to defer to local managers on some specific human resource management policy issues. However, they also suggest that big intercountry HR practice differences are often not necessary or even advisable. The important thing is *how* you implement the global human resource management system.

In this study, the researchers interviewed human resource personnel from six global companies—Agilent, Dow, IBM, Motorola, Procter & Gamble (P&G), and Shell Oil Co.—as well as international human resources consultants.⁹² The study's overall conclusion was that employers who successfully implement global HR systems do so by applying several best practices. The basic idea is to *develop* systems that are *acceptable* to employees in units around the world, and ones that the employers can *implement* more effectively. Figure 2 summarizes this. We'll look at each.

Developing a More Effective Global HR System

First, these employers engage in two best practices in developing their worldwide human resource policies and practices.

- **Form global HR networks.** To head off resistance, human resource managers around the world should feel that they're part of the firm's global HR team.⁹³ Treat the local human resource managers as equal partners. For instance, best practice firms formed global teams, to help develop the new human resources systems.
- **Remember that it's more important to standardize ends than means.** For example, IBM uses a more or less standardized recruitment and selection process worldwide. However, "details such as who conducts the interview (hiring manager vs. recruiter) . . . differ by country."⁹⁴

Making the Global HR System More Acceptable

Next, employers engage in three best practices so that the global human resource systems they develop will be *acceptable* to local managers around the world. These are:

- **Remember that truly global organizations find it easier to install global systems.** For example, truly global companies require their managers to work on global teams, and recruit

FIGURE 2
Best Practices for Creating Global HR Systems



the employees they hire globally. As one manager put it, “If you’re truly global, then you are hiring here [in the United States] people who are going to immediately go and work in the Hague, and vice versa.”⁹⁵ This global mindset makes it easier for managers everywhere to accept the wisdom of having a standardized human resource management system.

- **Investigate pressures to differentiate and determine their legitimacy.** Local managers will insist, “You can’t do that here because we are different culturally.” These researchers found that these “differences” are usually not persuasive. For example, when Dow wanted to implement an online recruitment and selection tool abroad, the local hiring managers said that their managers would not use it. After investigating the supposed cultural roadblocks, Dow successfully implemented the new system.⁹⁶
- **Try to work within the context of a strong corporate culture.** For example, because of how P&G recruits, selects, trains, and rewards them, its managers have a strong sense of shared values. For instance, new recruits quickly learn to think in terms of “we” instead of “I.” They learn to value thoroughness, consistency, and a methodical approach. Having such global unanimity in values makes it easier to implement standardized human resource practices worldwide.

Implementing the Global HR System

Finally, two best practices helped ensure success in actually *implementing* the globally consistent human resource policies and practices.

- **“You can’t communicate enough.”** “There’s a need for constant contact [by HR] with the decision makers in each country, as well as the people who will be implementing and using the system.”⁹⁷
- **Dedicate adequate resources.** For example, don’t require the local human resource management offices to implement new job analysis procedures unless the head office provides adequate resources for these additional activities.

Review

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SUMMARY

1. International business is important to almost every business today, and so firms must increasingly be managed globally. This confronts managers with many new challenges, including coordinating production, sales, and financial operations on a worldwide basis. As a result, companies today have pressing international HR needs with respect to selecting, training, paying, and repatriating global employees.
2. Intercountry differences affect a company’s HR management processes. Cultural factors such as assertiveness and humane orientation suggest differences in values, attitudes, and therefore behaviors and reactions of people from country to country. Economic and labor cost factors help determine whether HR’s emphasis should be on efficiency, or some other approach. Industrial relations and specifically the relationship among the workers, the union, and the employer influence the nature of a company’s specific HR policies from country to country.
3. A large percentage of expatriate assignments fail, but the batting average can be improved through careful selection. There are various sources HR can use to staff domestic and foreign subsidiaries. Often managerial positions are filled by locals rather than by expatriates, but this is not always the case.
4. Selecting managers for expatriate assignments means screening them for traits that predict success in adapting to dramatically new environments. Such traits include both “stable” and “dynamic” traits, such as adaptability and flexibility, self-orientation, job knowledge and motivation, relational skills, extracultural openness, and family situation. Adaptability screening focusing on the family’s probable success in handling the foreign assignment can be an especially important step in the selection process.

5. Training for overseas managers typically focuses on cultural differences, on how attitudes influence behavior, and on factual knowledge about the target country. The most common approach to formulating expatriate pay is to equalize purchasing power across countries, a technique known as the balance sheet approach. The employer estimates expenses for income taxes, housing, goods and services, and discretionary costs, and pays supplements to the expatriate in such a way as to maintain the same standard of living he or she would have had at home.
6. The expatriate appraisal process can be complicated by the need to have both local and home-office supervisors provide input into the performance review. Suggestions for improving the process include stipulating difficulty level, weighing the on-site manager's appraisal more heavily, and having the home-site manager get background advice from managers familiar with the location abroad before completing the expatriate's appraisal.
7. Repatriation problems are common, but you can minimize them. They include the often well-founded fear that the expatriate is "out of sight, out of mind" and difficulties in reassimilating the expatriate's family back into the home-country culture. Suggestions for avoiding these problems include using repatriation agreements, assigning a sponsor, offering career counseling, and keeping the expatriate plugged in to home-office business.
8. Employers who successfully implement global HR systems do so by applying several best practices. The basic idea is to *develop* systems that are *acceptable* to employees in units around the world, and ones that the employers can *implement* more effectively.

KEY TERMS

international human resource management (IHRM)
works councils
co-determination
expatriates
host-country nationals

locals
third-country nationals
virtual teams
ethnocentric
polycentric
geocentric

DISCUSSION QUESTIONS

1. List the HR challenges faced by an international business.
2. List and describe the basic steps in training employees whom the employer is about to transfer abroad.
3. Explain the main things to keep in mind when designing and implementing a global HR system.
4. Give several examples of how each intercountry difference that affects HR managers may specifically affect an HR manager.
- ★ 5. What special training do overseas candidates need? In what ways is such training similar to and different from traditional diversity training?
- ★ 6. How does appraising an expatriate's performance differ from appraising that of a home-office manager? How would you avoid some of the unique problems of appraising the expatriate's performance?

