CENGAGE

VALENTINE MEGLICH MATHIS JACKSON

HUMAN RESOURCE MANAGEMENT

SIXTEENTH EDITION

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HUMAN RESOURCE MANAGEMENT

SIXTEENTH EDITION

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DEDICATIONS

TO

Page and Will,
for their love and support, as well as my parents, Bill and Sherry Valentine,
family, and friends who have helped me through the years.

Thank you to my parents,
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who have encouraged me along life's journey.

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PREFACE

In comparing the sixteenth edition of *Human Resource Management* with the first edition, the evolution that has occurred in the HR field is very apparent. Because we have carefully researched and recorded the changes in this book, we are told it has become the leader in both the academic and professional segments of the market. The book is a longtime standard in HR classes, and the authors are very gratified that their efforts are appreciated by so many.

While developing this text, we paid close attention to presenting information at an appropriate reading level and length, using many practical examples, and offering other learning devices to make the book more "student friendly." It is also worth noting that the authors have all received teaching and/or research awards, which illustrates knowledge of what it takes to effectively communicate the latest HR information both orally and in written form.

Casual comments from colleagues reveal a lack of clarity about how one successfully revises a textbook in a field that changes as rapidly as Human Resources. There are many hundreds of articles in the academic and professional literatures that have appeared in the three years since our last book was researched. When business examples from the *Wall Street Journal*, *Bloomberg Businessweek*, *HR Magazine*, and other trade publications are added, the number is staggering. These articles, as well as the themes that appear in them, represent the changing nature of the subject matter in HR and supplement the overall knowledge of the field. Consequently, this information must be added to a university text that effectively summarizes key HR issues. This book has provided a comprehensive overview of the HR profession for many editions, and it has successfully done that again in this current edition. You can be confident it contains the most current content that reflects the current HR practices used in organizations.

The field of HR management is different from some other areas of business. There is a definite academic/research side that explores new theories and knowledge, but HR has a more professional/applied side as well. Just ask leaders who deal with HR issues on a daily basis. This text focuses on both sides of the HR field, which has resulted in the book being used by many individuals to prepare for certification in the HR profession. Our approach has always been that both perspectives are very important in understanding the field, and this strategy is continued in the sixteenth edition.

The Sixteenth Edition

HR takes place in an environment that changes rapidly and impacts practice, resulting in necessary changes to the book being recognized between editions. The sixteenth edition identifies these changes and explains how they are being managed in the field. A few of the most significant characteristics of the sixteenth edition are detailed next. This new edition also contains a number of other positive content attributes that have been carried forward from previous editions, and you will find them throughout the text.

Global Human Resource Management

Business is global in scope and practice, a reality that has dramatically changed the HR profession over the years. Offshoring, global mergers and acquisitions, and cultural differences represent some of the issues that HR departments face. The sixteenth edition includes a chapter dedicated exclusively to the global opportunities and challenges that exist within the field of HR. In addition, various global topics are investigated to provide additional coverage of international HR concerns in this textbook. Global material is highlighted with a "global" icon.

Compensation Chapter Consolidation

To more efficiently present topics related to essential compensation issues, we combined two previous chapters on pay into one more succinct chapter on compensation. This streamlined

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approach to compensation focuses on the issues that are most likely relevant to the new HR practitioner or line manager.

"What's Trending" Chapter sections

Human resource management is a complex field, so highlighting all the current trends can be difficult. However, there are a number of issues that are currently affecting organizations, particularly with regard to how they manage people at work. Employees are expected to have the proper knowledge, skills, and abilities to perform in a workplace that has many challenges and new expectations, which requires organizations to implement practices that help employees get better at what they do and perform well. Each chapter provides an overview of the current trends pertaining to the particular topics explored.

HR Highlight Feature

A new HR Highlight feature appears in the sixteenth edition that explores topical HR issues in the profession. This feature focuses on generalized subject matter not specifically tied to companies, making the content different from the HR Perspective and HR Competencies & Applications features that have been mainstays in this textbook over many editions. The HR Highlight feature instead introduces specific topics that require concerted intervention on the part of HR professionals, as well as the development of sound organizational practices by HR departments.

HR Ethics

The study of ethics is emphasized in the academic business community, and HR is a fertile area for the practical application of ethics material. The potential for unethical dealings in compensation, staffing, Equal Employment Opportunity (EEO), and other areas is significant and problematic. At a minimum, investigation of these issues can provide a basis for discussion of HR ethics in the classroom, hopefully leading to greater consideration of ethical challenges in the HR profession. There is an HR "ethics" icon where HR ethics issues are covered.

Measuring HR Effectiveness, Strategy, and Leadership

The trend toward holding HR groups accountable for corporate performance has expanded, giving HR professionals a "seat at the strategic table." The days when HR managers could be successful because "they just love working with people" are long gone. HR leaders must be effective leaders who effectively shape the strategic direction of organizations. Benchmarking, metrics, and now analytics are a part of the analysis of how well HR is doing its job. The sixteenth edition uses a "metrics" icon to indicate where material on measuring HR is covered throughout the book. In addition, new "strategy" and "leadership" icons are included in various chapters to highlight where these topical areas are covered. Such attention to measurement, strategy, and leadership is welcome, as it documents how HR shapes and contributes to organizational goals in tangible ways.

Organization of the book

- Each chapter opens with a new "HR Headline" designed to introduce chapter material with a real company dilemma or problem. Learning objectives are provided at the beginning of each chapter.
- The latest trends and cutting-edge practices are highlighted at the beginning of each chapter in the "What's Trending" feature.
- Chapters contain a mix of four boxed features designed to convey different types of content: *HR Perspective* sections provide real examples of how companies deal with the issue covered. *HR Competencies &Applications* provide a "how to do it" view of the material based on key competencies identified in many professional models of HR. *HR Ethics* features highlight

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some of the ethical issues encountered in the profession. Finally, *HR Highlight* features navigate current issues in the field of HR.
- Each chapter ends with a point-by-point "Summary."
- The "Critical Thinking Challenges" at the end of each chapter provide questions and exercises that allow readers to apply what has been learned in each chapter.
- New in-depth end-of-chapter cases showcase HR innovations in current organizations and present readers with a chance to critically assess the effectiveness of innovative people practices.

Material is organized around five sections:

- The Environment of Human Resource Management
- Jobs and Labor
- Talent Development
- Compensation
- Employee Relations and Global Human Resource Management

This edition presents both the continuity and changes occurring within human resource management. The chapters in each section will be highlighted next, along with some of the topics explored in each chapter.

Section One: The Environment of Human Resource Management

Section One contains chapters emphasizing the changing environment in which HR operates, as well as how HR can effectively adapt. *Chapter 1* explains why HR is needed and how employees can function as key assets for an organization. Basic HR functions and current HR challenges are covered, and ethics and HR as a career field are discussed. Different HR competencies that are important in the profession are also explored in this edition. *Chapter 2* discusses two primary ways of dealing with the changing environment—strategy and HR planning. The strategic planning process and HR's role in it are covered. A process for conducting HR planning is identified, including environmental analysis, assessing internal and external labor markets, and managing imbalances. The chapter also covers HR metrics and analytics and presents benchmarking and balanced scorecard processes. Good and bad strategy distinctions, HR analytics, and the HR audit are among topics investigated. *Chapter 3* deals with the EEO environment, including legal requirements and concepts. This comprehensive chapter also investigates the challenges presented by EEO issues. Gender inequity in compensation, discrimination based on sexual orientation, and religious discrimination/accommodation are discussed.

Section Two: Jobs and Labor

Section Two looks at people, the jobs they do, and how to bring these two factors together for the purposes of accomplishing work requirements. *Chapter 4* profiles the U.S. workforce participation rates and skills gaps, before turning to the nature of jobs, including job design and redesign, flexibility, telework, and work–life balance. The chapter then presents the most comprehensive coverage of job analysis available in a basic HR text. Treatment of the workforce is also covered, as is presentation of jobs and flexible work opportunities. *Chapter 5* investigates the individual–organizational relationship and retention. Individual performance factors, including a very brief summary of the leading work motivation ideas and the psychological contract, are identified. Absenteeism and turnover, including measurement issues, are covered. The discussion then turns to retaining employees and the available management options for improving retention. The focus on individual performance factors is emphasized, as is employee engagement, loyalty, and drivers of retention for high-performing employees. *Chapter 6* considers labor markets and recruiting. Online recruiting and the other common recruiting methods are examined, and this information is followed by a comprehensive look at measuring the success of recruiting. Recruiting and employer ethics and the use of technology and social media in recruiting are expanded. *Chapter 7* looks at placement, selection testing, interviewing, and background investigations, among other topics. The concept of person/environment fit as part of the selection and placement processes is also presented.

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Section Three: Talent Development

Section Three considers bringing people along in their careers in organizations through training, talent management, and career and performance management. *Chapter 8* explores different potential strategies for training in the organization. A comprehensive model of the training process leads ultimately to training delivery and evaluation. Issues associated with sales training, the expansion of e-learning (online training) and m-learning (using mobile devices) based on new research, and the increased use of simulation and games in training are also covered. *Chapter 9* looks at talent management, leadership development, succession planning, and career issues, topics that have been very much in the literature since the last edition. This is reflected through the entire chapter, with special emphasis on integrating talent management into the organization's strategy and ideas for keeping high performers invested in their jobs. *Chapter 10* considers identifying and measuring employee performance. Performance appraisal with all its pros and cons is covered, as well as hints for the appraisal interview. In this edition, various issues surrounding performance appraisal are reviewed, and the voluminous new literature in performance has been reviewed and integrated.

Section Four: Compensation

Section Four summarizes compensation, incentives, and benefits. *Chapter 11* introduces basic compensation, incentive pay programs, total rewards, and the development of a pay system. This edition covers strategic compensation decisions, linkage of pay to motivation theories, and current compensation challenges, including gender parity and variable pay options. *Chapter 12* explains the different types of benefits that organizations offer, as well as how to effectively administer and manage these benefits so that employees are satisfied. New or expanded content includes international benefits, the Patient Protection and Affordable Care Act, outsourcing benefit administration, and technology-driven, self-service benefits administration.

Section Five: Employee Relations and Global Human Resource Management

Section Five covers risk and safety, employee rights and responsibilities, unions, and global HR. *Chapter 13* looks at threats to the well-being of both organizations and employees. OSHA, legal requirements for well-being, safety management, and security concerns are specified. Expanded discussions of medical marijuana, counterproductive employee behaviors, and drug testing are provided. *Chapter 14* looks at rights existing in the employment agreement, including privacy rights, workplace monitoring, investigations, and discipline. This edition also covers alternative dispute-resolution techniques, as well as employee rights and ethical issues. *Chapter 15* evaluates the union-management relationship through labor laws, history, collective bargaining, and grievance management. Material on politics and unionization, changes in union membership, and union tactics is also presented. Finally, *Chapter 16* explores global issues in the HR profession. Particular emphasis is placed on the various opportunities and challenges that HR practitioners face when they manage others in international contexts.

Appendices

To keep the chapters sized appropriately, yet provide additional specific information, the book contains seven appendices. These provide HR job descriptions, details on the PHR® and SPHR® Bodies of Knowledge/competence for HR certification, HR literature, EEO laws, Uniform Guidelines, illegal preemployment inquires, and EEO enforcement.

Supplements

Instructor's Resource Website

The Instructor's Resource website puts all of the core resources in one place. The website contains the Instructor's Manual, Test Bank, and PowerPoint presentation slides.

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- *Instructor's Manual*: The Instructor's Manual represents one of the most exciting and useful aids available. Comprehensive teaching materials are provided for each chapter—including overviews; outlines; instructor's notes; suggested answers to end-of-chapter Critical Thinking Challenges; suggested questions for the "HR Headline," "HR Perspective," "HR Ethics," "HR Competencies & Applications," and "HR Highlight" features; suggested answers to the end-of-chapter case questions; and suggested questions and comments on the supplemental cases for each chapter.
- *Cognero Test Bank*: The test bank contains more than 1,600 questions, including multiple-choice, true/false, and essay questions. Questions are additionally identified by type—definition, application, and analytical—and also include AACSB tags for general (NATIONAL) and topic-specific (LOCAL) designations.
- *PowerPoint Slide Presentation*: The PowerPoint presentation contains approximately 400 slides to aid in class lectures.

MindTap

MindTap is the digital learning solution that helps instructors engage students and relate HR management concepts to their lives. Through interactive assignments, students connect HR management concepts to real-world organizations and say how managers should perform in given situations. Finally, all activities are designed to teach students to problem-solve and think like management leaders. Through these activities, real-time course analytics, and an accessible reader, MindTap helps you turn cookie cutter into cutting edge, apathy into engagement, and memorizers into higher-level thinkers.

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As the authors, we are confident the sixteenth edition of *Human Resource Management* will continue to set the standard for the Human Resource field. As the users of the text, we certainly hope you agree.

Sean R. Valentine
Patricia A. Meglich, SPHR, SHRM-SCP
Robert L. Mathis, SPHR
John H. Jackson

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SECTION 1

CHAPTER 1
Human Resource Management in Organizations

CHAPTER 2
Human Resource Strategy and Planning

CHAPTER 3
Equal Employment Opportunity

The Environment of Human Resource Management

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CHAPTER 1

Human Resource Management in Organizations

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Understand human resource management and define human capital.

LO2 Identify how human resource management and employees can be core competencies for organizations.

LO3 Name the seven categories of HR functions.

LO4 Provide an overview of four challenges facing HR today.

LO5 Explain how ethical issues in organizations affect HR management.

LO6 Explain the key competencies needed by HR professionals and why certification is important.

WHAT'S TRENDING IN HUMAN RESOURCE MANAGEMENT

There are a number of current HR trends that affect how companies manage people at work. Employees are expected to have the proper knowledge, skills, and abilities (KSAs) to perform in an environment that presents constant changes and new expectations. This requires HR professionals to be at the top of their game when it comes to developing policies that help people get better at what they do. Here are some issues that are currently trending in HR:

1. The rapidly changing workplace focuses HR efforts on the development of human capital factors that address organizational needs (e.g., productivity, customer service, quality, and innovation). Once employees are developed, they need to be placed in the proper jobs with positive work cultures that enable them to effectively use their talents.
2. Globalization and workforce diversity present a number of ways for individual differences to help companies. However, challenges associated with the proper placement of employees and the development of positive HR policies in diverse environments are common.
3. Technology is viewed as a key means to an end when it comes to managing human resources. Increased social media, online interactions, and the use of software to manage traditional HR functions can enhance how individuals interact with their employers, supervisors, and coworkers.
4. The importance of ethics policies, social responsibility, and sustainable practices has never been greater. Misconduct in organizations has raised the profile of organizational culture and sound HR practices to ensure appropriate workplace behavior. Developing an ethical culture, providing ethics training, and encouraging employees to report offenses are all ways that HR leaders can help improve business ethics.

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HEADLINE

Cool Commitment at Igloo

Most people would easily recognize the red and white Playmate coolers as the signature product of Igloo brand. What is not so obvious is the commitment of the employees who design and produce the Igloo line of products. Competitors in the industry can purchase the same technology used at Igloo and might be able to duplicate its process. But, Igloo achieves its competitive advantage through the contribution of its employees. Engagement surveys show that 93 percent of the company's associates believe that they do their best every day and are happy to learn new tasks. This is a remarkable result in light of national statistics showing that only 15 percent of employees are actively engaged with their work.

The CEO, Mark Parrish, has been intentional about creating an organization where all associates feel committed to a larger purpose. He adopted a servant leadership approach that focuses on building trust, withholding judgment, creating a dialogue, empowering employees, and instituting a culture of collective success. The company measures that collective success in four areas (in this order): people, quality, service, and cost. All financial and human capital decisions are based on those four measures. Parrish's belief is that building shareholder value is best achieved by creating an organization that is worthy of every employee's full commitment. He sees that building value for shareholders should not be done at the expense of building value for associates.

Supporting employees rather than asking employees to support those higher up results in committed employees who are dedicated to create a great experience for the customer. Igloo's chief HR officer plays an instrumental role in ensuring that diversity, wages, and training at the company are all exemplary. The company pays well over minimum wage levels and provides the best employee benefits in the industry. More than that, however, is the company's commitment to training for each associate. Employees are trained, coached, and counseled to perform well in their current roles and to prepare for future job opportunities. Igloo commits to its employees, who return that commitment through their personal dedication to the company's success.[1]

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Employees are essential resources that organizations use to achieve important business objectives. Having talented individuals employed in a company is the cornerstone of developing a competitive advantage. Qualified and motivated employees are critical for an organization to compete on whatever distinctive core competencies are considered important in its industry (e.g., customer service, quality, and strategic planning).

By earning the reputation as good employers, companies can attract and retain productive, creative, and motivated people with competitive advantages to reach strategic goals. Finding knowledgeable and motivated employees, training them to perform critical jobs, rewarding them appropriately, giving them important work responsibilities, and providing them opportunities to succeed and earn recognition are but a few of the issues that an organization must address. But how does an employer create these policies and earn such a positive reputation? Most often, it is an HR department that develops and coordinates practices that enable people to make important contributions at work. However, these people management activities must also be carried out in small firms where an owner/founder may address these issues.

Utilizing sound HR practices can enhance an organization's reputation as a desirable place to work. A company must also look ahead and address emerging challenges and opportunities to ensure that employees are satisfied and perform their jobs at high levels. In particular, there is a need to understand the current trends that are occurring in the field of human resource management.

LO1 Understand human resource management and define human capital.

1-1 What Is Human Resource Management?

What is now called human resource management has evolved a great deal since its beginnings in the early twentieth century. What began as a primarily clerical function in larger companies concerned with payroll and employee records began to transform in response to social legislation of the 1960s and 1970s. *Personnel departments*, as they were then called, focused on the legal implications of policies and procedures affecting employees. In the 1990s, facing globalization and competition, human resource departments became more concerned with costs, planning, and the implications of various HR strategies for both organizations and their employees. More recently, human resource professionals in some companies have been involved with mergers and acquisitions, outsourcing, and managing technological advances in the workplace. Recent high-profile corporate scandals and unethical behavior are also requiring HR professionals to get more involved in programs that increase ethics, compliance, and social responsibility.[2]

Human resource management
Designing formal systems in an organization to manage human talent for accomplishing organizational goals

Human resource management is designing formal systems in an organization to manage human talent for accomplishing organizational goals. Whether you work in a large company with 10,000 employees or a small nonprofit organization with 10 employees, employees must be recruited, selected, trained, rewarded, managed, and retained. Each of these activities requires knowledge about what works well given current employee concerns and company conditions. Research into these issues and the knowledge gained from successful approaches form the basis of effective HR management.

1-1a Why Organizations Need HR Management

Not every organization has an HR department. In a company with an owner and 10 employees, for example, the owner usually addresses HR issues. However, despite the obvious differences between large and small organizations, the same HR activities must take place in every firm. Luckily, *every* leader in an organization is an HR manager, so there are usually many people who can help address HR issues. Sales managers, head nurses, drafting supervisors, food and beverage directors, college deans, and accounting department supervisors all manage human resources, and their effectiveness depends in part on how well they understand and implement the principles of HR management.

It is unrealistic, however, to expect line managers to understand all the details of equal employment regulations, how to design a complex compensation system, or when to conduct a job analysis.

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Organizations that fail to properly manage employees are at greater risk of legal problems and employee relations issues.[3] Therefore, the presence of an HR department and leaders who understand important HR issues can be helpful. For that reason, larger organizations frequently have people who specialize in these activities, and these professionals are organized into an HR function or department. While some firms have never employed HR professionals or have eliminated their HR departments, the recent trend has been to increase HR staff.[4]

There are many benefits associated with having a dedicated HR department. Firms that implement effective HR practices tend to have better outcomes such as higher profits, increased stock price, and greater productivity, than those that do not use such practices.[5] HR professionals must respond appropriately to current business challenges and opportunities to help the organization succeed. Significant issues facing contemporary organizations include building the "organization of the future," delivering a superior employee experience, and capitalizing on diversity and inclusion. HR professionals can make a difference by implementing solutions to these challenges.[6] Additional trends include a globalized workforce, greater age diversity, a focus on sustainability, and an emphasis on social media. HR leaders can address these issues by adopting an interdisciplinary business approach (e.g., working with marketing, operations, and finance staff), connecting with outside constituencies, identifying critical organizational challenges, and facilitating organizational change.[7] HR professionals might also adapt HR processes to fit workplace changes, work more closely with IT personnel to manage technology, hire more high performers who have the right skills, and be innovation leaders.[8] The following "HR Perspective: Transforming HR at Popeyes Louisiana Kitchen" feature highlights some of these emerging trends, as well as others.

Cooperation between operating managers and the HR department is also needed for HR efforts to succeed. In many cases, the HR department designs processes and systems that operating managers must help implement. The exact division of labor between the two varies from firm to firm. However, in the end, managing employees is a shared responsibility between HR staff and line managers with each group playing a key role. HR professionals contribute to line managers' effectiveness when they frame HR practices in appealing ways, involve line managers in the development of HR practices, and seek CEO support.[9]

How Human Resource Management Is Sometimes Seen in Organizations

HR departments have been viewed both positively and negatively by managers and employees. HR management is necessary, especially when dealing with the many government regulations enacted over the past several decades. However, the need to protect corporate assets against the many legal issues often makes the HR function play a different role, which may be seen as negative, restrictive, and not focused on getting work done.

The legal compliance role can cause other people to have negative views of HR staff. The negative perception that some employees, managers, and executives have is that HR departments are too bureaucratic, detail oriented, and costly, and that they are comprised of naysayers. Some managers also believe that HR departments reduce innovation and negatively impact the ability to complete work because of poorly executed programs. The trend toward outsourcing many HR activities also fuels the belief that HR support is not really needed.[10] Further, HR staff are sometimes seen as lacking in business acumen by line managers. In some organizations, HR is seen as owning employee morale and fun, which leads to difficulties when employees have serious issues to report and need to deal with a professional in whom they can confide.[11] Despite such concerns, the HR function can benefit the workplace if it is managed well.

Human Resources in Smaller Organizations In the United States and worldwide, small businesses employ more than half of all private-sector employees and generate many new jobs each year. In surveys over several years by the U.S. Small Business Administration (SBA), the issues identified as significant concerns in small organizations were consistent: not having enough qualified workers, the rapidly increasing costs of employee benefits, payroll taxes, and compliance with government regulations. Notice that all these concerns have an HR focus, especially when compliance

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with wage/hour, safety, equal employment, and other regulations are considered. This is why some degree of HR support and expertise is always needed in smaller organizations. Recent studies have shown that small- and medium-sized enterprises that use formal HR practices tend to perform better than competitors.[12] Therefore, HR practices can be one determinant of company success in large and small firms.

When new employees are hired in a small business, line managers usually do the recruiting, selecting, and orienting. These HR activities, however, reduce the amount of time managers have available to focus on their regular jobs. As a result, when such activities occur frequently, hiring someone to do them allows managers to spend more time on their primary duties. With about 80 to 100 employees, smaller organizations often find that they would benefit from designating someone to specialize in HR practices. Other specialist HR positions are added (e.g., in compensation, training, or recruiting) as the company grows larger. The need for HR increases as an organization grows until it evolves into a distinct function with specialists assigned to specific duties. For HR to be most useful, it must remain closely connected to the operating management of the organization. Without that connection, HR functions cannot reach their potential.

HR PERSPECTIVE

Transforming HR at Popeyes Louisiana Kitchen

Evidence shows that HR departments have grown, with more money being dedicated to corporate HR efforts. However, changing work environments are challenging HR professionals to do more, even though their numbers and support have steadily risen. People employed in HR have much more responsibility in today's workplace, something that likely won't change as expectations have increased.

This is the case at the Atlanta-based fast-food firm Popeyes Louisiana Kitchen. While the organization's HR group grew from 7 to 10 individuals over several years, the work also increased. The group manages as many as three times the number of issues it did in the past. Some of these include creating leadership development opportunities, enhancing customer service, and building food outlets. Popeyes focuses on *servant leadership*, which requires leaders to believe that the needs of the company and employees outweigh their own concerns. Further, the HR team works to ensure that HR can address issues through a strategic lens. All of these responsibilities take time and energy.

Many HR functions at Popeye's are being altered as the workplace changes. Besides being more focused on strategy, HR staff at Popeyes work on cross-functional project teams, and the HR function is structured so that each business area has a dedicated HR professional who operates as an advisor on various personnel issues. This enables staff to be more strategic because they work directly with the business units. HR leaders also look to redesign HR processes to improve HR's efficiency so that more might be done with fewer people.[13]

Despite the growing need for HR personnel, the ability to manage the increasing number of HR responsibilities with current staff is a challenge. Expectations are higher, regardless of how many HR professionals are present. Consider the following questions:

1. Given the issues at Popeyes, how would you redesign an HR department in any organization to better tackle a company's needs?
2. How might HR processes be redesigned to become more efficient? What technologies might be used to improve HR processes and provide better service to managers and employees?

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LO2 Identify how human resource management and employees can be core competencies for organizations.

1-2 Managing Human Resources in Organizations

Human resources (or more simply, people) who work in organizations may have valuable contributions they can make to a firm's mission based on their human capital. But this will occur only if they are motivated and given a reasonable opportunity to contribute. Employees must be placed into the right job, trained, rewarded, and given feedback if they are to perform at high levels. These key HR activities are often a joint effort between the organization's managers and HR staff members. Managing people ultimately reflects the decisions these leaders make from among the wide range of possible choices on the formal policies, practices, and methods for managing employees. Examples of such systems and policies are pay system design, performance measurement, training programs, and hiring processes. People-related costs are typically the single biggest controllable cost in an organization.[14] This means that managing HR activities is a major priority for all managers.

1-2a Human Resource Management as a Core Competency

Core competency
A unique capability that creates high value for a company

Developing and implementing business strategies must be based on an organization's areas of strength. Referred to as *core competencies*, those strengths are the foundation for creating the organization's competitive advantage. A **core competency** is a unique capability that creates high value for a company.

Certainly, many organizations have identified that their HR practices differentiate them from their competitors and that HR is a key determinant of competitive advantage. Recognizing this, organizations as diverse as Walt Disney Company, Apple, and Comcast have focused on people as having special strategic value for the organization.[15]

The same can be true with small companies as well. For example, small community banks have gained numerous small- and medium-sized commercial loan customers because the banks emphasize that their customers can deal with the same employees directly every time they need help rather than having to call an automated service center in another state as is sometimes the case with larger nationwide banks. The focus here is on using people (in this example, loan officers) to help build core competencies in companies.

1-2b Employees as a Core Competency

How might employees become a core competency for an organization? Employees, especially those in customer-facing positions, are the vital link to the organization's external customers. They can be a source of innovation and service that enhances the customer's experience and lead to greater customer loyalty.[16] This is particularly true in service organizations where the customer wants a personal experience and will return if treated well.

Human Capital Organizations must manage four types of assets to be successful (see Figure 1-1):

- *Physical assets*: Buildings, land, furniture, computers, vehicles, equipment, and so on
- *Financial assets*: Cash, financial resources, stocks, bonds or debt, and so on
- *Intellectual property assets*: Specialized research capabilities, patents, information systems, designs, operating processes, copyrights, and so on
- *Human assets*: Individuals with their talents, capabilities, experience, professional expertise, relationships, and so on

All of these assets are important to varying degrees in different firms. But the human assets are the "glue" that holds all the other parts together to achieve results. Certainly, the assembly line workers, quality inspectors, and design engineers in an automotive company or the admissions clerks, nurses, and dietary staff at a hospital enable all the other assets of their organizations to be used

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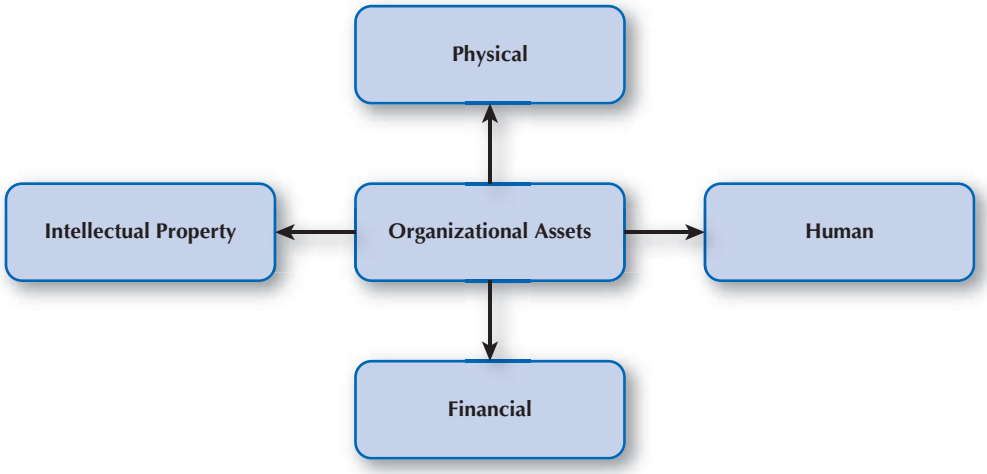
FIGURE 1-1 Four Types of Organizational Assets



to provide products and services to customers. Effective use of the firm's human capital can often explain a big part of the differences in company success.

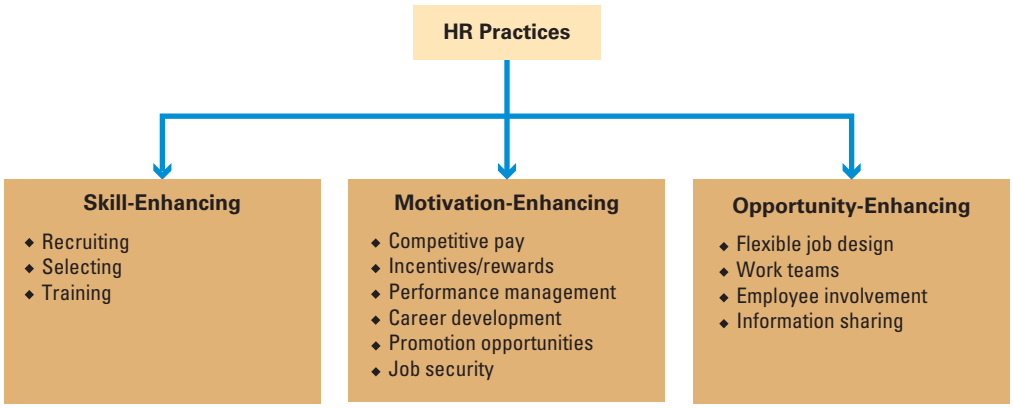
Human capital
The collective value of the capabilities, knowledge, skills, life experiences, and motivation of an organization's workforce

Human capital is not just the people in organizations—it also involves what individuals contribute to organizational achievements. Broadly defined, **human capital** is the collective value of the capabilities, knowledge, skills, life experiences, and motivation of an organization's workforce. It is important that workers have both the necessary competence plus the desire to perform effectively.

A useful framework to understand how HR practices serve as the foundation for human capital is called the *ability-motivation-opportunity (AMO) model*.[17] The AMO model involves HR practices that lead to greater skill, greater motivation, and greater opportunity for workers to contribute to the organization. Figure 1-2 provides details on skill-enhancing practices (hiring and training), motivation-enhancing practices (pay and promotions), and opportunity-enhancing practices (sharing information and working in teams) that may be used to increase the level of human capital. HR practices in high-performing organizations often focus on these elements of the employee experience to enhance the employees' sense of competence and dedication to the organizational goals.[18]

Sometimes human capital is called *intellectual capital* to reflect the thinking, knowledge, creativity, and decision making that people in organizations contribute. For example, firms with high intellectual capital may have highly educated and trained managers who develop new ways of

FIGURE 1-2 Ability-Motivation-Opportunity Model



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supervising employees, new business processes that improve quality, or new software for specialized uses. All of these contributions illustrate the potential value of human capital to companies. There are many other possible areas in which employees can be core competencies for organizations. For example, productivity, customer service and quality, innovation, and organizational culture represent several of these areas.

MEASURE

Productivity
Measure of the quantity and quality of work done, considering the cost of the resources used

Unit labor cost
Computed by dividing the average cost of workers by their average levels of output

Productivity Employee productivity can be a competitive advantage because when the costs to produce goods and services are lowered through increased individual production, lower prices can be charged to consumers. The result is often incremental increases in sales. However, increased productivity does not necessarily mean greater output. Perhaps fewer people (or less money and/or time) are used to produce the same amount. In its most basic sense, **productivity** is a measure of the quantity and quality of work done, considering the cost of the resources used.

A useful way to measure the productivity of human resources is to consider **unit labor cost**, which is computed by dividing the average cost of workers by their average levels of output. Using unit labor costs, one can see that relatively high wages will not affect competitiveness if high productivity levels are achieved. Low unit labor costs can be a basis for a strategy focusing on human resource competency. Productivity and unit labor costs can be evaluated at the global, country, organizational, departmental, or individual level.

Improving Productivity Organizational-level productivity ultimately affects profitability and competitiveness in a for-profit organization and total costs in a not-for-profit organization. Perhaps of all the resources used in organizations, the ones most closely scrutinized are human resources. Despite the rapid increase in technology at work, U.S. worker productivity is not growing as it has historically.[19] The use of poor business approaches such as bureaucratic policies, poorly managed meetings, and low teamwork and collaboration can cause much of this decreased productivity (something called *coordination waste*). Focusing less on efficiency and perfection and more on making a difference for customers and finding creative solutions may lead to gains in organization productivity measures.[20]

Additional HR management efforts that can enhance productivity are detailed in Figure 1-3. Among the major ways to increase employee productivity are

- *Organizational restructuring*, which involves eliminating layers of management and changing reporting relationships as well as cutting staff through downsizing, layoffs, and early retirement buyout programs;
- *Redesigning work*, which often involves making changes to the way work gets done by focusing on the characteristics of jobs and altering how tasks are structured and coordinated;
- *Aligning HR activities*, which means ensuring that HR efforts and practices are consistent with organizational efforts to improve productivity and satisfy strategic goals; and
- *Outsourcing analyses*, which require the HR department to conduct cost–benefit assessments that indicate the overall positive or negative impact of outsourcing—HR then manages outsourcing efforts if they occur.

Customer Service and Quality In addition to productivity, both customer service and quality efforts can significantly affect organizational effectiveness, making them key areas that HR can emphasize when developing employees as core competencies. Having managers and employees focus on customers' needs contributes significantly to achieving organizational goals and maintaining a competitive advantage.

Customer satisfaction is still a challenge in the United States and other countries, and it must be managed. The availability of information that customers can obtain along with the ability to publicly report on a service experience via social media heighten the importance of managing customer service interactions. Customer-facing employees who work in organizations with ethical climates maintain higher proactive customer service performance levels.[21] This demonstrates one aspect of HR involvement that can link employee behavior with improved customer service.

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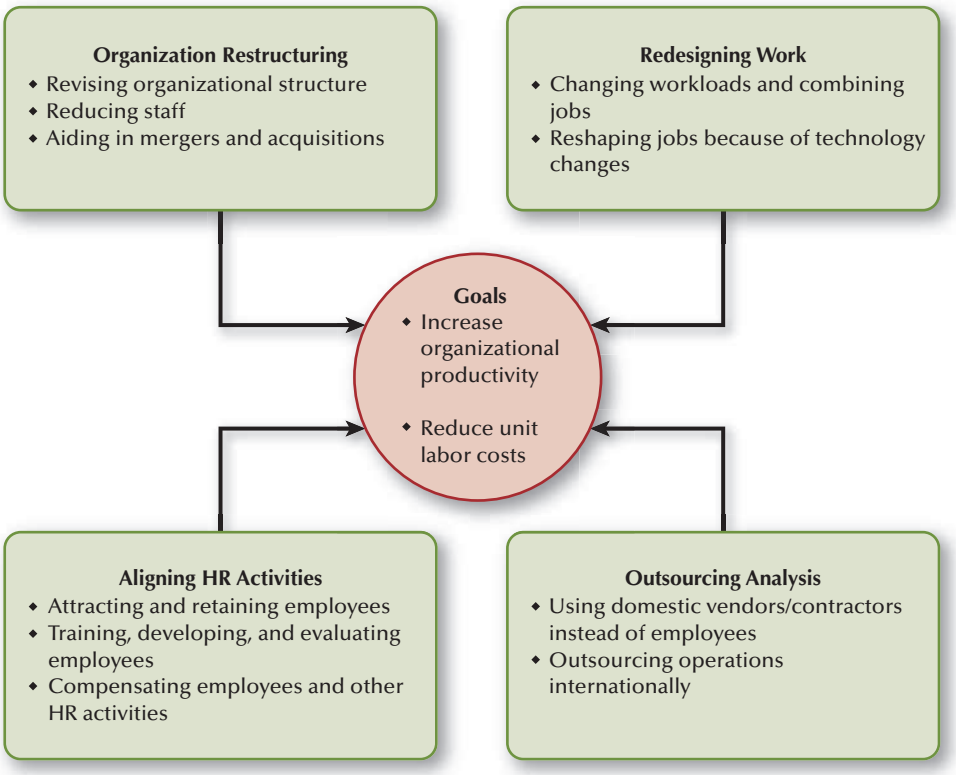
FIGURE 1-3 HR Approaches to Improving Productivity



Delivering quality services and/or products can also impact organizational effectiveness. Whether producing automobiles, as General Motors and Toyota do, or providing cellular phone service, as Verizon and AT&T do, a firm must consider how well its products and services meet customer needs. Therefore, many organizations have emphasized efforts to enhance quality. Employees who produce products or services must have good training and proper motivation to create high-quality output. A recent study found that beyond the quality improvements produced by using technical solutions, it was employee behaviors that most significantly improved quality.[22] Therefore, attempts to improve quality should focus on both technical and human resource solutions.

Innovation Organizations constantly look for new ways to produce novel products for their customers or identify ways to improve internal processes. **Innovation** is the process whereby new ideas are generated that create value for an organization. Clearly, the majority of innovation within an organization comes from its employees who are most knowledgeable about how things are done and what customers desire.

Innovation
Process whereby new ideas are generated that create value for an organization

Skill-enhancing practices such as recruiting and selecting appropriate talent using pre-hire skill testing leads to more innovation.[23] Training, particularly on-the-job training, is another important HR function that can significantly impact the level of innovation in a firm. In addition to training individual employees, sharing knowledge among employees also fosters greater innovation and leads to more new product and service ideas.[24]

Organizational Culture Another important element of the workplace that drives the ability to use human resources as core competencies to meet strategic objectives is organizational culture. **Organizational culture** consists of the shared values and beliefs that give members of an organization meaning and provide them with rules for behavior. These values are deeply embedded in organizations and affect how their members view themselves, define opportunities, and plan strategies.