APPLICATION EXERCISES

HR IN ACTION CASE INCIDENT 1

"Boss, I Think We Have a Problem"

Central Steel Door Corp. has been in business for about 20 years, successfully selling a line of steel industrial-grade doors, as well as the hardware and fittings required for them. Focusing mostly in the United States and Canada, the company had gradually increased its presence from the New York City area, first into New England and then down the Atlantic Coast, then through the Midwest and West, and finally into Canada. The company's basic expansion strategy was always the same: Choose an area, open a distribution center, hire a regional sales manager, then let that regional sales manager help staff the distribution center and hire local sales reps.

Unfortunately, the company's traditional success in finding sales help has not extended to its overseas operations. With the expansion of the European Union, Mel Fisher, president of Central Steel Door, decided to expand his company abroad, into Europe. However, the expansion has not gone smoothly at all. He tried for 3 weeks to find a sales manager by advertising in the *International Herald Tribune*, which is read by businesspeople in Europe and by American expatriates living and working in Europe. Although the ads placed in the *Tribune* also ran for about a month on the *Tribune's* website, Fisher so far has received only five applications. One came from a possibly

viable candidate, whereas four came from candidates whom Fisher refers to as “lost souls”—people who seem to have spent most of their time traveling restlessly from country to country sipping espresso in sidewalk cafés. When asked what he had done for the last 3 years, one told Fisher he’d been on a “walkabout.”

Other aspects of his international HR activities have been equally problematic. Fisher alienated two of his U.S. sales managers by sending them to Europe to temporarily run the European operations, but neglected to work out a compensation package that would cover their relatively high living expenses in Germany and Belgium. One ended up staying the better part of the year, and Fisher was rudely surprised to be informed by the Belgian government that his sales manager owed thousands of dollars in local taxes. The managers had hired about 10 local people to staff each of the two distribution centers. However, without full-time local European sales

managers, the level of sales was disappointing, so Fisher decided to fire about half the distribution center employees. That’s when he got an emergency phone call from his temporary sales manager in Germany: “I’ve just been told that all these employees should have had written employment agreements and that in any case we can’t fire anyone without at least 1 year’s notice, and the local authorities here are really up in arms. Boss, I think we have a problem.”

Questions

1. Based on the chapter and the case incident, compile a list of 10 international HR mistakes Fisher has made so far.
2. How would you have gone about hiring a European sales manager? Why?
3. What would you do now if you were Mel Fisher?

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Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

1. Illustrate how intercountry difference affect HR.
2. Explain why foreign assignments fail and what to do to minimize the problems.
3. Mymanagementlab Only – comprehensive writing assignment for this chapter.

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Glossary

- action learning** A training technique by which management trainees are allowed to work full time analyzing and solving problems in other departments.
- adaptability screening** A process that aims to assess the assignee's (and spouse's) probable success in handling a foreign transfer.
- ADDIE Process** In training, Analyze the training need, Design the overall training program, Develop the course, Implement training, Evaluate the course's effectiveness.
- adverse impact** The overall impact of employer practices that result in significantly higher percentages of members of minorities and other protected groups being rejected for employment, placement, or promotion.
- affirmative action** Making an extra effort to hire and promote those in protected groups, particularly when those groups are underrepresented.
- Age Discrimination in Employment Act (ADEA) of 1967** The act prohibiting arbitrary age discrimination and specifically protecting individuals over 40 years old.
- agency shop** A form of union security in which employees who do not belong to the union must still pay union dues on the assumption that union efforts benefit all workers.
- alternation ranking method** Ranking employees from best to worst on a particular trait, choosing highest, then lowest, until all are ranked.
- alternative dispute resolution or ADR program** Grievance procedure that provides for binding arbitration as the last step.
- alternative staffing** The use of nontraditional recruitment sources.
- Americans with Disabilities Act (ADA)** The act requiring employers to make reasonable accommodations for disabled employees; it prohibits discrimination against disabled persons.
- annual bonus** Plans that are designed to motivate short-term performance of managers and which are tied to company profitability.
- applicant tracking systems** Online systems that help employers attract, gather, screen, compile, and manage applicants.
- application form** The form that provides information on education, prior work record, and skills.
- appraisal interview** An interview in which the supervisor and subordinate review the appraisal and make plans to remedy deficiencies and reinforce strengths.
- apprenticeship training** A structured process by which people become skilled workers through a combination of classroom instruction and on-the-job training.
- arbitration** The most definitive type of third-party intervention, in which the arbitrator often has the power to determine and dictate the settlement terms.
- authority** The right to make decisions, direct others' work, and give orders.
- authorization cards** In order to petition for a union election, the union must show that at least 30% of employees may be interested in being unionized. Employees indicate this interest by signing authorization cards.
- bargaining unit** The group of employees the union will be authorized to represent.
- behavior modeling** A training technique in which trainees are first shown good management techniques in a film, are asked to play roles in a simulated situation, and are then given feedback and praise by their supervisor.
- behavior modification** Using contingent rewards or punishment to change behavior.
- behavioral interviews** A series of job-related questions that focus on how the candidate reacted to actual situations in the past.
- behaviorally anchored rating scale (BARS)** An appraisal method that aims at combining the benefits of narrative critical incidents and quantified ratings by anchoring a quantified scale with specific narrative examples of good and poor performance.
- behavior-based safety** Identifying the worker behaviors that contribute to accidents and then training workers to avoid these behaviors.
- benchmark job** A job that is used to anchor the employer's pay scale and around which other jobs are arranged in order of relative worth.
- benefits** Indirect financial and nonfinancial payments employees receive for continuing their employment with the company.
- bias** The tendency to allow individual differences such as age, race, and sex to affect the appraisal ratings employees receive.
- bona fide occupational qualification (BFOQ)** Requirement that an employee be of a certain religion, sex, or national origin where that is reasonably necessary to the organization's normal operation. Specified by the 1964 Civil Rights Act.
- boycott** The combined refusal by employees and other interested parties to buy or use the employer's products.
- broadbanding** Consolidating salary grades and ranges into just a few wide levels or "bands," each of which contains a relatively wide range of jobs and salary levels.
- bullying** Singling out someone to harass and mistreat them.
- bumping/layoff procedures** Detailed procedures that determine who will be laid off if no work is available; generally allow employees to use their seniority to remain on the job.
- burnout** The total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal.
- business necessity** Justification for an otherwise discriminatory employment practice, provided there is an overriding legitimate business purpose.
- business process reengineering** Redesigning business processes, usually by combining steps, so that small multi-function process teams using information technology do the jobs formerly done by a sequence of departments.

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- candidate-order (or contrast) error** An error of judgment on the part of the interviewer due to interviewing one or more very good or very bad candidates just before the interview in question.
- career** The occupational positions a person has had over many years.
- career development** The lifelong series of activities that contribute to a person's career exploration, establishment, success, and fulfillment.
- career management** The process for enabling employees to better understand and develop their career skills and interests, and to use these skills and interests more effectively.
- career planning** The deliberate process through which someone becomes aware of personal skills, interests, knowledge, motivations, and other characteristics and establishes action plans to attain specific goals.
- case study method** A development method in which the manager is presented with a written description of an organizational problem to diagnose and solve.
- cash balance plans** Defined benefit plans under which the employer contributes a percentage of employees' current pay to employees' pension plans every year, and employees earn interest on this amount.
- central tendency** A tendency to rate all employees the same way, such as rating them all average.
- citations** Summons informing employers and employees of the regulations and standards that have been violated in the workplace.
- Civil Rights Act of 1991 (CRA 1991)** The act that places burden of proof back on employers and permits compensatory and punitive damages.
- classes** Grouping jobs based on a set of rules for each group or class, such as amount of independent judgment, skill, physical effort, and so forth, required. Classes usually contain similar jobs.
- closed shop** A form of union security in which the company can hire only union members. This was outlawed in 1947 for interstate commerce, but still exists in some industries (such as printing).
- coaching** Educating, instructing, and training subordinates.
- co-determination** The right to a voice in setting company policies; workers generally elect representatives to the supervisory board.
- codetermination** Employees have the legal right to a voice in setting company policies.
- collective bargaining** The process through which representatives of management and the union meet to negotiate a labor agreement.
- college recruiting** Sending an employer's representatives to college campuses to prescreen applicants and create an applicant pool from the graduating class.
- compa ratio** Equals an employee's pay rate divided by the pay range midpoint for his or her pay grade.
- comparable worth** The concept by which women who are usually paid less than men can claim that men in comparable rather than in strictly equal jobs are paid more.
- compensable factor** A fundamental, compensable element of a job, such as skills, effort, responsibility, and working conditions.
- competency model** A graphic model that consolidates, usually in one diagram, a precise overview of the competencies (the knowledge, skills, and behaviors) someone would need to do a job well.
- competency-based job analysis** Describing a job in terms of the measurable, observable, and behavioral competencies an employee must exhibit to do a job well.
- competency-based pay** Where the company pays for the employee's range, depth, and types of skills and knowledge, rather than for the job title he or she holds.
- competitive advantage** Any factors that allow an organization to differentiate its product or service from those of its competitors to increase market share.
- competitive strategy** A strategy that identifies how to build and strengthen the business's long-term competitive position in the marketplace.
- compressed workweek** Schedule in which employee works fewer but longer days each week.
- construct validity** A test that is construct valid is one that demonstrates that a selection procedure measures a construct and that construct is important for successful job performance.
- content validity** A test that is *content valid* is one in which the test contains a fair sample of the tasks and skills actually needed for the job in question.
- controlled experimentation** Formal methods for testing the effectiveness of a training program, preferably with before-and-after tests and a control group.
- corporate campaign** An organized effort by the union that exerts pressure on the corporation by pressuring the company's other unions, shareholders, directors, customers, creditors, and government agencies, often directly.
- corporate-level strategy** Type of strategy that identifies the portfolio of businesses that, in total, comprise the company and the ways in which these businesses relate to each other.
- criterion validity** A type of validity based on showing that scores on the test (predictors) are related to job performance (criterion).
- critical incident method** Keeping a record of uncommonly good or undesirable examples of an employee's work-related behavior and reviewing it with the employee at predetermined times.
- cross training** Training employees to do different tasks or jobs than their own; doing so facilitates flexibility and job rotation.
- data mining** The set of activities used to find new, hidden, or unexpected patterns in data.
- Davis-Bacon Act (1931)** A law that sets wage rates for laborers employed by contractors working for the federal government.
- decertification** Legal process for employees to terminate a union's right to represent them.
- deferred profit-sharing plan** A plan in which a certain amount of profits is credited to each employee's account, payable at retirement, termination, or death.