Organizational culture
Consists of the shared values and beliefs that give members of an organization meaning and provide them with rules for behavior

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In this sense, such a culture establishes the personality of a company in a similar way that personality shapes an individual, shaping its members' responses and defining what an organization can or is willing to do. The culture of an organization is, therefore, seen by employees in the norms, values, philosophies, rituals, and symbols adopted by the firm. Culture is particularly important because it tells individuals how to behave (or not to behave) in the workplace.

Culture often requires considerable time to develop, but once it is established, it is relatively constant and enduring over time. Newcomers learn the culture from senior employees, and the rules of behavior are, therefore, perpetuated. These rules are ideally beneficial, so culture can facilitate high employee job performance when it contains positive characteristics. But culture can also be negative, which means changes need to be made to improve the workplace.

Before focusing on the development and implementation of HR policies, managers should develop a positive culture within the organization. When they do so, excellent ideas can be enhanced by a culture that is compatible with the needs of the business. This is how culture can be used to create a competitive advantage.

Organizational culture is often viewed by employees, managers, customers, and others as the social environment that exists within a firm and that affects how a firm gets work done. This culture affects service and quality, organizational productivity, and financial results. From a critical perspective, it is the culture of a company that affects the attraction and retention of competent employees. Aligning the culture with what management is trying to accomplish also determines the health of an organization by creating an environment that capitalizes on human capital strengths. The following "HR Competencies & Applications: Building Healthy Organizations" feature discusses how culture can be enhanced by focusing on organizational health.

LO3 Name the seven categories of HR functions.

1-3 HR Management Functions

HR management involves designing the *formal systems* that are used to manage people in an organization. Usually, both HR managers and line managers provide input into the policies, regulations, and rules that guide HR matters. For example, consider the question of how many days of vacation an employee receives after three years of service. There is no "right" answer for a given organization that is trying to devise a vacation policy, but the vacation policy that is finally designed is one of the formal systems used to manage people in the organization. Such systems need to be formal, that is, agreed upon, written down, and shared with employees. Try to picture the chaos that would result if every supervisor in a very large company could set his or her own vacation policy!

The HR function is typically categorized into seven interlocking subfunctions as shown in Figure 1-4. In each organization, these functions are carried out in that firm's unique format that is influenced by internal and external forces. The seven HR functions are as follows:

- Strategy and planning
- Equal employment opportunity
- Talent acquisition
- Talent management
- Total rewards
- Risk management and worker protection
- Employee and labor relations

Each of these functions consists of several areas (which are covered in the forthcoming chapters of this book) as follows:

- *HR strategy and planning*: As part of achieving organizational competitiveness, *strategic planning* for the organization and HR's role in those strategic plans are good starting places. Anticipating future talent needs and preparing plans to address those needs is a vital task for HR. How well HR does what it plans to do is measured by HR metrics and analytics, which are covered in Chapter 2.
- *Equal employment opportunity*: Compliance with federal, state, and even local equal employment opportunity (EEO) laws and regulations affects all other HR activities. Instituting

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HR

COMPETENCIES & APPLICATIONS

Building Healthy Organizations

Companies like Southwest Airlines, Zappos.com, and Nordstrom have been successful because they rely on sound technology and business strategy. However, "organizational health" often drives employee motivation and customer loyalty. Organizational health is much broader than corporate culture because it establishes the workplace in which other business functions can operate well. In other words, healthy organizations create a positive workplace that keeps employees satisfied and committed. Low political behavior and turnover, high cohesion and morale, and a more unified sense of purpose are often characteristics of this environment.

A firm's HR department and top managers are keys to making companies healthier. HR professionals function as leaders by developing good policies that make the workplace more positive. This often includes management development, performance feedback, and fair rewards. They also act as advisors to top leaders and provide a sounding board for the CEO. The CEO often pushes the idea that organizational health is an important issue. The following approaches should help managers lead efforts to create healthy cultures:

- *Developing a positive leadership unit*: Put together a group of leaders who trust each other and who can develop a positive way of interacting.
- *Creating alignment around a common purpose*: The leadership team should identify and agree on the company's mission, vision, and goals for success.
- *Communicating the company's approach*: Once a purpose is established, it needs to be discussed frequently with employees to unify them and build a common understanding of the workplace.
- *Using HR practices to support the workplace*: All of the traditional HR functions should be utilized to create alignment around the purpose.[25]

The ability to develop healthy organizations and business cultures is a key leadership competency within the HR profession. If you were given the responsibility of improving your firm's health:

1. How would you determine the current state of the organization's health?
2. What are some of the talking points you might use to encourage top leaders to invest in HR efforts that would improve the health of the organization? What evidence would you point out to show the value of having a healthy organization?

KEY COMPETENCIES: Leadership & Navigation (Behavioral Competency) and Organization (Technical Competency)

effective diversity and inclusion initiatives will help the organization maintain a robust workforce. The nature of these laws is discussed in Chapter 3.

- *Talent acquisition*: The aim of talent acquisition is to provide a sufficient supply of qualified individuals to fill jobs in an organization. The nature of the workforce, of job design, and of job analysis lays the foundation for talent acquisition by identifying how people work and the qualities needed to succeed. Establishing a positive employer brand and employee value proposition are keys to becoming an attractive employer. Recruiting efforts focus on generating a pool of qualified applicants from which to select. The selection process is focused on choosing qualified individuals to fill those jobs. These talent acquisition activities are discussed in Chapters 4, 5, 6, and 7.
- *Talent management and development*: Beginning with the orientation of new employees, talent management and development includes different types of training. HR development *and* succession planning for employees and managers are necessary to prepare for future challenges.

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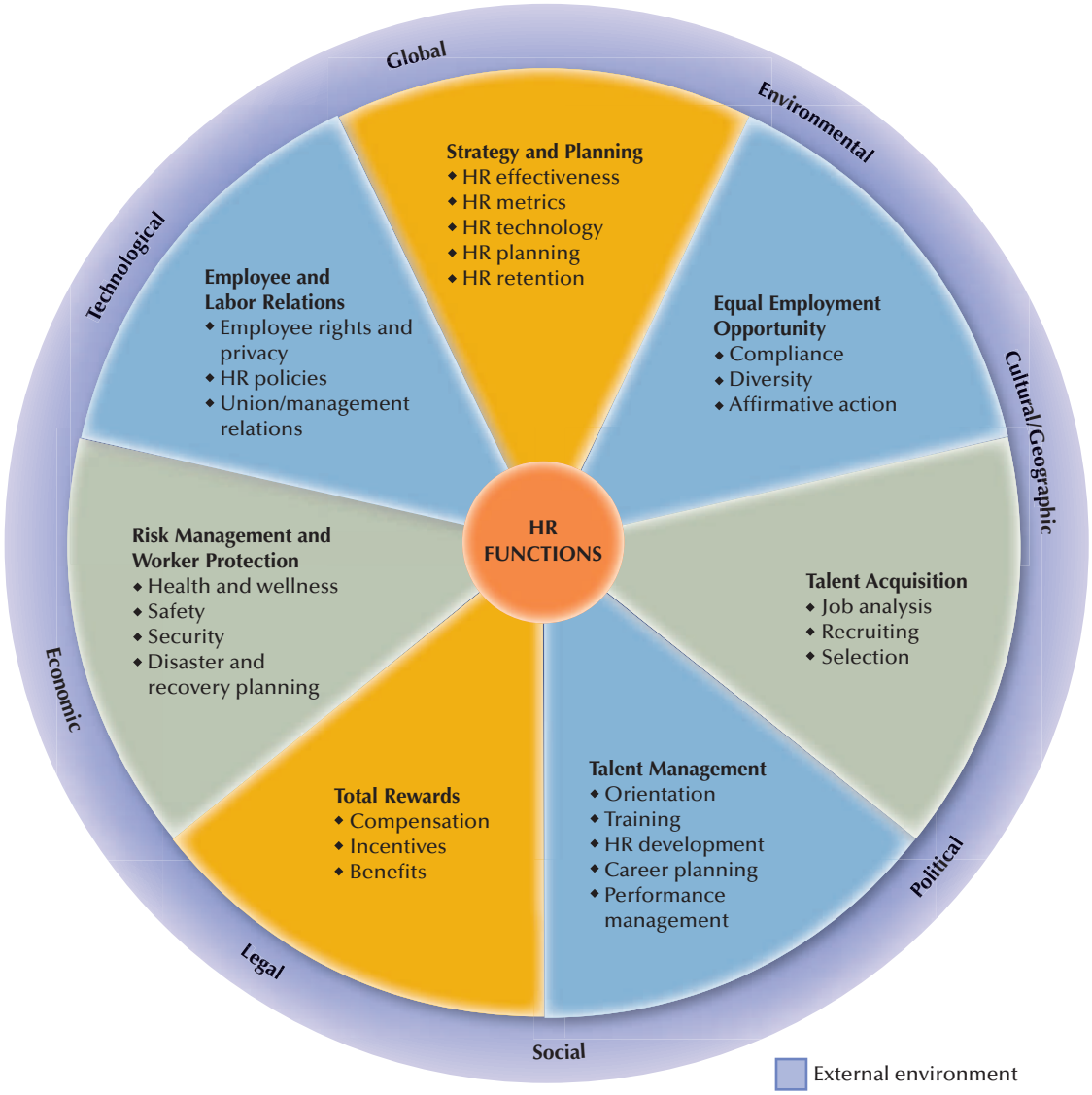
FIGURE 1-4 HR Management Functions



Career planning identifies paths and activities for individual employees as they move within the organization. Assessing how well employees are performing their jobs is the focus of performance management. Activities associated with talent management are examined in Chapters 8, 9, and 10.

- *Total rewards*: Tangible and intangible rewards such as pay, incentives, and benefits create the value proposition to keep employees engaged and motivated. To be competitive, employers develop and refine their basic compensation systems and may use variable pay programs as incentive rewards. The rapid increase in the cost of benefits, especially health care benefits, will continue to be a major issue for most employers. Compensation, variable pay, and benefits activities are discussed in Chapters 11 and 12.
- *Risk management and worker protection*: Employers must address various workplace risks to ensure workers are protected, meet legal requirements, and respond to concerns for workplace health and safety. Also, workplace security has grown in importance along with disaster and recovery planning. HR's roles in activities are examined in Chapter 13.
- *Employee and labor relations*: The relationship between managers and their employees must be handled legally and effectively. Employer and employee rights must be addressed. It is

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important to develop, communicate, and update HR policies and procedures so that managers and employees alike know what is expected. In some organizations, union–management relations must be addressed as well. Activities associated with employee rights and labor–management relations are discussed in Chapters 14 and 15.

These various HR management functions are translated into the daily activities of the HR department if such a group exists in an organization. Operating managers typically perform these activities if a company does not have an HR department.

In addition to the specific subfunctions, HR practices in a global organization pose specific challenges to organization leaders. The complexities of managing employees across borders call for special attention that is addressed in Chapter 16.

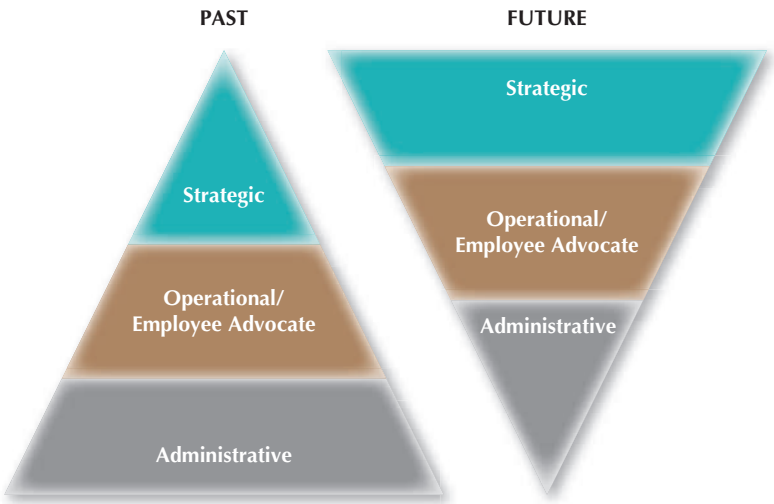
1-4 Roles for Human Resource Departments

If an organization has a formal HR department or group, there are typically three different roles these individuals might play in the organization. Which role dominates, or whether all three roles are performed, depends on what management expects from HR and what competencies the HR staff members possess. The potential mix of roles is shown in Figure 1-5, that is, how the emphasis on the different roles has been evolving. The following describes these roles in more depth:

- *Administrative*: Focusing on clerical administration and recordkeeping, including essential legal paperwork and policy implementation
- *Operational and employee advocate*: Managing HR activities based on the strategies and operations that have been identified by management and serving as "champion" for employee issues and concerns
- *Strategic*: Helping define and implement the business strategy relative to human capital and its contribution to the organization's results

While the administrative role has traditionally been the dominant one for HR, the operational and employee advocate roles are increasingly being emphasized in many organizations. The strategic role requires the ability and focus to contribute to strategic decisions and to be recognized by upper management for these efforts. This practice is likely to grow as firms expect HR groups to be involved in the strategic planning process and to prepare employees to be more strategic. HR staff should understand the business so that their strategies match its needs.

FIGURE 1-5 Mix of Roles for HR Departments



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1-4a Administrative Role for Human Resources

The administrative role of HR management involves processing information and recordkeeping. This role has given HR management in some organizations the reputation of being "paper-pushers" who primarily fill out forms and tell managers and employees what *cannot* be done, usually because of some policy or problem from the past. If limited to the administrative role, HR staff members are often clerical and lower-level administrative aides to the organization. Two major shifts driving the transformation of the administrative role are greater use of technology and outsourcing.

Technology and the Administrative Role More HR functions are being performed electronically or done using web-based technology. Technology has changed many HR activities, from employment applications and employee benefits enrollment to e-learning. There will always be a recordkeeping responsibility within HR departments, but it can now be done electronically or outsourced. Having employees manage their own records also increases the accuracy of the records.

Outsourcing the Administrative Role Some HR administrative functions can be outsourced to vendors. This outsourcing of HR administrative activities has grown dramatically in areas such as employee assistance (counseling), retirement planning, benefits administration, payroll services, and outplacement services. The primary reasons HR functions are outsourced are to save money on HR staffing and to take advantage of specialized vendor expertise and technology. A growing trend among companies that outsource HR functions is to evaluate the quality and effectiveness of the services provided and base the amounts paid to vendors on these assessments.[26]

1-4b Operational and Employee Advocate Role for Human Resources

HR personnel are often viewed as employee advocates because they must effectively balance the needs of employees with the needs of organizations. As the voice for employee concerns, HR professionals may serve as "company morale officers," but they spend considerable time on HR "crisis management" when dealing with employee problems that are related to work. Employee advocacy helps ensure fair and equitable treatment for employees regardless of personal background or circumstances. Despite these benefits, the HR advocate role sometimes creates conflict with operating managers because there may be differences of opinion about how to manage employees. However, without the HR advocate role, employers could face lawsuits, regulatory complaints, and employees with poor work attitudes.

The operational role requires the HR function to cooperate with various managers and identify and implement needed programs and policies in the organization. Operational activities are tactical in nature because they affect how work gets done. Compliance with EEO and other laws is ensured, employment applications are processed, current openings are filled through interviews, supervisors are trained, safety problems are resolved, and wage and benefit questions are answered. HR staff must make certain that these efforts support the strategies of the organization.

1-4c Strategic Role for Human Resources

The strategic role for HR involves addressing business realities, focusing on future business requirements, and understanding how the management of human capital fits into the organization's plans. The HR department may or may not assist directly in the formulation of business strategies, but it often helps carry them out. However, HR managers are increasingly viewed as strategic contributors to the success of organizations. The role of HR as a *strategic business partner* is often described as "having a seat at the table" and contributing to the strategic direction and success of the organization. That means HR is involved in *devising* and *implementing* strategy.

When top managers recognize the strategic connection between HR initiatives and organization results, they are more likely to invest in progressive HR practices.[27] HR staff that adopt a

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strategic role are better able to demonstrate this linkage and achieve buy-in from leadership to adopt HR practices that will sustain the organization over the long term rather than focusing only on short-term people issues. To serve in the role of strategic partner, HR staff should have a broad business focus to help companies reach their strategic goals.[28]

HR can make strategic contributions in a number of areas. For instance, HR should identify the kinds of talent needed in the future and create links to appropriate labor markets. Building knowledge within the organization to ensure sustainable growth, succession planning, facilitating business ventures, and ensuring top-notch compliance programs are other key ways for HR staff to participate in strategic planning.[29] HR should also know what the true costs of human capital are for an employer. Turnover is something HR can help control, and successful retention and talent management strategies that the department develops and that save a company money represent important contributions to the bottom line.

Some other examples of areas where HR can make strategic contributions are

- Evaluating mergers and acquisitions for organizational compatibility, potential structural changes, and future staffing needs;
- Conducting workforce planning to anticipate the retirement of employees at all levels and identify workforce expansion in organizational strategic plans;
- Leading site selection efforts for new facilities or transferring operations to international locations on the basis of workforce needs;
- Instituting HR management systems to reduce administrative time, equipment, and staff costs with technology;
- Working with organization leaders to change organizational culture; and
- Identifying organizational training opportunities that will more than pay back the costs.

LO4 Provide an overview of four challenges facing HR today.

1-5 Human Resources Management Challenges

As the field of HR management evolves, a challenging employment environment creates pressure for greater and faster change. These issues are often driven by competitive factors that exist in an industry and that require the HR group to respond with positive practices to enable the organization to remain competitive. Challenges are also embedded in economic forces that lead to cost pressures and job changes, globalization, changes in the workforce, and technology advancement.[30]

Global competitors, technology changes, and cost concerns are also reflected in changing jobs. As work must be done differently, jobs must sometimes be changed or downsized. Jobs are seldom static; rather, they change and evolve as the organization changes. The following sections discuss these various challenges.

1-5a Competition, Cost Pressures, and Restructuring

Competition keeps pressure on businesses to maintain low costs so that prices will not become excessive, which can result in lost customers. An overriding theme facing managers and organizations is the need to operate in a "cost-less" mode, which means continually looking for ways to reduce costs of all types, including financial, operational, equipment, and labor expenses. Pressure from global competitors has forced many U.S. firms to close facilities, use international outsourcing, change management practices, increase productivity, and decrease labor costs to become more competitive. These shifts have caused some organizations to reduce the number of employees while at the same time scrambling to attract and retain employees with different capabilities than were previously needed.

The human costs associated with downsizing have resulted in increased workloads, some loss of employee loyalty, and turnover among remaining employees. Shifts in the United States and global economy in the past years have changed the number and types of jobs found in the United States. Many of the jobs to be filled in the next several years will be in the service industry rather than in the manufacturing sector. Outsourcing has been a high-growth industry with 5 of the top 20 global employers operating workforce solutions companies.[31]

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Job Shifts The growth in some jobs and decline in others illustrate that shifts are indeed occurring. Figure 1-6 lists occupations that are expected to experience the greatest growth in percentage and numbers by 2026. Many of the fastest-growing occupations percentage-wise are related to sustainable energy and health care. However, the highest growing numbers of jobs require either a low level of education (home health aides and personal care aides) or a significant level of education (software developers). This will lead to some strains in the labor market as organizations seek to fill these particular types of jobs.

Overall, the job market is improving, with more companies looking to hire workers. There is increased demand for skilled employees as well as for freelance professionals (those who perform

FIGURE 1-6 Some of the Fastest Growing Occupations by 2026

Occupation	Change, 2016–2026	
	Number	Percent
Solar photovoltaic installers	11,900	105.3
Wind turbine service technicians	5,500	96.1
Home health aides	425,600	46.7
Personal care aides	754,000	37.4
Physician assistants	39,700	37.4
Nurse practitioners	56,000	36.0
Statisticians	12,400	33.4
Physical therapist assistants	27,200	30.8
Software developers, applications	253,400	30.5
Mathematicians	900	29.4
Bicycle repairers	3,700	29.4
Medical assistants	184,600	29.1
Physical therapist aides	15,100	29.1
Occupational therapy assistants	11,400	28.9
Information security analysts	28,400	28.4
Genetic counselors	900	28.3
Operations research analysts	31,300	27.4
Forest fire inspectors and prevention specialists	500	26.6
Health specialties teachers, postsecondary	60,500	25.9
Derrick operators, oil and gas	2,800	25.7
Physical therapists	60,000	25.0
Occupational therapy aides	1,800	24.7
Roustabouts, oil and gas	12,200	24.5
Phlebotomists	30,000	24.4
Rotary drill operators, oil and gas	4,000	24.2
Nursing instructors and teachers, postsecondary	16,300	24.0
Massage therapists	37,700	23.5
Service unit operators, oil, gas, and mining	9,700	23.4
Respiratory therapists	30,400	23.4
Diagnostic medical sonographers	15,600	23.2

Source: Employment Projections Program, U.S. Department of Labor, U.S. Bureau of Labor Statistics, www.bls.gov.

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Gig economy
An economy where most work is performed by freelance workers rather than full-time employees

work on a contract basis) because of their unique training, experiences, and backgrounds.[32] Participation in the **gig economy**, an economy where most work is performed by freelance workers rather than full-time employees, has been growing dramatically. From Lyft and Uber drivers to Airbnb hosts, a substantial number of U.S. workers either supplement full-time earnings through these "gigs" or cobble together multiple "gigs" to earn enough.[33] This trend toward free agency offers both challenges and benefits to employers. HR staff may need to consider training and other techniques to build a strong gig workforce that can supplement the full-time employment base.[34]

Skills Shortages Various regions of the United States and different industries face significant workforce shortages because of an inadequate supply of workers with the skills needed to perform emerging jobs. It may not be that there are too few people—only that there are too few with many of the required skills. For instance, some of the most difficult jobs to fill include engineers, nurses, technicians, sales representatives, and certain teachers. Positions that require high skills and experience in a trade have been particularly difficult to fill in some cities, for example, Philadelphia, Dallas, Cleveland, and New York. Many of these shortages are leading to increased compensation to attract good employees.[35] It has become more critical for employees to maintain up-to-date skills if they want to remain marketable and obtain work where opportunities are available. Partnering with local community colleges, offering English language classes to employees, and creating apprenticeship programs are all approaches employers are using to increase the workforce skills in their regions.[36]

Even though many Americans today graduate from high school and college, employers are concerned about new graduates' job readiness and specific job-related skills. Test results show that students in the United States perform respectably overall in math and science but well below students in some other competitive nations. Also, college graduates with degrees in computer science, engineering, and the health sciences remain in short supply relative to the demand for them. Unless major improvements are made to the U.S. educational systems, U.S. employers will be unable to find enough qualified workers for the growing number of skilled jobs.

GLOBAL

1-5b Globalization

The globalization of business has shifted from trade and investment to the integration of global operations, management, and strategic alliances, which has significantly affected how human resources are managed. Many U.S. firms, both large and small, generate a substantial portion of their sales and profits from other countries; firms such as Coca-Cola, Exxon/Mobil, Microsoft, and General Electric derive a significant portion of total sales and profits from outside the United States. Research suggests that about 400 midsized cities in emerging markets will generate 40 percent of global growth in the next 15 years; many of these cities are relatively unknown in the West.[37] However, many foreign organizations have taken advantage of growth opportunities in the United States. For example, Toyota, based in Japan, has grown its market share and increased its number of jobs in the United States and elsewhere in North America. Also, Honda, Nissan, and other Japanese automobile manufacturers, electronics firms, and suppliers have maintained operations in the United States.

Although individual companies do not respond to all HR challenges in exactly the same way, research suggests that all must face and overcome a common set of difficulties when an organization has a global presence.[38] The areas of difficulties are as follows:

- *Strategy*: Companies feel they do not communicate their strategy clearly, finding it difficult to be flexible as they expand to other markets.
- *People*: Executives feel their companies are not good at transferring lessons from one country to another and are not sufficiently effective at recruiting, retaining, training, and developing people in all geographic locations.
- *Complexity*: Complexity arises as standardization of processes clashes with local needs, and sharing the cost of distant centers increases the expense of local operations.
- *Risk*: Emerging market opportunities expose companies to unfamiliar risks that may be difficult to analyze, which results in sometimes rejecting approaches they perhaps should have taken.

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Details about how HR practices can be designed and implemented in international organizations are presented in Chapter 16. Other challenges include developing corporate leaders, retaining employee talent, and building needed skills in HR groups.[39] While technology-based solutions may be used to simplify some HR functions across the globe, an overreliance on technology can result in employees and managers feeling isolated and distant.[40] Therefore, care should be taken to balance technology and more personal ways to work with employees in multinational operations.

1-5c A Changing Workforce

Chapter 4 will present a more comprehensive profile of the workforce, but the following text will introduce some workforce changes that present challenges for human resources. The U.S. workforce today is more racially and ethnically diverse, more women are employed than ever before, and the average age of its members is increasing. As a result of these demographic shifts, HR management in organizations has had to adapt to a more varied labor force both externally and internally.

Racial and Ethnic Diversity Racial and ethnic minorities such as Hispanics and African Americans account for a growing percentage of the overall labor force. Immigrants will continue to expand that growth. An increasing number of individuals characterize themselves as *multiracial*, suggesting that the American "melting pot" is blurring racial and ethnic identities.

Racial and ethnic differences have also created greater cultural diversity because of the accompanying differences in traditions, languages, and so on. For example, global events have increased employers' attention to individuals who have diverse religious beliefs, and more awareness of and accommodation for various religious practices have become common issues in organizations.

Gender in the Workforce Women constitute about 50 percent of the U.S. workforce, but they may be a majority in certain occupations. For instance, the membership of HR professionals in the Society for Human Resource Management (SHRM) is more than 75 percent female. Additionally, numerous female workers are single, separated, divorced, or widowed and are primary income earners in a household unit. A growing number of U.S. households also include domestic partners, who are committed to each other though not married and who may be of the same or the opposite sex.

For many workers in the United States, balancing the demands of family and work is a significant challenge. Although that balancing has always been a concern, the increase in the number of working women and dual-career couples has resulted in greater tension for many workers, both male and female. Employers find ways to respond to work–family concerns to attract and retain employees. Responses have included job sharing, providing child care services, and offering flexible schedules. Work–life integration is a key area of success for women in leadership roles, along with getting good mentors and being confident and unique on the job.

Age Considerations in the Workforce In most developed nations, the population is aging, resulting in an older workforce. In the United States, a significant number of experienced employees will be retiring in the near future, changing to part-time work, or otherwise shifting their employment. Replacing the experience and talents of longer-service workers is a challenge facing employers in all industries. Loss of these individuals is frequently referred to as a brain drain because of their significant knowledge and experience. Employers often create programs to retain them, possibly having them mentor and transfer knowledge to younger employees or finding ways for them to continue contributing to the workplace in a more limited capacity (e.g., part-time work).

Millennials (also called Generation Y) are an emerging group of workers in organizations today, and their numbers are expected to represent 75 percent of the workforce by the year 2025. These individuals value jobs that allow them to make a social impact, offer retirement investment options, respect their time for family, and provide for their personal development.[41] Following closely behind this generation is Generation Z, those born since the mid-1990s. This cohort highly prizes workplace flexibility and student loan repayment benefits, and these workers expect employers to utilize social media platforms as a primary communication method.[42] As this generation

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enters the workforce, intergenerational diversity issues will become even more complex, requiring greater adaptability of HR practices.

1-5d Human Resources and Technology

In the 1980s, most large companies used a mainframe computer to run a Human Resource Information System (HRIS). These systems processed payroll, tracked employees and their benefits, and produced reports for HR managers. All of this was run by information technology (IT) staff/professionals. In 1989, a software package called PeopleSoft became wildly popular—it allowed HR to run its own reports and make changes without help from IT. Today, software as a service (SaaS) functions in a vendor's data center or in the cloud, and the self-service it allows has probably done more to change the work of HR than anything else.[43] SaaS agreements enable firms to rent software packages from vendors instead of buying licenses, but there are concerns. Many organizations are also replacing some of their aging HR software with new technology that automates applicant tracking, facilitates reporting, and analyzes HR data.[44]

Data security and privacy are concerns because even though a company owns its own data, information is still stored with a vendor. Data breaches in several high-profile organizations have highlighted the importance of protecting employee personal information through technology systems and staff training.[45]

Benefits and Challenges of Technology The increased use of technologies in the workplace is greatly impacting the way HR activities and other managerial functions are performed in organizations. In particular, the rapid expansion of HR technology serves a number of important purposes. Administrative and operational efficiency and effectiveness can be enhanced when technology is appropriately incorporated into the workplace. For instance, technology can improve the efficiency with which data on employees and HR activities are compiled. The most basic example is the automation of payroll and benefits activities. Numerous firms also provide web-based employee self-service programs that enable employees to access and change their personal data online, enroll in or change benefits programs, and prepare for performance reviews.

Another common use of technology is tracking EEO/affirmative action activities. HR technology can also facilitate strategic HR planning. Having accessible data enables HR planning and managerial decision making to be based to a greater degree on information rather than on managerial perceptions and intuition, thus making organizational management more effective. Using technology to support HR activities increases the efficiency of the administrative HR functions and reduces costs. Managers benefit from the availability of relevant information about employees. Properly designed systems provide historical information on performance, pay, training, career progress, and disciplinary actions. Managers can make better HR-related decisions on the basis of this information. To maximize the value of technology, systems should be integrated into the overall IT plan and enterprise software of the organization.[46]

Technology is used extensively by many organizations to help hire the best employees. Automation tools enable hiring managers to quickly work through large numbers of résumés with keyword assessments and to more effectively evaluate candidates' qualifications and suitability.[47] Technology can also be used to improve the employee experience. Finding relevant information to connect to company training options, pay and benefit details, and work schedules are important ways that employees use technology to facilitate their work lives.[48]

Despite these benefits, the use of technology in organizations presents some inherent challenges. An overreliance on technology could negatively impact individual learning.[49] The use of the small computerized device known as Google Glass, which individuals wear like eyeglasses to access the Internet with voice commands, take photos, and record videos, prompts many concerns about privacy and security.[50]

Mobile Devices One emerging trend is the use of mobile devices to manage various HR and business functions. For instance, ADP offers a popular mobile app called ADP Mobile that allows

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individuals to view employee information and perform other HR functions. A recent study by the company showed that payroll data was viewed more frequently with mobile devices than it was with traditional computers.[51] Some organizations are encouraging employees to bring their personal devices into the workplace so that they can be used to complete work. This is called a bring your own device (BYOD) policy.[52] The cloud technology firm Rackspace Hosting has such a policy and encourages employees to perform more of their HR functions and activities—everything from payroll administration to knowledge transfer—on mobile devices.[53]

There are several issues that should be considered to successfully manage mobile technology. One consideration is that HR leaders should encourage the use of mobile devices with BYOD policies. The HR department should also work closely with IT professionals to establish practices that will be the most beneficial. There should be a close working relationship between the Chief Information Officer and Chief Human Resource Officer. Another concern is that to avoid complexity, companies need to be selective about what types of information are available on mobile devices. HR professionals also need to figure out how to use mobile technology to help them at work. They should select apps that make information easily accessible and can be used with multiple devices.[54]

Social media
Online communities where users create and share content and participate in networking

Social Media The growth of the Internet has led to the creation of numerous platforms in which individuals can interact. **Social media**, online communities where users create and share content and participate in networking, has grown exponentially in the past decade. Figure 1-7 shows the number of users on the major social media sites in 2017. It is clear that for organizations to connect with prospective and current employees, a presence on social media is needed.

Strategic HR use of social media can build the employer's reputation in the labor market and help HR professionals to reach candidates and current employees. HR professionals can engage by posting to blogs or Twitter, recruit applicants, announce corporate changes, and provide video job previews.[55] However, HR must be thoughtful and careful in how the organization members utilize social media.

ETHICS

The Risk of Social Media The risk of social media is becoming apparent to employers, and some fear that its use will lead to disclosure of trade secrets such as customer lists and many other problems. Some managers also worry that negative comments made by employees will harm a firm's reputation. While companies may want to establish policies that regulate how technology can and should be used, recent developments suggest that such an approach might not be positive. The general counsel of the National Labor Relations Board has advanced a number of complaints about corporate social networking policies on the grounds that they violate workers' right to engage in conversations about the workplace as part of the provisions outlined in the National Labor Relations

FIGURE 1-7 Number of Users on Popular Social Media Websites, 2017

Website	Users
Facebook	1.9 billion
WhatsApp	1.2 billion
Messenger	1.2 billion
YouTube	1 billion
WeChat/Weixin	889 million
QQ	869 million
Instagram	700 million
Qzone	638 million
Twitter	328 million
Weibo	313 million

Source: Motley Fool Investing, www.fool.com/investing/201703/30/top-10-social-networks-how-many-users-are-on-each.aspx.

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Act.[56] Another concern relates to how social media might be used to screen job candidates. Many states, including New Mexico, Arkansas, California, and Utah, now have laws that prevent hiring companies from requesting passwords to obtain access to job applicants' social media accounts.[57]

LO5 Explain how ethical issues in organizations affect HR management.

1-6 Organizational Ethics and Human Resource Management

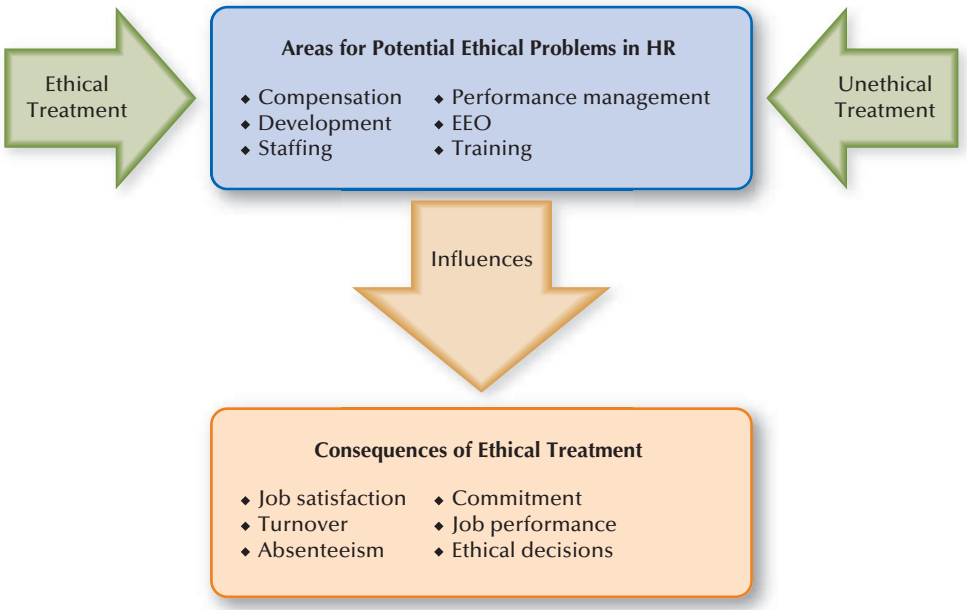
Closely linked with the strategic role of HR is the way managers and HR staff influence the ethics of employees, as well as the ethical practices of organizations as a whole. These various levels of ethics should be managed in a manner that affects individuals and the workplace in a positive manner, thus aiding in the development of better work outcomes. As Figure 1-8 indicates, violating HR protocols can lead to negative organizational and individual consequences, while institutionalizing ethical practices can prompt many positive outcomes.[58]

Attention to ethics has been growing for many years, driven in part by the corporate scandals at numerous firms in the United States and globally. These scandals show that ethical lapses are common, and they can erode corporate culture so that employers, employees, and other stakeholders are negatively impacted. Research also suggests that the presence of "moral disengagement," a tendency for individuals to make unethical decisions without feeling any regret or remorse, might also be driving unethical conduct in the workplace.[59] This means that firms must develop a culture of ethics so that employees are less likely to witness unethical acts and feel more encouraged to do the right thing on the job.

1-6a Ethical Culture and Practices

Writers on business ethics consistently stress that one of the primary determinants of ethical behavior is a positive organizational culture, which, as mentioned earlier, involves the shared values and beliefs that are embedded within an organization. Every organization has a culture, whether it is newly created or well developed, and that culture influences how executives,

FIGURE 1-8 HR and Organizational Ethics



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HR

ETHICS

HR Keeps Organization on Straight and Narrow

In recent years, there has been a substantial increase in the number of CEOs being fired for ethical lapses such as bribery, sexual indiscretions, insider trading, and negligence. While this does not necessarily mean that misconduct has increased, it may be a sign of higher levels of accountability and transparency in organizations. Increased regulations and greater media exposure of all leadership behaviors have resulted in these situations being widely known.

While most HR professionals are not trained as attorneys, there is a greater expectation that HR will serve a role as corporate conscience, helping the organization to avoid legal and ethical problems. Ensuring that compliance programs go beyond mandated requirements and reflect corporate values makes these programs more meaningful to employees and more sustainable. Working to create a culture of ethical behavior and decision making that follows not only the letter of the law but also the spirit of the law shows employees what is expected.

Should HR uncover or learn about suspected CEO misbehavior, it is important to face the issue directly. This can be difficult, of course, as the CEO outranks the HR professional. However, HR staff should

- Be direct with the CEO,
- Not infer motives for the alleged behavior,
- Remind the CEO that whistle-blowers can report the allegations to external agencies if they do not feel safe in using internal reporting options,
- Go to the board, and
- Enlist a third party (such as external legal counsel) to conduct a full investigation.

When ethical issues arise, HR professionals need to understand their role and responsibilities as a company representative and employee advocate. An HR professional may not be able to ensure confidentiality when certain issues are brought up. Safety violations, harassment situations, and other issues may require disclosure to external authorities despite the discomfort this may cause for employees making a report. It is vital to obtain all the relevant facts in an alleged ethics or legal violation situation before proceeding further. Consulting with a trained legal expert is often a wise step to take to protect the interests of all parties involved.

HR professionals might want to read *A Framework for Ethical Decision Making* (available at https://www.scu.edu/ethics/ethics-resources/ethical-decision-making/a-framework-for-ethical-decision-making) to help recognize ethical issues and what actions might be appropriate. Unlike black-and-white legal compliance questions, ethical dilemmas are often more complex and rely on a philosophical approach rather than a compliance mindset. Having a code of conduct and ethics policy in place and consistently enforcing them are keys to setting a tone within the organization where employees are clear on how they should behave when working on the company's behalf.[60]

Based on current issues regarding ethical lapses in organizations, consider the following questions:

1. How can HR staff ensure that top leaders are held to the same standards of behavior as line employees? What would you recommend HR staff do to demonstrate consistent enforcement and application of these standards?
2. What would you recommend to an HR professional whose superior has asked him or her to comply with a request to act unethically?