- defined benefit pension plan** A plan that contains a formula for determining retirement benefits.
- defined contribution pension plan** A plan in which the employer's contribution to employees' retirement savings funds is specified.
- diary/log** Daily listings made by workers of every activity in which they engage along with the time each activity takes.
- digital dashboard** Presents the manager with desktop graphs and charts, and so a computerized picture of where the company stands on all those metrics from the HR Scorecard process.
- direct financial payments** Pay in the form of wages, salaries, incentives, commissions, and bonuses.
- discipline** A procedure that corrects or punishes a subordinate for violating a rule or procedure.
- discrimination** Taking specific actions toward or against the person based on the person's group.
- dismissal** Involuntary termination of an employee's employment with the firm.
- disparate impact** An unintentional disparity between the proportion of a protected group applying for a position and the proportion getting the job.
- disparate rejection rates** A test for adverse impact in which it can be demonstrated that there is a discrepancy between rates of rejection of members of a protected group and of others.
- disparate treatment** An intentional disparity between the proportion of a protected group and the proportion getting the job.
- distributive justice** The fairness and justice of a decision's result.
- diversity** Having a workforce comprised of two or more groups of employees with various racial, ethnic, gender, cultural, national origin, handicap, age, and religious backgrounds.
- downsizing** Refers to the process of reducing, usually dramatically, the number of people employed by the firm.
- early retirement window** A type of offering by which employees are encouraged to retire early, the incentive being liberal pension benefits plus perhaps a cash payment.
- earnings-at-risk pay plan** Plan that puts some portion of employees' normal pay at risk if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals.
- economic strike** A strike that results from a failure to agree on the terms of a contract that involve wages, benefits, and other conditions of employment.
- Electronic Communications Privacy Act (ECPA)** Intended in part to restrict interception and monitoring of oral and wire communications, but with two exceptions: employers who can show a legitimate business reason for doing so, and employers who have employees' consent to do so.
- electronic performance monitoring (EPM)** Having supervisors electronically monitor the amount of computerized data an employee is processing per day, and thereby his or her performance.
- electronic performance support systems (EPSS)** Sets of computerized tools and displays that automate training, documentation, and phone support; integrate this automation into applications; and provide support that's faster, cheaper, and more effective than traditional methods.
- employee assistance program (EAP)** A formal employer program for providing employees with counseling and/or treatment programs for problems such as alcoholism, gambling, or stress.
- employee compensation** All forms of pay or rewards going to employees and arising from their employment.
- employee orientation** A procedure for providing new employees with basic background information about the firm.
- employee recruiting** Finding and/or attracting applicants for the employer's open positions.
- employee relations** The activity that involves establishing and maintaining the positive employee-employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.
- Employee Retirement Income Security Act (ERISA) of 1975** Signed into law by President Ford in 1974 to require that pension rights be vested and protected by a government agency, the PBGC.
- Employee Retirement Income Security Act (ERISA)** The law that provides government protection of pensions for all employees with company pension plans. It also regulates vesting rights (employees who leave before retirement may claim compensation from the pension plan).
- employee stock ownership plan (ESOP)** A qualified, tax deductible stock bonus plan in which employers contribute stock to a trust for eventual use by employees.
- engagement** The commitment and dedication of a firm's employees.
- Equal Employment Opportunity Commission (EEOC)** The commission, created by Title VII, empowered to investigate job discrimination complaints and sue on behalf of complainants.
- Equal Pay Act of 1963** The act requiring equal pay for equal work, regardless of sex.
- ethics** The principles of conduct governing an individual or a group; specifically, the standards you use to decide what your conduct should be.
- ethnocentric** The notion that home-country attitudes, management style, knowledge, evaluation criteria, and managers are superior to anything the host country has to offer.
- executive coach** An outside consultant who questions the executive's associates in order to identify the executive's strengths and weaknesses, and then counsels the executive so he or she can capitalize on those strengths and overcome the weaknesses.
- exit interviews** Interviews conducted by the employer immediately prior to the employee leaving the firm with the aim of better understanding what the employee thinks about the company.
- expatriates (expats)** Noncitizens of the countries in which employees are working.
- expectancy chart** A graph showing the relationship between test scores and job performance for a group of people.

- expectancy** A person's expectation that his or her effort will lead to performance.
- fact-finder** In labor relations, a neutral party who studies the issues in a dispute and makes a public recommendation for a reasonable settlement.
- fair day's work** Standards of output which employers should devise for each job based on careful, scientific analysis.
- Fair Labor Standards Act (FLSA; 1938)** This act provides for minimum wages, maximum hours, overtime pay, and child labor protection. The law, amended many times, covers most employees.
- family-friendly (or work-life) benefits** Benefits such as child care and fitness facilities that make it easier for employees to balance their work and family responsibilities.
- Federal Violence Against Women Act of 1994** Provides that a person who commits a crime of violence motivated by gender shall be liable to the party injured.
- financial incentives** Financial rewards paid to workers whose production exceeds some predetermined standard.
- flexible benefits plan/cafeteria benefits plan** Individualized plans allowed by employers to accommodate employee preferences for benefits.
- flextime** A plan whereby employees' workdays are built around a core of mid-day hours, such as 11:00 A.M. to 2:00 P.M.
- forced distribution method** Similar to grading on a curve; predetermined percentages of ratees are placed in various performance categories.
- foreign service premiums** Financial payments over and above regular base pay, typically ranging between 10% and 30% of base pay.
- 4/5ths rule** Federal agency rule that minority selection rate less than 80% (4/5ths) of that for the group with highest rate is evidence of adverse impact.
- 401(k) plan** A defined contribution plan based on section 401(k) of the Internal Revenue Code.
- functional authority (or functional control)** The authority exerted by an HR manager as coordinator of personnel activities.
- functional strategy** A department's functional strategy identifies what the department must do in terms of specific departmental policies and practices to help the business accomplish its competitive goals.
- gainsharing plan** An incentive plan that engages employees in a common effort to achieve productivity objectives and share the gains.
- gender-role stereotypes** The tendency to associate women with certain (frequently nonmanagerial) jobs.
- geocentric** A staffing policy that seeks the best people for key jobs throughout the organization, regardless of nationality.
- geocentric** The belief that the firm's whole management staff must be scoured on a global basis, on the assumption that the best manager of a specific position anywhere may be in any of the countries in which the firm operates.
- globalization** The tendency of firms to extend their sales, ownership, and/or manufacturing to new markets abroad.
- golden parachute** A payment companies make in connection with a change in ownership or control of a company.
- good faith effort strategy** Employment strategy aimed at changing practices that have contributed in the past to excluding or underutilizing protected groups.
- good-faith bargaining** A term that means both parties are communicating and negotiating and that proposals are being matched with counterproposals, with both parties making every reasonable effort to arrive at agreements. It does not mean that either party is compelled to agree to a proposal.
- grade definition** Written descriptions of the level of, say, responsibility and knowledge required by jobs in each grade. Similar jobs can then be combined into grades or classes.
- grades** A job classification system like the class system, although grades often contain dissimilar jobs, such as secretaries, mechanics, and firefighters. Grade descriptions are written based on compensable factors listed in classification systems.
- graphic rating scale** A scale that lists a number of traits and a range of performance for each. The employee is then rated by identifying the score that best describes his or her level of performance for each trait.
- grievance procedure** Formal process for addressing any factor involving wages, hours, or conditions of employment that is used as a complaint against the employer.
- Griggs v. Duke Power Company** Supreme Court case in which the plaintiff argued that his employer's requirement that coal handlers be high school graduates was unfairly discriminatory. In finding for the plaintiff, the Court ruled that discrimination need not be overt to be illegal, that employment practices must be related to job performance, and that the burden of proof is on the employer to show that hiring standards are job related.
- group life insurance** Provides lower rates for the employer or employee and includes all employees, including new employees, regardless of health or physical condition.
- guaranteed fair treatment** Employer programs aimed at ensuring that all employees are treated fairly, generally by providing formalized, well-documented, and highly publicized vehicles through which employees can appeal any eligible issues.
- halo effect** In performance appraisal, the problem that occurs when a supervisor's rating of a subordinate on one trait biases the rating of that person on other traits.
- hardship allowances** Payments that compensate expatriates for exceptionally hard living and working conditions at certain locations.
- health maintenance organization (HMO)** A prepaid health care system that generally provides routine round-the-clock medical services as well as preventive medicine in a clinic-type arrangement for employees, who pay a nominal fee in addition to the fixed annual fee the employer pays.
- high-performance work system** A set of human resource management policies and practices that promote organizational effectiveness.
- home-country nationals** Citizens of the country in which the multinational company has its headquarters.