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managers, and employees make organizational decisions. For example, if meeting objectives and financial targets is stressed as a cultural characteristic, then executives and managers may feel encouraged to falsify numbers or doctor cost records. However, when an ethical culture exists in an organization, employees are often more motivated to behave according to appropriate ethical standards.

The preceding "HR Ethics: HR Keeps Organization on Straight and Narrow" feature provides an example of how an organizational culture that fosters continuously tougher performance standards can lead to unethical behavior when employees feel pressured to perform. Companies often rely on a number of programs to increase employees' awareness of ethical issues. For instance, when the following programs exist, an ethical culture often develops, and ethical behavior is encouraged:

- A written code of ethics and standards of conduct
- Training on ethical behavior for all executives, managers, and employees
- Advice to employees on ethical situations they face, often given by HR
- Systems for confidential reporting of ethical misconduct or questionable behavior
- Public recognition and commendation when employees behave ethically

Companies can also develop programs related to corporate social responsibility that focus on the enhancement of stakeholder interests and the advancement of social good. There is growing awareness that socially responsible business practices are artifacts of cultural values and can prompt positive employee outcomes.[61] Firms that effectively utilize HR skill-enhancing and motivation-enhancing practices may also foster a philosophy of sustainability and an ethical climate.[62]

GLOBAL

1-6b Ethics and Global Differences

Variations in legal, political, and cultural values and practices in different countries often raise ethical issues for global employers that must comply with both their home-country laws and the laws of other countries. These differences can also lead to ethical and legal conflicts for global managers. Some firms have established guidelines and policies, for example, to reduce the payments of bribes, but even these efforts do not provide guidance for all situations that can arise. Companies can develop ethics codes and training so that employees understand the problems they might face in global environments. These guidelines could be wrapped into regular cultural and/or transition training that prepares individuals for working in a diverse global workplace. They might also concentrate on issues such as sustainability and social responsibility.

ETHICS

1-6c Role of Human Resources in Organizational Ethics

People in organizations face many different ethical decisions, and they are often guided by their own values and personal behavior codes, as well as by various organizational, professional, and societal principles. Employees may ask the following questions when dealing with ethical dilemmas:

- Does the behavior or result meet all applicable *laws*, *regulations*, and *government codes*?
- Does the behavior or result meet both *organizational standards* and *professional standards* of ethical behavior?

Organizations that are known to be ethical have better long-term success because they develop policies that guide individual ethics. In this sense, HR management plays a key role as the keeper and voice of organizational ethics. HR departments can help develop corporate compliance efforts and an ethical culture by ensuring that incentives do not lead to unethical conduct, develop business processes and financial controls to discourage bad behavior, and encourage open discussion when ethical issues emerge.[63] Since ethical conduct starts when new employees join a firm, HR can ensure that selection practices and onboarding programs reinforce the organizational ethics approach.[64] There are many different views about the importance of HR in ensuring that ethical practices, justice, and fairness are embedded in HR practices. Figure 1-9 identifies some of the most frequent areas of ethical misconduct that involve HR activities.

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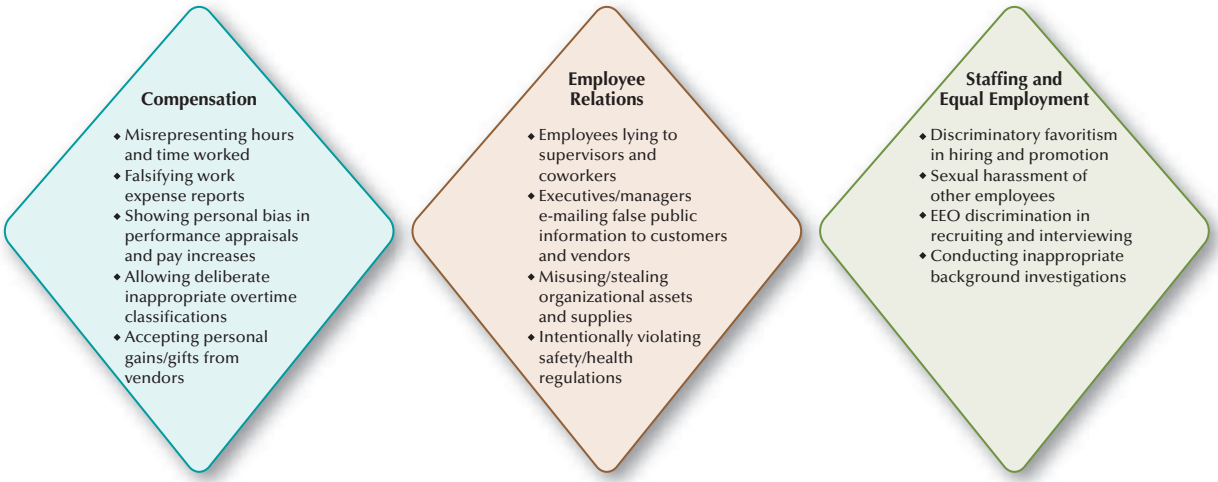
FIGURE 1-9 Examples of HR-Related Ethical Misconduct



Ethical issues pose fundamental questions about fairness, justice, truthfulness, and social responsibility. Just complying with a wider range of requirements, laws, and regulations cannot cover every ethical situation that executives, managers, HR professionals, and employees will face. Yet having all the elements of an ethics program may not prevent individual managers or executives from engaging in or failing to report unethical behavior. Even HR staff members may be reluctant to report ethics concerns, primarily because of fears that doing so may affect their current and future employment.[65] However, when HR develops programs that encourage ethics, employees should be more motivated to behave ethically. Another critical approach for guiding employees' ethical decisions and behavior is ethics training, with research showing that many more companies are using such instruction to enhance an ethical culture.[66] Firms such as Best Buy, Caterpillar, and others have ethics training for all employees via the Internet or in person. How to address difficult and conflicting situations is a part of effective HR management training efforts. To help HR staff members deal with ethical issues, the SHRM has developed a code of ethics for its members and provides information on handling ethical issues and policies.[67]

LO6 Explain the key competencies needed by HR professionals and why certification is important.

1-7 Human Resources Management Competencies and Careers

The intent of this book is not to train all who read it to be HR managers. Most will take this knowledge and work at another job in the organization but understand the duties HR must accomplish, which they must often share. Given that, it is useful to understand the necessary competencies and certifications for HR professionals.

1-7a Human Resources Competencies

There has been much discussion in the HR profession about the competencies HR leaders should possess. The transformation of HR into a more strategic and professional field has implications for the kinds of competencies that individuals should develop.[68] HR professionals at all levels certainly need to have a basic understanding of strategic management; legal, administrative, and operational issues; and how technology is applied. Additional competency-based factors that a typical HR professional should develop include being a strategic positioner, a credible activist, a capacity builder, a change champion, an innovator and integrator, and a technology proponent.[69]

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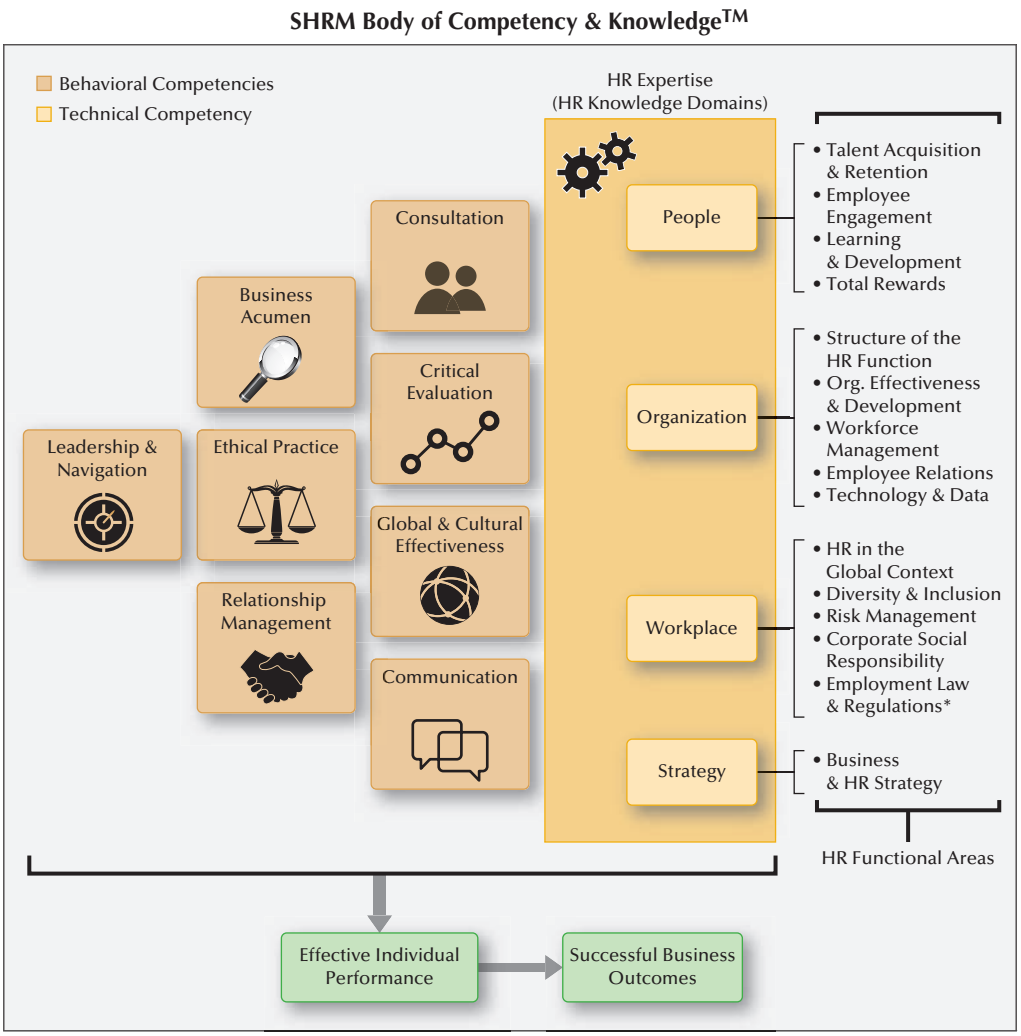
SHRM, the leading professional association for HR, developed a list of competencies that are arranged in a comprehensive model. Figure 1-10 provides a summary of the SHRM competency framework. The model was developed based on advice given by more than 1,200 practitioners who participated in focus groups, survey responses provided by more than 32,000 other professionals, and analysis of multiple performance outcomes that were linked back to the competencies. The nine competencies highlighted include the following:

- *Human resource expertise*. Applies knowledge of HR functions
- *Relationship management*. Builds networks that support the firm
- *Consultation*. Provides advice and direction
- *Leadership and navigation*. Guides the organization and its employees
- *Communication*. Fosters positive flow of information among different parties
- *Global and cultural effectiveness*. Understands diverse global issues
- *Ethical practice*. Builds organizational ethical values and compliance
- *Critical evaluation*. Functions as a judge of information
- *Business acumen*. Provides input that supports business strategy

FIGURE 1-10 SHRM HR Competency Model



*Applicable only to examinees testing within the United States

Source: www.shrm.org.

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Ideally, awareness and consideration of these competencies should guide the professional development of HR leaders. In addition, individuals' application of these competencies will often vary as they progress through their HR careers, from the early and middle levels to the senior and executive levels.[70]

1-7b Human Resource Management as a Career Field

HR generalist
A person who has responsibility for performing a variety of HR activities

HR specialist
A person who has in-depth knowledge and expertise in a specific area of HR

A variety of jobs exist within the HR field, ranging from executive to clerical. As an organization grows large enough to need someone to focus primarily on HR activities, the role of the **HR generalist** is needed—that is, a person who has responsibility for performing a variety of HR activities. Further growth leads to the addition of **HR specialists**, or people who have in-depth knowledge and expertise in specific areas of HR. Common areas of HR specialty include benefits, compensation, staffing and recruitment, and training and development. Appendix A contains examples of HR-related job descriptions, both generalist and specialist.

HR jobs can be found in a firm's corporate headquarters, as well as in the field and subsidiary operations of an organization. A compensation analyst or HR director might operate from a corporate headquarters. A recruitment coordinator for a manufacturing plant and a regional HR manager for European operations in a global food company are examples of field and subsidiary HR professionals. These types of jobs have different career appeals and challenges based on their varying responsibilities. Another job within the HR profession that is gaining momentum is Chief Human Resource Officer. These individuals are expected to have a broad understanding of the different complex areas of HR management, and their presence is linked to higher organizational performance and profitability.[71]

1-7c Human Resource Professionalism and Certification

Depending on the job, HR professionals need considerable knowledge about the various legal and operational aspects of managing the human resources in an organization. The broad range of issues faced by HR professionals has made involvement in professional associations and organizations important. For HR generalists, the largest organization is SHRM. Public-sector HR professionals tend to be concentrated in the International Public Management Association for Human Resources (IPMA-HR). The World Federation of People Management Associations (WFPMA) provides an opportunity for HR professionals operating in global organizations to network and gain expertise. Other prominent specialized HR organizations are the WorldatWork Association, the Association for Talent Development (ATD), and the International Association for Human Resource Information Management (IHRIM).

One characteristic of a professional field is having a means to certify that members have the knowledge and competencies needed in the profession. The Certified Public Accountant (CPA) for accountants and the Chartered Life Underwriter (CLU) for life insurance underwriters are examples. Certification can be valuable to individuals and useful to employers as they select and promote certified individuals. Earning certification is an important step in establishing proficiency and credibility in the profession. Equally important is the continuing education and recertification process that ensures that individuals maintain up-to-date skills and knowledge so that they can effectively manage HR programs and practices. The primary certification processes explained below involve both an initial certifying exam followed by required ongoing continuing education to maintain certification. This ensures that certified professional continue to remain up-to-date on current HR practice.

HRCI Certification The most widely known HR certifications are the Professional in Human Resources (PHR) and the Senior Professional in Human Resources (SPHR), both sponsored by the Human Resource Certification Institute (HRCI). More than 500,000 professionals have at least one of these designations, and thousands of individuals take the certification exams annually. A major update to the exam content for both exams was recently conducted to reflect changes in the HR profession and the increased emphasis on strategy and leadership for the senior level certification. Eligibility requirements for PHR and SPHR along with a summary of exam content are shown in Appendix B. Full details on the content covered on the exams can

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be found on the HRCI website (https://www.hrci.org/how-to-get-certified/preparation-overview/exam-content-outlines).

Eligible individuals must pass the appropriate exam. Certification from HRCI also exists for global HR professionals in the GPHR, PHRi, and SPHRi. Global certifications recognize the growth in HR responsibilities in international organizations and cover appropriate global HR subject areas. HRCI also offers the aPHR for recent college graduates with little to no HR professional experience.

SHRM Exams and Certifications In 2015, SHRM began offering a certification based on its competency model for HR professionals. Since its inception, the SHRM certification process has been completed by over 100,000 individuals.[72] The certification focuses on the application of HR competencies to increase organizational performance. SHRM certification can be earned at two levels, one that focuses on entry, middle, and senior competencies (SHRM-CP) and another that focuses on executive competencies (SHRM-SCP). Readers of this book will be introduced to specific competencies that they should understand in order to earn a SHRM-CP or SHRM-SCP designation.

WorldatWork Certifications The WorldatWork Association offers a number of certifications emphasizing compensation and benefits:

- Certified Compensation Professional (CCP)
- Master Certified Compensation Professional (MCCP)
- Certified Benefits Professional (CBP)
- Work-Life Certified Professional (WLCW)
- Global Remuneration Professional (GRP)

Other Human Resource Certifications Increasingly, employers hiring or promoting HR professionals are requesting certifications as a "plus." HR certifications give HR professionals more credibility with corporate peers and senior managers. Additional certification programs for HR specialists and generalists are sponsored by various organizations, and the number of certifications is being expanded. For specialists, some well-known programs include the following:

- Certified Recognition Professional (CRP) sponsored by the Recognition Professionals International
- Certified Employee Benefits Specialist Program (CEBS) sponsored by the International Foundation of Employee Benefits Plans
- Certified Professional in Learning and Performance (CPLP) sponsored by the Association for Talent Development
- Certified Safety Professional (CSP) and Occupational Health and Safety Technologist (OHST) sponsored by the American Society of Safety Engineers

Most individuals who want to succeed in the field update their knowledge continually. One way of staying current in HR is to review current information that appears in the HR literature or that is provided by relevant associations, as listed in Appendix C of this book. Overall, certifying knowledge and competency is a trend in many professions, and HR illustrates the importance of certification by making many types available. Given that some people enter HR jobs with limited formal HR training, certifications help both individuals and their employers ensure that appropriate HR practices are implemented to improve the performance of their organizations.

SUMMARY

- HR management should ensure that human talent is used effectively and efficiently to accomplish organizational goals.
- All organizations need HR management, but larger ones are more likely to have a specialized HR function.
- Organizations need HR because HR functions must be done by *someone* in all organizations.
- Human capital is the collective value of the capabilities, knowledge, skills, life experiences, and motivation of an organization's workforce.

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- HR practices focus on enhancing worker skills, motivation, and opportunity to perform, known as the ability-motivation-opportunity model.
- HR management activities can be grouped as follows: strategic HR management; EEO; staffing; talent management; compensation and benefits; health, safety, and security; and employee and labor relations.
- HR departments can take administrative, operations, and/or strategic roles in the organization.
- As an organization core competency, HR has a unique capability to create high value that differentiates an organization from competitors in areas such as productivity, quality and service, and organizational climate.
- Numerous HR challenges currently exist, including organizational cost pressures, globalization, a changing workforce, and technology.
- Ethical behavior is crucial in HR management, and HR professionals regularly face many ethical issues and consequences both domestically and globally.
- All levels of HR professionals need competencies in strategic knowledge and impacts; legal, administrative, and operational areas; and technology. Senior HR leaders need these competencies plus others to be effective.
- Current knowledge about HR management is required for professionals in the field of HR, and professional certification has grown in importance for HR generalists and specialists.

CRITICAL THINKING CHALLENGES

1. Discuss several areas in which HR can affect organizational culture positively or negatively.
2. Give some examples of ethical issues that you have experienced in jobs and explain how HR did or did not help resolve them.
3. Why is it important for HR management to transform from being primarily administrative and operational to a more strategic contributor?
4. Assume you are an HR director with a staff of seven people. A departmental objective is for all staff members to become professionally certified within a year. Using the Internet resources of HR associations, such as www.shrm.org and www.WorldatWork.org, develop a table that identifies four to six certifications that could be obtained by your staff members and show the important details for each certification.
5. Your company, a growing firm in the financial services industry, is extremely sensitive to the issues surrounding business ethics.

The company wants to be proactive in developing a business ethics training program for all employees, both to ensure the company's reputation as an ethical organization in the community and to help maintain the industry's high standards. As the HR director and someone who values the importance of having all employees trained in the area of business ethics, you are in charge of developing the ethics training program. It needs to be a basic program that can be presented to all employees in the company. Resources for business ethics information can be found at www.business-ethics.org/.

A. What legislative act prompted many U.S. companies to develop internal ethical policies and procedures?
B. What are key concepts related to business ethics that should be considered in the development of the ethics training program?

CASE Organizational Culture Gone Wrong

The power of organizational culture is rarely as obvious as it was at Wells Fargo Bank. Whether positive or negative, culture within an organization drives employee behavior, sometimes in ways that are either not intended or not desired. Consider the case of Wells Fargo Bank where employees were pressured to cross-sell products to their customers. While trying to increase revenues and customer loyalty through selling multiple products is a fine strategy, in this case things went a bit too far.

The bank managers emphasized cross-selling and had a goal for each customer to use up to eight products from the bank such as checking and savings account, mortgage loans, and credit cards. Personal bankers who worked at bank branches faced daily, sometimes hourly, sales goals

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to generate 10 to 20 product sales per day. District managers met multiple times each day with branch managers and employees to track their progress. This high-pressure environment was clearly intense and very competitive. Employee performance results were scrutinized and those who fell short were subjected to additional coaching by their managers. Incentive plans at the bank rewarded employees on the basis of the number of products, or accounts, they set up. Lacking good checks and balances, employees who wanted to earn bonuses took the shortcut and made up fake accounts. This shows how incentive schemes can go offtrack without proper monitoring. Under intense pressure to show new accounts being opened, tellers and personal bankers made up fake names and e-mail addresses for phantom customers, just to meet their quotas.

Over 3.5 million fake deposit and credit card accounts were set up by employees desperate to meet unrealistic sales goals. Many auto loan customers were forced to take unneeded auto insurance and hundreds of thousands of customers were signed up for online banking without their knowledge or consent. When the scandal was first made public, the bank placed the blame on employees and fired over 5,000 employees accused of establishing the fraudulent accounts. However, as the investigation continued, it became apparent that the problems went much deeper than several thousand rogue employees acting on their own. Rather, authorities determined that widespread, systemic unethical behavior existed at the bank. The culture fostered this highly competitive, results-driven approach, and branch managers turned a blind eye to what they may have seen.

A congressional investigation along with investigations from multiple government agencies consumed bank leadership and tarnished the Wells Fargo brand with its customers. The CEO resigned after the scandal broke. In an unusual decision, the bank's board did not provide him with a severance package and asked for repayment of bonus awards he had received in recent years. The head of retails sales also resigned. Further, the bank paid penalties in excess of $185 million to regulators and over $2.5 million in restitution to customers harmed by the scandal. The loss of trust that customers felt after the scandal has led to negative outcomes for the bank. Credit card applications have declined significantly, and loan applications are also far lower than in the past. The bank has posted poor operating results as time and money must be invested in researching and correcting these unethical practices.

Organization culture and values set the stage for how employees will behave. HR practices such as incentive plans guide employee conduct. In the case of Wells Fargo Bank, the culture was one of "win at all costs" coupled with incentives that drove employees to meet the only goal for which they were financially rewarded, opening new accounts, one way or the other.[73]

QUESTIONS

1. How did the culture at Wells Fargo become so focused on growing sales through cross-selling? What might be done in the future to reduce the reliance on single outcomes for rewarding employees?
2. What steps should an employee take when faced with coworkers who are acting unethically in order to meet performance objectives? How could HR be informed and asked to help remedy such situations?

SUPPLEMENTAL CASES

Water Quality Association: Building Competencies with Technology

This case describes a company that uses strategic training initiatives such as experiential and informal learning to ensure that its employees master important competencies and skills. The company's use of apprenticeships and technology approaches deliver content in user-friendly ways to engage employees. (For the case, visit MindTap® at www.cengage.com/login.)

Rio Tinto: Redesigning HR

This case describes a company that must reduce its workforce due to the 2008 global recession. The approach used was global in nature, and downsizing efforts were highly coordinated and consistent across all areas of the business. (For the case, visit MindTap® at www.cengage.com/login.)

Phillips Furniture

This case describes a small company that has grown large enough to need a full-time HR person. You have been selected to be the HR manager, and you have to decide what HR activities are needed as well as the role HR is to play. (For the case, visit MindTap® at www.cengage.com/login.)

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Sysco

Large food services and distribution firm Sysco had to revise its HR management. Review this case and identify how the changes at Sysco modified HR's importance. (For the case, visit MindTap® at www.cengage.com/login.)

HR, Culture, and Success at Google, Scripps, and UPS

This case describes HR's role in the culture of three different companies. HR's contribution to organizational success in each case can be identified and further researched. (For the case, visit MindTap® at www.cengage.com/login.)

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CHAPTER 2

Human Resource Strategy and Planning

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Summarize the organization's strategic planning process.

LO2 Outline how HR's strategies are merged with organizational strategies and give two examples.

LO3 Discuss how to forecast the supply and demand of human resources.

LO4 List options for handling imbalances in the workforce.

LO5 Explain the importance of human resource consideration during mergers and acquisitions.

LO6 Identify how organizations can measure and analyze the effectiveness of HR management practices.

WHAT'S TRENDING IN HR STRATEGY AND PLANNING

Over the past several decades, the strategic role of HR has been emphasized because firms realize that high-quality employees are needed to help them reach strategic objectives. The strategic landscape is expected to continually change as new issues challenge companies to more effectively use their employees. There are also opportunities that companies can seize to be more successful, which all require support and guidance from HR leaders. These realities require HR departments to develop people strategies that make sense given current business conditions. Here's what's currently trending in HR strategy and planning:

1. Human resource management is expected to play a more important strategic role in organizations in the future. There is much discussion and speculation about how HR groups can fulfill such expectations.
2. A number of strategic issues are emerging in businesses today. These include an emphasis on sustainability (or giving back), a focus on work–life balance, and the creation of policies that enhance talent.
3. Globalization has created challenges for HR professionals because strategies often need to be revised to address issues in different areas of the world. HR needs to evaluate how employees are compensated, determine if they have a broad understanding of global business, and assess whether specific strategies work in foreign worksites.
4. HR planning can be found in the driver's seat of strategic planning. Consequently, HR leaders should be aware of the latest approaches to help companies find and retain the right talent.
5. The number of mergers and acquisitions is expected to increase over the next several years. To make these changes work, HR professionals should understand important best practices.

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HEADLINE

HR Planning in the "Air Capital of the World"

Wichita, Kansas, known as the "air capital of the world," is facing a major workforce capabilities issue. The city earned its nickname because it became the center for aircraft manufacturing in the early twentieth century. Aviation entrepreneurs Clyde Cessna and Walter Beech both lived nearby and established it as the hub for the newborn industry. Companies such as Textron, Spirit AeroSystems, and Boeing were major employers with factories in the region.

As recently as 2008, over 69,000 people worked in aviation-related jobs. However, the city has since experienced a 25 percent reduction in aircraft manufacturing jobs. Technological advances, reduced demand for business jets, Beechcraft's bankruptcy, and Boeing's relocation combined to create serious challenges in Wichita. Many people who lost their jobs during the recent economic downturn retired, changed careers, or simply left the city. Economic activity is starting to pick up again, but the shortfall of skilled workers may hamper recovery efforts.

In an effort to rejuvenate the aircraft industry, private and public organizations have banded together to make the city more attractive to skilled workers. Wichita State University recently doubled in size, building an innovation campus that is focused on the aviation industry. Airbus SE relocated its local headquarters to be closer to the university so that its interns could more easily study and work in one location. With support from industry partners, the local technical college is offering free tuition to help train workers. The Workforce Alliance of South Central Kansas is helping to bridge the span between workers and employers. It operates the free worker-training program called the Kansas Advanced Manufacturing Program with funding from a federal grant.

In addition to partnerships between industry and educational institutions, the city is working hard to upgrade its image. Investments in city parks, bike-share programs, and construction of luxury apartment complexes are all intended to draw more talent to the city and to make the downtown more livable. Wichita is facing a generational turnover problem with high-skilled baby boomers heading for retirement.

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Therefore, city and business leaders have joined forces to make the city an employment destination of choice for educated and skilled workers. This type of planning and strategy demonstrate how important it is to understand workforce capabilities and requirements. Businesses and governments may find that it is effective to work together to solve these issues when both have a stake in ensuring steady employment and healthy growth in their city.[1]

Strategy
A plan an organization follows for how to compete successfully, survive, and grow

The **strategy** an organization follows is its plan for how to compete successfully, survive, and grow. Many organizations have a relatively formal process for developing a written strategy encompassing a certain period of time, with objectives and goals identified for each business unit. Strategic planning in these companies is often performed by top managers. Other firms are more informal in their approach to developing a strategy and sometimes involve employees and staff in the creation of business goals.

Organizations want to achieve and maintain a competitive advantage by delivering high-quality products and services to their customers in a way that competitors cannot duplicate. Strategies to do so might include revising existing products or developing new products or services using existing capabilities. Other strategic approaches might be to acquire businesses that can expand the product offerings or provide access to global markets or to emphasize a constant stream of new products that customers want to buy. Whatever strategies are chosen will determine the number and capabilities of people needed in the organization. This is why the management of people in companies is an inherently strategic process—strategic plans cannot be met unless talent is available and used effectively.

Different companies in the same industry may have different strategies to succeed, and firms in different industries that are located in the same geographic area may use similar strategies to be effective. It all depends on the current business situation. Successful strategic management requires companies to accurately analyze their situations, decide what their goals will be, and implement the right actions to achieve those goals. At the end of the day, strategy is about taking steps to ensure the long-term viability of the organization as well as the effective use of talent to support that strategy, which is illustrated by programs implemented by industry leaders in Wichita, Kansas, to address workforce gaps that might lead to lack of competitiveness.[2]

LO1 Summarize the organization's strategic planning process.

2-1 Organizational Strategic Planning

Strategic planning
The process of defining organizational strategy, or direction, and allocating resources toward its achievement

Strategic planning is the process of defining organizational strategy, or direction, and allocating resources (capital and people) toward its achievement. Successful organizations engage in this core business process on an ongoing basis. The strategic plan serves as the road map that gives the organization direction and aligns resources. The strategic planning process involves several sequential steps that focus on the future of the firm; Figure 2-1 shows these steps.

2-1a Strategy Formulation

Organizational mission
The core reason for the existence of the organization and what makes it unique

The strategic planning cycle typically covers a three- to five-year time horizon, with updates and revisions during that time in response to changing conditions.[3] When formulating the strategic plan, management considers both internal and external forces that affect a company, including the conditions that exist in the industry overall. The guiding force behind the strategic planning process is the **organizational mission**, which is the core reason for the existence of the organization and what makes it unique. The mission statement is usually determined by the organizational founders or leaders and sets the general direction of the firm.

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FIGURE 2-1 Strategic Planning Process for the Organization

Organizational core values
Principles that create the operating philosophy for organizational decisions

In addition to the organizational mission, the **organizational core values**, those principles that create the operating philosophy for organizational decisions, must also be considered. Many organizations identify core values related to customers/clients, employees, financial growth, ethics, and social responsibility.[4] Values serve an important purpose in stating to all stakeholders what is important in the way the organization will be managed and what standards of conduct are expected. For example, Nucor, a steel processor, has a pledge to not lay off employees. Despite industry economic problems during the recession, Nucor's leadership sustained a loss exceeding $250 million to maintain its commitment to employees.[5]

The planning process begins with an assessment of the current state of the business and the environmental forces that may be important during the strategic planning cycle. Analysis of strengths, weaknesses, opportunities, and threats (SWOT) is a common starting point because it allows managers to consider both internal and external conditions that the business faces. The SWOT analysis helps managers formulate a strategic plan that considers the organization's ability to deal with the situation at hand based on its own strengths and weaknesses, as well as the opportunities and threats that exist in the firm's external environment. The planning process requires continuous monitoring and responding to environmental changes and competitive conditions, which means that strategic planning is an ongoing process that is never fully complete and must be constantly revisited.

Managers then determine the objectives for the planning cycle and formulate organization-level strategies to accomplish those objectives. Each function within the organization (such as the HR department) then formulates strategies that link to and support the organization-level strategies. The strategic plan is reevaluated periodically because conditions may change and managers must react to a fluid business environment.

2-1b Managing in Turbulent Conditions

VUCA
An acronym standing for volatile, uncertain, complex, and ambiguous

Business leaders face a chaotic, rapidly changing environment that impacts the ability of each organization to succeed and thrive. This environment is often referred to as **VUCA**, an acronym standing for volatile, uncertain, complex, and ambiguous. The term *VUCA* was created by the U.S. Army War College to describe political conditions after the cold war, but it is now applied more generally to business conditions that exist and create challenges during the planning process.[6]

Elements of each of the four aspects of the VUCA environment are shown in Figure 2-2. Long-term planning beyond the three-year period becomes more difficult as customer demands change rapidly, technology undergoes continuous innovation, employee demands shift, and competition emerges from multiple sources.[7] Leaders operating in such conditions must be more adaptable and agile than in the past. Key skills include the ability to assess the reality of the situation, the ability to respond effectively, and the ability to learn quickly from experience.[8] HR can ensure that leaders are properly selected and prepared for such unpredictable and precarious conditions and that the workforce is resilient and capable of meeting ever-changing requirements.[9]

2-1c Triple Bottom Line

Triple bottom line
Considers the organization's impact on three major areas—economic, social, and environmental

Organization strategies have traditionally focused on how a firm can produce the greatest financial gains for investors. However, a more holistic approach to strategy is becoming more widely accepted, that of the triple bottom line. The **triple bottom line** considers the organization's impact on three major areas—economic, social, and environmental. By increasing emphasis on corporate

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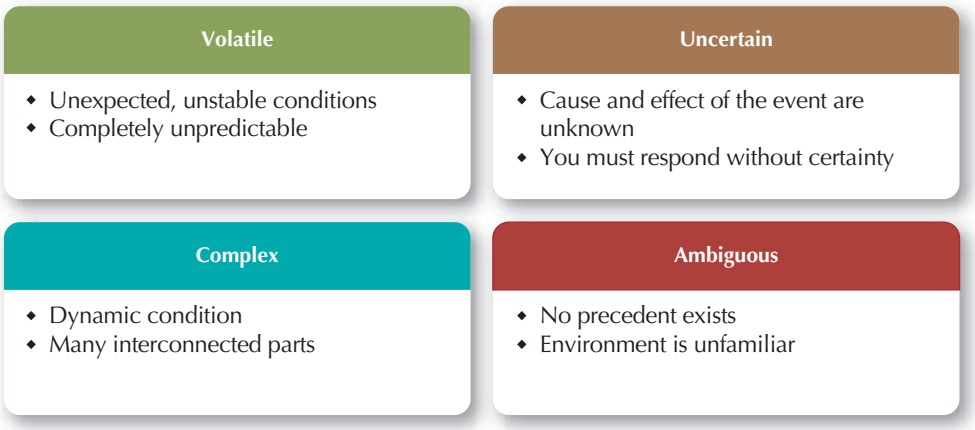
FIGURE 2-2 VUCA Dimensions



Source: Adapted from Nathan Bennett & James Lemoine, "What VUCA Really Means for You," *Harvard Business Review*, January/February 2014, p. 27.

social responsibility, this comprehensive approach to running a company means that leaders pay equal attention to profits, people, and the planet.[10]

Focusing on all three dimensions of the triple bottom line is seen as a way to enhance the sustainability of the organization. Important people-related aspects include managing the corporate culture and reputation, emphasizing employee commitment and dedication, and providing high-quality employment to workers.[11] Practices that balance the importance of people and planet with those of profits are an extension of the corporate ethics approach. When organizations treat employees in a socially responsible manner, employees' perceptions of the organization's ethical climate improve.[12]

ETHICS

HR can foster a triple bottom approach through incentive plans that focus on achieving comprehensive results rather than solely on profit incentives. Recent research has shown that mid-level managers may respond favorably to monetary rewards tied to sustainability projects. Additionally, establishing a norm or corporate value related to sustainability and balanced outcomes can be shared with all employees through organizational culture training.[13]

2-2 Human Resources and Strategy

LO2 Outline how HR's strategies are merged with organizational strategies and give two examples.

Regardless of which specific strategies are adopted for guiding an organization, having the right people is necessary to make the strategies work. If a strategy requires specific skills that are currently not available in the company, it will take time to either recruit people who have those skills or train current employees to adapt to the new strategy. Strategic HR management (HRM) provides input for strategic planning and develops specific HR initiatives to help achieve organizational goals. Involving HR staff early in the strategic planning is the key because many strategic issues will involve having the proper talent in order to be effective.[14] The following "HR Perspective: Genentech Maps Its Human Resources Possibilities" feature shows how one organization addressed strategic issues related to human capital.

The HR department must demonstrate how its efforts help the organization. But even though considering HR in a company's strategy seems obvious, estimates are that only 40 percent of HR professionals' time is spent on strategic issues. The majority of their time remains devoted to administrative tasks.[15] Part of this could be driven by HR's inability to justify how it helps the bottom line or the kinds of issues on which it focuses. For instance, HR has been criticized as being too reactive rather than being proactive. Further, too often, HR programs become a search for

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HR PERSPECTIVE

Genentech Maps Its Human Resources Possibilities

As a founder of the biotechnology industry, Genentech has always been a forward-thinking company whose mission has been to change medical patients' lives through innovation. Despite the organization's emphasis on developing solutions for medical issues in the future, the HR leadership team had worked hard to align systems and processes to increase efficiencies and effectiveness in the current climate. However, they were not looking into what the future might hold for Genentech employees. A merger with Roche caused them to sit down and dream about what the company might look like in 12 years.

The HR team studied the industry and company and identified a number of key disruptors that would likely lead to major changes for the organization's workforce. Globalization, increased regulations, big data, a trend toward corporate transparency, integrating Generation Y workers, and utilization of mobile technologies would dramatically alter the work environment and working experience for employees and managers. Although they recognized that many things would change, they also understood that Genentech's commitment to patient safety and scientific advancement would remain as guiding principles into the future.

The HR leadership created a team to explore four facets of talent management:

- The future of work
- The future of the workforce
- The future of work practices
- The future of the workplace

The team devoted a great deal of time to understand the potential problems the company might face in the future. They consulted with subject matter experts within and outside of the company to help them understand what conditions might be like in 2025. They interviewed senior leaders, held focus groups, reviewed relevant research literature, talked with leading-edge companies, and surveyed employees. Their research was comprehensive and tapped into a wide range of stakeholders. When the results of their research were compiled and aggregated, they created a "map of possibilities."

Their map of possibilities was made up of two segments: (1) key disruptors and (2) themes for HR. The team honed in on those key disruptors most likely to impact HR practices. They identified Generation Y workers, big data, collaboration, mobile technologies, and changes in the U.S. educational system as particularly relevant to the company's ability to manage talent in the future. They also realized that several of these forces were interrelated, which led them to identify three "super-themes":

- *Personalization*—HR would need to personalize and customize its services
- *Campus and community*—Maintaining the organizational culture and sense of community within the workforce
- *Performance management, learning, and advancement*—Building management and leadership talent that can deal with future needs

Of course, the task is substantial, so the team has shared these themes with the organizational leaders and is prioritizing them. In this way, the HR team can determine how it can best remain relevant, progressive, and supportive in creating a workplace where employees can do their best work. Following a road map for managing talent will allow the HR staff to help lead the way to a continuing commitment to patients and medical discovery.[16]

Companies should be proactive about assessing their future operating environment and workforce trends so that they can implement HR practices that will ensure a supply of capable, committed employees. Consider the following questions that explore these issues:

1. What are the pros and cons of conducting such an extensive research process before laying out plans for managing talent in the future?
2. How often should HR professionals assess human resources as strategic assets? How can they continue to monitor external and internal conditions that might affect the workforce?

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"best practices" rather than implementing those practices that will be most effective in a specific organization.[17]

Some businesses are less dependent on human capital for a competitive advantage than others, a situation that lowers the strategic impact of HR in some firms. For example, the productivity of a steel mill depends more on the efficiency of furnaces and quality of raw materials than on human resources. However, the argument can be made that every business strategy must be carried out by people, so human capital always has some impact on business success. An important concept covered later in this chapter is measuring and determining the value of human capital and HR in a given organization.

Strategic HR management
The appropriate use of HR management practices to gain or keep a competitive advantage

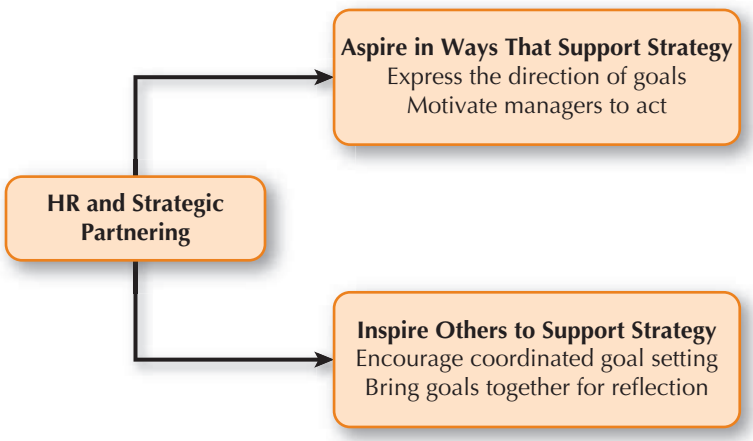
Although administrative and legally mandated tasks are important, HR's strategic contribution should add value to the organization by improving the performance of the business. **Strategic HR management** refers to the appropriate use of HR management practices to gain or keep a competitive advantage. There are different ways in which HR professionals can help firms be more competitive, including hiring good employees, placing them in the right jobs, and rewarding them fairly. For example, Royal Dutch Shell utilized an algorithm to match employees with projects by tracking their activity and linking their skills to open positions. The company was able to fill vacancies faster and more effectively.[18]

STRATEGY

An important element of strategic HRM is creating processes in a company that help connect employee performance with strategic objectives. For instance, some contend that HR should be a strategic partner by providing aspirations to a company and functioning as an inspiration for strategic planning.[19] Figure 2-3 shows how these partnerships can be developed. These partnerships can be strengthened when HR professionals work closely with top leaders and line managers to acquire business acumen and understand how the organization serves its customers and competes in the marketplace.[20]

Individual workers also need to understand relevant HR priorities so that they can better contribute by applying their skills to advance the strategic goals, so partnerships should also be fostered with employees. Employees who understand the big picture can do their jobs in ways that help the firm reach its objectives. Effective HR practices include talent development and reward systems that direct employee efforts toward the bottom line. Employees must also become more agile and nimble to prepare for strategic HR initiatives with teamwork, employee involvement, reward systems, and organizational learning.[21] For instance, Ford Motor Company's focus on transforming its core business from producing traditional vehicles to designing and creating autonomous vehicles with embedded technology will require that executives change their way of thinking about people. The strategic shift from a product focus to a consumer focus is forcing HR to develop new, high-impact ways to improve workers' lives.[22]

FIGURE 2-3 Positioning HR to Be a Strategic Partner



Source: Adapted from Torben Juul Anderson and Dana Minbaeva, "The Role of Human Resource Management in Strategy Making," *Human Resource Management* 52 (2013): 809–827.

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2-2a Human Resource Contributions to Strategy

The strategies developed by HR managers depend heavily on the plans and objectives created within an organization; HR departments need to be involved in strategic planning so that HR executives are aware of the overall strategic direction of a firm. Some common areas where HR can develop and implement appropriate strategies are identifying talent that will be needed to carry out organizational strategies, as well as developing metrics that help determine how well strategies at the different levels are being met. To contribute in the strategic planning process, HR leaders can provide their perspectives and expertise to operating managers by doing the following:

- *Having a seat at the strategic table*: Companies must include HR professionals in discussions about strategy and encourage them to provide input.
- *Being knowledgeable about business operations*: HR professionals must understand how the business works and know why certain strategies are important components.
- *Focusing on the future*: Strategic planning requires leaders to think about the future based on past experiences.
- *Prioritizing business goals*: Efforts that have the greatest impact on the business and its objectives are emphasized first.
- *Understanding what to measure*: Metrics are a vital part of assessing success, which means identifying metrics that are linked to business goals.

One way HR professionals can contribute to strategy is by introducing high-performance approaches into the workplace that lead to increased performance. These HR practices often focus on enhancing participation, teamwork, and work attitudes so that employees are more engaged in their jobs.[23] Using information collected from telecommunications companies in India, a recent study found that high-performance HR practices such as extensive job training and knowledge management demonstrated the positive impact of the strategic role of HR and corporate financial performance.[24] Another study found that using high-performance work practices can lead to better firm performance, which, in turn, leads to additional adoption of such practices.[25] Overall, these studies show that high-performance HR practices are beneficial to companies.

Many large companies have recently made strategic decisions regarding where to locate operations specifically because of human capital concerns. General Electric (GE) moved its headquarters from Fairfield, Connecticut, to Boston because educated, technology-savvy workers are more available in Boston and they prefer to live in urban centers rather than the suburbs. While corporate tax rates played some role in this decision, it was primarily an attempt to secure the talent needed for GE to transform its business from industrial operations to a software innovator.[26] McDonald's Corporation also moved from the Chicago suburb of Oak Brook, Illinois, to a trendy section of downtown Chicago to appeal to educated Millennials who are leaving the suburbs and migrating to the city.[27]

ETHICS

There is also growing awareness that HR professionals can assist in developing strategies for organizational sustainability. Figure 2-4 highlights a model summarizing HR professionals' interests in sustainability management. An HR department can provide expertise that is needed to prepare employees to focus on sustainability, including talent acquisition, training and development, and performance management. HR professionals also focus on social concerns, so they are well-suited to prepare employees to help external stakeholders. Even more important is the central leadership role the HR department plays in the creation of a positive workplace, making the HR group keenly positioned to help lead sustainability efforts.[28]

GLOBAL

2-2b Human Resources Strategies for Global Competitiveness

The globalization of business means that more organizations now operate across borders and have ties to foreign operations along with international suppliers, vendors, employees, and other business partners. A global presence can range from importing and exporting to operating as

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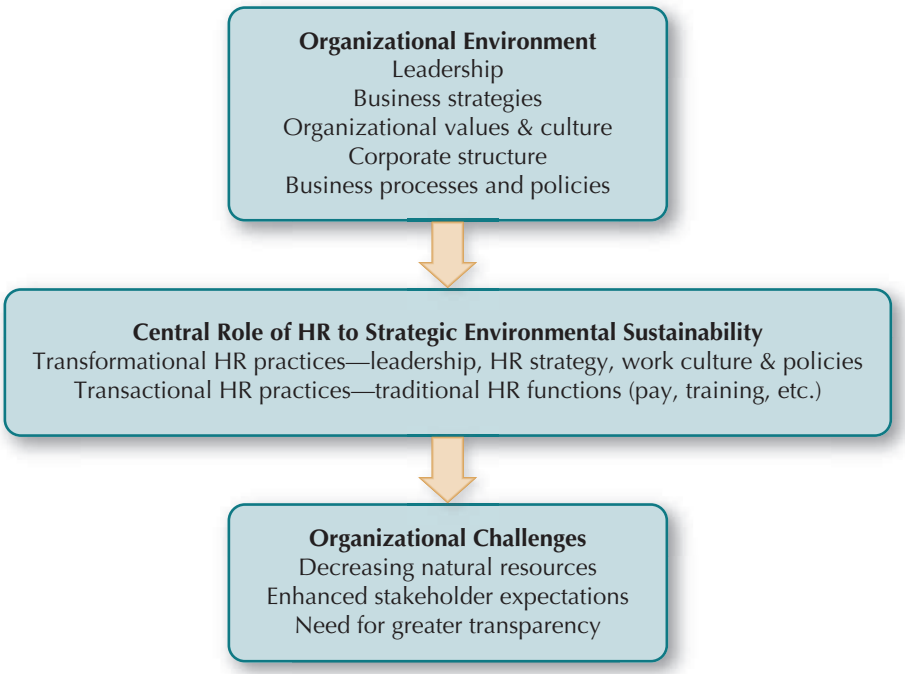
FIGURE 2-4 The HR Department's Contribution to Organizational Sustainability



Source: Adapted from Cathy L. Z. Dubois and David A. Dubois, "Strategic HRM as Social Design for Environmental Sustainability in Organization," *Human Resource Management* 51 (2012): 799–826.

Multinational corporation (MNC)
An organization that has facilities and other assets in at least one country other than its home country

a **multinational corporation (MNC)**. An MNC, sometimes called a transnational corporation, is an organization that has facilities and other assets in at least one country other than its home country.

Even organizations that operate primarily in the domestic market face pressure from foreign competitors. The supply chain is often internationally dispersed, and foreign business practices influence operations in the United States. Technological advancements have eliminated many barriers that previously limited operating on a global scale. Chapter16 provides an in-depth look at all of the HR implications of operating in a global environment. The following section is an overview of major issues faced by MNCs in managing human capital.

For HR to complement the organization's strategy, it has to consider how to merge HR strategies with those of the company. To effectively compete on an international scale, the organization needs expertise to administer HR activities in a wide range of nations. For example, the firm may decide to standardize talent development and succession planning but permit local managers to establish compensation and labor relations policies. An ideal international strategy strikes a balance between home-country and host-country policies, and it utilizes the best practices available in each. Companies must also prepare employees to have a *global mind-set*, which is based on their ability to understand diverse cultural values and global business operations. Workers can develop a global mind-set with greater global job experiences, psychological capital (or a positive outlook), and varied experiences in different countries.[29]

Offshoring
A company's relocation of a business process or operation from one country to another

A primary method for organizations to respond to global labor conditions is through offshoring. **Offshoring** occurs when a company relocates a business process or operation from one country to another. Firms can offshore the production of goods as well as the delivery of services to lower-wage countries. Call centers in India are an example of business service offshoring to countries with well-educated, English-speaking workers. The movement of product and software development projects to other countries because the United States lacks the right talent is another example. A complex mix of technology trends and economic policies may impact the amount of offshoring by U.S. companies in the future. Artificial intelligence and robotic process automation may

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lead to a decline in offshoring as these activities require fewer workers.[30] Conversely, changes in U.S. tax law may provide incentives for companies to locate operations offshore and protect revenues earned abroad.[31] This is an example of how VUCA conditions affect businesses and highlights the importance of HR professionals remaining informed and up-to-date on how talent can best be used to help organizations compete internationally.

GLOBAL

Other factors might be considered when offshoring business operations, such as whether practices in other countries match those employed in the United States. For instance, a recent study found that some companies in China might be utilizing high-performance work systems to increase organizational performance.[32] Another study determined that firms located in Germany are adopting positive HR practices used in other European nations and the United States.[33] These findings show that global HR approaches can be important considerations when making offshoring decisions.

HR

COMPETENCIES & APPLICATIONS

Latin American Firms Face Staffing Problems

A recent survey of large global Latin American firms headquartered in countries such as Brazil, Mexico, and Argentina showed that many have expanded into international markets through mergers and acquisitions. On average, each of these organizations managed worksites in 13 different nations, with operations frequently located in North America and Western Europe. There is also high interest for continued expansion into current and new markets. Despite these exciting trends, the survey results suggested that the firms faced a number of staffing challenges that potentially hurt their ability to grow in new regions.

The survey found that mergers and acquisitions were one of the most troubling issues, and determining how to function in different cultures was identified as one of the key difficulties. However, Latin American firms may be better able to deal with these issues given that they have experience with challenging political, legal, and economic conditions. Getting good workers and figuring out how to manage the flow of talent were also key problems that these companies faced. HR professionals in these organizations will need to determine how to most effectively manage recruiting efforts and succession plans so that people are hired and placed into the right jobs at the proper time; promotions and other placement issues will also have to be planned well to ensure that mergers and acquisitions are successful. The following considerations can help firms plan HR staffing in the global environment:

- *Pay attention to the firm's HR strategies*: Understand where and how a company plans to expand so that the right HR strategies are considered.
- *Develop consistent expansion plans*: An organization's global expansion plans should be similar across the board to ensure consistency.
- *Think about succession plans*: Have an idea about how exiting employees will be replaced with current staff so that vacancies can be filled quickly.
- *Partner with HR to lower risks*: The HR department needs to have a seat at the risk management table so that staffing and other workplace issues can be explored strategically.[34]

The ability to manage international expansion is certainly an important global competency within the HR profession. If you were given the responsibility of managing mergers and acquisitions in a global firm:

1. How would you focus HR leaders on the development of positive strategies for expansion? What HR issues do you think deserve the most attention?
2. What other steps would you take to help a global company expand into new markets?

KEY COMPETENCIES: Global & Cultural Effectiveness (Behavioral Competency) and Organization (Technical Competency)

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Another issue in HR is planning, which is frequently a direct consequence of implementing strategies to move the organization forward. HR planning deals with determining how many people will be needed to execute an organization's specific functions, a key concern in both global and domestic firms. The preceding "HR Competencies & Applications: Latin American Firms Face Staffing Problems" feature discusses how some global companies face challenges related to HR planning.

2-3 Human Resource Planning

Human resource planning
The process of analyzing and identifying the need for and availability of people so that the organization can meet its strategic objectives

Human resource planning is the process of analyzing and identifying the need for and availability of people so that the organization can meet its strategic objectives. The focus of HR planning is ensuring that the organization has the *right number of people* with the *right capabilities* at the *right times* and in the *right places*. In HR planning, an organization must consider the availability and allocation of people and talent needs over longer periods of time, not just for the next month or even the next year.[35] In a recent study, 70 percent of people reported that their jobs change substantially every few years, making HR planning a constantly changing landscape.[36]

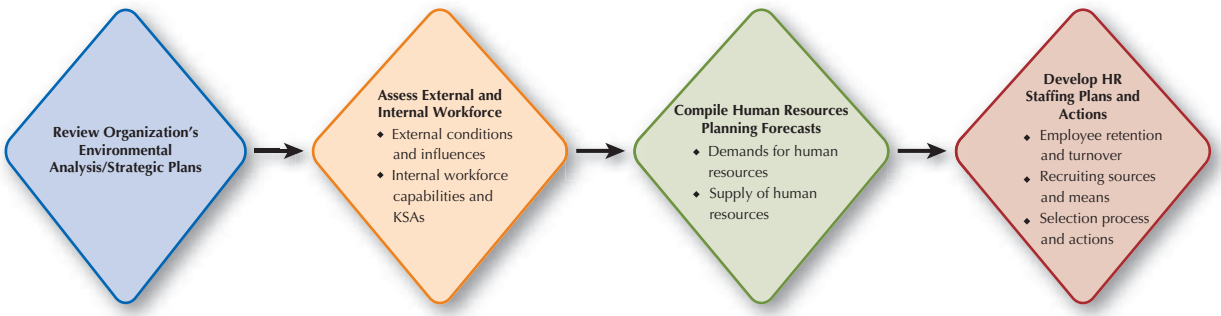
HR plans can include several approaches. Actions may include redeploying employees to other jobs in the organization, laying off employees or otherwise cutting back the number of employees, retraining current employees, and/or increasing the number of employees in certain areas. Factors to consider include the current employees' knowledge, skills, abilities (KSAs) and career aspirations as well as vacancies expected as the result of retirements, promotions, transfers, and discharges. HR planning should include not only considering the capabilities of the internal workforce but also those in supporting roles such as independent contractors, temporary workers, and others in the gig economy.[37]

2-3a Human Resources Planning Process

The HR planning process follows the steps shown in Figure 2-5. Notice that the process begins with considering the organizational plans and the environmental analysis that went into developing strategies. The process includes an environmental analysis to identify the context in which HR is operating. Strengths, weaknesses, opportunities, and threats are considered. Then the possible *available workforce* is evaluated by identifying both the internal and the external workforce.

Once those assessments are complete, forecasts are developed to determine both the demand for and supply of human resources. Management then formulates HR staffing plans and actions needed to address the short- and long-term imbalances. Particular strategies may be developed to fill vacancies or deal with surplus employees. For example, a strategy might be to fill 50 percent of expected vacancies by training employees in lower-level jobs and promoting them.

FIGURE 2-5 HR Planning Process



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Finally, HR plans are developed to provide specific direction for managing HR activities related to recruiting, selecting, and retaining employees. The most telling evidence of successful HR planning is having the appropriate talent available to match current and future needs.

2-3b Environmental Analysis

Environmental scanning
The assessment of external and internal environmental conditions that affect the organization

Before managers in a company begin strategic planning, they study and assess the dynamics of the environment to better understand how these conditions might affect their plans. The process of **environmental scanning** involves evaluating how external and internal environmental conditions may affect the organization. The HR department should be involved in this process to make sure that the employee perspective is considered.

The external environment includes many economic, political, and competitive forces that shape the future. From an HR perspective, the internal environment includes the quality and quantity of talent, the organizational culture, and the talent pipeline and leadership bench strength. Figure 2-6 shows the HR elements of a SWOT analysis that are included in the environmental analysis.

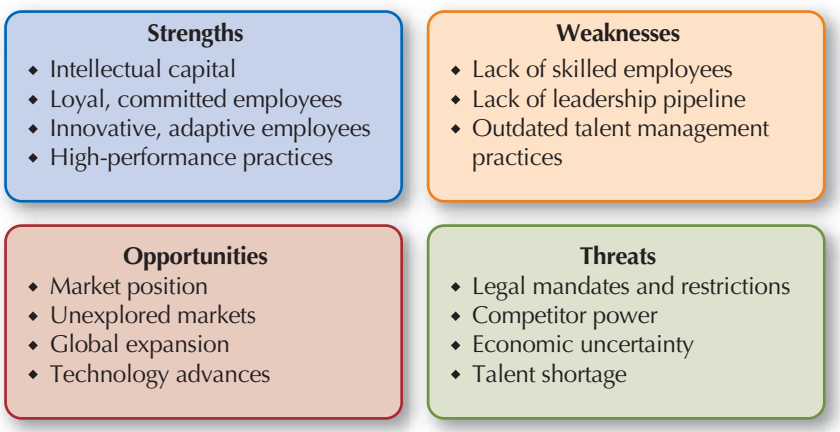
Opportunities and threats emerge from the external environment and can impact an organization's outcomes. Many of these forces are not within the company's control but must be considered in the scanning process because they can affect the viability of the business. Being able to deal with uncertainty in the external environment is an important skill for planners. The external environmental scan includes an assessment of economic conditions, legislative and political influences, demographic changes, and geographic and competitive issues.

Population shifts and demographic changes can affect an organization's strategy. For example, by 2030, one in five Americans will be aged 65 and older; by 2044, more than half of Americans will be members of a minority group (non-Hispanic whites); and by 2060, nearly one in five will be foreign born.[38] These workforce demographic shifts will affect the labor available to organizations and lead to increased emphasis on diversity management.

Where an organization locates its operations plays a role in how well it will perform. Inland cities like Denver, Colorado, and Austin, Texas, are experiencing high growth as financial professionals leave high-cost coastal locations in favor of more affordable and family friendly, growing locations. Companies look to these growing centers of talent when considering where to locate their facilities.[39] But more importantly, an understanding of geographic advantages and disadvantages can help managers develop appropriate plans.

The strengths and weaknesses of the organization also represent internal factors that either create or destroy value. When assessing the internal environment, managers should evaluate the quantity and quality of employees, HR practices, and the organizational culture. The strength of the talent pipeline is a particularly important internal consideration as the organization plans its HR

FIGURE 2-6 HR Factors in the SWOT Analysis



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Succession planning
The process of identifying a plan for the orderly replacement of key employees

future. Fulfilling strategic objectives is difficult without employees who have the required skills and talent. **Succession planning** is the process of identifying a plan for the orderly replacement of key employees. Leadership development and succession planning programs ensure that high-quality talent will be available to carry out business strategies. For instance, effective development programs can reduce the high failure rate of people in leadership positions. Selecting individuals with the right talents and teaching them leadership skills can also improve the quality of leaders and promote strategic success.

2-4 Planning for External Workforce Availability

An organization that plans to increase its sales or change its product offerings must also identify how many and what types of new employees will be needed to staff the expanded services, locations, and facilities. These new employees will probably be obtained from outside the current internal workforce, which means that the company and its HR department will need to understand the forces that impact external labor markets. Several specific factors that affect the external pool of potential employees are highlighted next.

2-4a Economic and Governmental Factors

The general economic cycles of recession and boom affect HR planning. Factors such as interest rates, inflation, and economic decline or growth affect the availability of workers and should be considered when organizational and HR plans and objectives are formulated. There is a considerable difference between finding qualified applicants in a 4 percent unemployment market compared to a 9 percent unemployment market. As the unemployment rate rises, the number of qualified people looking for work increases, which often makes it easier for companies to fill some jobs. However, the people who are hired may receive lower pay and benefits because companies have more hiring options and leverage. As the unemployment rate decreases, there are fewer potential employees who are available, meaning that companies must provide more attractive compensation to recruit qualified employees.

A broad array of government regulations affects the labor supply and, therefore, HR planning. As a result, HR planning must be done by individuals who understand the legal requirements of various government regulations. In the United States and other countries, tax legislation at local, state, and federal levels affects HR planning. Pension provisions and Social Security legislation may change retirement patterns and funding options. Varying minimum wage requirements are in place in many cities and states, making these locations more or less attractive to employers.[40] Changes in federal immigration policies may impact the number of individuals available for employment.[41] In summary, an organization must consider a variety of economic factors and government policies, regulations, and laws during the HR planning process, focusing on those that specifically affect the company.

2-4b Geographic and Competitive Evaluations

When making HR plans, employers must consider a number of geographic and competitive concerns. The *net migration* into a particular region is important. For example, in the past decade, the populations of some U.S. cities in the South, Southwest, and West have grown rapidly and provide sources of labor. However, areas in the Northeast and Midwest have experienced declining populations or net outmigration, which affects the number of people available to be hired.

Direct competitors are another important external force to consider in HR planning. Failure to consider the competitive labor market and to offer pay scales and benefits comparable to those of organizations in the same general industry and geographic location may cost a company dearly in the long run. Increases in starting pay at many fast food and retail firms have increased the overall

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cost of hiring entry-level workers in many regions.[42] Finally, the impact of *international competition* must be considered as part of environmental scanning. Global competition for labor intensifies as global competitors shift jobs and workers around the world, something that is seen when jobs from the United States are outsourced to countries with cheaper labor.

2-4c Changing Workforce Considerations

Like the issues discussed in this chapter's "HR Headline: HR Planning in the 'Air Capital of the World'" feature, significant changes in the workforce, both in the United States and globally, must be considered when examining the outside workforce during HR planning. Shifts in the composition of the workforce, combined with the use of different work patterns, have created workplaces and organizations that are notably different from those of the past. For instance, some employers provide flexible workplaces that enable employees to balance their work and personal responsibilities. When assessing the potential and future workforce, it is important to consider a number of variables, including the following:

- Aging of the workforce
- Growing diversity of workers
- Female workers and work–life integration concerns
- Availability of contingent workers
- Outsourcing possibilities

When evaluating these factors, it is important to analyze how they affect the current and future availability of workers with specific capabilities and experience. For instance, in a number of industries, the median age of highly specialized professionals is more than 50 years, and the supply of potential replacements with adequate education and experience is not sufficient to replace such employees as they retire. Many firms have planned for workforce shortages because of the brain drain created by the retirement of existing older workers.

2-5 Planning for Internal Workforce Availability

Analyzing the jobs that will need to be done and the capabilities of the current workforce is the next step in HR planning. The needs of the organization must be compared to the existing labor supply, as well as the potential labor supply available outside the firm. However, there are a number of obstacles to widespread application of HR and workforce planning. The following "HR Highlight: Barriers to Workforce Planning" feature discusses why organizations may struggle to implement effective planning processes. Chapter 4 deals with changes in how work and jobs will affect organizations in the future. The following is an overview of these issues related to HR planning.

2-5a Current and Future Jobs Audit

The starting point for evaluating internal workforce readiness is an audit of the jobs that are expected in the planning period. A comprehensive analysis of all current jobs provides a basis for forecasting what jobs will need to be done in the future. Much of the data required for the audit should be available from existing staffing and organizational databases. The following are key questions addressed during the internal jobs assessment:

- What jobs exist now, and how essential is each job?
- How many individuals are performing each job?
- What are the reporting relationships of jobs?
- What are the critical KSAs needed in the jobs?
- What jobs will be needed to implement future organizational strategies?
- What are the characteristics of those anticipated jobs?

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HIGHLIGHT

Barriers to Workforce Planning

For most organizations, the workforce is the most important resource in achieving its goals. While leaders might recognize and acknowledge this reality, too often the planning process for human resources falls short. Rather than viewing the planning process as gazing into a crystal ball, managers can harness the process to improve the operational outcomes in the organization.

There are a number of roadblocks that prevent many organizations from getting the most value out of the HR planning process. The following explains the major barriers encountered by HR professionals who are trying to plan for the workforce needs of the future:

- *Time frame*: An overemphasis on short-term results and planning can blind managers to the importance of a longer-term outlook.
- *Concerns about data integrity*: The quality of data, while improving, is often inadequate for effective planning. If managers cannot trust the data they are working with, they will have little confidence in the plans they develop.
- *Control*: Some managers rely too heavily on their gut instinct when planning. This is particularly true when data about human resources is lacking or inaccurate.
- *Detail*: Since jobs and work demands are in a constant state of flux, it can be difficult to determine the appropriate level of detail (i.e., at the task level, job family, and department).
- *Forecasting*: It can be challenging to accurately predict which employees will retire or leave the organization, making the estimate of talent needs hard to pin down.

Fortunately, there are two emerging trends that may help to combat this reluctance to conduct workforce planning. Data-driven management approaches are beginning to take hold in the industry as *big data* becomes more common in the HR domain. Previously reserved for information about customers and their buying habits and preferences, HR is entering the era where a great deal of data now exists about an organization's workforce. This should facilitate the planning process by enhancing the quality and quantity of information about workers.

The second trend involves the use of predictive analytics, using historical data to estimate what will happen in the future. Predictive analytics might be applied to the workforce in terms of projecting how many and which employees may leave the organization. Another application might focus on predicting the work technologies that may be used in the future and determining the competencies needed to perform jobs.

The overarching goals of workforce planning are aligning strategic planning with workforce headcounts and talent planning, generating a detailed staffing projection by job category, and transforming the organization from being reactive to being proactive with respect to workforce planning.[43]

Based on these issues, consider the following questions:

1. How might HR professionals work to overcome issues related to managers' need for control and focus on the short term?
2. What steps might HR staff take to improve the quality and availability of data regarding human resources in the organization?

2-5b Employee and Organizational Capabilities Inventory

As HR planners determine the current and future jobs that will be necessary to carry out organizational plans, they can conduct a detailed audit of current employees and their capabilities. The basic data on employees should be available in the organization's HR records.

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An inventory of organizational skills and capabilities may consider a number of elements. The following are especially important:

- Individual employee demographics (age, length of service in the organization, and time in present job)
- Individual competencies (KSAs)
- Individual career progression (jobs held, time in each job, education and training levels, promotions or other job changes, and pay rates)
- Individual performance data (work accomplishments, growth in skills, and working relationships)

Detailed information about each individual employee's skills is stored in a Human Resource Information System database. Since this data may affect employees' careers, it must meet the same standards of job-relatedness and nondiscrimination as those met when the employee was initially hired. Security measures must ensure that sensitive information is available only to those who have a specific appropriate use for it.

Managers and HR staff members can gather data on individual employees and aggregate details into a profile of the organization's current workforce. This profile may reveal many of the current strengths and deficiencies of the current internal workforce. For instance, a skill mismatch may be identified in which some workers are either overqualified or underqualified for their jobs. The profile may also highlight potential future problems. For example, if many workers lack some specialized expertise, such as advanced technical skills, the organization may find it difficult to take advantage of changing technological opportunities. Or if a large number of experienced employees are in the same age bracket, their eventual retirements that will likely occur about the same time might lead to future skill gaps in the organization.

LO3 Discuss how to forecast the supply and demand of human resources.

Forecasting
Using information from the past and present to predict future conditions

2-6 Forecasting HR Supply and Demand

Forecasting uses information from the past and present to predict future conditions. When forecasting future HR conditions, the information comes from workforce availability and requirements. Projections for the future are, of course, subject to error and to changing conditions. Fortunately, experienced people are usually able to forecast with sufficient accuracy to create usable long-range plans.

2-6a Forecasting Methods and Periods

Forecasting methods are often categorized as either qualitative (subjective judgment) or quantitative (mathematical) as shown in Figure 2-7. Methods for forecasting human resources range from a manager's best guess to rigorous and complex computer simulation. Despite the availability of sophisticated judgmental and mathematical models and techniques, forecasting is still a combination of mathematical methods and subjective judgment. The facts must be evaluated and weighed by knowledgeable individuals, who use the mathematical models as tools and make judgments to arrive at decisions.[44]

HR forecasting should be done over three planning periods: short range, intermediate range, and long range. The most commonly used planning period of six months to one year focuses on *short-range* forecasts for the immediate HR needs of an organization. Intermediate- and long-range forecasting are much more difficult processes. *Intermediate-range* plans usually project one to three years into the future, and *long-range* plans extend beyond three years.

2-6b Forecasting the Demand (Need) for Human Resources

Anticipated demand for labor is a function of the anticipated demand for the organization's products and services during the planning horizon. This is the primary driver of labor demand and

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FIGURE 2-7 HR Forecasting Methods

Qualitative Methods

- *Estimates* can be either top-down or bottom-up, but essentially people who are in a position to know are asked, "How many people will you need next year?"
- *The rule of thumb* method relies on general guidelines applied to a specific situation within the organization. For example, a guideline of "one operations manager per five reporting supervisors" aids in forecasting the number of supervisors needed in a division. However, it is important to adapt the guideline to recognize widely varying departmental needs.
- *The Delphi technique* uses input from a group of experts whose opinions of forecasted situations are sought. These expert opinions are then combined and returned to the experts for a second anonymous opinion. The process continues through several rounds until the experts essentially agree on a judgment. For example, this approach is used to forecast effects of technology on HR management and staffing needs.
- *Nominal groups*, unlike the Delphi method, require experts to meet face to face. Their ideas maybe cited independently at first, discussed as a group, and then compiled as a report.

Quantitative Methods

- *Statistical regression analysis* makes a statistical comparison of past relationships among various factors. For example, a statistical relationship between gross sales and number of employees in a retail chain may be useful in forecasting the number of employees that will be needed if the retailer's sales increase 15 percent or decrease 10 percent.
- *Simulation models* are representations of real situations in abstract form. For example, an econometric model of the growth in software usage would lead to forecasts of the need for software developers. Numerous simulation methods and techniques are available.
- *Productivity ratios* calculate the average number of units produced per employee. These averages can be applied to sales forecasts to determine the number of employees needed. For example, a firm could forecast the number of needed sales representatives using these ratios.
- *Staffing ratios* can be used to estimate indirect labor. For example, if the company usually uses one clerical person for every 25 production employees, that ratio can be used to estimate the need for clerical employees.

highlights the importance of the HR staff being informed of the organizational strategy and plans.[45] Demand for human resources can be forecast by considering specific openings that are likely to occur. The openings (or demands) are made when new jobs are created or current jobs are changed. Additionally, forecasts must consider when employees leave positions because of promotion, transfer, turnover, retirement, and termination.

The demand for employees can be calculated for an entire organization and/or for individual units in the organization. For example, a forecast might indicate that a firm needs 125 new employees next year or that it needs 25 new people in sales and customer service, 45 in production, 20 in accounting and information systems, 2 in HR, and 33 in the warehouse. The unit breakdown obviously allows HR planners to better pinpoint the specific skills needed than does the aggregate method.

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Organization leaders and HR staff develop decision rules (or fill rates) for each job or level. For example, a decision rule for a manufacturing company might state that 50 percent of shift supervisor openings will be filled through promotions from front-line workers, 25 percent through promotions from quality inspectors, and 25 percent from new hires. Forecasters must be aware of the cascading effect throughout the organization as people are promoted from within and their previous positions become available. Continuing the example, forecasts for the need for front-line workers and quality inspectors would also have to be developed. The overall purpose of the forecast is to identify needs for human resources by number and type for the forecasting period.

2-6c Forecasting the Supply (Availability) of Human Resources

Once HR demand has been determined, the availability of qualified individuals must be calculated. Forecasting availability considers both *external* and *internal* supplies. Although the internal supply may be somewhat easier to calculate, it is important to calculate the external supply as accurately as possible.

External Supply The external supply of potential employees available to the organization can be ascertained. Government estimates of labor force populations, trends in the industry, and many more complex and interrelated factors must be considered. Such information is often available from state or regional economic development offices. The following factors may be included:

- Net migration into and out of the area
- Individuals entering and leaving the workforce
- Individuals graduating from colleges and other schools
- Changing workforce composition and patterns
- Economic forecasts for the next few years
- Technological developments and shifts
- Actions of competing employers
- Government regulations and pressures
- Circumstances affecting persons entering and leaving the workforce

Internal Supply Figure 2-8 shows in general terms how internal supply can be calculated for a specific employer. Estimating internal supply considers the number of external hires and the employees who move from their current jobs into others through promotions, lateral moves, and demotions. It also considers that the internal supply is influenced by transfer and promotion policies, and retirement policies, among other factors. In forecasting internal supply, data from replacement charts and succession planning efforts are used to project potential personnel changes, identify possible backup candidates, and keep track of attrition (resignations, retirements, etc.) for each department in an organization.

Effective HR planning can be a source of competitive advantage for organizations. This is true because planning helps companies identify their future needs and how to get the right employees to satisfy these needs, thus making the hiring process more efficient.

LO4 List options for handling imbalances in the workforce.

2-7 Workforce Imbalances

Since the objective of strategic planning is to anticipate and react to future events and conditions, managers should evaluate and revise the strategic plan on a periodic basis. Some have called into question the value of strategic planning in light of economic volatility. However, organizations

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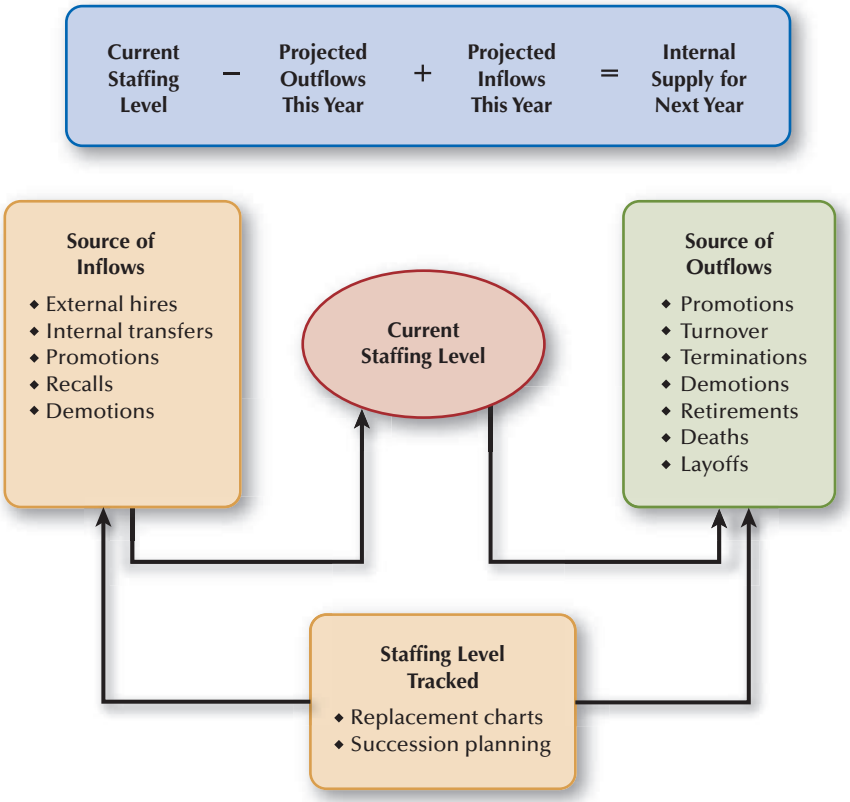
FIGURE 2-8 Estimating Internal Labor Supply for a Given Unit



would fare much worse with no plan in place. Surprises are not good when hiring a workforce, and planning helps reduce surprises. Adopting a *supply chain philosophy* toward talent leads to an integrated process whereby all types of labor (internal workforce, independent contractors, etc.) are assessed and considered for filling future needs.[46]

Attracting and retaining the right talent is an ongoing challenge as the needs of the business change over time. The U.S. economy has continued to move from a manufacturing base to a service base. This shifting economic base leads to structural mismatches between workers and jobs. Workers with the wrong skills are unable to fill the technical and health service jobs employers need. Ongoing retraining can help overcome some of these problems if strategic planning has identified them. Organizations need to plan for both the quantity and the quality of the workforce over the planning horizon. Having sufficient workers with the right qualifications is essential if the strategic plan is to be achieved. If the firm employs too many people for its needs, a talent surplus exists, and if too few, a talent shortage. Because of rapidly changing conditions, the organization may face a surplus in some parts of the business and a shortage in others. Figure 2-9 shows the tactics organizations might use to deal with workforce supply imbalances.