- HR audit** An analysis by which an organization measures where it currently stands and determines what it has to accomplish to improve its HR function.
- HR scorecard** A process for assigning financial and nonfinancial goals or metrics to the human resource management–related chain of activities required for achieving the company’s strategic aims and for monitoring results.
- human capital** The knowledge, education, training, skills, and expertise of a firm’s workers.
- human resource management (HRM)** The process of acquiring, training, appraising, and compensating employees, and of attending to their labor relations, health and safety, and fairness concerns.
- human resource metric** The quantitative gauge of a human resource management activity such as employee turnover, hours of training per employee, or qualified applicants per position.
- illegal bargaining items** Items in collective bargaining that are forbidden by law; for example, the clause agreeing to hire “union members exclusively” would be illegal in a right-to-work state.
- impasse** Collective bargaining situation that occurs when the parties are not able to move further toward settlement, usually because one party is demanding more than the other will offer.
- indirect financial payments** Pay in the form of financial benefits such as insurance.
- in-house development center** A company-based method for exposing prospective managers to realistic exercises to develop improved management skills.
- injunction** A court order compelling a party or parties either to resume or to desist from a certain action.
- inside games** Union efforts to convince employees to impede or to disrupt production—for example, by slowing the work pace.
- instrumentality** The perceived relationships between successful performance and obtaining the reward.
- insubordination** Willful disregard or disobedience of the boss’s authority or legitimate orders.
- interest arbitration** Arbitration enacted when labor agreements do not yet exist or when one or both parties are seeking to change the agreement.
- interest inventory** A personal development and selection device that compares the person’s current interests with those of others now in various occupations so as to determine the preferred occupation for the individual.
- internal wage curve** Shows how each job’s points relates to its current pay rate.
- international human resource management (IHRM)** The human resource management concepts and techniques employers use to manage the human resource challenges of their international operations.
- interview** A procedure designed to solicit information from a person’s oral responses to oral inquiries.
- intrinsic motivation** Motivation that derives from the pleasure someone gets from doing the job or task.
- job aid** A set of instructions, diagrams, or similar methods available at the job site to guide the worker.
- job analysis** The procedure for determining the duties and skill requirements of a job and the kind of person who should be hired for it.
- job classification (or grading) method** A method for categorizing jobs into groups.
- job descriptions** A list of a job’s duties, responsibilities, reporting relationships, working conditions, and supervisory responsibilities—one product of a job analysis.
- job enlargement** Assigning workers additional same-level activities.
- job enrichment** Redesigning jobs in a way that increases the opportunities for the worker to experience feelings of responsibility, achievement, growth, and recognition.
- job evaluation** A systematic comparison done in order to determine the worth of one job relative to another.
- job hazard analysis** A systematic approach to identifying and eliminating hazards before they occur, and focuses on the relationship between the worker, the task, the tools, and the work environment and ends by reducing the potential risks to acceptable levels.
- job instruction training (JIT)** Listing each job’s basic tasks, along with key points, in order to provide step-by-step training for employees.
- job posting** Publicizing an open job to employees (often by literally posting it on bulletin boards) and listing its attributes, like qualifications, supervisor, working schedule, and pay rate.
- job rotation** A management training technique that involves moving a trainee from department to department to broaden his or her experience and to identify strong and weak points.
- job rotation** Systematically moving workers from one job to another.
- job sharing** Allows two or more people to share a single full-time job.
- job specifications** A list of a job’s “human requirements,” that is, the requisite education, skills, personality, and so on—another product of a job analysis.
- job withdrawal** Actions intended to place physical or psychological distance between employees and their work environments.
- job-related interview** A series of job-related questions that focus on relevant past job-related behaviors.
- Landrum-Griffin Act** A law aimed at protecting union members from possible wrongdoing on the part of their unions.
- layoff** A situation in which employees are told there is no work for them but that management intends to recall them when work is again available.
- lifelong learning** Provides employees with continuing learning experiences over their tenure with the firm, with the aims of ensuring they have the opportunity to learn the skills they need to do their jobs and to expand their occupational horizons.
- line authority** The authority exerted by an HR manager by directing the activities of the people in his or her own department and in service areas (like the plant cafeteria).

- line manager** A manager who is authorized to direct the work of subordinates and is responsible for accomplishing the organization's tasks.
- locals** Employees who work for the company abroad and are citizens of the countries where they are working, also known as host-country nationals.
- lockout** A refusal by the employer to provide opportunities to work.
- management assessment center** A facility in which management candidates are asked to make decisions in hypothetical situations and are scored on their performance.
- management development** Any attempt to improve current or future management performance by imparting knowledge, changing attitudes, or increasing skills.
- management game** A development technique in which teams of managers compete by making computerized decisions regarding realistic but simulated situations.
- management process** The five basic functions of planning, organizing, staffing, leading, and controlling.
- manager** Someone who is responsible for accomplishing the organization's goals, and who does so by managing the efforts of the organization's people.
- managing diversity** Maximizing diversity's potential benefits while minimizing the potential barriers that can undermine the company's performance.
- managing** To perform five basic functions: planning, organizing, staffing, leading, and controlling.
- mandatory bargaining items** Items in collective bargaining that a party must bargain over if they are introduced by the other party—for example, pay.
- market/external wage curve** Compares job points with market pay rates for these jobs.
- market-competitive pay system** A pay system in which the employer's actual pay rates are competitive with those in the relevant labor market.
- Markov analysis** Mathematical tool that involves creating a matrix that shows the probabilities that employees in the chain of feeder positions for a key job will move from position to position and therefore be available to fill an end-point key position.
- mass interview** A panel interviews several candidates simultaneously.
- mediation** Labor relations intervention in which a neutral third party tries to assist the principals in reaching agreement.
- mentoring** Advising, counseling, and guiding.
- merit pay (merit raise)** Any salary increase awarded to an employee based on his or her individual performance.
- miniature job training and evaluation** Training candidates to perform several of the job's tasks, and then evaluating the candidates' performance prior to hire.
- mission statement** Summarizes the answer to the question, "What business are we in?"
- "mixed motive" case** A discrimination allegation case in which the employer argues that the employment action taken was motivated, not by discrimination, but by some nondiscriminatory reason such as ineffective performance.
- mixed standard scales** In performance appraisal, similar to behaviorally anchored scales, but mixed scales generally list just a few (usually three) behavioral examples (or "standards") for each of, say, three performance dimensions, and the employer then "mixes" the resulting behavioral statements in listing them.
- mobility premiums** Typically, lump-sum payments to reward employees for moving from one assignment to another.
- national emergency strikes** Strikes that might "imperil the national health and safety."
- National Labor Relations (or Wagner) Act** This law banned certain types of unfair practices and provided for secret-ballot elections and majority rule for determining whether or not a firm's employees want to unionize.
- National Labor Relations Board (NLRB)** The agency created by the Wagner Act to investigate unfair labor practice charges and to provide for secret-ballot elections and majority rule in determining whether or not a firm's employees want a union.
- negligent hiring** Hiring workers with criminal records or other such problems without proper safeguards.
- negligent training** A situation where an employer fails to train adequately, and the employee subsequently harms a third party.
- 9-box matrix** In workforce planning, this displays three levels of current job performance (exceptional, fully performing, not yet fully performing) across the top, and also shows three levels of likely potential (eligible for promotion, room for growth in current position, not likely to grow beyond current position) down the side.
- nonpunitive discipline** Discipline without punishment, usually involving a system of oral warnings and paid "decision-making leaves" in lieu of more traditional punishment.
- Norris-LaGuardia Act** This law marked the beginning of the era of strong encouragement of unions and guaranteed to each employee the right to bargain collectively "free from interference, restraint, or coercion."
- occupational illness** Any abnormal condition or disorder caused by exposure to environmental factors associated with employment.
- Occupational Safety and Health Act of 1970** The law passed by Congress in 1970 "to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources."
- Occupational Safety and Health Administration (OSHA)** The agency created within the Department of Labor to set safety and health standards for almost all workers in the United States.
- Office of Federal Contract Compliance Programs (OFCCP)** The office responsible for implementing the executive orders and ensuring compliance of federal contractors.
- on-demand recruiting services (ODRS)** Services that provide short-term specialized recruiting to support specific projects without the expense of retaining traditional search firms.
- on-the-job training** Training a person to learn a job while working on it.
- operational safety reviews** Reviews conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules.

- organization** A group consisting of people with formally assigned roles who work together to achieve the organization's goals.
- organization chart** A chart that shows the organization-wide distribution of work, with titles of each position and interconnecting lines that show who reports to and communicates with whom.
- organizational culture** The characteristic values, traditions, and behaviors a company's employees share.
- organizational development** A special approach to organizational change in which employees themselves formulate and implement the change that's required.
- organization-person fit** The goal of matching (1) the organization's values, culture, and ways of doing things with (2) the prospective employee's knowledge, skills, abilities and competencies.
- organizationwide incentive plan** Plans in which all or most employees can participate, and that generally tie the reward to some measure of company-wide performance.
- outplacement counseling** A systematic process by which a terminated person is trained and counseled in the techniques of self-appraisal and securing a new position.
- paired comparison method** Ranking employees by making a chart of all possible pairs of the employees for each trait and indicating which is the better employee of the pair.
- panel interview** An interview in which a group of interviewers questions the applicant.
- pay (or rate) ranges** A series of steps or levels within a pay grade, usually based on years of service.
- pay (or wage) grade** A pay grade is comprised of jobs of approximately equal difficulty.
- Pension Benefits Guarantee Corporation (PBGC)** Established under ERISA to ensure that pensions meet vesting obligations; also insures pensions should a plan terminate without sufficient funds to meet its vested obligations.
- pension plans** Plans that provide a fixed sum when employees reach a predetermined retirement age or when they can no longer work due to disability.
- performance analysis** Verifying that there is a performance deficiency and determining whether that deficiency should be corrected through training or through some other means (such as transferring the employee).
- performance appraisal** Evaluating an employee's current and/or past performance relative to his or her performance standards.
- performance management** The *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's *goals*.
- person-job fit** The goal of matching (1) the knowledge, skills, abilities (KSAs), and competencies that are central to performing the job (as determined by job analysis) with (2) the prospective employee's knowledge, skills, abilities and competencies.
- personnel appraisal process** A 3-step appraisal process involving (1) setting work standards, (2) assessing the employee's actual performance relative to those standards, and (3) providing feedback to the employee with the aim of helping him or her to eliminate performance deficiencies or to continue to perform above par.
- personnel replacement charts** Company records showing present performance and promotability of inside candidates for the most important positions.
- picketing** Having employees carry signs announcing their concerns near the employer's place of business.
- piecework** A system of pay based on the number of items processed by each individual worker in a unit of time, such as items per hour or items per day.
- point method** The job evaluation method in which a number of compensable factors are identified and then the degree to which each of these factors is present on the job is determined.
- polycentric** A management philosophy oriented toward staffing positions with local talent.
- polycentric** A conscious belief that only the host-country managers can ever really understand the culture and behavior of the host-country market.
- portability** Making it easier for employees who leave the firm prior to retirement to take their accumulated pension funds with them.
- position analysis questionnaire (PAQ)** A questionnaire used to collect quantifiable data concerning the duties and responsibilities of various jobs.
- position replacement card** A card prepared for each position in a company to show possible replacement candidates and their qualifications.
- predictive workforce monitoring** Paying continuous attention to workforce planning issues.
- preferential shop** Union members get preference in hiring, but the employer can still hire nonunion members.
- preferred provider organizations (PPOs)** Groups of health care providers that contract with employers, insurance companies, or third-party payers to provide medical care services at a reduced fee.
- Pregnancy Discrimination Act (PDA)** An amendment to Title VII of the Civil Rights Act that prohibits sex discrimination based on "pregnancy, childbirth, or related medical conditions."
- problem-solving teams** Teams that identify and research work processes and develop solutions to work-related problems.
- procedural justice** The fairness of the process.
- process chart** A workflow chart that shows the flow of inputs to and outputs from a particular job.
- productivity** The ratio of outputs (goods and services) divided by the inputs (resources such as labor and capital).
- profit-sharing plan** A plan whereby employees share in the company's profits.
- programmed learning** A systematic method for teaching job skills, involving presenting questions or facts, allowing the person to respond, and giving the learner immediate feedback on the accuracy of his or her answers.
- protected class** Persons such as minorities and women protected by equal opportunity laws, including Title VII.
- psychological contract** An unwritten agreement that exists between employers and employees governing each party's expectations regarding the other.