2-7a Managing a Talent Surplus

A talent surplus can be managed within a strategic HR plan in a number of ways. The reasons for the surplus will guide the ultimate steps taken by the organization. If the workforce has the right qualifications but sales revenue has fallen, the primary strategies would involve retaining the best workers and cutting costs. General Mills took this approach in response to falling product sales in packaged foods.[47] Efforts to improve efficiency by implementing automated billing and cash-flow processes led Walmart to cut its store-based workforce by 7,000 employees.[48] However, if the workforce is not

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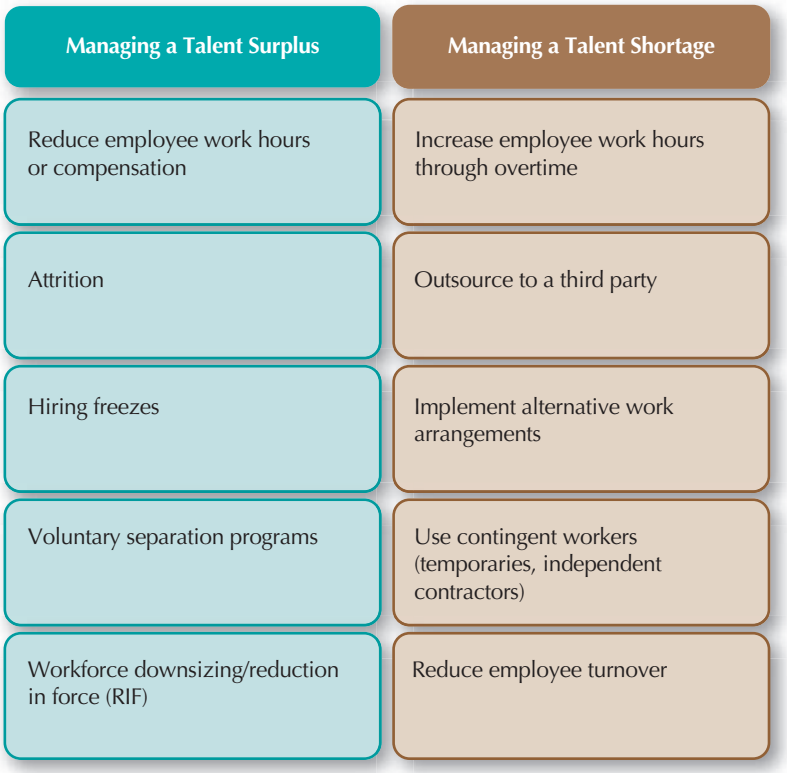
FIGURE 2-9 Managing Talent Supply Imbalances



appropriately trained for the jobs needed, the organization may lay off those employees who cannot perform the work. Managers may use various strategies in a progressive fashion to defer workforce reductions until absolutely necessary.

Reduction in Work Hours or Compensation To retain qualified employees, managers may temporarily institute reduced work hours. Selected groups of employees may have their workweek reduced, or all employees could be asked to take a day or week off without pay. For example, a small family-owned company asked its 15 full-time workers to take a day off without pay each week to keep all of them on the payroll and avoid layoffs. When the economy improved, these skilled employees were available to handle the increased workload.

Across-the-board pay cuts can reduce labor costs while retaining some skilled employees. It is important that pay cuts start at the very top of the organization so that employees do not bear all of the hardship. Uniform pay cuts can be seen as a shared sacrifice for the survival of the firm. Organizations may also reduce employee benefits, such as eliminating matching 401(k) contributions or raising employee health insurance premiums. To maintain employee loyalty and a sense of fairness, HR personnel should closely monitor the situation and reinstate pay and benefit levels when the economic outlook improves.

Attrition and Hiring Freezes Attrition occurs when individuals quit or retire and are not replaced. Using attrition with no additional hiring means that no one loses a job, but those who remain must handle the same workload with fewer people. Unless turnover is high, attrition will eliminate only a relatively small number of employees in the short run, but it can be a viable alternative over a longer period of time. Therefore, for greater impact, employers may combine attrition with a freeze on hiring. Employees usually accept this approach more readily than they do other downsizing methods.

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Voluntary Separation Programs If employees volunteer to leave, organizations can reduce the workforce while also minimizing legal risks. Firms often entice employees to volunteer by offering additional severance, training, and benefit payments. Boeing recently offered 1,500 machinists a voluntary buyout by providing one week of severance pay for each year of service plus six months of medical coverage.[49] Early retirement buyouts are widely used to encourage more senior workers to leave organizations early. As an incentive, employers may offer expanded health coverage and additional buyout payments so that the employees will not be penalized economically until their pensions and Social Security benefits take effect. These programs are viewed as a way to accomplish workforce reductions without resorting to layoffs.

Voluntary separation programs appeal to employers because they can significantly reduce payroll costs over time. Although the organization faces some up-front costs, it does not incur as many continuing payroll costs. Using such programs is also viewed as a more humane way to reduce staff than terminating long-serving, loyal employees. In addition, as long as buyouts are truly voluntary, an organization offering them is less exposed to discrimination suits. One drawback is that some employees the company would like to retain might take advantage of a buyout.

Workforce Downsizing This workforce process has been given many names, including downsizing, rightsizing, and reduction in force (RIF), but it almost always means cutting employees. Layoffs on a broad scale have occurred with frightening regularity in recent years. Trimming underperforming units or employees as part of a plan that is based on sound organizational strategies may make sense. While layoffs are often a go-to strategy for many organizations facing difficulties, research shows that it frequently fails to produce improved financial results and, in some cases, leads to even worse performance than if the layoffs had not taken place.[50] It is a short-term solution that can result in a long-term lack of talent. Also, downsizing can hurt productivity by leaving "surviving" employees overburdened and demoralized.

Many HR professionals believe that their organizations have mishandled layoffs in the past by getting rid of too many employees, not getting rid of enough, or letting the wrong ones go. Groupthink (a herd mentality), framing effects (thinking about decisions only in certain ways), focusing on inappropriate criteria, and making decisions too quickly can lead to some of these poor decisions.[51] Effective implementation of layoffs includes the following:

- Identify the work that is core to sustaining a profitable business.
- Identify the knowledge, skills, and competencies needed to execute the business strategy.
- Protect the bottom line and the corporate brand.
- Constantly communicate with employees.
- Pay attention to the survivors.

A common myth is that individuals who are still employed after downsizing are so grateful to have a job that they won't cause any problems in the workplace. However, some observers draw an analogy between those who survive downsizing and those who survive wartime battles. Bitterness, anger, disbelief, and shock all are common reactions. For those who survive workforce cuts, the culture and image of the firm as a "lifetime" employer often are gone forever.

Severance benefits
Temporary payments made to laid-off employees to ease the financial burden of unemployment

Companies may offer severance benefits, outplacement services, and employee assistance programs to cushion the shock of layoffs and protect the company from litigation. **Severance benefits** are temporary payments made to laid-off employees to ease the financial burden of unemployment. One common strategy is to offer laid-off employees severance benefits that require the employees to release the organization from legal claims. Severance benefits are typically based on length of service with the company, often one or two weeks' pay per year of service. Outplacement services and employee assistance programs are provided to give displaced employees support and assistance. This support often includes personal career counseling, résumé-preparation services, interviewing workshops, and referral assistance. Such services can be provided by outside firms that specialize in outplacement assistance and whose fees usually are paid by the employer, or they can be provided by the HR staff. Helping laid-off workers gain new employment can ease the financial burden on employees and preserve the company's image.[52]

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2-7b Legal Considerations for Workforce Reductions

HR must be involved during workforce adjustments to ensure that the organization does not violate any of the nondiscrimination or other laws governing workforce reductions. Selection criteria for determining which employees will be laid off must comply with Title VII of the Civil Rights Act as well as the Age Discrimination in Employment Act and the Americans with Disabilities Act. A careful analysis and disparate impact review should be conducted before final decisions are made.

There is no legal requirement to provide severance benefits, and loss of medical benefits is a major problem for laid-off employees. However, under the federal Consolidated Omnibus Budget Reconciliation Act (COBRA), displaced workers can retain their group medical coverage for up to 18 months for themselves and for up to 36 months for their dependents, if they pay the premiums themselves.

Employers must also comply with the Older Workers Benefit Protection Act (OWBPA) when implementing RIFs. The OWBPA requires employers to disclose the ages of both terminated and retained employees in layoff situations, and a waiver of rights to sue for age discrimination must meet certain requirements. The worker must be given something of value ("consideration"), typically severance benefits, in exchange for waiving the right to sue. When a group of employees is laid off, workers over age 40 in this group must be granted 45 days in which to consider accepting severance benefits and waiving their right to sue.

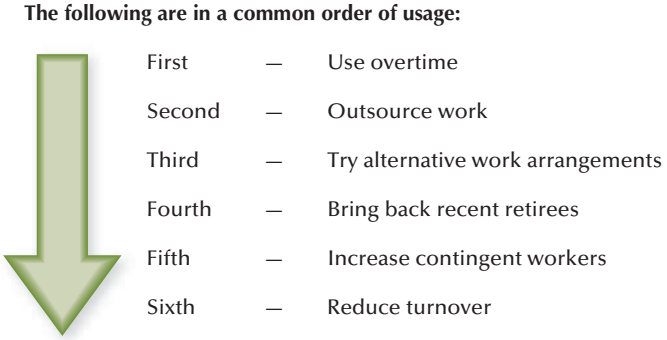
The Worker Adjustment and Retraining Notification (WARN) Act ensures that employees have adequate notice of plant closings or mass layoffs. This law requires private and commercial organizations that employ 100 or more full-time workers who have worked more than six months in the previous year to give a 60-day notice before implementing a layoff or facility closing that involves more than 50 people. While workers with less service are not counted to determine applicability of the law, these individuals should still be given some form of notice. The WARN Act imposes heavy fines on employers that do not follow the required process and fail to give proper notice.

2-7c Managing a Talent Shortage

Managing a shortage of employees seems simple enough—just hire more people. However, there can be mismatches between the qualifications needed by employers and the skills possessed by available workers. The home building and over-the-road trucking industries face major shortfalls in the labor available for vacant jobs. This is creating difficulties in fulfilling demand for their services and is affecting companies' bottom lines.[53] A recent survey found that extending job vacancies longer than 12 weeks costs the average company nearly $1 million a year.[54] Companies can use a number of alternative tactics to manage a talent shortage, as Figure 2-10 shows.

One solution is having existing employees work overtime. This strategy can work on a short-term basis but is not a solution for a longer-term talent shortage. Workers may appreciate the

FIGURE 2-10 Ways to Manage a Talent Shortage



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extra hours and pay for a while, but eventually fatigue sets in, productivity and quality may drop, and injuries and absenteeism may increase.

Outsourcing
Transferring the management and performance of a business function to an external service provider

Outsourcing involves transferring the management and performance of a business function to an external service provider. Organizations in the United States outsource a wide variety of noncore functions to reduce costs or to obtain skills and expertise not available in the organization.

Alternate work arrangements
Nontraditional schedules that provide flexibility to employees

Alternate work arrangements are nontraditional schedules that provide flexibility to employees and include job sharing and telecommuting. These are creative solutions to attract and retain skilled employees who want flexibility. Employees can be given more freedom in determining when and how they will perform their jobs. Retirees may be rehired on a part-time or temporary basis to fill talent gaps. The advantage is that these individuals are already trained and can be productive immediately. Care must be taken not to interfere with pension payments or other benefits tied to retirement.

Contingent employees, that is, noncore employees working for a company on a temporary or as-needed basis, can provide short-term help. Professional employer organizations can lease employees to the firm, which is often a good solution for technical talent. Independent contractors can be hired when needed to fill talent shortages. The use of independent contractors must be managed closely to ensure compliance with wage and hour, safety, and employee benefit statutes. When using contingent workers, special efforts are needed to assimilate them into the workforce and avoid an "us-and-them" mentality. Contingent workers fill an important need, and managers can maximize their contributions through good employee relations practices.

Reducing turnover of qualified employees should be part of an ongoing effort to maintain a talented workforce. Special attention may be required in times of talent shortages to retain skilled employees. Providing these individuals desirable compensation and a desirable workplace can improve retention of qualified workers.

2-8 Human Resources Planning in Mergers and Acquisitions

LO5 Explain the importance of human resource consideration during mergers and acquisitions.

LEADERSHIP

The purpose of a merger or acquisition is to generate growth by combining two existing companies and creating a more competitive company. Recent evidence suggests that companies frequently use mergers and acquisitions (M&As), with more efforts planned for the future. Since M&As often hinge on retaining and managing talent, HR professionals should be involved in managing these business ventures.[55]

HR departments can contribute to the strategic success of M&As through sound HR planning. Unfortunately, many M&As don't live up to their full potential. Due diligence is even more complex when the M&A involves companies in different countries. For instance, cultural differences in global operations, poor leadership, and inappropriate workplace practices can cause problems during M&As.[56] A significant number of failed ventures can also trace their roots to HR issues that were not properly addressed such as loss of key staff, culture clashes, and poor communication. To ensure successful integration, HR should be involved before, during, and after the deal is completed. Figure 2-11 shows HR activities and focus during each stage of the merger process.

2-8a Before the Deal

Due diligence
A comprehensive assessment of all aspects of the business being acquired

To determine whether the two organizations should combine, a rigorous process of due diligence is conducted. **Due diligence** is a comprehensive assessment of all aspects of the business being acquired. Financial, sales and marketing, operations, and human resource staffs can all be involved before the final decision is made to merge with or acquire the company. Each function determines the assets and liabilities of the target company to ascertain whether there are serious risks to the buyer. HR professionals can review broad issues related to legal compliance and labor contract obligations. HR should also assess what HR policies have been used in a firm, the available talent, and the organizational culture.[57]

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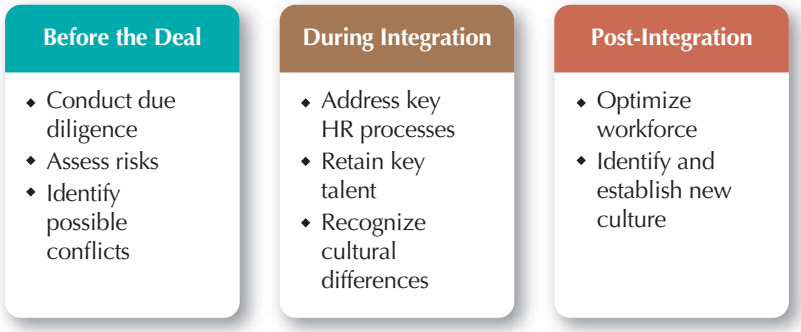
FIGURE 2-11 HR Activities during M&A



A standardized process for due diligence can be developed and used over and over again for greater consistency. In fact, when HR is involved in the due diligence process, the success rate of M&As increases.[58] These efforts can help companies identify potential problems early on and enable managers to plan for an orderly transition. A thorough, objective analysis of HR-related issues is, therefore, critical to making good business decisions. Organizations should also invite HR professionals and other key stakeholders to help with M&A efforts early in the process, and the implications for employees should be reviewed constantly.[59]

2-8b During Integration

After the deal is closed, the focus of HR activity switches to the orderly transition of basic HR processes such as payroll and benefits migration. During the first 60 days after the acquisition, HR must deliver high-quality administrative and operational support to employees and managers. Immediate concerns often focus on basic services needed to run the operations. Frequent communication, employee hotlines, and guidance for managers all contribute to employee retention and loyalty during the chaotic early days of the transition. Managers focus on identifying key talent and establishing initiatives to retain needed employees. Attractive compensation and job assignments can be offered to retain employees during integration.

Integrating HR information systems is important to provide managers with information about employee capabilities, performance, and potential. The acquiring organization cannot make optimum human resource assessments without access to employees' historical information. An inventory of knowledge, skills, and expertise along with performance information provide the data needed to make suitable assignments for employees from both organizations. Gathering all relevant HR information in a single database helps managers analyze and compare employee skills and make informed decisions about which employees should be retained.

As the businesses are merged, culture-based conflicts can emerge. For example, when HP and Compaq merged, cultural differences were recognized and addressed. HP had a culture that fostered innovation by giving employees autonomy and opportunities for professional development. Compaq, on the other hand, was a fast-paced company that made decisions quickly. The merger was successful because the best parts of the culture in each company were blended. Changing the organizational culture depends on changing behavior in the organization. Four important factors in changing culture include the following:

- *Define the desired behaviors.* Provide behavioral examples of how people are expected to act and tie these behaviors to the performance management system.
- *Deploy role models.* Select leaders who exemplify the desired behaviors and make them visible throughout the organization.
- *Provide meaningful incentives.* Reward the role models with recognition to reinforce their behavior and to signal to the rest of the organization.
- *Provide clear and consistent messages.* Align what you say with what you do and reward.

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2-8c Post-Integration

To realize the expected benefits of a merger, the months following the initial integration are important. Cultural changes started in the early days must be maintained. Practical issues regarding talent management and development along with combined compensation systems will solidify the new united organization. Failure to effectively blend the workforces and move beyond competing interests can harm the merger. Continued change efforts are needed to bring all employees to a *one organization* mentality. Breaking down the barriers between the previous practices used in each company and implementing the best from both firms will give employees a sense of value and importance. Ultimately, the outcomes of the deal depend on how HR issues are addressed. M&As can be challenging strategic moves for companies, but with appropriate assistance from HR, the chances for success can be improved.

2-9 Measuring the Effectiveness of Human Resources and Human Capital

LO6 Identify how organizations can measure and analyze the effectiveness of HR management practices.

MEASURE

Effectiveness
The ability of a program, project, or task to produce a specific desired effect or result that can be measured

Efficiency
The degree to which operations are carried out in an economical manner

Effectiveness for organizations is a measure of the ability of a program, project, or task to produce a specific desired effect or result that can be measured. **Efficiency** is the degree to which operations are carried out in an economical manner. Efficiency can also be thought of as a short-term measure that compares inputs and costs directly against outputs and benefits.

There are many ways of measuring the financial impact of the HR practices, and there are many challenges associated with doing so. *Return on investment (ROI)* is a common measure used by financial professionals to assess the value of an investment. For example, if a firm invests $20,000 for a supervisory training program, what does it gain in lower worker compensation costs, lower legal costs, higher employee productivity, and lower employee turnover? The benefits of HR practices are not always immediately visible, which is what makes measuring HR's impact such a challenge. However, successful efforts can usually be made to assess HR practices.

A long-standing myth perpetuates the notion that one cannot really measure the value of HR practices. That myth has hurt HR's credibility because it suggests that either HR efforts do not add value or they are too far removed from business results to matter. That notion is, of course, untrue. HR, like all other functions, must be evaluated by considering the results of its actions and the value it adds to the organization. Unfortunately, the perceptions of managers and employees in many organizations are mixed because HR has not historically measured and documented its contributions or communicated those results. Further, accounting practices treat expenditures on human capital and talent development as expenses rather than capital investments. This practice encourages top management to view employees as consumers of capital rather than as a long-term investment.

People-related costs are typically the largest controllable expense in organizations. Effective management of these costs can make a positive difference in the survival of the organization. In fact, a group of pension fund investment managers recently filed a petition with the Securities and Exchange Commission to require greater disclosure of human capital information by publicly-held corporations.[60] Collecting and analyzing HR information can pinpoint waste and improper allocation of human resources. It is important that HR managers understand financial and operational measures that drive the business and relate decisions to key performance indicators (KPIs). This business acumen not only helps HR to be viewed more favorably by organization leaders and line managers but also enhances the impact of HR practices.[61] Metrics, benchmarking, balanced scorecards, and audits can help firms track HR performance and measure the value of different business practices.

2-9a HR Metrics and Analytics

HR metrics
Specific measures of HR practices

HR metrics are specific measures of HR practices. They are performance indicators of various HR issues, like absenteeism and turnover rates. Metrics are typically used to assess HR practices and results within the organization over time. A metric can be developed using cost, quantity, quality, timeliness,

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and other designated goals. Metrics can be developed to track HR efficiency and effectiveness. A pioneer in developing HR measurements, Jac Fitz-enz, has identified a wide range of HR metrics. A number of key tactical HR metrics are shown in Figure 2-12.[62] A more contemporary approach to metrics is to shift the focus from tactical to more strategic measures. The following "HR Competencies & Applications: Talking Numbers with Organization Leaders" explains how HR professionals can measure and report on key metrics that are important to the organizational leadership team.

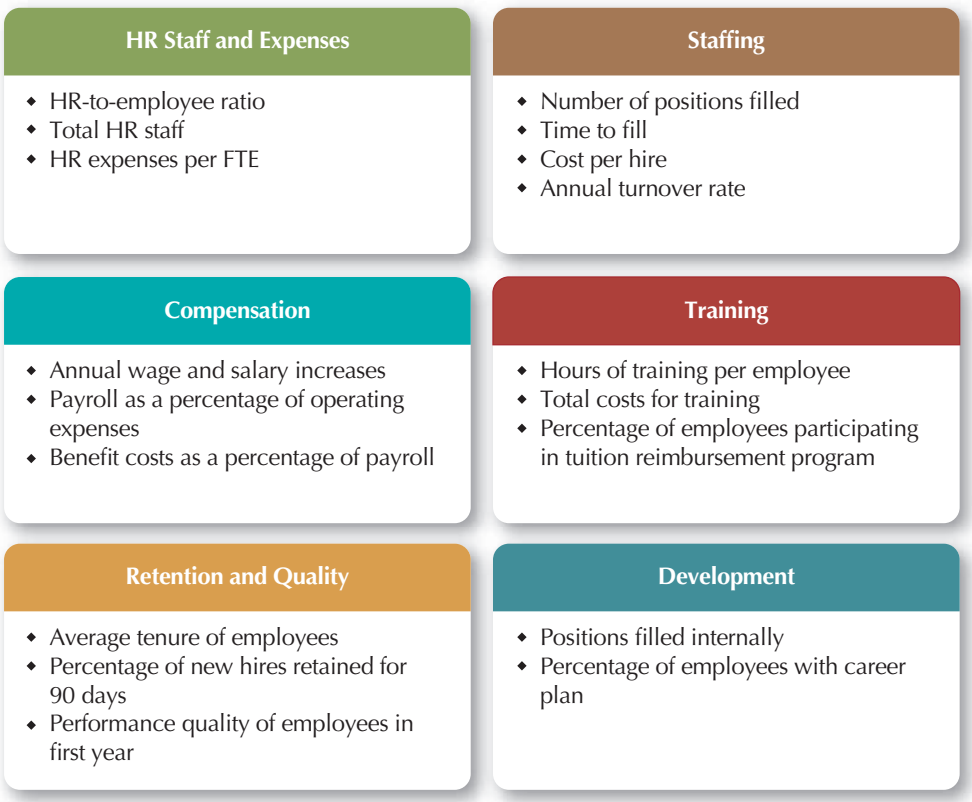
HR and line managers collect and share the data needed to track performance. Data to track these measures come from several sources within the organization. Financial data are required to determine costs for various HR activities, and performance and turnover data can be found in HR and operations records. The real value in using metrics comes from the interpretation of the data that can lead to improvements in HR practices and organizational KPIs. Information and historical data are studied to determine the reasons for current performance levels and to learn how to improve these levels in the future.

A key challenge that many HR groups face is having enough professionals on staff who know how to properly use HR analytics.[63] Analytics involve using various metrics and complex modeling techniques to answer questions about HR functions. **HR analytics** can be defined as an evidence-based approach to making HR decisions on the basis of quantitative tools and models.[64] The field of analytics is growing rapidly and a number of universities now offer degree programs in data analytics and specific HR analytics courses are being added to many graduate HR programs.[65] HR professionals in the future will need to develop some expertise and comfort level with metrics and analytics in order to fully engage as strategic contributors to their organizations.

HR analytics
An evidence-based approach to making HR decisions on the basis of quantitative tools and models

Unlike financial reporting, there is not yet a standard for the implementation and reporting of HR measures. Managers choose what and how to report to employees, investors, and other interested parties. This lack of consistency in HR reporting makes it difficult to evaluate an organization

FIGURE 2-12 Key HR Metrics



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HR

COMPETENCIES & APPLICATIONS

Talking Numbers with Organization Leaders

HR professionals have traditionally tracked and reported on a number of tactical measures of HR activity. However, CEOs are far more interested in knowing how HR practices impact key organization performance indicators. The CEO and other leaders are focused on the strategic goals of the organization rather than measures of activity. If HR professionals don't provide relevant metrics to leaders, there is little chance of gaining a seat at the strategic planning table or demonstrating the value of effective HR practices. The strategic metrics that will get CEO's attention are explained as follows:

1. *Revenue per employee*: This is the essential measure of workforce productivity and should be a key metric presented to the leadership team.
2. *Quality of hire improvement*: Evaluate the performance of recent new hires compared to those employees hired previously. This metric can show that talent acquisition practices result in better performance by new hires, which should result in cost savings and increased productivity.
3. *Performance turnover in key jobs*: Tracking overall turnover is necessary, but knowing the turnover level for employees in mission-critical jobs is better. Further, tracking the high performers in those key jobs can indicate problem areas faster.
4. *Revenue lost due to position vacancies*: Determining how much revenue is lost because positions are not filled quickly enough is better than measuring "days-to-fill" because it zeroes in on a more bottom-line-focused metric.
5. *HR program contribution to productivity improvements*: Identify and report on those HR programs that have resulted in the greatest gains in organization productivity.
6. *Percentage of HR strategic goals that were met*: Twice a year, the HR team should assess progress toward the strategic goals for the HR function.

While it may not be possible for every HR team to report on all of the listed metrics, changing the focus from reporting on activity to reporting on impact will elevate the HR function and demonstrate the value of investing in human capital.[66]

Based on the information about HR metrics presented here, consider the following questions:

1. What data would be necessary to track and report on each of the metrics listed? What other functional areas within the organization would be involved in generating the data?
2. What resources would you recommend to HR professionals who are not skilled in creating these sophisticated metrics?

KEY COMPETENCIES: Business Acumen (Behavioral Competency), Critical Evaluation (Behavioral Competency), Strategy (Technical Competency), and Organization/Technology & Data (Technical Competency)

and to compare HR practices across organizations. Though there have been efforts to develop consistent ways of reporting HR metrics, some of these efforts have been met with opposition.[67] The following should be considered when developing HR metrics and analytics:

- Accurate data can be collected.
- Measures are linked to strategic and operational objectives.
- Calculations can be clearly understood.
- Measures provide information valued by executives.
- Results can be compared both externally and internally.
- Measurement data drive HR management efforts.

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2-9b Human Resources and Benchmarking

Benchmarking
The process of comparing an organization's business results to industry standards or best practices

Benchmarking is the process of comparing an organization's business results to industry standards or best practices. An organization compares itself to "best-in-class" organizations that demonstrate excellence for a specific process. Benchmarking is focused on external practices that the organization can use to improve its own processes and practices. When implementing benchmarking, managers should be careful to find organizations with similar contexts, cultures, operations, and size so that comparisons are realistic. Practices that would work effectively in an organization of 500 employees might not transfer very well to an organization with 5,000 employees. It is vital to recognize that different organizational settings will affect the success of various HR practices. This is truly an area where "one size does not fit all." The organization should carefully select benchmarks that will have the greatest impact on organizational performance.

Many HR professionals report that their organizations collect benchmark data on a planned, periodic basis, while others collect it on an as-needed basis. Major obstacles to using benchmarks are uncertainty about how to collect the information and what information to collect. Using benchmarking, HR effectiveness is best determined by measures on a year-to-year basis. This way, an organization can track improvements and results by implementing specific HR practices. While benchmarking helps a firm compare its results to those of other organizations, it does not provide the reasons behind the findings. Thus, benchmarking is only a starting point, not the end point, for improving HR practices.

2-9c Human Resources and the Balanced Scorecard

Balanced scorecard
A framework organizations use to report on a diverse set of performance measures

One way companies can effectively measure their strategic performance and HR practices involves using the balanced scorecard. The **balanced scorecard** is a framework organizations use to report on a diverse set of performance measures. This method balances financial and non-financial measures so that managers focus on long-term drivers of performance and organizational sustainability. As shown in Figure 2-13, the balanced scorecard measures performance in four areas:

- *Financial measures*: Traditional financial measures such as profit and loss, operating margins, utilization of capital, return on investment, and return on assets are needed to ensure that the organization manages its bottom line effectively.
- *Internal business processes*: Product and service quality, efficiency and productivity, conformance with standards, and cycle times can be measured to ensure that the operation runs smoothly and efficiently.
- *Customer relations*: Customer satisfaction, loyalty, and retention are important to ensure that the organization is meeting customer expectations and can depend on repeat business from its customers.
- *Learning and growth activities*: Employee training and development, mentoring programs, succession planning, and knowledge creation and sharing provide the necessary talent and human capital pool to ensure the future of the organization.

Results in each of these four areas determine if the organization is progressing toward its strategic objectives. For example, some firms have noticed that when survey results show a decline in employee satisfaction, several months later there are declines in customer loyalty and repeat customer sales. Further, investing money in employee leadership development training can be linked to lower employee turnover and reduced time to hire managers from outside the organization. Using the balanced scorecard, therefore, requires considerable time and effort to identify the appropriate HR measures in each of the areas and determine how they tie to strategic organizational success. The balanced scorecard should also be linked to a company's strategic objectives and focus on results that support these goals.

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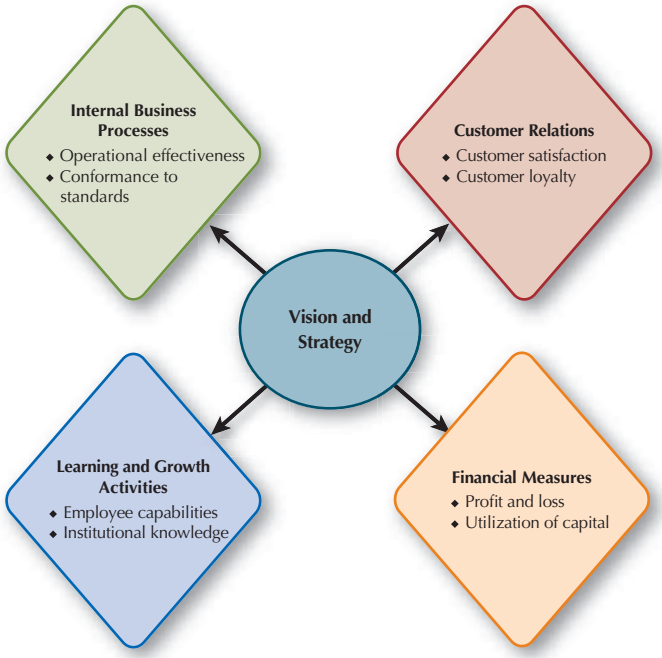
FIGURE 2-13 Balanced Scorecard Framework



2-9d Human Capital Effectiveness Measures

HR typically measures outcomes that traditional accounting fails to track and report. Human capital often provides both the biggest value and the biggest cost to organizations; therefore, many metrics reflect people-related *costs*. Measuring the *benefits* of human capital is equally important because it shows how effective HR practices help an organization and its employees. As noted previously, human capital refers to the collective value of the competencies, knowledge, and skills of the employees in the organization. This capital is the renewable source of creativity and innovativeness in the organization but is not reflected in its financial statements. The **total cost of workforce (TCOW)** is a comprehensive measure that takes into account the full cost for all people who contribute work to the organization. It is becoming increasingly important to recognize that TCOW includes more than just salaries and benefits; it also includes the costs of turnover, employee development, onboarding, and other investments in getting employees productive.[68]

Total cost of workforce (TCOW)
A comprehensive measure that takes into account the full cost for all people that contribute work to the organization

Revenue per employee is a basic measure of human capital effectiveness. The formula is revenue/head count (full-time employee equivalents). It is a measure of employee productivity and shows the sales revenue generated by each full-time employee. This measure is commonly used in government reporting (see Bureau of Labor Statistics [BLS] on the Internet) as well as by other organizations to track productivity over time. If revenues increase but employee head count remains constant, productivity will increase.

A widely used financial element that can be applied to measure the contribution and cost of HR activities is **return on investment (ROI)**, a calculation showing the value of investments in human capital. It can also be used to show how long it will take for the activities to show results. The following formula can be used to calculate the potential ROI for a new HR practice:

Return on investment (ROI)
Calculation showing the value of investments in human capital

$$\text{ROI} = \frac{C}{A + B}$$

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where:

A = Operating costs for a new or enhanced system for the time period
B = One-time cost of acquisition and implementation
C = Value of gains from productivity improvements for the time period

ROI is stressed because it is used in many other organizational functions and is the "language" used by financial staff and top management. It allows managers to choose from various investment opportunities to determine the best use of funds.

Human capital value added (HCVA)
Calculated by subtracting all operating expenses *except* labor expenses from revenue and dividing by the total full-time head count

Human capital value added (HCVA) is an adjusted operating profitability figure calculated by subtracting all operating expenses *except* labor expenses from revenue and dividing by the total full-time head count. It shows the operating profit per full-time employee. Because labor is required to generate revenues, employment costs are added back into operating expenses. The following is the formula for HCVA:

$$\frac{\text{revenue} - (\text{operating expenses [compensation + benefit costs]})}{\text{full-time head count}}$$

Human capital return on investment (HCROI)
Directly shows the amount of profit derived from investments in labor

Human capital return on investment (HCROI) directly shows the amount of profit derived from investments in labor, which represents the leverage the company has on labor cost. The formula for HCROI uses the same adjusted operating profitability figure as are used for HCVA, but it is divided by the human capital cost:

$$\frac{\text{revenue (operating expenses} - \text{[compensation + benefit costs])}}{\text{(compensation + benefit costs)}}$$

Human economic value added (HEVA)
Wealth created per employee

Human economic value added (HEVA) shows the wealth created per employee. It shows how much more valuable the organization has become because of its investment in human capital. Wealth is the net operating profit of a firm after the cost of capital is deducted. The cost of capital is the minimum rate of return demanded by shareholders. When a company is making more than the cost of capital, it is creating wealth for shareholders. An HEVA approach requires that all policies, procedures, measures, and methods use cost of capital as a benchmark against which their return is judged. HR decisions can be subjected to the same analysis. The following is the formula for HEVA:

$$\frac{\text{net profit after taxes} - \text{cost of capital}}{\text{full-time head count}}$$

A variety of financial measures can be assessed to show the contribution human capital makes to organizational results. Without such measures, it would be difficult to know what is going on in the organization, identify performance gaps, and provide feedback. Managers should require the same level of rigor in measuring HR practices as they do for other functions in the organization. Regardless of the time and effort given to HR measurement and metrics, an important consideration is that HR effectiveness and efficiency are being measured regularly so that managers know how HR practices positively impact the company.

2-9e Human Resources Audit

HR audit
A formal research effort to assess the current state of an organization's HR practices

One means for assessing HR performance is through an HR audit, which is similar to a financial audit. An **HR audit** is a formal research effort to assess the current state of an organization's HR practices. This audit is used to evaluate how well activities in each of the HR areas (staffing, compensation, health and safety, etc.) have been performing so that management can identify areas for

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improvement. An HR audit often helps smaller organizations without a formal HR professional identify issues associated with legal compliance, administrative processes and recordkeeping, employee retention, and other areas.

There are many levels of HR audit, including these common ones:

- *Compliance audit*: Checks recordkeeping on state and federal documentation requirements
- *Benefit programs audit*: Reviews regulatory compliance, benefits administration, and reporting
- *I-9 audit*: Reviews compliance with immigration regulations and the I-9 form requirement
- *Specific program audit*: Reviews specific HR subareas such as compensation, EEO, or training
- *Full HR audit*: Reviews all of the above plus any and all other HR functions[69]

Audits frequently involve a questionnaire and interviews to collect information about programs, and they may be performed by outside entities for more objective evaluation. They can provide useful assessments about how well HR practices meet established standards and requirements.

SUMMARY

- The strategy an organization follows is its proposition for identifying how to compete successfully and thereby survive and grow.
- HR should be involved in developing and implementing strategic initiatives throughout the organization.
- Strategic planning is a core business process that results in a road map of organizational direction.
- Organization leaders must understand and deal with a VUCA environment.
- The triple bottom line approach focuses on people, profits, and planet.
- Strategic HR management refers to the use of practices to gain or keep a competitive advantage by aligning individual employee performance with the organization's strategic objectives.
- Environmental scanning helps pinpoint strengths, weaknesses, opportunities, and threats that the organization will face during the planning horizon.
- HR functions may involve merging organizational and HR strategies with offshoring and global staffing strategies.
- HR planning must identify the demand for people and the supply of individuals available.
- Managing a talent surplus may require reducing work hours, downsizing through use of attrition and hiring freezes, implementing voluntary separation programs, and downsizing the workforce.
- Managing a talent shortage may be addressed through overtime, reducing turnover, using contingent workers, and outsourcing.
- HR plays a crucial role in mergers and acquisitions, particularly in dealing with integration and organizational culture issues.
- HR effectiveness must be measured using HR metrics that consider both strategic and operational effectiveness.
- HR analytics are becoming increasingly important to organization leaders.
- Benchmarking allows an organization to compare its practices against best practices in different organizations, and HR audits can be used to get a comprehensive overview of HR activities.
- The balanced scorecard can be a useful framework to measure and combine organizational performance measures.
- An HR audit is valuable in providing an overall perspective or a perspective of several specific areas.

CRITICAL THINKING CHALLENGES

1. Discuss how globalization has changed jobs in an organization where you have worked. What are some HR responses to those changes?
2. What steps can HR professionals take to ensure that mergers and acquisitions are successful? How can HR help during the integration process?
3. How can an organization maintain its image while dealing with a talent surplus? If layoffs are necessary, what would you recommend managers do to ensure that survivors remain committed and productive?
4. As the HR manager for a multinational corporation, you want to identify HR competencies that are critical

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for global companies. Visit the website for the World Federation of People Management Association (www.wfpma.com) to research the topic and to identify differences in the body of knowledge in different parts of the world.

5. As the HR Director of a U.S.-based company that is looking at global opportunities in China, you have been asked by the company president to prepare an outline for an HR strategic plan as part of the company's expansion process. You need to develop an HR strategic plan that will integrate the goals, objectives, and strategies of the HR department with those of the company. The plan also needs to support the objectives of other departments within the company. To get ideas on how to develop an HR strategic plan, go to www.workinfo.com.
   A. What is the process to use for identifying the components of the HR strategic planning process?
   B. What other company strategic objectives must the HR strategic plan integrate and support?

CASE Happy and Healthy Talent Transformation at Walgreens

Walgreens has served its pharmacy customers for over 100 years in its 13,000 worldwide retail stores at "the corner of happy and healthy." The company is facing major changes in its core business model due to technology innovations and changing customer shopping preferences. Many transactions that once took place in a retail outlet now occur online. The focus has shifted to putting the customer at the heart of everything. Data and analytics are used to forecast demand for a wide range of products, and then supply chain professionals work backward to determine how to obtain the goods that customers will want.

The transition to a customer-driven supply chain approach requires Walgreens to become more analytical and agile. This is placing greater pressure on the HR function to recruit and retain the necessary talent. Distribution center managers today need not only strong operational skills but also the capability of working collaboratively across functions. Prior to the digital revolution, distribution centers ran two shifts Monday through Friday to support store demand. In today's environment, those centers are now operating 24/7 with line employees working in a lean team-based environment that is focused on continuous improvement. General managers and team leaders now work variable shifts so that they can connect with all team members from time to time. Working off-shifts and unpredictable schedules creates recruiting difficulties for the company. Further, experts in supply chain favor living in urban centers rather than remote locations outside of the city.

One of the ways that Walgreens HR staff addressed these staffing issues was to identify colleges whose graduates tended to take jobs in operations rather than corporate supply chain functions. They increased their presence on campus to ensure that students would identify appropriate supply chain operations jobs at Walgreens. Another key element to their staffing plan involved an internship program. Recruiters targeted colleges and universities located near each of the company's nine distribution centers. They paid visits to each campus, connected with instructors in the supply chain programs, and promoted internship opportunities that would provide meaningful, relevant work to students. In its first year, the company hired 27 interns who were assigned a continuous improvement project.