- qualifications (or skills) inventories** Manual or computerized records listing employees' education, career and development interests, languages, special skills, and so on, to be used in selecting inside candidates for promotion.
- qualified individuals** Under ADA, those who can carry out the essential functions of the job.
- quality circle** A special type of formal problem-solving team, usually composed of 6 to 12 specially trained employees who meet once a week to solve problems affecting their work area.
- ranking method** The simplest method of job evaluation that involves ranking each job relative to all other jobs, usually based on overall difficulty.
- ratio analysis** A forecasting technique for determining future staff needs by using ratios between, for example, sales volume and number of employees needed.
- reality shock** Results of a period that may occur at the initial career entry when the new employee's high job expectations confront the reality of a boring or otherwise unattractive work situation.
- recruiting yield pyramid** The historical arithmetic relationships between recruitment leads and invitees, invitees and interviews, interviews and offers made, and offers made and offers accepted.
- reliability** The characteristic that refers to the consistency of scores obtained by the same person when retested with the identical or equivalent tests.
- restricted policy** Another test for adverse impact, involving demonstration that an employer's hiring practices exclude a protected group, whether intentionally or not.
- reverse discrimination** Claim that due to affirmative action quota systems, white males are discriminated against.
- right to work** The public policy in a number of states that prohibits union security of any kind.
- rights arbitration** Arbitration that interprets existing contract terms, for instance, when an employee questions the employer's right to have taken some disciplinary action.
- role playing** A training technique in which trainees act out parts in a realistic management situation.
- safety awareness program** Program that enables trained supervisors to orient new workers arriving at a job site regarding common safety hazards and simple prevention methods.
- salary survey** A survey aimed at determining prevailing wage rates. A good salary survey provides specific wage rates for specific jobs. Formal written questionnaire surveys are the most comprehensive, but telephone surveys and Internet and newspaper help-wanted ads are also sources of information.
- savings and thrift plan** Plan in which employees contribute a portion of their earnings to a fund; the employer usually matches this contribution in whole or in part.
- Scanlon plan** An incentive plan developed in 1937 by Joseph Scanlon and designed to encourage cooperation, involvement, and sharing of benefits.
- scatter plot** A graphical method used to help identify the relationship between two variables.
- scientific management** Management approach based on improving work methods through observation and analysis.
- self-managing/self-directed work team** A highly trained group of around eight employees, fully responsible for turning out a well-defined segment of finished work.
- severance pay** A one-time payment some employers provide when terminating an employee.
- sexual harassment** Harassment on the basis of sex that has the purpose or effect of substantially interfering with a person's work performance or creating an intimidating, hostile, or offensive work environment.
- sick leave** Provides pay to an employee when he or she is out of work because of illness.
- situational interview** A series of job-related questions that focus on how the candidate would behave in a given situation.
- situational test** Examinees respond to situations representative of the job.
- Social Security** Federal program that provides three types of benefits: retirement income at the age of 62 and thereafter; survivor's or death benefits payable to the employee's dependents regardless of age at time of death; and disability benefits payable to disabled employees and their dependents. These benefits are payable only if the employee is insured under the Social Security Act.
- staff authority** Gives the manager the right (authority) to advise other managers or employees.
- staff manager** A manager who assists and advises line managers.
- standard deviation rule** In selection, the standard deviation rule holds that as a rule of thumb, the difference between the numbers of minority candidates *we would have expected* to hire and whom *we actually hired* should be less than two standard deviations.
- standard hour plan** A plan by which a worker is paid a basic hourly rate but is paid an extra percentage of his or her rate for production exceeding the standard per hour or per day. Similar to piecework payment but based on a percent premium.
- Standard Occupational Classification (SOC)** Classifies all workers into one of 23 major groups of jobs that are subdivided into minor groups of jobs and detailed occupations.
- stock option** The right to purchase a stated number of shares of a company stock at today's price at some time in the future.
- straight piecework** An incentive plan in which a person is paid a sum for each item he or she makes or sells, with a strict proportionality between results and rewards.
- strategic human resource management** Formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.
- strategic management** The process of identifying and executing the organization's strategic plan, by matching the company's capabilities with the demands of its environment.
- strategic plan** The company's plan for how it will match its internal strengths and weaknesses with external opportunities and threats in order to maintain a competitive advantage.
- strategy** A course of action the company can pursue to achieve its strategic aims.