Another emphasis in Walgreens talent management efforts is to identify individuals with analytical and planning skills to ensure that in-demand products are always in stock and available to customers. Supply chain professionals use sophistical software solutions and synthesize information from a variety of sources to make important inventory decisions. This segment of the company is looking for connections to universities that specialize in supply chain analytics. Current employees who graduated from those schools play an integral role in career fairs and linking up with student clubs and organizations in the field of supply chain.

Finally, Walgreens is working to enhance its reputation in the professional community. An evening event held at the Chicago-based Walgreens University showcased the company's supply chain programs to individuals already working in the profession. Curriculum at the corporate university includes many courses on the tactical, strategic, and leadership skills needed in the new world of supply chain demands. All of the elements of Walgreen's talent management approach are aimed at finding and growing the talent needed to become a best-in-class supply chain organization.[70]

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QUESTIONS

1. What are other ways that Walgreens can improve its image as a leader in supply chain considering it is competing with companies like Amazon? How can Walgreens differentiate itself to become attractive to hard-to-find supply chain experts?
2. What additional development would be important to retain supply chain interns and professionals who join the Walgreens team?

SUPPLEMENTAL CASES

HR's Performance Consulting at Ingersoll Rand

This case illustrates how HR staff linked employee performance and development to strategic initiatives at Ingersoll Rand. (For the case, visit MindTap® at www.cengage.com/login.)

Analytics at PricewaterhouseCoopers

This case illustrates how turnover in a company was dealt with by surveying current and former employees to develop better HR strategies. (For the case, visit MindTap® at www.cengage.com/login.)

Where Do You Find the Bodies?

This case identifies problems associated with HR planning and recruiting in a tight labor market. (For the case, visit MindTap® at www.cengage.com/login.)

Xerox

This case highlights the challenges of employee retention during stressful and unpredictable times when Xerox was undergoing a significant shift in its strategic focus. (For the case, visit MindTap® at www.cengage.com/login.)

Pioneers in HR Analytics

HR analytics at four different organizations helped solve several problems, and this case shows how analytics can be used. (For the case, visit MindTap® at www.cengage.com/login.)

END NOTES

1. Adapted from Shayndi Raice, "Wichita Aims to Tackle Skills Gap," *Wall Street Journal*, August 3, 2017, p. A3; Dan Voorhis, "Why Some Wichita-Area Jobs Aren't Being Filled, Despite 14000 Jobless," *Wichita Eagle*, March 30, 2017; and Jerry Siebenmark, "Triumph Loses $1 Billion, Plans Job Cuts and Facility Closings," *Wichita Eagle*, May 4, 2016.
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CHAPTER 3

Equal Employment Opportunity

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Identify the major government agencies that enforce employment discrimination laws.

LO2 Outline key provisions in the Civil Rights Acts of 1964 and 1991 and compare the two theories of unlawful employment discrimination.

LO3 Show how women are affected by pay, job assignments, and career issues.

LO4 Distinguish between the two types of sexual harassment and explain how employers can prevent such misconduct.

LO5 List key elements of disability discrimination laws.

LO6 Discuss the legal protections to prevent bias and discrimination based on age, religion, national origin, and other factors.

WHAT'S TRENDING IN EQUAL EMPLOYMENT OPPORTUNITY

Equal opportunity employment (EEO) is an important area of HR management that business professionals should understand. Managers should be educated about important EEO concepts and employment laws so that they can develop policies that ensure a fair work environment for all individuals. Through proper training, employees can also be taught to appreciate a diverse workplace that values unique individual characteristics. Here's what's currently trending in the area of EEO:

1. Unlawful workplace discrimination is a significant challenge for companies. HR professionals and managers should recognize the situations that can lead to discrimination. They should also implement policies that decrease disparate treatment and impact.
2. Women face a number of difficult challenges in the workplace, including pregnancy issues, pay disparities, and the glass ceiling. Gender stereotypes and gender-based preferences can make these challenges more prevalent.
3. Once again, sexual harassment is a serious problem in organizations. Many incidences of sexual misconduct involving celebrities and high-ranking business professionals have been covered in the media, thus raising public concern about this issue. Companies should create antiharassment policies that instruct employees about inappropriate work conduct.
4. Providing work opportunities and reasonable accommodations for disabled employees is a key issue for employers. HR professionals should teach managers to recognize the challenges these individuals face and work with them to provide reasonable accommodations.
5. Diversity helps organizations benefit from employees' unique capabilities, but it can also challenge firms. Companies should develop diversity training and other programs that help different employees to work together effectively.

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HEADLINE

Dupont Helps Employees Challenged by Mental Illnesses

Mental illness impacts many individuals living in the United States. It is estimated that tens of millions of people, nearly 20 percent of the total population, have to deal with various types of psychiatric disorders, with depression being one of the most noteworthy problems experienced. Many entertainers, including actor/comedian Robin Williams (who tragically committed suicide several years ago), have commented on their battles with mental illness.

What is particularly troubling to organizations are the expenses related to untreated mental disorders, which are thought to reach $100 billion. HR leaders are therefore concerned about mental illness because they have to figure how to minimize costs, help employees cope, and offer accommodations. Detecting problems early and providing assistance can go a long way in reducing expenses. The creation of policies that address mental illness can also help workers deal with their challenges. But a real problem is getting employees to seek assistance so that disorders can be addressed.

Dupont has taken many steps to support employees who suffer from mental illnesses through a policy called "ICU" (or "I See You"), which is comprised of the themes "Identifying," "Connecting," and "Understanding." The company created a training session based on a five-minute video that instructs individuals how to identify when their coworkers are experiencing problems. The goal is not to diagnose individuals but to identify when colleagues are in distress and provide assistance. Dupont rolled the program out in Europe, and based on its success, the company introduced it to American workers a year later. The training is also offered in many different languages and is provided to a majority of Dupont's global workforce, with the video often being shown in meetings. Finally, Dupont evaluates employees for depression to help minimize some of the risks related to mental illness.

HR professionals should consider several issues when facing mental illness in the workplace. Some of these include:

- Realize that individuals can recover from psychiatric disorders with the proper assistance.
- Get expert help from professionals who are trained to deal with mental disorders.

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- Follow the legal requirements of the ADA, which specify that companies must make reasonable accommodations for workers who suffer from mental illness.
- Be respectful of employees who face these challenges by treating them fairly and showing consideration.

By following these guidelines, as well as Dupont's lead, organizations can effectively tap into the talent reserves of employees who suffer from mental illnesses.[1]

Basing employment decisions on factors other than worker qualifications is generally illegal in the United States. Since the enactment of Title VII of the 1964 Civil Rights Act, workers of all backgrounds are provided fairer treatment in terms of employment opportunities. While the Civil Rights Act stands as the foundation of equal employment laws, it is by no means the only regulation affecting the employer–employee relationship. A number of additional laws and executive orders have been implemented to prohibit unlawful discrimination in the workplace. For instance, there are laws that regulate how issues such as individual age, disability, and pregnancy are addressed at work.

The costs of litigation, penalties, and harm to corporate reputation can be substantial when violations occur. Organizations have paid (and continue to pay) large fines for violating EEO laws. But employers can develop effective policies, such as those addressing diversity, to avoid lawsuits and enhance the workplace. This chapter provides an introduction to nondiscrimination requirements and highlights some common best practices related to diversity management. To provide additional information, Appendix D lists the major federal laws governing workplace nondiscrimination.

LO 1 Identify the major government agencies that enforce employment discrimination laws.

3-1 The Nature of Equal Employment Opportunity

Civil rights activists in the United States used nonviolent means to protest unequal treatment during the turbulent 1950s. This led to the passage of important nondiscrimination laws and guaranteed an equal opportunity for employment to all individuals.[2] Equal opportunity for employment means that employment decisions must be made on the basis of job requirements and worker qualifications. Unlawful discrimination occurs when those decisions are made based on **protected characteristics**, which are individual attributes such as race, age, sex, disability, or religion that are protected under EEO laws and regulations. These factors are not work-related and should not be considered. Under federal, state, and local laws, employers are prohibited from considering the following factors in making hiring and other employment decisions:

Protected characteristics
Individual attributes that are protected under EEO laws and regulations

- Age
- Color
- Disability
- Genetic information
- Marital status (some states)
- Military status or experience
- National origin
- Pregnancy
- Race
- Religion
- Sexual orientation (some states and cities)

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These categories are considered protected characteristics under various employment laws and regulations. All workers are provided equal protection. In other words, the laws do not favor some groups over others. For example, both men and women can file charges on the basis of alleged sex discrimination. A lawsuit filed against Estee Lauder asserts that the company violated EEO legislation when it did not allow one of its male stockers to fully use the company's parental leave policy for "child-bonding." A similar lawsuit was filed again J.P. Morgan and Chase Company based on fathers allegedly not being given paid parental leave in the same manner as mothers.[3] Individuals representing all religious backgrounds and faiths (e.g., Christians, Jews, Muslims, atheists) can claim that their religions rights have been violated based on biases that may exist in the workplace.

Equal employment opportunity (EEO) is employment that is not affected by illegal discrimination. It is a broad-reaching concept that essentially requires employers to make **status-blind** employment decisions. Status-blind decisions are made without regard to individuals' personal characteristics (e.g., age, sex, and race). Most employers are required to comply with EEO laws. Alternatively, affirmative action involves taking proactive measures to increase the number of women and minorities in the workplace in an effort to make up for past patterns of discrimination. This approach allows employers to consider various personal characteristics when making employment decisions.

Equal employment opportunity
Employment that is not affected by illegal discrimination

Status-blind
Employment decisions that are made without regard to individuals' personal characteristics

3-1a Sources of Regulation and Enforcement

The employment relationship is governed by a wide variety of regulations, and all three branches of government have played a role in shaping these laws. Federal statutes enacted by Congress form the backbone of the regulatory environment, but state and city governments also enact laws governing activity within their regions. Various state laws add a degree of complexity to the interpretation and prevention of workplace discrimination. For instance, Washington passed a law that requires organizations to provide workers up to 12 weeks of paid leave for (1) their own or a family member's significant health issue or (2) childbirth/adoption; additional time off can be taken by women for pregnancy-related health challenges.[4] In addition to characteristics outlined in other EEO legislation, the Elliott-Larsen Civil Rights Act passed in Michigan protects individuals from unlawful discrimination based on factors such as weight and height.[5] Companies should be aware of legislation that may cover employees based on where they actually complete work tasks, where they live, and where the company conducts business.[6] The courts interpret these laws and rule on cases, providing guidance about how companies should comply with EEO regulations. Case law helps employers understand how laws are applied and what they must do to comply. Executive orders are issued by the president of the United States to help government departments, agencies, and contractors manage their operations.

Government agencies responsible for enforcing laws issue guidelines and rules to provide details on how the law will be implemented. Employers then use these guidelines to meet their obligations in complying with the laws. For example, guidelines issued about sexual harassment help companies identify types of misconduct and enable them to more effectively handle work incidents.

The two main enforcement bodies for EEO are the Equal Employment Opportunity Commission (EEOC) and the U.S. Department of Labor (DOL) (in particular, the Office of Federal Contract Compliance Programs [OFCCP]). The EEOC enforces employment laws for employers in both private and public workplaces. For example, the EEOC provides insight into how companies should use job candidates' criminal history to make hiring decisions, specifying that information should be used consistently across individual cases and be evaluated for job-related reasons.[7] The DOL has broad enforcement power and oversees compliance with many employment-related laws. However, the DOL is expected to make cuts through reduced travel and personnel as a result of President Trump's budget plan, possibly leading to less legislative enforcement.[8] But the DOL is again issuing opinion letters about wage and hour issues (after cancelling them in 2010) to help businesses manage the workplace more effectively.[9] The OFCCP enforces employment requirements set out by executive orders for federal contractors and subcontractors. Yet, there can be boundaries to such enforcement. A recent ruling by an administrative judge with the DOL

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indicated that Google had a right to refuse an information request from the OFCCP that was considered to be a financial burden to the company.[10] Many states have enforcement agencies to ensure compliance with state employment laws. Compliance can become complex for companies that operate in multiple states.

Discrimination remains a concern as the U.S. workforce becomes more diverse. Charges filed with the EEOC continue to rise, as shown in Figure 3-1. Over the past several decades, the total number of charges has generally increased, but the totals have varied from year to year and over shorter time periods. The total number of charges for 2016 is higher than the total reported for 1997, and there were more charges reported in 2016 compared to the previous two years. While issues related to race and sex have historically represented the highest percentages of complaints, in recent years, charges of retaliation have become much more common and now represent the highest number (and percentage) of complaints. The EEOC investigates charges levied at companies to determine whether employees have been treated unlawfully, which can lead to findings of no discrimination, withdrawn changes, settlements, and/or lawsuits.

FIGURE 3-1 Charges Filed with EEOC, 1997 and 2016

Charge Basis	Claims Filed, 1997 (Number, Percentage)	Claims Filed, 2016 (Number, Percentage)
Age	15,785 19.6%	20,857 22.8%
Color	762 0.9%	3,102 3.4%
Disability	18,108 22.4%	28,073 30.7%
Equal Pay Act	1,134 1.4%	1,075 1.2%
Genetic information	Not in force	238 0.3%
National origin	6,712 8.3%	9,840 10.8%
Race	29,199 36.2%	32,309 35.3%
Religion	1,709 2.1%	3,825 4.2%
Retaliation	18,198 22.6%	42,018 45.9%
Sex	24,728 30.7%	26,934 29.4%
Total	80,680	91,503

Note: Totals exceed 100 percent because of multiple charges filed by individuals.

Source: U.S. Equal Employment Opportunity Commission, http://www.eeoc.gov/eeoc/statistics/enforcement/charges.cfm.

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3-2 Theories of Unlawful Discrimination

Disparate treatment
Occurs when individuals with particular characteristics that are not job-related are treated differently from others

Disparate impact
Occurs when an employment practice that does not appear to be discriminatory adversely affects individuals with a particular characteristic so that they are substantially underrepresented as a result of employment decisions that work to their disadvantage

There are two types of unlawful employment discrimination, disparate treatment and disparate impact. The first type, **disparate treatment**, occurs when individuals with particular characteristics that are not job-related are treated differently from others. This type of discrimination is typically overt and intentional, and it often follows a pattern or practice. For example, if female applicants are asked interview questions regarding child care plans while male applicants are not, then disparate treatment may be occurring.

Disparate impact is the second type of illegal discrimination. It occurs when an employment practice that does not appear to be discriminatory adversely affects individuals with a particular characteristic so that they are substantially underrepresented as a result of employment decisions that work to their disadvantage. This type of discrimination is often unintentional because identical criteria are used, but the results can differ for certain groups. For example, using a test for firefighters that requires candidates to carry a 100-pound sack down a ladder could result in more women being eliminated from selection. The same job-related test is used for all candidates, with markedly different results on the basis of sex. A recent court ruling involving the Chicago Fire Department found that a battery of physical skills tests used to hire paramedics did not reflect typical work activities, thus causing disparate impact directed at women applicants.[11] The EEOC also filed a lawsuit against CSX Transportation claiming that the organization's use of physical ability tests caused disparate impact with women applicants.[12]

In a landmark case on disparate impact, *Griggs v. Duke Power* (1971),[13] the U.S. Supreme Court ruled that lack of intent is not sufficient for an employer to prove that a practice is lawful. The court also stated that the employer has the burden to show that a selection practice is directly job-related as a business necessity. Considering the firefighter test that women failed at a higher rate, the test is a true reflection of a job-related duty—carrying a person out of a burning building. Therefore, the test would be lawful even though women would not pass at the same rate as men. A thorough job analysis and a search for alternate selection practices are important steps when disparate impact occurs. The employer must demonstrate that there is no reasonable nondiscriminatory method available to use. Appendix E explains how disparate impact is defined under the federal government's Uniform Guidelines on Employee Selection Procedures.

Unlawful discrimination can occur in any number of employment-related decisions, including recommendations for advancement opportunities, assignments to training seminars, allocations of rewards, and selections for layoffs and terminations. Bias can take many forms (i.e., discrediting, criticizing, and excluding others), be subtle and unconscious, and harm recruiting efforts and employee well-being.[14] Employers should analyze job requirements, keep good records, and review personnel actions to make sure that employment decisions are lawful and prevent claims of disparate treatment and disparate impact. Managers can also be taught to recognize situations that can lead to discrimination. Training can enhance diversity awareness in organizations, efforts that are discussed later in this chapter. Using blind hiring processes, unbiased job ads and descriptions, consistent screening and selection approaches, data analytics, and leadership seminars can also help.[15]

3-2a Equal Employment Opportunity Concepts

Court decisions and administrative rulings have helped define several basic EEO concepts. The four key concepts discussed next (see Figure 3-2) help clarify key EEO ideas that lead to fair treatment and nondiscriminatory employment decisions.

Business necessity
A practice necessary for safe and efficient organizational operations

Business Necessity and Job-Relatedness A **business necessity** is a practice necessary for safe and efficient organizational operations, such as restricting employees from wearing garments that might get caught in machinery although the attire may be required by an employee's religion. Business necessity has been the subject of numerous court cases. Educational requirements are often decided on the basis of business necessity. However, an employer that requires a minimum level of education, such as a high school diploma, must be able to defend the requirement as essential

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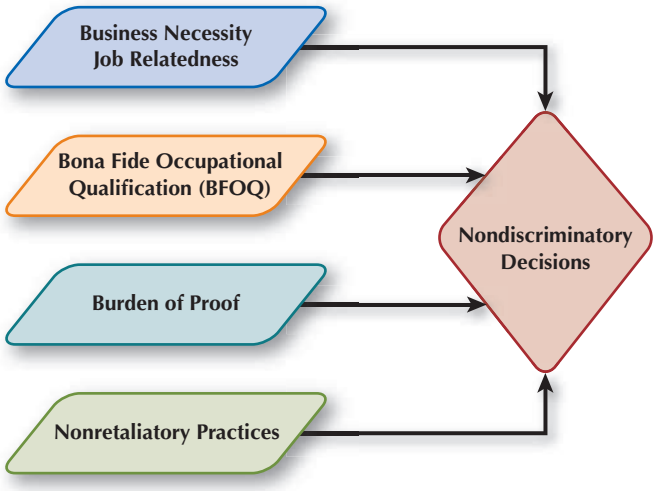
FIGURE 3-2 EEO Concepts



to the performance of the job (or be job-related), which may be difficult. For instance, equating a high school diploma with the possession of math or reading abilities is considered questionable.

Employers are expected to use job-related employment practices. For instance, the use of criminal background checks in the hiring process has come under fire because the practice can cause disparate impact directed at underrepresented groups. The EEOC has issued guidelines stating that the nature of the job sought by the applicant is a major determining factor in whether a criminal conviction is job-related. Consequently, employers must find a balance between their obligations to provide a safe working environment and their duty to ensure equal employment opportunity.

"Ban-the-box" hiring policies are a recent trend in some states, counties, and municipalities, which prevent employers from asking job candidates' about their criminal histories early in the application process (i.e., on application forms) and having them delay checks until after interviews have been conducted or offers have been tendered; of the states that have such laws, a majority of them only apply to hiring in the public sector.[16] But many companies such as Koch Industries, Target, Facebook, and Home Depot are having success with ban-the-box policies, hiring employees who are highly productive at work.[17] Companies should recognize that these policies can prompt unintentional discrimination when hiring officials rely on preconceived ideas about which racial groups are more likely to have criminal records.[18]

Even though federal and state laws prevent employers from making inquiries about the *arrest* records of job candidates, they can investigate current employees' arrests and take appropriate action. While employment decisions cannot be based simply on arrest records, they can be made based on the behaviors that lead to arrests, including conduct that raises concerns about safety and/or security. When disciplining employees who have been arrested, employers should also point out that the conduct is job-related and an issue of business necessity.[19]

Bona Fide Occupational Qualification Employers may discriminate on the basis of sex, religion, or national origin if the characteristic can be justified as a bona fide occupational qualification reasonably necessary to the normal operation of the particular business or enterprise. Thus, a **bona fide occupational qualification (BFOQ)** provides a legitimate reason an employer can use to exclude persons on otherwise illegal bases of consideration. The application of a BFOQ is very narrowly determined and an employer seeking to justify hiring on this basis is advised to obtain prior authorization from the EEOC.

Bona fide occupational qualification (BFOQ) Characteristic providing a legitimate reason an employer can exclude persons on otherwise illegal bases of consideration

What constitutes a BFOQ has been subject to different interpretations in various courts, so it is important for firms to adequately justify why such decisions are made. Legal uses of BFOQs may occur when gender is used as a BFOQ when hiring women for certain jobs (e.g., a cocktail server at a gentlemen's club) or when religious organizations hire individuals who are members of particular faith.

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Burden of proof
What individuals who file suit against employers must prove to establish that illegal discrimination has occurred

Burden of Proof When a legal issue regarding unlawful discrimination is raised, the **burden of proof** must be satisfied to file suit against an employer and establish that illegal discrimination has occurred. The plaintiff charging discrimination must establish a *prima facie* case of discrimination through either factual or statistical evidence, meaning that sufficient evidence must be provided to the court to support the case and allow the plaintiff to continue with the claim. Once a case has been established, the burden then shifts to the employer, who must provide a legitimate nondiscriminatory reason for the decision, such as focusing on job-related factors and/or business necessity. The plaintiff then must show either that the employer's motivation or rationale was a pretext for discrimination or that there is an alternative employment approach that would not result in discrimination. The plaintiff maintains the final burden of proof that unlawful discrimination underlies an employment decision.

Retaliation
Punitive actions taken by employers against individuals who exercise their legal rights

Nonretaliatory Practices Employers are prohibited from retaliating against individuals who file discrimination charges. **Retaliation** occurs when employers take punitive actions against individuals who exercise their legal rights. Several court rulings protect HR professionals from retaliation when they report discrimination in companies, and the adverse actions needed to show that retaliation has occurred against an employee who reports discrimination may include rudeness and impoliteness.[20]

HR

COMPETENCIES & APPLICATIONS

What to Do When the EEOC Comes Knocking

Having to respond to the EEOC when claims of discrimination are levied at a company is a daunting task for HR professionals. Such incidents are becoming more common because there have been steady increases in charges of age, race, and disability discrimination and workplace retaliation. Consequently, HR and other operating managers must be prepared to effectively respond to the EEOC as quickly and succinctly as possible.

But how should they do this? It is important for companies to make a good first impression by taking an allegation seriously. HR professionals and managers should provide the EEOC with any information that is requested and make sure that important files and documents are not discarded. They need to protect confidentiality and ensure that no retaliation occurs. It is important to notify the company's insurer about the incident. An internal investigation should also be conducted, preferably by individuals who have some legal training. Finally, employee interviews should be conducted, and all documentation should be thoroughly reviewed.

A position statement can then be developed that details important points about the company's response to the discrimination claim. The company's position on the charges should be clearly presented, a summary of the business and its policies should be provided, and an overview of the employee's situation in relation to past decisions should be provided. An organization also needs to effectively respond to a request for information (RFI) by providing the EEOC with any materials that are needed. Mediation can sometimes be an option if the claim is deemed eligible and both parties are willing to participate in the process. Settlements can also be formulated between the parties at any point during the process of an investigation. A final consideration is that organizations should do their best to respond quickly to an EEOC investigation.[21]

HR professionals should know how to effectively manage EEOC investigations. If you had to do this in a future job:

1. What kinds of issues would you consider when developing policies related to EEOC investigations? Who would you include in this development process, and what issues do you think are the most important?
2. What other factors do you think companies should consider when dealing with allegations of discrimination?

KEY COMPETENCIES: Consultation (Behavioral Competency) and People (Technical Competency)

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As previously highlighted, retaliation claims now constitute many of the charges filed with the EEOC. This is because they can be added to all antidiscrimination charges, and a wide range of workplace decisions might be interpreted as retaliatory. An important aspect of retaliation charges is that the charging party may lose the case on the basis of discrimination but still win if the employer took punitive action against him or her. To prevent charges of retaliation, the following actions are recommended for employers:[22]

- Create and disseminate an antiretaliation policy.
- Train supervisors on what retaliation is and what actions are not appropriate.
- Review all performance evaluation and discipline records to ensure consistency and accuracy.
- Conduct a thorough internal investigation of any claims and document the results.
- Take appropriate action when retaliation occurs.

Even though HR professionals and operating managers may follow these actions, EEOC investigations sometimes occur when allegations of retaliation and other forms of unlawful discrimination are advanced. These professionals must develop a game plan that enables them to effectively respond to allegations and protect the interests of both the organization and its employees. The preceding "HR Competencies & Applications: What to Do When the EEOC Comes Knocking" feature explores important issues that should be considered when the EEOC conducts an investigation. Companies can also object to unreasonable information requests made by the EEOC while conducting investigations, but they need to facilitate the process as much as possible to avoid further action.[23]

LO2 Outline key provisions in the Civil Rights Acts of 1964 and 1991 and compare the two theories of unlawful employment discrimination.

3-3 Broad-Based Discrimination Laws

Comprehensive equal employment laws provide broad-based protection for applicants and employees. This section provides an overview of the broad-based discrimination laws, and the various subsections give more specific details about the major laws and compliance requirements.

3-3a Civil Rights Act of 1964, Title VII

Although the very first civil rights act was passed in 1866, it was not until passage of the Civil Rights Act of 1964 that the keystone of antidiscrimination employment legislation was put into place. Title VII, the employment section of the Civil Rights Act of 1964, details the legal protections provided to applicants and employees, and it defines prohibited employment practices. Title VII is the foundation on which all other workplace nondiscrimination legislation is built.

Title VII of the Civil Rights Act states that it is illegal for organizations to discriminate in any way based on a person's sex, race, national origin, color, and/or religion. Coverage includes hiring decisions, terminations, promotions, demotions, compensation, working conditions, and many other personnel actions.

Title VII Coverage Title VII, as amended by the Equal Employment Opportunity Act of 1972, covers most employers in the United States. Any organization meeting one of the following criteria must comply with rules and regulations that specific government agencies have established to enforce the act:

- All private employers of 15 or more employees
- All educational institutions, public and private
- State and local governments
- Public and private employment agencies
- Labor unions with 15 or more members
- Joint labor–management committees for apprenticeships and training

Title VII has been the basis for several extensions of EEO law. For example, in 1980, the EEOC interpreted the law to include sexual harassment. Further, a number of concepts identified

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in Title VII are the foundation for court decisions, regulations, and other laws discussed elsewhere in this chapter.

3-3b Civil Rights Act of 1991

In response to several U.S. Supreme Court decisions during the 1980s, Congress amended the Civil Rights Act of 1964 to strengthen legal protection for employees, provide for jury trials, and allow for damages payable to successful plaintiffs in employment discrimination cases.[24] A key provision of the 1991 act relates to how U.S. EEO laws are applied globally.

The Civil Rights Act of 1991 requires that employers show that an employment practice is job-related for the position and consistent with *business necessity.* The act clarifies that plaintiffs bringing discrimination charges must identify the particular employer practice being challenged and must show only that protected status played *some role in their treatment.* For employers, this means that an individual's race, color, religion, sex, or national origin *must play no role* in employment decisions. The act allows people who have been targets of intentional discrimination based on sex, religion, or national origin to receive both compensatory and punitive damages. The penalties are scaled by the size of employer, as shown in Figure 3-3.

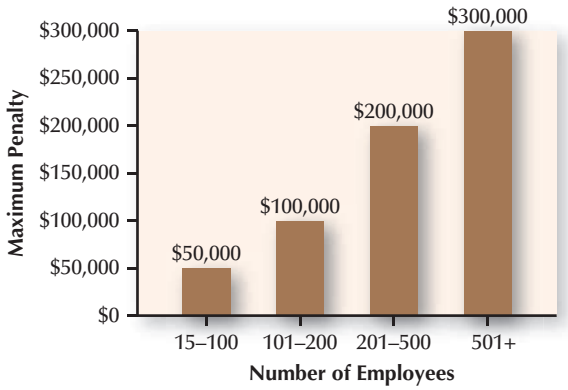
3-3c Executive Orders 11246, 11375, and 11478

Several important executive orders have been issued by the U.S. president that affect the employment practices of federal contractors and subcontractors. The OFCCP in the U.S. Department of Labor is responsible for overseeing federal contractor operations and ensuring that unlawful discrimination does not occur. Executive Orders 11246, 11375, and 11478 require federal contractors to take **affirmative action** to compensate for historical discrimination against women, minorities, and individuals with disabilities. The DOL filed a lawsuit against Oracle, a company that earns millions from the federal government as a contractor, for preferring Asians candidates when hiring employees and paying white males more than other employees.[25] The OFCCP also filed a lawsuit against Palo Alto-based Palatir Technologies, a company that assists the government with terrorism and human trafficking, for discriminating against Asian candidates during recruiting; Palatir moved forward with a 1.66 million dollar settlement.[26]

Affirmative action
Proactive employment practices to compensate for historical discrimination against women, minorities, and individuals with disabilities

The concept of affirmative action is not without controversy, and some states have passed laws banning such programs. Supporters offer many reasons why affirmative action is important, while opponents argue firmly against it. Individuals can consider both sides in the debate and compare them with their personal views of affirmative action. Whether one supports or opposes affirmative action, it is important to understand why its supporters believe that it is needed and why its opponents believe it should be discontinued.

FIGURE 3-3 Penalties under the Civil Rights Act of 1991, by Employer Size



Source: U.S. Equal Employment Opportunity Commission Enforcement Guidance, http://www.eeoc.gov/policy/docs/damages.html.

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3-3d Managing Affirmative Action Requirements

Affirmative action program (AAP)
A document that outlines proactive steps the organization will take to attract and hire members of underrepresented groups

Federal contractors are required to develop and maintain a written **affirmative action program (AAP)** that outlines proactive steps the organization will take to attract and hire members of underrepresented groups. This data-driven program includes analysis of the composition of the company's current workforce with a comparison to the availability of workers in the labor market. The overall objective of the AAP is to have the company's workforce demographics reflect as closely as possible the demographics in the labor market from which workers are recruited.

The contents of an AAP and the policies flowing from it must be available for review by managers and supervisors within the organization. The AAP is reviewed by the OFCCP and is subject to periodic audits to ensure compliance. In addition to an extensive workforce analysis, the AAP includes goals, timetables, and documentation of good faith efforts to reduce and prevent employment discrimination against historically disadvantaged groups. Organizations implement outreach programs, targeted recruiting, and training programs to recruit and advance women, minorities, and people with disabilities. Affirmative action plans vary in length; some are long and require extensive staff time to prepare.[27]

3-3e Managing Racial and Ethnic Discrimination Issues

The original purpose of the Civil Rights Act of 1964 was to address race discrimination in the United States. This concern continues to be important today. To take appropriate actions, employers should be aware of potential HR issues that are based on race, national origin, and citizenship.

Charges of racial discrimination continue to make up many of the complaints filed with the EEOC. Employment discrimination can occur in numerous ways. This can include refusal to hire someone because of their race or ethnicity and questions found in a selection interview. For instance, Bass Pro Outdoor LLC paid a settlement of 10.5 million dollars in response to an EEOC lawsuit that claimed the company discriminated against black and Hispanic job candidates based on race and national origin and retaliated against employees who disapproved; the Secret Service also agreed to a settlement for allegedly discriminating against black agents.[28] These cases highlight the reality that all employment inquiries and decisions should be based on job-related factors, not personal characteristics. See Appendix F for examples of legal and illegal pre-employment inquiries.

Sometimes racial discrimination is very subtle. Some firms have tapped professional and social networking sites to fill open positions. However, networking sites may not be easily accessible to some people, resulting in disparate impact. The use of employee referral programs can lead to a more homogenous workforce because employees may be more likely to refer people who are similar to themselves. One solution is to make sure a hiring organization uses recruitment approaches that secure a diverse applicant pool. This can be done by avoiding procedures that make it difficult for some groups to learn about and apply for open positions. Another possible solution is to use *anonymous application procedures* in which names and other identifying characteristics of applicants are deleted from candidate documents. Decision makers in the hiring process are presented only with credentials and job-relevant information. This procedure, while controversial, may level the playing field and reduce the possibility of selection bias.[29] Under federal law, discriminating against people because of skin color is just as illegal as discriminating because of race. For example, one might be guilty of color discrimination but not racial discrimination if one hired light-skinned African Americans over dark-skinned individuals.

Racial and Ethnic Harassment Racial and ethnic harassment is such a concern that the EEOC has issued guidelines on it. It is recommended that employers adopt policies against harassment of any type, including ethnic jokes, vulgar epithets, racial slurs, and physical actions that could constitute harassment. The EEOC encourages companies to get leaders on board to reduce harassment, develop ongoing antiharassment programs, including training that educates all workers about harassment, and create processes for reporting and researching harassment.[30] The consequences of not developing, implementing, and/or enforcing these policies are seen in a case involving a manager at a New York City-based street furniture cleaning and maintenance firm who did not respond to claims of racial harassment as swiftly and harshly as the circumstances suggested.[31] In another case, an African-American police sergeant was allowed to pursue a discrimination case when he was transferred

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to a late night shift that reduced his work responsibilities compared to his colleagues.[32] Companies should also understand that defending against claims of harassment with excuses like "it was only a joke," "the conduct was not unlawful," and/or "there was no bad intent" is not recommended.[33]

LO3 Show how women are affected by pay, job assignments, and career issues.

3-4 Sex and Gender Discrimination Laws and Regulations

The inclusion of sex as a basis for protected status in Title VII of the 1964 Civil Rights Act has led to additional areas of legal protection, and a number of laws and regulations now address discrimination based on sex or gender.

3-4a Pregnancy Discrimination

The Pregnancy Discrimination Act (PDA) of 1978 amended Title VII to require that employers treat maternity leave the same as other personal or medical leaves. Closely related to the PDA is the Family and Medical Leave Act (FMLA) of 1993. The FMLA requires that qualified individuals be given up to 12 weeks of unpaid family leave and also requires that those taking family leave be allowed to return to their jobs (see Chapters 12 and 13 for details). The FMLA applies to both men and women. The Americans with Disabilities Act Amendments Act (ADAAA) also expanded the definition of a disability to include less permanent and serious physical and mental issues, which can be interpreted to cover pregnancies.[34] Through the Americans with Disabilities Act and PDA, the EEOC encourages employers to provide reasonable accommodations to pregnant workers.[35] There are also states including Texas, Louisiana, Hawaii, Maryland, Connecticut, and California and cities such as New York and Philadelphia that require companies to provide reasonable accommodations to pregnant workers.[36]

Discrimination may occur because of employer perceptions of the pregnancy affecting the employee's job performance and attendance. Such discrimination might occur from questions related to pregnancy or child care plans asked during an employment interview. It may also occur because of negative views about pregnancy and/or taking maternity leave. Finally, illegal discrimination can result when a pregnant applicant is not hired or is transferred or terminated. For instance, Brown & Brown, a Daytona-based brokerage company, had to pay an employee $100,000 after she was let go immediately after being hired because it was thought that she would not stay with the firm "long term."[37]

Courts have generally ruled that the PDA requires employers to treat pregnant employees the same as those who are not pregnant—pregnant employees should decide for themselves whether or not they can perform assigned work—or companies risk lawsuits.[38] Employers do have a right to maintain performance standards and expectations of pregnant employees. But they should be cautious to use the same standards for nonpregnant employees and employees with other medical conditions. Finally, untrained managers and supervisors who are misinformed about issues related to pregnancy discrimination and the associated laws can lead to claims. Companies should provide some training to reduce these concerns.[39]

3-4b Equal Pay and Pay Equity

The Equal Pay Act of 1963 requires employers to pay similar wage rates for similar work without regard to gender. A *common core of tasks* must be similar to justify similar wages. Tasks performed only intermittently or infrequently do not make jobs different enough to justify different wages. Differences in pay between men and women in the same jobs are permitted because of:

1. Differences in seniority,
2. Differences in performance,
3. Differences in quality and/or quantity of production, and
4. Factors other than sex, such as skill, effort, and working conditions.

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HR

COMPETENCIES & APPLICATIONS

Practices That Help Reduce the Gender Pay Gap

The pay disparities that are often identified between men and women in the workplace can lead to many different negative consequences for organizations. One obvious outcome is the increased potential for lawsuits, but there are many others that sometimes get overlooked. For instance, the gender pay gap can cause poor work attitudes among employees, leading them to disengage from the workplace and decrease their job performance. Pay inequity can also motivate some of the most talented individuals to look for employment elsewhere in other companies.

Given these many challenges, what can companies do to reduce the gender pay gap? The following considerations should help decrease these concerns:

- *Be careful with data that has been collected to show pay disparities*: It is a good idea to coordinate data collection efforts with a company's attorney to make sure that the information is protected.
- *Conduct a qualitative assessment of jobs*: Once pay gaps are identified, jobs should be evaluated qualitatively to determine if there are legitimate reasons for the differences.
- *Think about succession plans*: Have an idea about how exiting employees will be replaced with current staff so that vacancies can be filled quickly.
- *Encourage individual negotiations of pay*: It should not be assumed that pay negotiations limit women's ability to get good compensation due to gender differences and individual capabilities.
- *Ignore individuals' prior compensation*: Do not base compensation on what employees were paid in their previous jobs.
- *Allow exceptions to compensation practices*: Pay ranges and schedules can and should be developed, but exceptions to these pay compensation practices should be allowed when individuals do not fit the mold.
- *Be sure to spread opportunities around the office fairly*. Managers should delegate work and assign employees to work tasks in a fair manner to promote equal opportunity employment.
- *Periodically assess performance reviews and other practices*. Check appraisals processes and other HR/management practices to determine if there are any inherent gender biases.
- *Educate leaders about bias.* Train managers to recognize unrecognized biases and prejudice so that these barriers to positive decision making do not adversely affect the workplace.[40]

The ability to rid the workplace of the gender pay gap is an important ethics-based competency that HR professions should cultivate. If you were given the responsibility of reducing the gender pay gap:

1. How would you motivate HR leaders to develop strategies that ensure gender-based fairness at work? What issues do you think deserve the most attention?
2. What specific steps would you take to help companies reduce the gender pay gap?

KEY COMPETENCIES: Ethical Practice (Behavioral Competency) and People (Technical Competency)

In response to a procedural issue in pursuit of a fair pay claim, Congress enacted the Lilly Ledbetter Fair Pay Act in 2009. This law eliminates the statute of limitations for employees who file pay discrimination claims under the Equal Pay Act. Each paycheck is essentially considered a new act of discrimination. Lawmakers recognized that because pay information is often secret, it might take

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months or even years for an employee to discover the inequity. The successful plaintiff can recover up to two years of back pay.

Pay equity
The idea that pay for jobs requiring comparable levels of knowledge, skill, and ability should be similar, even if actual duties differ significantly

Pay equity involves the idea that pay for jobs requiring comparable levels of knowledge, skill, and ability should be similar, even if actual duties differ significantly. This theory has also been called *comparable worth* in earlier cases. Some state laws mandate pay equity for public-sector employees. However, the existence of pay differences in jobs held by women and men is not sufficient to prove that illegal discrimination has occurred, particularly when factors such as job tenure and work experience may justify such differences.

Ongoing interest in the notion of pay equity is due to the continuing gap between the earnings of women and men. Women have traditionally earned less than men in various occupations and professional fields. According to one report, the findings showed that women made about 79 cents compared to a dollar made by men and that their median compensation levels tracked across various education levels were lower than men's earnings.[41] In another report, women were found to make about 90 percent of what men earn at the age of 32, and at age 40, they were found to make about 82 percent of what men earn.[42] Consequently, pay inequity is an ongoing concern for companies.

Several factors can contribute to these pay differences. For instance, women may take more time off during their childbearing years. This makes it difficult to remain on par with their male counterparts, resulting in a pay gap.[43] Persistent, widespread beliefs about how women should act and how they should be treated might also negatively impact women's workplace experiences and pay.[44] One study also found that women don't always think they deserve higher compensation when their pay is lower, which fails to trigger any pay dissatisfaction.[45]

Despite some of the reasons for pay differences, organizations should focus on strategies that help eliminate gender disparities in compensation. Employers can take steps to reduce pay inequities, including the following:

- For the most accurate overall picture, include all benefits and other items that are part of pay to calculate total compensation.
- Make sure people know how the organization's pay practices work.
- Base pay on the value of jobs and performance.
- Benchmark against local and national markets so that pay structures are competitive.
- Conduct frequent audits to ensure that pay is fair internally and that there are no gender-based inequities.

The preceding "HR Competencies and Applications: Practices That Help Reduce the Gender Pay Gap" feature discusses some other positive strategies for decreasing pay inequity.

3-4c Managing Sex and Gender Issues

The influx of women into the workforce has had major social, economic, and organizational consequences. In particular, the growing number of women has led to more sex and gender issues related to jobs and careers. Since women bear children and often play a significant role in raising children, issues of work–life balance can emerge. Respect for employees' lives outside of the workplace can pay off in terms of attracting and retaining high-quality talent. Organizations can offer a range of options to help employees achieve satisfaction in both their work and personal lives. Glassdoor.com reports that organizations on its annual list of the Top 25 Companies for Work–Life Balance have many of the following attributes, characteristics, and/or programs:

- Support from senior leadership for work–life balance programs
- Flexible hours
- Telecommuting options
- Compressed work weeks
- Family-friendly work environments
- Generous paid time off

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- On-site cafeteria
- On-site fitness center

Glass ceiling
Discriminatory practices that have prevented women and minority status employees from advancing to executive-level jobs

Glass Ceiling For years, various groups have alleged that women in workplaces encounter a **glass ceiling**, which refers to discriminatory practices that have prevented women and other minority status employees from advancing to executive-level jobs. For instance, women still hold a small percentage of top leadership jobs in corporations, and only a small percentage of Fortune 1000 and S&P 500 companies are led by a female CEO.[46] Figure 3-4 shows how the number of women working in jobs tends to decrease when moving up the organizational ladder. Evidence also suggests that women are not represented well in the tech industry or on corporate boards.[47] While women are found to be excellent internal candidates for top positions, always expecting results from women (instead of looking at potential), gender stereotyping certain jobs, biased preferences for men over women, and unfairly blaming women for poor company performance may be perpetuating the glass ceiling and other limitations to women's advancement.[48]

Another problem is that women have tended to advance to senior management in a limited number of support or staff areas, such as HR and corporate communications. Limits that keep women from progressing only in certain fields have been referred to as glass elevators. Since executive jobs in these areas tend to pay less than jobs in other operational areas, the overall impact can be a reduction in women's career progression and income.

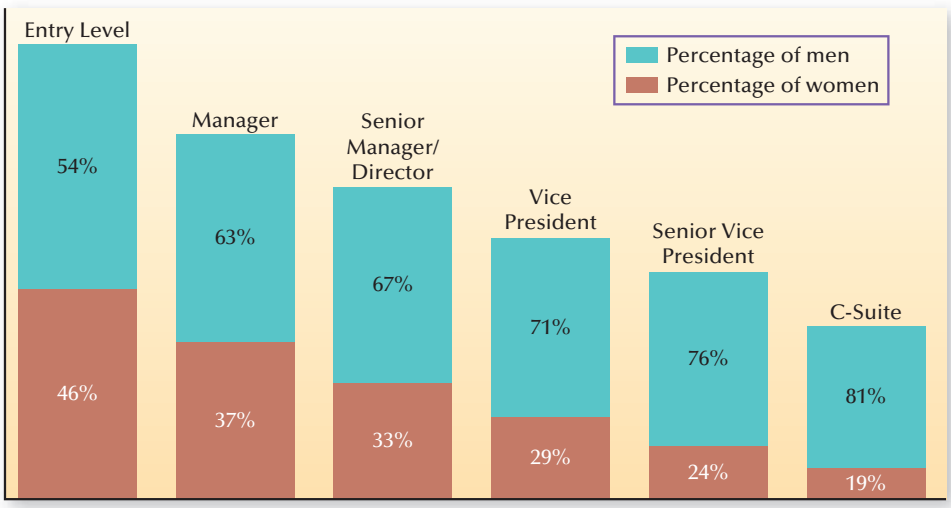
Breaking the Glass A number of employers have recognized that breaking the glass, whether ceilings, walls, or elevators, is good business for women and racial/ethnic minorities. Some useful ways to break the glass include the following suggestions:[49]

- Establish formal mentoring and sponsorship programs for women and members of racial and ethnic minorities.
- For individuals who have shown talent in their current jobs, provide opportunities for career rotation into different work areas.
- Include women and minorities as members of top management and boards of directors.

FIGURE 3-4 Number of Women Working in Jobs Working Up the Corporate Ladder

Gender Representation in the Corporate Pipeline in 2016

At the current rate of progress, it will take more than 100 years to achieve gender parity at the C-suite level.



Source: McKinsey & Co. and LeanIn.org's *Women in the Workplace 2016,* cited in Dawn Onley, "Women's Work," *HR Magazine,* November 2016, pp. 34–42.

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- Establish clear goals for retention and progression of women and minorities. Also, hold managers accountable for achieving these goals.
- Allow for alternative and flexible work arrangements for employees, particularly those who balance work and family responsibilities.
- Develop opportunities for employees to function together in small group to develop stronger cohesion.
- Focus on improving employee engagement by giving individuals more latitude to develop their own work responsibilities and roles.
- Encourage group networking within the organization to encourage positive social interactions among employees.
- Offer training that educates employees about potential workplace biases.
- Get buy-in from male employees and encourage them to help manage diversity efforts.

However, employers have to be careful not to unfairly discriminate against men when developing and implementing strategies that enhance women's representation in companies. The following "HR Highlight: Gender Bias Negatively Impacts Men Too" feature highlights how organizations should be wary of practices that could be viewed as discrimination directed at men.

HR HIGHLIGHT

Gender Bias Negatively Impacts Men Too

Women have faced a number of employment challenges in companies. These include the glass ceiling and a minimized presence in leadership positions. However, growing evidence suggests that men may also be experiencing gender bias as managers and other hiring professionals try to diversify the ranks of organizations. Title VII of 1964 Civil Rights Act prevents unlawful discrimination based on sex, and contrary to what some might believe, this law applies to both women and men equally. And while there is much evidence highlighting the many benefits of diversity in business, favoring individuals based on gender when hiring and promoting employees is not a strategy companies should follow.

This means that managers should avoid making employment decisions based on an individual's sex, even if the demographic characteristics of the workgroup might suggest that this is a sound approach. Reserving positions for women (or men) can be considered gender discrimination. The same can be said for gender preferences when staffing organizations based on rulings made by the federal courts, which have only allowed such preferences in "extremely narrow circumstances."

Positive stereotypes of women in business can trigger such preferential treatment. For instance, a number of published articles have claimed that women make better leaders, which can advance the incorrect notion that it is acceptable to make these kinds of "blanket" statements in the workplace. There is also a prevailing idea among some professionals that women are more nurturing, while men are more task-focused, leading to decreased work opportunities for men. Companies should therefore be particularly careful about how they communicate diversity to employees, as well as how diversity should be managed at work. Taking names off résumés and having diverse selection committees are several ways of reducing gender biases.[50]

HR professionals need to develop sound strategies that prevent gender bias in the workplace. Consider the following questions about this issue:

1. What specific challenges do you think men face with regard to gender bias?
2. What other strategies could be used to reduce gender biases in the workplace?

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3-4d Sexual Orientation

Some Americans identify themselves as being lesbian, gay, bisexual, or transgender. While the EEOC contends that sexual orientation and gender identity fall under the category of "sex" and are protected by Title VII of the 1964 Civil Rights Act, there are conflicting court rulings regarding whether there are legal protections from discrimination (such as offering the same benefits to same-sex spouses) based on these factors, an issue that the Supreme Court will likely have to review.[51] However, at least 20 states, the District of Columbia, and a number of cities have passed laws to protect applicants and employees from such discrimination.[52] Some companies are adopting policies that prevent sex discrimination against employees based on sexual orientation and gender identity/expression, and they are offering benefits to these individuals; stereotypical gender attitudes about appropriate and inappropriate mannerisms, appearance, and conduct are also considered to be inappropriate.[53]

An issue that some employers face is that of individuals who have had or are undergoing gender transition surgery and therapy. Managers and employees should show respect for individuals undergoing these procedures by ensuring individual privacy and making the right accommodations when needed.[54] Another issue involves the use of appropriate bathrooms. Employers can offer gender neutral bathrooms and let individuals choose bathrooms based on their gender identity.[55]

3-4e Nepotism

Nepotism
Practice of allowing relatives to work for the same employer

Many employers have policies that restrict or prohibit **nepotism**. This practice involves allowing relatives to work for the same employer. Other firms require only that relatives not work directly for or with each other or not be placed in positions where collusion or conflict could occur. Such policies most frequently cover spouses, siblings, parents, sons, and daughters. Generally, employers' antinepotism policies have been upheld by courts.

3-4f Consensual Relationships and Romance at Work

Evidence indicates that consensual relationships and romances are common in the workplace, and there is some acceptance of them.[56] However, when these situations occur, managers and employers face a dilemma. Should they "monitor" and/or "manage" these relationships to protect the firm from potential legal complaints, thereby "meddling" in employees' private lives? Or do they simply ignore these relationships and the potential problems they present?

Most executives and HR professionals agree that workplace romances are risky because they can create conflict in organizations. For instance, when workplace romances occur, employees' perceptions of injustice, cognitive dissonance, and negative work norms can lead to poor work attitudes and job performance.[57] Companies should therefore consider developing behavioral guidelines and dating policies to help address romances at work.

3-5 Sexual Harassment

LO4 Distinguish between the two types of sexual harassment and explain how employers can prevent such misconduct.

Sexual harassment
Unwelcome verbal, visual, or physical conduct of a sexual nature that is severe and affects working conditions or creates a hostile work environment

Many individuals report that they have been sexually harassed at work during their careers. A flood of cases have occurred in the media and entertainment industries, with executives Harvey Weinstein, Roger Ailes, and John Lasseter and performers/hosts Kevin Spacey, Louis CK, Charlie Rose, Matt Lauer, and Garrison Keillor being identified as alleged harassers.[58] Multiple incidences of harassment were identified by current and former employees of the San Francisco-based finance-technology company Social Finance Inc., and Ford Motor Company and Texas Roadhouse settled harassment claims.[59] Uber Technologies Inc. also investigated allegations of harassment brought forward by a former software engineer and fired more than 20 employees.[60]

This widespread problem is a form of sex discrimination under Title VII. The EEOC has issued guidelines designed to curtail sexual harassment. **Sexual harassment** is unwelcome verbal, visual, or physical conduct of a sexual nature that is severe and affects working conditions or creates a

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hostile work environment. Sexual harassment can occur between a boss and a subordinate, among coworkers, and when nonemployees have business contact with employees.

Sexual harassers can be either managers or employees. In other words, working in a position of authority is not a prerequisite for such misconduct. Many of the sexual harassment charges filed involve harassment of women by men. However, a small but noteworthy number of sexual harassment claims are filed by men who claim that they were harassed by either men or women. Sexual harassment is therefore not a gender-specific issue. Both men and women can be targeted by perpetrators of either gender. Unfortunately, many claims of harassment go unreported because victims are uncomfortable, embarrassed, and/or concerned about retaliation in the workplace.

3-5a Types of Sexual Harassment

Two basic types of sexual harassment have been defined by EEOC regulations and a number of court cases. Figure 3-5 shows the two types and how they differ. They are defined as follows:

Quid pro quo
Sexual harassment that links employment outcomes to the granting of sexual favors

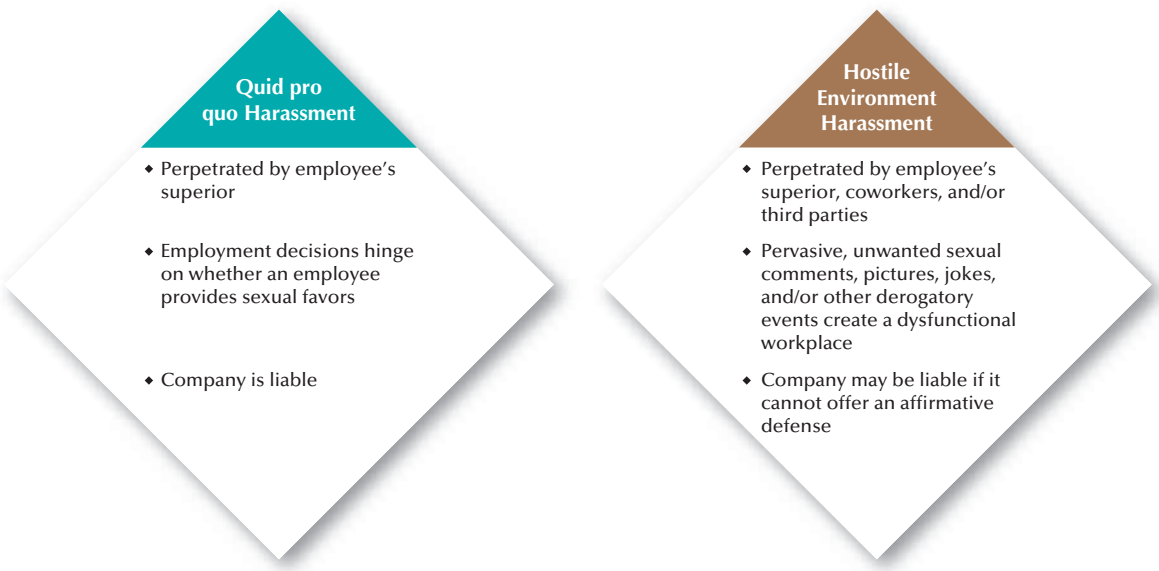
Hostile environment
Sexual harassment occurs when an individual's work performance or psychological well-being is unreasonably affected by intimidating or offensive working conditions

1. **Quid pro quo** is sexual harassment that links employment outcomes to the granting of sexual favors.
2. **Hostile environment** sexual harassment occurs when an individual's work performance or psychological well-being is unreasonably affected by intimidating or offensive working conditions.

In quid pro quo harassment, an employee may be promised a promotion, a special raise, or a desirable work assignment or threatened with negative career consequences but only if the employee grants (or withholds) some sexual favors to the supervisor. Since supervisors are agents of the company, the company always bears liability for quid pro quo harassment.

The second type, hostile environment harassment, may include actions such as commenting on appearance or attire or telling jokes that are suggestive or sexual in nature. It can also include allowing revealing photos and posters to be displayed or making continual requests to get together after work. These actions can lead to the creation of a hostile work environment. If the employer has taken appropriate steps to prevent sexual harassment, it may be possible to offer an affirmative defense and prevail in a lawsuit.

FIGURE 3-5 Sexual Harassment Types



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3-5b Sexual Harassment Causes and Issues

GLOBAL

Gender stereotyping in the workplace can cause sexual harassment. For instance, employees may harass others because their behaviors do not fit with preconceived notions of gender. Impulsive and deviant tendencies in individuals, an attitude of entitlement, and problems related to others can also cause sexual harassment.[61] According to the "Al Capone theory of sexual harassment," such actions could be associated with many other types of work misconduct.[62]

Electronic sexual harassment can also be an issue given the increased use of technology at work. Sexual harassment may occur when employees e-mail each other, when they visit social networking sites, and when they access the Internet. Examples include forwarding sexual jokes through a company's e-mail system and looking at pornographic websites and then sharing the content with coworkers. The seriousness of these issues is compounded in the global business environment because more people with varying beliefs about sexual conduct can be impacted. Companies should consider developing appropriate electronic and Internet use policies that prevent technology-based sexual harassment in international companies. Finally, fundamental differences of opinion regarding the balance of power between men and women and cultures that are more tolerant of sexual harassment lead to very different harassment situations from country to country.

3-5c Preventing Sexual Harassment

A preventative approach is the most effective way to reduce sexual harassment in the workplace. If the workplace culture fosters harassment, and if policies and practices do not inhibit harassment, an employer should assess the workplace and solve the problem before lawsuits occur. This requires managers and HR professionals to be proactive. Companies may avoid liability if they take reasonable care to prohibit sexual harassment, which can include the following steps:[63]

- Establish a sexual harassment policy.
- Communicate the policy regularly.
- Train employees and managers on issues related to sexual harassment.
- Encourage reporting with a positive culture.
- Investigate when complaints are voiced and take appropriate action.

Companies should have sexual harassment policies that establish clear standards for appropriate conduct. Employees should also be required to acknowledge in writing that they understand these policies. Effective training to prevent sexual harassment ideally includes information about how to identify and report sexual harassment incidents when they occur. But research shows that training may not always improve individuals' reactions to sexual harassment, so instruction may need to be customized for different kinds of workplaces and employees.[64] The following "HR Competencies and Applications: Develop Effective Harassment Training for Your Employees" identifies other ways to improve harassment training.

LO5 List key elements of disability discrimination laws.

3-6 Disability Discrimination

Several federal laws have been enacted to advance the employment of individuals with disabilities and to reduce discrimination based on disability. These laws and regulations affect employment matters as well as public accessibility for individuals with disabilities. Despite these attempts to open the workplace to individuals with disabilities, unemployment among the disabled population has consistently exceeded the overall unemployment rate.[65]

3-6a Rehabilitation Act

The Rehabilitation Act was passed in 1973 and represents the earliest law regarding individuals with disabilities. The law applies only to federal contractors and requires them to take affirmative action

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to employ workers with disabilities based on steps outlined in the contractor's AAP. The OFCCP established a rule that federal contractors should set a utilization goal of 7 percent for people who have disabilities. Other changes to the law included collecting and accumulating data about the disabilities of job candidates and new workers so that utilization goals can be used to evaluate progress.[66] A standardized form was also created by the OFCCP to gather (every five years) disability

HR

COMPETENCIES & APPLICATIONS

Develop Effective Harassment Training for Your Employees

Given the recent high-profile cases involving workplace harassment, it is good idea for companies to develop training that lowers concern about misconduct. While harassment can be based on any of the protected individual characteristics outlined in Title VII of the 1964 Civil Rights Act, sex/gender likely gets the most attention because of sexual harassment claims. However, all forms of harassment are harmful to companies and their employees.

A recent report from the Equal Employment Opportunity Commission highlights the need for harassment training, particularly for company leaders because they establish key work standards and review complaints. When done correctly, harassment training educates employees about how this misbehavior can harm the workplace. Here are some tips to make harassment training more effective:

- Identify a knowledgeable trainer and try to conduct the training live, delivered in an interactive way.
- Get leadership on board by getting their support and participation in the training.
- Make sure participants understand that the topics covered in the training are important and serious, even if humor is used sparingly to lighten up the mood.
- Emphasize the risks associated with harassment, as well as the factors that can lead to the proliferation and acceptance of such misbehavior.
- Outline specific examples of all kinds of harassment, highlighting latent types to more flagrant examples.
- Cover what the law identifies as illegal forms of harassment, and state clearly what the company specifies as inappropriate behavior.
- Teach managers, supervisors, and other employees how to respond appropriately to harassment when it is experienced.
- Make sure participants understand that confidentiality will be emphasized, but that it cannot be guaranteed given the serious nature of harassment.
- Emphasize that retaliation will not be tolerated—victims must feel comfortable reporting the misconduct they witness.
- Harassment training should be supported with civility training because treating coworkers poorly can be a gateway behavior to harassment at work.
- Gather ongoing feedback from participants, as well as managers and employees, so that training can be improved to reflect current trends in the organization.

Following these tips should help HR and business professionals develop harassment training that really works. Offering such training should help organizations protect their employees from harassment.[67] Consider the following questions:

1. Based on your experiences, what other kinds of challenges do you think companies face that require harassment training?
2. What recommendations would you have for harassment training? What topics should be covered in this training?

KEY COMPETENCIES: Ethical Practice (Behavioral Competency) and People (Technical Competency)

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information from applicants, newly hired employees, and others who have been working for an organization.[68] Finally, the EEOC outlined the responsibilities of federal agencies to employ more individuals with "targeted" disabilities such as autism, blindness, deafness, and other impairments.[69] The Rehabilitation Act has helped define many of the terms and concepts specified in subsequent laws and provides equal opportunity to applicants and workers with disabilities.

3-6b Americans with Disabilities Act

Two decades after passage of the first law prohibiting discrimination against individuals with disabilities, the Americans with Disabilities Act (ADA) was enacted in 1990. This act applies to private employers, employment agencies, and labor unions with 15 or more employees; it is enforced by the EEOC. Those employed by state governments are not covered by the ADA. This means that they cannot sue in federal courts for relief and damages. However, they may still bring suits under state laws in state courts. Many of the concepts and definitions included in the ADA were based on the Rehabilitation Act.

3-6c ADA Amendments Act

In 2009, Congress passed amendments to the ADA, overruling several key cases and regulations and reflecting the original intent of the ADA. The effect was to significantly broaden the definition of individuals with disabilities to include anyone with a physical or mental impairment that substantially limits major life functions *without* regard for the helpful effects of medication, prosthetics, hearing aids, and so on. This establishes a very low threshold for establishing whether an individual is "disabled."

Who Is Disabled? A three-pronged test is used to determine whether an individual meets the definition of disabled. A person must meet one of the following three conditions, as stated in the ADA and modified by the ADAAA. A **person with a disability** is someone who

Person with a disability
Someone who has a mental or physical challenge that greatly reduces the ability to perform important life functions, who possesses a record of such a challenge, or who is thought to have such a challenge

1. has a mental or physical challenge that greatly reduces the ability to perform important life functions;
2. possesses a record of such a challenge; or
3. is thought to have such a challenge.[70]

A person is considered to have a disability even if any corrective measures are used to reduce the impact of the disability, such as a wheelchair or medication. The only exception is ordinary eyeglasses and contact lenses. Significant life activities and functions include not just visible activities like seeing, breathing, and walking but also internal bodily functions such as those of the neurological, immune, and endocrine systems along with normal cell growth. The definition of disability no longer rests on the individual's inability to *do* something but on his or her medical condition, whether or not it limits functioning. This expanded definition of disability now encompasses a much larger percentage of workers, meaning that employers are likely to encounter situations that require action.

Some impairments such as autism, blindness, cancer, diabetes, and HIV infection are disabilities covered by the ADA. Cancer is also a concern, and companies may need to accommodate individuals who have been diagnosed with various forms of this disease.[71] With regard to substance abuse, the ADA protects individuals who are recovering from addictions, and individuals cannot be denied employment based on past drug test results.[72] But the law does not protect current users of illegal drugs and other substances that harm job performance, so drug policies can still be enforced. For example, an employer may test all employees for the use of legal prescription drugs and illegal substances that are known to impair the proper use of equipment at work.[73]

Mental Disabilities A growing area of concern to employers under the ADA (as amended) is dealing with mental disabilities. A mental disability is defined by the EEOC as "any mental or psychological disorder, such as an intellectual disability, organic brain syndrome, emotional or

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mental illness, and specific learning disabilities." This can include challenges such as bipolar disorder and depression. Employers may find that providing accommodations for workers with mental disabilities is more difficult, and that maintaining effective performance standards is a challenge. For instance, individuals with bipolar disorder may act in ways that disrupt the workplace and harm morale, so it is appropriate for companies to develop conduct policies that outline what are considered essential behaviors at work.[74] Employers should rely on sound medical information, avoid stereotypes, provide accommodations when needed (i.e., altered schedules, leave, etc.), and evaluate whether it is reasonable to continue employing individuals with mental health issues.[75]

More ADA complaints are being filed by individuals who have or claim to have mental disabilities. Two of the top seven disabilities most frequently cited in EEOC claims for disability discrimination are mental: depression and anxiety disorder. Cases have ranged from individuals with a medical history of paranoid schizophrenia to clinical depression to individuals who claim that job stress has affected their marriage or sex life. Regardless of the type of employees' claims, it is important to treat mental disabilities in the same way as physical disabilities. Obtain medical verification of worker limitations and engage in an interactive process to establish reasonable accommodations.

Employees Who Develop Disabilities For many employers, the impact of the ADA has been the greatest when handling employees who develop disabilities, not when dealing with applicants who already have disabilities. As the workforce ages, it is likely that more employees will develop disabilities. More temporary impairments such as injuries that significantly impair life activities for shorter periods of time can also be covered by the ADA.[76] For instance, a warehouse stocker who suffers a serious leg injury in a motorcycle accident may request reasonable accommodations.

Employers should be prepared to respond to accommodation requests from employees whose contribution to the organization was satisfactory before they became disabled and who now require accommodations to continue working. If situations are handled inappropriately, these individuals can file either ADA complaints with the EEOC or private lawsuits.

Employees can sometimes be shifted to other jobs where their disabilities do not affect them as much. For instance, the warehouse firm might transfer the injured stocker to a sedentary purchasing inventory job so that climbing and lifting are unnecessary. But the problem for employers is what to do with the next worker who develops problems if an alternative job within the organization is not available. Even if the accommodations are just for one employee, the coworkers' reactions must be considered.

3-6d ADA and Job Requirements

Essential job functions
Fundamental job duties

Discrimination is prohibited against individuals with disabilities who can perform the **essential job functions**—the fundamental job duties—of the employment positions that those individuals hold or desire. These functions do not include marginal functions of the position. For example, an essential function for the job of cosmetologist is to cut and style hair. A marginal function of that job would be answering the telephone to schedule client appointments. An essential job function of a restaurant server is shuttling food from the kitchen to tables on the floor in a prompt manner. A marginal function of the same job is to fold napkins. The EEOC provides guidelines to help employers determine which job functions are essential. To avoid potential lawsuits, it is important that organizations support lists of essential job functions with hard evidence based on the information found in job descriptions and assessments of typical work duties.[77] Figure 3-6 lists the criteria recommended by the EEOC.

Reasonable accommodation
A modification to a job or work environment that gives a qualified individual an equal employment opportunity to perform

Under the ADAAA, the focus is on finding ways to accommodate individual with disabilities in the workplace. For a qualified person with a disability, an employer must make what is termed a **reasonable accommodation**. This involves modifying a job or work environment to give that individual an equal employment opportunity to perform. EEOC guidelines encourage employers and individuals to work together to determine the appropriate reasonable accommodations, rather than employers alone making those judgments. In other words, the process of determining reasonable accommodations should be interactive. The individual with disabilities should be an active participant in the process. Many options may be considered, but the employer has the authority to select the accommodations

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FIGURE 3-6 Determining If a Job Function Is Essential

A Job Function May Be Considered Essential for Any of Several Reasons, Including but Not Limited to the Following:

1. The function may be essential because the reason the position exists is to perform that function.
2. The function may be essential because there is a limited number of employees available who can perform the job function.
3. The function may be highly specialized so that the job incumbent is hired for that expertise or ability to perform the particular function.

Evidence of Whether a Particular Function Is Essential Includes, but Is Not Limited to the Following:

1. The employer's judgment as to which functions are essential.
2. Written job descriptions prepared before advertising or interviewing applicants for the job.
3. The amount of time spent on the job performing the function.
4. The consequences of not requiring the incumbent to perform the function.
5. The terms of a collective bargaining agreement.
6. The work experience of past incumbents in the job.
7. The current work experience of incumbents in similar jobs.

Source: Part 1630 Regulations to Implement the Equal Employment Provisions of the Americans with Disabilities Act.

to be implemented. Employers should develop the proper work environment to encourage disability disclosure, be aware of situations where accommodations are implied based on information provided by employees, and be proactive with interactive discussions regarding accommodations.[78]

Undue hardship
Significant difficulty or expense imposed on an employer when making an accommodation for individuals with disabilities

Reasonable accommodation is limited to actions that do not place an undue hardship on an employer. An **undue hardship** occurs when making accommodations for individuals with disabilities imposes a significant difficulty or expense on an employer. The ADA offers only general guidelines for determining when an accommodation becomes unreasonable and will create undue hardship for an employer. The determination of undue hardship is made on a case-by-case basis. Undue hardship might stem from financial requirements to scheduling options or facilities modifications. What might be reasonable for a large multinational company might be an undue hardship for a smaller firm with fewer resources. For example, a company may find that bringing service animals to the workplace creates an undue hardship and could develop a policy against doing so, but other accommodations should be explored.[79] Also, companies cannot use leave caps as a way of firing disabled workers and must consider other reasonable accommodations such as extra leave.[80]

The key to making reasonable accommodations is identifying the essential job functions and then determining which accommodations are reasonable so that the individual can perform the core job duties. Common means of reasonable accommodation are shown in Figure 3-7. Architectural barriers should not block individuals with disabilities from accessing work areas or restrooms. Appropriate work tasks must be assigned or modified to allow individuals with disabilities to perform them effectively. This may mean modifying jobs or work area layouts, or providing assistive devices or special equipment. Work hours and break schedules may be adjusted. Fortunately, most

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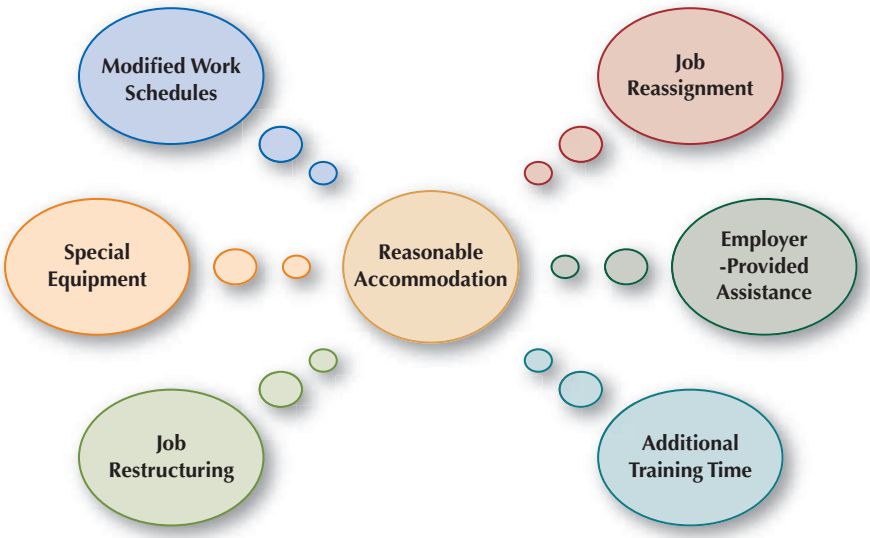
FIGURE 3-7 Common Means of Reasonable Accommodation



Source: Adapted from Job Accommodation Network, http://askjan.org/index.html.

necessary accommodations are relatively inexpensive. Free assistance is readily available from the Job Accommodation Network's online resource center.[81]

ADA Restrictions and Medical Information The ADA restricts employers' attempts to obtain and retain medical information related to applicants and employees. Restrictions include prohibiting employers from rejecting individuals because of a disability and from asking job applicants any question about current or past medical history until a conditional job offer is made. Also, the ADA prohibits the use of pre-employment medical exams, except for drug tests, until a job has been conditionally offered. An additional ADA requirement is that all medical information be maintained in files separated from general personnel files; they must be stored in a secure location, and access should be granted only on a need-to-know basis.

3-6e Claims of Discrimination

During the decade prior to the enactment of the ADAA, approximately 16,000 disability discrimination claims were filed with the EEOC each year. More recently, that number increased to over 25,000 claims, representing a 17 percent increase in the historical average. Experts attribute this rise to changes made in how the ADAA defines a disability. Prior to the ADAA, employers won 90 percent of challenges regarding whether an individual actually had a disability. Now that argument is essentially moot. Companies no longer aggressively work to disqualify individuals from that status. It is also important for employers to understand that *being regarded* as having a disability qualifies an individual for protection under the law, whether or not the person shows any outward impairment or requests an accommodation. This represents the second prong of the definition of *individual with disabilities* and sends a note of caution that treating someone as if they have a disability grants them coverage under the law.

Figure 3-8 shows the most frequent disabilities identified in ADA charges. In an effort to reduce such charges, companies should develop accommodation policies, train individuals to understand legal requirements, actively engage in dialogue with disabled employees to provide accommodations, evaluate the effectiveness of such accommodations, and document all interactions.[82] These steps can create a supportive corporate culture, ensure that leaders are trained to deal with the special needs of disabled individuals, and enable companies to attract and retain good employees.

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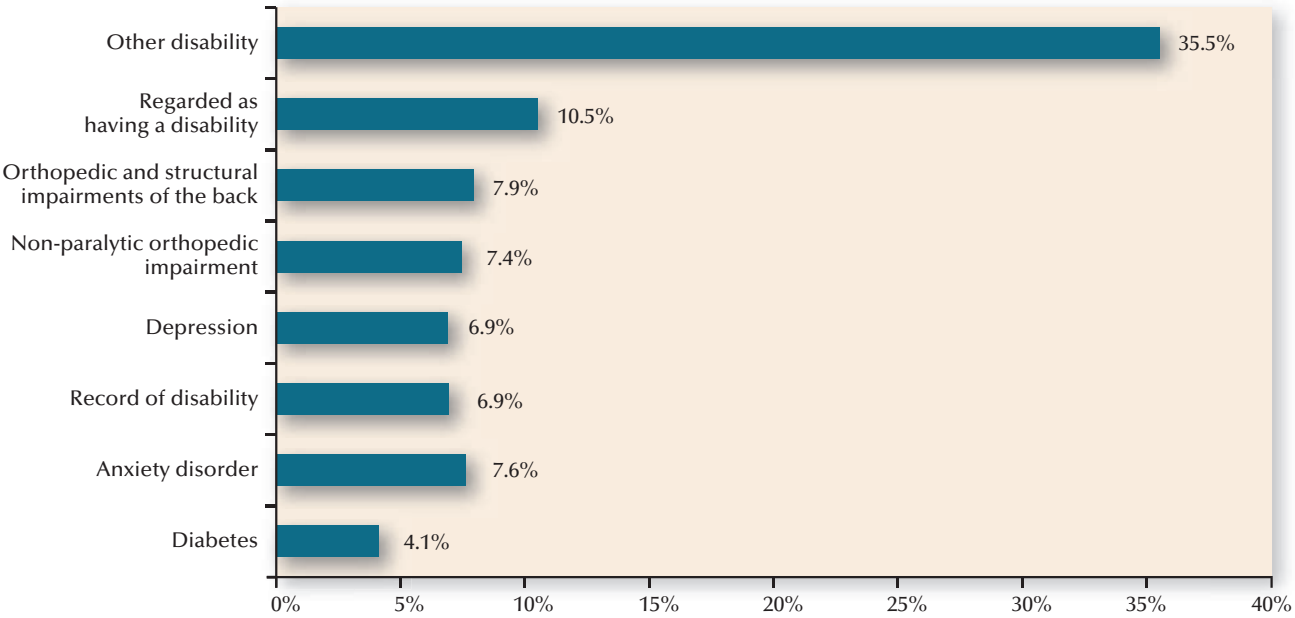
FIGURE 3-8 Most Frequent ADA Charges Filed in 2016



Source: Based on data from the U.S. Equal Employment Opportunity Commission, 2016, http://www.eeoc.gov/eeoc/statistics/enforcement/ada-receipts.cfm.

ETHICS

3-6f Genetic Bias Regulations

Related to medical disabilities is the emerging area of workplace genetic bias. As medical research has revealed the human genome, medical tests have been developed that can identify an individual's genetic markers for various diseases. Whether these tests should be used and how they are used can raise ethical issues.

Employers that use genetic screening tests do so for two primary reasons. Some use genetic testing to make workers aware of genetic problems that may exist so that medical treatments can begin. Others use genetic testing to terminate employees who may make extensive use of health insurance benefits, thus raising the employer's benefits costs and utilization rates.

Genetic Information Nondiscrimination Act Congress passed the Genetic Information Nondiscrimination Act, which went into effect in 2009, to limit health insurance plans' use of genetic information and to prohibit employment discrimination on the basis of this information. Employers are prohibited from collecting genetic information or making employment decisions, harassing, or retaliating on the basis of genetic information, which includes information about the employee and/or family members' genetic tests and family medical history; certain exceptions include voluntary participation in health services or wellness initiatives offered by a company.[83]

LO6 Discuss the legal protections to prevent bias and discrimination based on age, religion, national origin, and other factors.

3-7 Age Discrimination Laws

The populations of many developed countries such as the United States are aging. These changes mean that as older workers with a lifetime of experiences and skills retire, companies face significant challenges in replacing them with individuals who have the right characteristics. However, many senior employees decide to continue working beyond a typical retirement age. These realities can challenge companies to manage various generational differences and preferences in the workplace, while preventing age discrimination. In the United States, employment discrimination against individuals age 40 and older is prohibited by the Age Discrimination in Employment Act.