- strategy map** A strategic planning tool that shows the “big picture” of how each department’s performance contributes to achieving the company’s overall strategic goals.
- strategy-based metrics** Metrics that specifically focus on measuring the activities that contribute to achieving a company’s strategic aims.
- stress interview** Interviewer seeks to make the applicant uncomfortable with occasionally rude questions.
- strictness/leniency** The problem that occurs when a supervisor has a tendency to rate all subordinates either high or low.
- strike** A withdrawal of labor.
- structured (or directive) interview** An interview following a set sequence of questions.
- structured sequential interview** An interview in which the applicant is interviewed sequentially by several persons; each rates the applicant on a standard form.
- Structured Situational Interview** A series of job-relevant questions with predetermined answers that interviewers ask of all applicants for the job.
- succession planning** The ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance.
- suggestion teams** Temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity.
- supplemental pay benefits** Benefits for time not worked such as unemployment insurance, vacation and holiday pay, and sick pay.
- supplemental unemployment benefits** Provide for a “guaranteed annual income” in certain industries where employers must shut down to change machinery or due to reduced work. These benefits are paid by the company and supplement unemployment benefits.
- sympathy strike** A strike that takes place when one union strikes in support of another’s strike.
- Taft-Hartley Act** A law prohibiting union unfair labor practices and enumerating the rights of employees as union members. It also enumerates the rights of employers.
- “Take” a strike** Degree to which parties in a labor dispute are willing to tolerate employees going on strike.
- talent management** The end-to-end process of planning, recruiting, developing, managing, and compensating employees throughout the organization.
- talent management** The goal-oriented and integrated process of planning, recruiting, developing, managing, and compensating employees.
- task analysis** A detailed study of a job to identify the specific skills required.
- task statement** A brief summary of what the worker does on one particular job task, how the worker does it, the knowledge, skills, and aptitudes required to do it, and the purpose of the task.
- team (or group) incentive plan** A plan in which a production standard is set for a specific work group, and its members are paid incentives if the group exceeds the production standard.
- terminate at will** The idea, based in law, that the employment relationship can be terminated at will by either the employer or the employee for any reason.
- termination interview** The interview in which an employee is informed of the fact that he or she has been dismissed.
- test validity** The accuracy with which a test, interview, and so on measures what it purports to measure or fulfills the function it was designed to fill.
- third-country nationals** Citizens of a country other than the parent or host country.
- 360-degree feedback** The employer collects performance information all around an employee—from his or her supervisors, subordinates, peers, and internal or external customers.
- Title VII of the 1964 Civil Rights Act** This act makes it unlawful for employers to discriminate against any individual with respect to hiring, compensation, terms, conditions, or privileges of employment because of race, color, religion, sex, or national origin.
- training** The process of teaching new or current employees the basic skills they need to perform their jobs.
- transfer** Reassignments to similar positions in other parts of the firm.
- trend analysis** Study of a firm’s past employment needs over a period of years to predict future needs.
- turnover** The rate at which employees leave the firm.
- unclear standards** An appraisal that is too open to interpretation.
- unemployment insurance (or compensation)** Provides benefits if a person is unable to work through some fault other than his or her own.
- unfair labor practice strike** A strike aimed at protesting illegal conduct by the employer.
- uniform guidelines** Guidelines issued by federal agencies charged with ensuring compliance with equal employment federal legislation explaining recommended employer procedures in detail.
- union salting** A union organizing tactic by which workers who are employed by a union as undercover union organizers are hired by unwitting employers.
- union shop** A form of union security in which the company can hire nonunion people but they must join the union after a prescribed period of time and pay dues. (If they do not, they can be fired.)
- unsafe conditions** The mechanical and physical conditions that cause accidents.
- unstructured (or nondirective) interview** An unstructured conversational-style interview in which the interviewer pursues points of interest as they come up in response to questions.
- unstructured sequential interview** An interview in which each interviewer forms an independent opinion after asking different questions.
- utility analysis** The degree to which use of a selection measure improves the quality of individuals selected over what would have happened if the measure had not been used.

- utilization analysis** The process of comparing the percentage of minority employees in a job (or jobs) at the company with the number of similarly trained minority employees available in the relevant labor market.
- valence** The perceived value a person attaches to the reward.
- validity generalization** The degree to which evidence of a measure's validity obtained in one situation can be generalized to another situation without further study.
- value chain** Identifies the primary activities that create value for customers and the related support activities.
- variable pay** Any plan that ties pay to productivity or profitability, usually as one-time lump payments.
- video-based simulation** A situational test in which examinees respond to video simulations of realistic job situations.
- virtual classroom** Teaching method that uses special collaboration software to enable multiple remote learners, using their PCs or laptops, to participate in live audio and visual discussions, communicate via written text, and learn via content such as PowerPoint slides.
- virtual teams** groups of geographically dispersed coworkers who interact using a combination of telecommunications and information technologies to accomplish an organizational task
- virtual teams** Groups of geographically dispersed coworkers who are assembled and who interact using a combination of telecommunications and information technologies to accomplish an organizational task.
- vision statement** A general statement of the firm's intended direction that shows, in broad terms, "what we want to become."
- Vocational Rehabilitation Act of 1973** The act requiring certain federal contractors to take affirmative action for disabled persons.
- voluntary (permissible) bargaining items** Items in collective bargaining for which bargaining is neither illegal nor mandatory—neither party can be compelled to negotiate over those items.
- wage curve** Shows the relationship between the value of the job and the average wage paid for this job.
- Wagner Act** A law that banned certain types of unfair labor practices and provided for secret-ballot elections and majority rule for determining whether or not a firm's employees want to unionize.
- Walsh-Healey Public Contract Act (1936)** A law that requires minimum wage and working conditions for employees working on any government contract amounting to more than \$10,000.
- wildcat strike** An unauthorized strike occurring during the term of a contract.
- work samples** Actual job tasks used in testing applicants' performance.
- work sampling technique** A testing method based on measuring performance on actual basic job tasks.
- work sharing** Refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs.
- workaholic** People who feel driven to always be on time and meet deadlines and so normally place themselves under greater stress than do others.
- workers' compensation** Provides income and medical benefits to work-related accident victims or their dependents regardless of fault.
- workflow analysis** A detailed study of the flow of work from job to job in a work process.
- workforce (or employment or personnel) planning** The process of deciding what positions the firm will have to fill, and how to fill them.
- workforce analysis** Employers use *workforce analysis* to obtain and to analyze the data regarding the firm's use of protected versus non protected employees in various job classifications.
- workforce analytics** Employers use workforce analytics (or "talent analytics") software applications to analyze their human resources data and to draw conclusions from it.
- workplace flexibility** Arming employees with the information technology tools they need to get their jobs done wherever they are.
- works councils** Formal, employee-elected groups of worker representatives that meet monthly with managers to discuss topics ranging, for instance, from no-smoking policies to layoffs.
- wrongful discharge** An employee dismissal that does not comply with the law or does not comply with the contractual arrangement stated or implied by the firm via its employment application forms, employee manuals, or other promises.

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