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3-7a Age Discrimination in Employment Act

The Age Discrimination in Employment Act (ADEA) of 1967, amended in 1978 and 1986, prohibits discrimination in terms, conditions, or privileges of employment against all individuals age 40 or older employed by organizations having 20 or more workers. State employees may not sue state government employers in federal courts because the ADEA is a federal law. Passage of the ADEA is important because age discrimination continues to be a problem in companies—20,000 to 25,000 complaints submitted to the EEOC since 2008 and over 20,000 filed in 2016; evidence indeed suggests that ageism is quite common in business, with employers using creative ways to discriminate against senior job candidates, including using questions and phrases to screen them out of the application process.[84] Texas Roadhouse agree to pay a settlement of $12 million for allegedly discriminating against older applicants for various customer-contact jobs.[85]

3-7b Older Workers Benefit Protection Act

The Older Workers Benefit Protection Act is an amendment to the ADEA and protects employees who sign liability waivers for age discrimination in exchange for severance packages during reductions in force. For example, workers over the age of 40 are entitled to receive complete and accurate information on available benefits, legal counsel from an attorney, and a specified number of weeks to decide whether to accept severance benefits in exchange for waiving their right to sue the employer.[86] This act ensures that older workers are not pressured into waiving their rights under the ADEA. To ensure compliance when developing procedures for laying off older workers, organizations must ensure legal oversight and a strict protocol.

3-7c Managing Age Discrimination

One issue that has led to age discrimination charges is saying older workers are overqualified for certain jobs or promotions. In a number of cases, courts have ruled that the term *overqualified* may have been used as a code word for workers being too old, thus causing them not to be considered for employment. Selection and promotion practices must be age neutral. Older workers also face substantial barriers to entry in a number of occupations, especially those requiring significant amounts of training or for which new technology has been recently developed. Comments such as "Let's hire a recent college graduate" or "We need younger blood" can be legitimate indicators of age discrimination, so managers and employees need to be careful about making comments that could be viewed as biased or discriminatory.

Stereotypes about older workers abound and are often negative. Many people mistakenly believe that older workers are less productive and motivated, more resistant to change and technology, costlier to employ and pay, less trainable, and more prone to get sick.[87] Evidence suggests that many of these stereotypes are unfounded. Regardless of their accuracy, these beliefs can adversely impact older workers' ability to make positive contributions to organizations and thus be appropriately rewarded and recognized.

STRATEGY

Companies should provide training to managers and employees to educate them about age-related biases and stereotypes. It is also important to encourage them to not make comments that could be seen as bias against older workers.[88] Providing older workers with interesting employment opportunities can also promote diversity in the workplace. A study found that developing inclusive HR policies related to age and creating a climate of age diversity leads to positive employee–employer exchanges, increased organizational performance, and reduced intentions to quit.[89] To counter significant staffing difficulties, some employers recruit older people to return to the workforce through part-time and other attractive scheduling options. During the past decade, the number of older workers holding part-time jobs has increased. It is likely that the number of older workers interested in working part-time will continue to grow.

Phased retirement
Approach that enables employees to gradually reduce their workloads and pay levels

A strategy that employers use to retain the talents of older workers for a period of time is **phased retirement**, which enables employees to gradually reduce their workloads and pay levels. This option is growing in use as a way to provide greater personal flexibility to older workers with

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significant knowledge and experience. Organizations also retain them for their valuable capabilities. Some firms rehire their retirees as part-time workers, independent contractors, or consultants, strategies intended to help the company retain its institutional knowledge and history.

3-8 Religion and Spirituality in the Workplace

The United States is fairly diverse with regard to religious beliefs, and this wide range of faiths may evolve as immigrant populations bring with them diverse cultural and religious practices. Figure 3-9 shows the percentage of U.S. adults that practice particular faiths. Religious diversity in the United States is also reflected in the workplace, and this increasing diversity requires organizations to put greater emphasis on religious considerations.

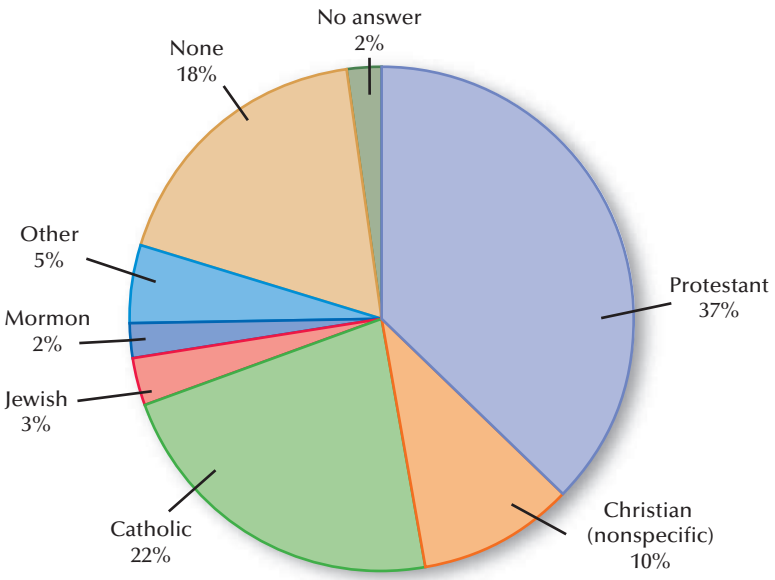
Title VII of the Civil Rights Act prohibits discrimination on the basis of religion. Religious discrimination can take many forms, from hostile remarks to refusal to promote individuals because they have different beliefs. Employees should avoid making comments that could be viewed as offensive to someone's religious beliefs. Employment decisions should not be influenced by workers' religious beliefs.

A related issue concerns religious expression. Employees can express their religious beliefs at work in a way that doesn't harass others, but they should not overtly and aggressively push their religious views and create a hostile environment.[90] For instance, a teacher at an Ohio public school was fired for insubordination because he would not remove religious symbols from his classroom and included specific religious references in his teachings on different subject matters.[91]

Employers must also make reasonable accommodation efforts regarding an employee's religious beliefs unless they create an undue hardship for the employer. Problems can arise because of conflicts between employer policies and employee religious practices such as dress, personal appearance and conduct, and daily scheduling.[92] For instance, some religions have standards about appropriate attire for women and shaving or hair length for men. Generally, employers are encouraged

FIGURE 3-9 Religious Preferences Found in the United States, 2016

What is your religious preference – are you Protestant, Roman Catholic, Mormon, Jewish, Muslim, another religion, or no religion?



Source: http://news.gallup.com/poll/1690/religion.aspx.

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to make exceptions to their dress code policies unless public image is so critical that it represents a business necessity. Deferring to customer preferences in making these determinations is risky and may lead to charges of unlawful discrimination, but employers are on firmer ground when worker safety prevents the modification of dress or appearance policies. Finally, employers don't necessarily need to be made aware of religious practices that prompt accommodations. A court found that Abercrombie & Fitch did not commit religious discrimination when a Muslim applicant was denied employment because her headscarf did not fit the company's dress code. She never mentioned the attire was based on faith and that she needed a reasonable accommodation. However, a recent U.S. Supreme Court ruling overturned this decision, which indicates that companies must provide reasonable accommodations even when not requested by employees.[93]

Sometimes religion can be used directly to make employment decisions. Faith-based schools and institutions can use religion as a BFOQ for employment practices on a limited scale. For example, a university affiliated with a particular religion can lawfully ask questions about job applicants' religious beliefs and evaluate responses when it makes hiring decisions when the job involves promoting a particular faith. However, religious organizations must still evaluate jobs on a case-by-case basis to make sure that they include a faith-based component; otherwise, jobs can be open to all candidates.

3-8a Managing Religious Diversity

Managing religious diversity can be a significant challenge for organizations. The EEOC recommends that employers consider the following reasonable accommodations for employees' religious beliefs and practices:

- Scheduling changes, voluntary substitutes, and shift swaps
- Changing an employee's job tasks or providing a lateral transfer
- Making an exception to dress and grooming rules
- Making accommodations related to paying union dues or agency fees
- Making accommodations related to necessary prayer, proselytizing, and other forms of religious expression

3-9 Managing Other Discrimination Issues

A number of other factors such as national origin, immigration, language, military status, and appearance and weight might lead to unlawful discrimination. In addition to Title VII protections, a number of federal laws have been enacted to address these forms of discrimination. Many of these laws were passed in response to improper company decisions that resulted in unfair treatment of applicants or employees.

3-9a National Origin

Incidences of national origin discrimination, which involves treating individuals unfairly based on their country (or region) of origin, ethnicity (either real or perceived), or accent, are increasing in number, with the EEOC providing new guidance about this issue.[94] For instance, groups of IT professionals have filed lawsuits against Disney and Harley-Davidson for letting American workers go in favor of hiring guest/temporary workers from India and South Asia.[95] It is not entirely clear whether unfair treatment based on perceptions of national origin is considered to be discrimination, but companies should develop positive and inclusive cultures regardless of interpretation.[96] One of the causes of such discrimination is the perception that people from different regions may be less influential and skilled when dealing with others in various organizational roles, so employers should consider providing training that builds political skill and reduces hiring biases.[97]

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3-9b Immigration Reform and Control Act

The United States is home to many millions of foreign-born residents, including people from Latin America, the Middle East, and Asia. The influx of immigrants has led to extensive political, social, and employment-related debates. In particular, some immigration reform proposals have focused on tightening border security, reducing the number of legal permanent resident permits (or green cards) issued, encouraging better enforcement in companies, and verifying individuals' employability; audits, visits to worksites, and raids are also expected to increase in an effort to support existing legislation.[98]

The Immigration Reform and Control Act (IRCA), enacted in 1986, requires that employers verify the employment eligibility status of all employees, while not discriminating because of national origin or ethnic background. Regardless of company size, every employer must comply with the provisions of the act and may not knowingly hire unauthorized workers for employment in the United States.

Within the first three days of employment, each employee must complete an Employment Eligibility Verification (commonly called an I-9) form and provide documents proving that he or she is legally authorized to work in the United States. Figure 3-10 lists the documents accepted in this process. The employer is required to inspect the documents and maintain records for all new hires. The E-Verify federal database instantly verifies the employment eligibility of employees. Federal contractors are required to use the system, as are employers in a number of states where it has been mandated. Other employers may use the system to check and verify employees' legal status.[99] Use of E-Verify may become mandatory, a move that is popular among HR professionals.[100]

Visa Requirements Various revisions to the IRCA changed some of the restrictions on the entry of immigrants to work in U.S. organizations, particularly organizations with high-technology and other "scarce skill" areas. More immigrants with specific skills have been allowed legal entry, with multiple categories being specified for entry visas. Among the common visas encountered by employers are the B1 for business visitors, H-1B for professional or specialized workers, and L-1 for intra-company transfers. The O-1A visa designation is reserved for foreigners who have special skill sets that place them at the apex of their professions, for example, successful athletes, scientists, academics, and businesspersons.[101] The numbers of issued visas may decrease given concerns about the employment of U.S. workers.[102]

3-9c Language Issues

As the diversity of the workforce increases, more employees have language skills in addition to English. Interestingly, some employers have attempted to restrict the use of foreign languages at

FIGURE 3-10 Primary Documents to Certify I-9 Compliance

List A	List B	List C
• U.S. passport	• Driver's license or state-issued ID card	• U.S. social security card
• Certificate of U.S. citizenship	• ID card issued by federal, state, or local government	• Certification of birth abroad
• Certificate of naturalization	• School ID card with photograph	• Original or certified copy of birth certificate
• Unexpired foreign passport	• Voter's registration card	• Native American tribal document
• Permanent residence card	• U.S. military card or draft record	• U.S. citizen ID card

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work, while other employers have recognized that bilingual employees have valuable skills. Organizations such as McDonald's and Tyson Foods help employees learn English so that they can more effectively communicate on the job.[103]

Some employers have policies requiring that employees speak only English at work. These employers contend that the policies are necessary for valid business purposes. The EEOC has issued guidelines clearly stating that employers may require workers to speak only English at certain times or in certain situations, but the business necessity of the requirements must be justified.[104] Teaching, customer service, and telemarketing are examples of positions that may require English skills and voice clarity.

With the demand for bilingual employees increasing, some companies have found it beneficial to employ such individuals, particularly in customer-contact positions.[105] Bilingual employees are especially needed among police officers, airline flight personnel, hospital interpreters, international sales representatives, and travel guides.

3-9d Military Status Protections

The employment rights of military veterans and reservists have been addressed in several laws. The two most important are the Vietnam Era Veterans' Readjustment Assistance Act of 1974 and the Uniformed Services Employment and Reemployment Rights Act (USERRA) of 1994. Under the latter, employees are required to notify their employers of military service obligations. Employers must give employees serving in the military leaves of absence protections under USERRA, as Figure 3-11 highlights.

With the deployment of reserves and National Guard troops abroad, the provisions of USERRA have had more impact on employers. Requirements regarding benefits, disabilities, and reemployment are covered in the act. For example, USERRA does not require employers to pay employees while they are on military leave, but many firms voluntarily provide additional compensation to bridge the gap between military pay and regular pay. Uniformed military personnel are also provided up to five years of active duty service leave during which the employer must hold their job.

3-9e Appearance and Weight Discrimination

Several EEOC cases have been filed concerning the physical appearance of employees. Court decisions consistently have allowed employers to set dress codes and appearance standards as long as they are applied uniformly. For example, establishing a dress code for women but not for men has been ruled discriminatory. Also, employers should be cautious when enforcing dress standards for female employees whose religions prescribe appropriate and inappropriate dress and appearance

FIGURE 3-11 Uniformed Services Employment and Reemployment Rights Act (USERRA) Provisions

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standards. Some individuals have brought cases of employment discrimination based on height or weight. Employers must link any weight or height requirements to specific job functions.

Complying with this complex array of regulations requires diligence and careful recordkeeping. Appendix G provides details on the EEO enforcement process, information about records retention, and the investigation process.

3-10 Diversity Training

Traditional diversity training has a number of goals. A primary goal is to minimize discrimination and harassment lawsuits. Other goals focus on improving acceptance and understanding of people with different backgrounds, experiences, capabilities, and lifestyles. Employees are encouraged to recognize, evaluate, and appreciate differences.

3-10a Components of Traditional Diversity Training

Diversity training programs often have three components. *Legal awareness* is the first and most common component. Here, the training focuses on the legal implications of discrimination. This limited approach to diversity training focuses only on these legal "do's and don'ts."

Through *cultural awareness* training, organizations hope to build greater understanding of the differences among people. Cultural awareness training helps all participants see and accept the differences in people with widely varying cultural backgrounds.[106]

The third component of diversity training—*sensitivity training*—is more difficult. The aim here is to "sensitize" people to the differences among them and how their words and behaviors are seen by others. Some diversity training includes exercises containing examples of harassment and other misbehaviors.

3-10b Mixed Results for Diversity Training

The results of diversity training are viewed as mixed by both organizations and participants. Diversity training may not produce long-term changes in people's attitudes and behaviors toward others with different characteristics, thereby failing to reduce discrimination and harassment complaints. Rather than decreasing conflict, diversity training, particularly mandatory programs and training that is seen as corrective, may make employees skeptical and prompt a backlash against diversity efforts. In other words, it can produce divisive effects and may not change behaviors so that employees can work well together in a diverse workplace.[107]

By establishing diversity programs, employers may therefore raise expectations but then fail to meet them. Women and racial minorities may see diversity programs as inadequate and nothing but "lip service." White males may interpret the emphasis on diversity as assigning them blame for societal problems. Finally, diversity programs might be perceived as benefiting only women and racial minorities and taking away opportunities from white men.

3-10c Improving Diversity Training Efforts

Focusing on behavior seems to hold the most promise for making diversity training more effective. For instance, cultural diversity training that teaches sales representatives and managers how to positively communicate with people from diverse backgrounds should produce positive results. Trainers emphasize that the key to avoiding backlash in diversity efforts is to stress that people can believe whatever they wish, but at work, their values are less important than their *behaviors*. Dealing with diversity is not about what people can and cannot *say*. It is about being *respectful* to others.

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SUMMARY

- Equal employment is an attempt to level the field of opportunity for all people at work.
- Laws have been enacted to prohibit making employment decisions based on age, color, disability, national origin, race, religion, and other protected characteristics.
- The Equal Employment Opportunity Commission and Office of Federal Contract Compliance Programs are the primary enforcement agencies in employment discrimination laws.
- Disparate treatment occurs when individuals are treated differently on the basis of a protected characteristic.
- Disparate impact occurs when employment decisions work to the disadvantage of individuals on the basis of a protected characteristic.
- Employers may be able to use business necessity, job-relatedness, and bona fide occupational qualifications (BFOQs) to defend their management practices.
- Title VII of the 1964 Civil Rights Act was the first significant equal employment law. The Civil Rights Act of 1991 altered and expanded the 1964 provisions.
- Retaliation claims now rank as the most common reason individuals file EEO claims.
- Executive orders issued by the president govern the relationship between federal contractors and the U.S. government.
- Affirmative action has been intensely litigated, and the debate continues today.
- Several laws on sex/gender discrimination have addressed issues regarding pregnancy discrimination, unequal pay for similar jobs, and sexual harassment.
- As more women have entered the workforce, sex/gender issues in equal employment have included both discrimination through pay inequity and discrimination in jobs and careers.
- The courts have defined two types of sexual harassment—quid pro quo and hostile environment.
- It is vital that employers train all employees on what constitutes sexual harassment, promptly investigate complaints, and take action when sexual harassment is found to have occurred.
- The Americans with Disabilities Act (ADA) requires that most employers identify the essential functions of jobs and make reasonable accommodations for individuals with disabilities unless doing so would result in undue hardship.
- Employment discrimination against persons older than age 40 is illegal according to the Age Discrimination in Employment Act (ADEA).
- Employers are required to make reasonable accommodations for employees with religious beliefs and practices.
- The Immigration Reform and Control Act (IRCA) regulate the employment of workers from other countries who work in the United States.
- A number of other employment concerns have been addressed by laws, including discrimination based on religion, military status, and other factors.
- Diversity training has had limited success, possibly because it too often has focused on beliefs rather than behaviors.

CRITICAL THINKING CHALLENGES

1. Discuss some of the protected characteristics covered by equal employment opportunity laws and why they are important in today's employment setting.
2. You recently learned that two of your key female employees will be taking maternity leave around the same time. What procedures or rules do you need to be aware of based on the Pregnancy Discrimination Act (PDA)?
3. Give an example of sexual harassment you may have witnessed or heard about. If you had been the HR manager, how would you have handled the situation?
4. Use the U.S. Department of Labor website (www.dol.gov) to further research a topic discussed in this chapter. Be sure to understand what the particular law (act) is protecting and what the rules are that companies need to follow to comply with this act.

CASE Hilton Turns to Veterans to Staff the Ranks

Military veterans represent an excellent pool of talent for organizations, a reality that many HR professionals are starting to realize. Members of the military are given extensive training and have unique job experiences that often translate into marketable knowledge, skills, and abilities. For instance, veterans are keenly focused on safety, flexibility, and precision in the workplace, characteristics that are useful in many civilian jobs. Work in the military also cultivates useful

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decision-making, communication, and team-based skills in individuals, and these attributes can benefit business organizations.

Unfortunately, many companies have not developed specialized policies to recruit veterans or don't understand how to properly hire them. Much of this is likely caused by misconceptions about veterans, a lack of awareness of their key traits, and cultural differences between the military and corporate life. This also means that many employers are missing out on the opportunity to hire these highly qualified and motivated individuals.

Hilton Worldwide has taken steps to effectively recruit veterans for its hotels. In fact, the company expects to hire many thousands of veterans to staff its ranks. According to Melissa Sterling, who works as the director of military, campus, and youth programs in the company, military personnel are reserved about their accomplishments, so care has to be taken to ask them the right kinds of questions in interviews—the right questions get them to open up about their experiences and successes. Sterling provides training to individuals who are involved with hiring so that there is better understanding in the firm about how to effectively recruit veterans.

Sterling also organized a roadshow in 10 different cities that showcased to HR professionals and other personnel involved in hiring the importance of recruiting veterans. Training was provided to attendees about how to evaluate resumes and successfully interview individuals with prior military service. Members of regional veteran groups were also invited to have lunch with the attendees, and job fairs were organized so that recruiting efforts could begin for local hotel properties. Veterans currently working for the company were also invited to dinner gatherings that were organized after the sessions.

Hilton Worldwide employs other strategies to recognize veterans for their service. Veterans are given pins representing their military branches, and they are encouraged to wear these pins on their work uniforms. Similar to the military, employees are also given "challenge coins" to recognize individual contributions to the company's military program, and every hotel has a "commander" who coordinates this recognition. All of these efforts have translated into a positive work culture for veterans.[108]

QUESTIONS

1. What kinds of characteristics do you think veterans have that help them work effectively in companies? Why do you think veterans are sometimes overlooked in recruiting efforts?
2. How would you evaluate Hilton's strategy for recruiting veterans? What other suggestions would you provide the company?

SUPPLEMENTAL CASES

Conflict over an Employee's Pregnancy at UPS

This case outlines how pregnant employees can be offered workplace accommodations that are both reasonable and fair, similar to those provided to individuals with physical or mental challenges. (For the case, visit MindTap® at www.cengage.com/login.)

Worker Exploitation at Foxconn/Hon Hai

This case discusses how labor laws in China provide limited protection for workers, raising ethical concerns when U.S. companies do business with firms located there. (For the case, visit MindTap® at www.cengage.com/login.)

Keep on Trucking

This case illustrates the problems that can be associated with the use of employment tests that have not been validated. (For the case, visit MindTap® at www.cengage.com/login.)

Mitsubishi Believes in EEO—Now

This case shows the problems Mitsubishi had with sexual harassment in the United States. (For the case, visit MindTap® at www.cengage.com/login.)

Religious Accommodation?

This case shows how companies must deal with employees from many cultures and religions. (For the case, visit MindTap® at www.cengage.com/login.)

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SECTION 2

CHAPTER 4
Workforce, Jobs, and Job Analysis

CHAPTER 5
Individual/Organization Relations and Retention

CHAPTER 6
Recruiting High-Quality Talent

CHAPTER 7
Selecting Human Resources

Jobs and Labor

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CHAPTER 4

Workforce, Jobs, and Job Analysis

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Explain how the workforce is changing in unpredictable ways.

LO2 Understand how technology changes jobs and workflow.

LO3 Define job design and identify common approaches to job design.

LO4 Discuss how flexible work arrangements help employees achieve work–life integration.

LO5 Describe job analysis and the steps in the process.

LO6 List the components of job descriptions.

WHAT'S TRENDING IN WORKFORCE, JOBS, AND JOB ANALYSIS

The creation of jobs that motivate employees is a critical issue that companies address. Human resource professionals assist with workforce management, the creation of satisfying work, and the assessment of jobs. In particular, they must understand that jobs play an important role in the effective and efficient use of human resources in companies. Here's what's currently trending in the area of workforce, jobs, and job analysis:

1. Skills gaps continue to challenge organizations, and proper steps need to be taken to reduce these gaps so that workers are best positioned to make valuable contributions in their jobs. Persistent shortages in some industries (such as trucking) are creating major problems for firms in those industries.
2. Many employees desire flexible work arrangements so that they can work in ways that accommodate their individual preferences, obligations, and schedules. While some companies offer a wide array of flexible job opportunities, others have begun to require more "face time" at company facilities.
3. Focusing on the right mix between work and home is an important issue that companies address on an ongoing basis. Human resource professionals should create policies that help workers to integrate their work and personal lives so that they can fully engage in all aspect of their lives.
4. Technology advancements are dramatically reshaping workplaces and employee skills need continuous updating to keep pace. Rather than displacing workers, automation and robotics are creating new jobs and helping companies to increase productivity. Maintaining relevant, accurate job descriptions is a challenge for organizations as the pace of change is rapid and unpredictable.

These trends show that the way the workforce is managed is constantly being altered to accommodate the needs of both companies and employees. The variety of challenges that employers face also suggests that jobs will likely continue to change based on these needs. This chapter explores many of the important workforce issues that affect the jobs employers create and develop, as well as techniques for determining exactly what people do in their jobs and how they should perform.

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HEADLINE

Preparing for Industry 4.0

The world of work is undergoing a transformation, and jobs will never be the same again. No industry sector will be spared from the coming technological revolution described as "Industry 4.0." The combination of integrated hardware, software, and people through "cyber-physical systems," artificial intelligence, and machine learning will lead us to the fourth industrial revolution and create new ways of doing business.

At multinational technology manufacturer Flex (previously known as Flextronics), tomorrow has already arrived. Flex serves over a dozen industries in 32 countries. The company designs and engineers supply chain innovations and logistics and employs over 200,000 workers. Since customers work with Flex on innovative solutions that increase efficiencies, it was only natural that Flex took a look at its own internal processes and work methods in response to technological advances.

Leaders at Flex recognized that the Internet of Things (IoT) means that massive amounts of data are available upon request, but that without some sensible control of data, it can overwhelm workers. The company is focusing on creating smart connectivity that helps machines and devices interact with humans to generate higher productivity. These cyber-physical systems eliminate labor redundancies. However, rather than leading to fewer workers needed, it actually increases the number of skilled workers that assess, install, and maintain the hardware in "lights out" factories (fully automated). Further, the demand for people with programming and data analytics talent will be in high demand to fine-tune the software and monitor information.

Job categories will transform as work methods change. Some jobs will disappear as they are replaced by technology, while others will be created. Think back a decade or so. Cloud computing specialists, data scientists, and drone operators did not exist. It is impossible to predict what jobs will look like in the next decade, but Flex is working to prepare its managers and leaders for what may come. The company is investing in various systems to provide seamless information flow to employees and to facilitate work–life integration by providing easy access to telemedicine and real-time doctor consultations around the world.

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Managers at Flex have a dashboard that reflects what is happening in their operation in real time. The multiple metrics that are keys to each operation are presented in graphic form to make it easy to spot problems or interruptions in service. Managers can respond quickly and resolve problems before they get too big to handle. For example, an explosion in the city of Tianjin, China, where Flex has an operation, was easily detected, and the company was able to obtain information about the status of its workers and operations quickly. Engineers working at Flex's operation center in India can monitor and adjust production equipment in factories as far away as Hungary or Mexico. This agility and responsiveness has increased the company's production output and decreased its costs.

While no one can say for sure what the future will hold, the workplace of 2025 will certainly look different than that of today. Flex is leading the way to Industry 4.0 and is likely to be on the cutting edge of Industry 5.0 when it arrives.[1]

To understand the workforce and the jobs that people perform, it is important to consider the trends driving how workplaces are managed. As discussed in the opening "HR Headline" feature, evolutions in technology are transforming work methods and jobs. The latest industrial revolution is causing many organizations to rethink the worker experience and to determine how to help employees deal with technological advances. Further, companies must adjust to changing demands from customers and employees who expect a 24/7 service approach.

Companies also face "skills gaps" in certain occupations such as health care and truck driving. Skills shortages exist in a variety of industries because many people do not have the skills needed to fill available jobs. Generational differences in the workforce may also pose challenges to managers and HR staff. Can technology resolve some of the skill gaps? Will technology create new skill gaps? How will younger and older workers adapt to changes in the workplace? Will differences between the generations at work really amount to differences in the way jobs get done? Human resource professionals must address these questions to help organizations manage dynamic workplaces. Practices and policies will likely need to be developed to address these concerns.

Other critical issues must also be considered by human resource professionals and organizational leaders. Historically, part-time positions have not been viewed favorably; people would begrudgingly accept part-time work until they could find a full-time employment opportunity. Yet today, employers want more contingent employees for the flexibility they provide, and the gig economy offers employees the personal flexibility that they desire. These preferences require new approaches to human resource management that recognize the varying needs of employers and employees.

LO 1 Explain how the workforce is changing in unpredictable ways.

4-1 The Workforce Profile

Human resource professionals deal with the segment of the population that works in current jobs or that is looking for work. The goal is to develop jobs that are inherently motivating to employees or to create work situations that are desirable enough to attract and hire competent workers. We begin with an overview of the workforce and jobs.

Today's labor force is more diverse than in the past and now includes older adults, females, and people from different racial and ethnic backgrounds. This diversity will increase in the future. The overall workforce is getting older and younger workers are more educated than in the past. Since U.S. population growth has slowed, the available labor pool is shrinking.[2]

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The Census Bureau projects that the U.S. population in 2060 will be about 417 million, and people aged 65 and older will comprise about 24 percent of this total, a greater share than people under age 18. Flows *into* the population include fertility (births) and immigration, while flows out of the population include deaths and outmigration. The fertility (or birth) rate in the United States is roughly at a replacement level of 1.8 children per woman, and population-wide life expectancies continue to increase.[3] Immigration is volatile and difficult to predict because it depends on other countries and economics, but it is estimated that immigration adds 1.4 million people to the population annually. Foreign-born individuals make up over 13 percent of the U.S. population.[4]

Labor force participation rate
The percentage of the population working or seeking work

The **labor force participation rate** is the percentage of the population working or seeking work. The labor force participation rate has been declining in the past decade. It peaked at 67 percent before 2000 and has since declined to around 63 percent. Part of the reason for this trend is that older people are still in the population, but they are not as likely to be in the workforce as younger people. Figure 4-1 shows the trend in labor force participation for the decade 2008–2018.

4-1a Important Elements of the Workforce Profile

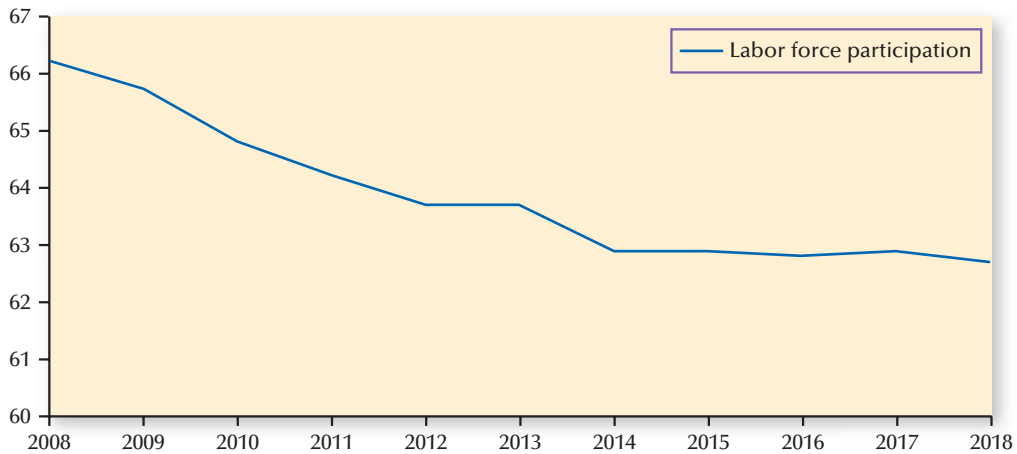
Participation rates help us understand which segments of the population are more likely to be in the labor market in the future. Several variables—like age, generation status, employee skills (or the lack of in the case of skills gaps), and individual readiness for work—are important factors that determine the workforce profile. Figure 4-2 shows the age and gender profile of the U.S. workforce in 1996 and projects today's workforce to 2026.

Generational Groups and the Aging Workforce Much has been written about the different expectations and participation rates of individuals in various age groups and generations. Some common categories for generational groups are as follows:[5]

- Traditionalists (born 1925 to 1945)
- Baby Boomers (born 1946 to 1964)
- Generation X (born 1965 to 1981)
- Generation Y (Millennials) (born 1982 to 2000)
- Generation Z (iGen) (born 2001 to present)

Different characteristics have been attributed to these groups. However, it is critical for managers to avoid stereotyping employees based on their generational cohort. Two individuals in the same generational group may be as different from each other as two individuals from different

FIGURE 4-1 Labor Force Participation Rates, 2008–2018



Source: U.S. Bureau of Labor Statistics.

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FIGURE 4-2 U.S. Civilian Labor Force by Age and Gender

Population Segment	Number (in thousands)		Percent of Total		Projected Growth (%)
	1996	2016	1996	2016	2016–2026
Total (16 years and older)	133,900	159,200	100.0	100.0	0.6
Age (years)					
16–24	21,183	21,202	15.8	13.3	–0.6
25–54	96,786	102,248	72.3	64.2	0.5
55 and older	15,974	35,737	11.9	22.4	1.7
Gender					
Men	78,087	84,755	53.8	53.2	0.5
Women	61,857	74,432	46.2	46.8	0.8

Source: U.S. Bureau of Labor Statistics.

generations. Research has shown no generational difference in endorsement of work ethic, perhaps surprising in light of the common perception of Millennials as lazy or less committed. Further, the results of numerous studies on generational differences in the workplace have resulted in conflicting findings.[6] Therefore, it is advisable to treat employees as unique individuals despite their membership in a generational group.

Since Millennials will represent approximately 50 percent of the workforce by the year 2020, many organizations are adjusting HR practices to appeal to this group of workers. Managing employees from multiple generations can pose challenges for companies. Managers report that communication skills, adapting to change, technical skills, and collaboration are all areas where members of different generations may work differently. Some research shows that workers in Generations Y and Z may favor a more collaborative, coaching style of management than the more reserved Baby Boomers. Traditional instructor-led training may be more effective for Baby Boomers and Generation X workers, while technology-enhanced training may appeal to younger workers.[7] One aspect of work life that may differ among the generational groups is career mobility and job retention. Millennial workers are more likely to change jobs than older workers. However, since Millennials are early in their careers, it is not surprising that they are more mobile then individuals more settled in their occupations. However, with a looming labor shortage, companies should still work to retain Millennial workers to ensure a solid talent pipeline.[8]

Leadership roles in many organizations are now being handed over to Generation X and Millennial workers as baby boomers begin to retire. Talent management is a particular concern for these leaders as loyalty to one employer over an entire career is no longer the norm for workers. Service and knowledge workers with unique talent are not as easy to replace as manual laborers in decades past. Thus, CEOs like Matt Levatich of Harley-Davidson are working to make their companies appealing to workers in the younger generation.[9] In addition, Millennials are increasingly

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being given the responsibility of supervising Baby Boomers, often because senior individuals are staying employed (instead of retiring), and younger workers are getting promoted rapidly because of their high levels of motivation and talent. In addition, these individuals can have different ideas about appropriate leadership styles, with younger leaders using technology to communicate and develop working relationships with others and older individuals wanting more close contact with their bosses.[10] Companies can provide training to help reduce the challenges associated with generational differences, and they should also utilize the skills of older workers while building the talents of younger employees.[11]

The U.S. workforce is aging, and workers over age 50 will constitute one–third of the labor force by 2022. These workers may represent lower risk in hiring as they are generally more experienced and self-aware than younger workers. Their substantial level of job knowledge, professionalism, and networking contacts can provide benefits to the companies that employ them. Older workers tend to have a slightly higher level of engagement, which can also lead to greater productivity and less absenteeism and turnover.[12] The following "HR Competencies & Applications: Capitalizing on the Graying Workforce" feature demonstrates ways in which companies can take advantage of the aging workforce in ways that benefit both workers and organizations.

Skill Gaps Being able to hire people with the skills needed to help a business accomplish its goals is fundamental to sound human resource management. Employees need certain skills to help them make valuable contributions to their employers. For instance, the skills associated with *mindfulness*, including a focused awareness, a rational mind-set, and positive decision making, are all considered to be important in the workplace.[13] Interpersonal skills such as collaboration, empathy, and managing others are also important. Female employees often possess more of these *soft skills*, which is enhancing their career prospects.[14]

Unfortunately, there is growing awareness that individuals don't always have the skills needed to be successful at work. In a recent survey, almost half of managers working for a selection of large companies surveyed in the United States claimed that skills gaps exist in their professions, especially in the areas of information technology, engineering, research/development, and sales.[15] Economic and political forces in the United States make it more attractive for manufacturing than in the past. However, vocational training is not as popular in high schools, and today's manufacturing jobs require much more technical expertise and knowledge. This is limiting the ability of manufacturing companies to find workers who can perform the high-skilled jobs they need.[16] The confluence of these factors means that more jobs requiring science, technology, engineering, and math (STEM) skills should be available. Research studies point to shortages in some STEM fields such as cybersecurity and electrical and mechanical engineering while there are surpluses in field such as academia and biomechanical engineering.[17] While the workforce is becoming more educated, students are not studying the necessary subjects to fill the jobs of today and tomorrow.

Overall growth in jobs is expected to be around 7 percent in the coming decade. However, particular occupations are on dramatically different trajectories. Occupations in health care, data analysis, and alternative energy production will grow rapidly while demand for many manual labor occupations and other jobs that can easily be automated will drop substantially. Figure 4-3 shows the fastest growing and declining occupations anticipated by 2026. The skills needed to perform jobs on the decline do not match well with the requirements to perform those jobs expected to grow. Organizations that need high-skilled employees, such as those that operate in the science, medical, technical, and managerial fields, also experience skills gaps, making it difficult to hire the right people. Recent evidence indicates that two-thirds of companies face recruiting challenges because job candidates often lack decision-making, leadership, ethics, math, and communication skills.[18]

The transportation industry is under particular strain as a shortage of truck drivers jeopardizes trucking companies' ability to meet demand for hauling freight. Demographics create additional issues as many current truck drivers are reaching retirement age and the lifestyle of over-the-road driving is not attractive to many younger workers.[19] School bus driver shortages are causing some school districts to change their starting times so that drivers can handle multiple routes or to limit bus service to students who live further from the schools. Nearly 90 percent of school districts in a recent survey reported driver shortages. Some cities are increasing pay and offering incentives for

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HR

COMPETENCIES & APPLICATIONS

Capitalizing on the Graying Workforce

Organizations can use all of the skilled, committed talent that is available. Despite persistent stereotypes about older workers, such as they may resist change, incur medical problems, and lack energy and enthusiasm, the reality is much different. Many Baby Boomers want to continue working and have some abilities and habits that employers value, including strong basic skills (writing in English, reading comprehension), a positive work ethic, greater work experience and knowledge, enhanced professionalism, and reliability. While many older workers continue or return to work for financial reasons, many also seek personal fulfillment and social interaction.

In the past, companies that overlooked older workers, or were anxious to send them into retirement, are now realizing that these individuals are more of an asset than a liability. For example, at Brooks Brothers' Long Island factory, more than half of the employees are over 55. They produce high-quality products and willingly share their knowledge and expertise with younger workers. Hiring and retaining skilled employees is a business imperative, and companies need to find ways to capitalize on the graying of the workforce. However, only one-fifth of organizations have assessed the impact of potentially losing workers aged 55 and older. In addition, very few organizations have formal strategies for retaining and recruiting older workers. Inflexible scheduling and rigid employment policies are driving high levels of turnover in this age group.

Organizations use the following recruiting techniques to connect with older workers:

- Employee referrals
- Networking
- Internet (websites aimed at mature audiences)
- Employment agencies

Companies interested in employing older workers also utilize various HR policy and practice strategies. Modifications to existing practices may smooth the way for mature workers to remain actively in the workforce. Among the most common HR initiatives are the following:

- Offering reduced work hour schedules
- Hiring retired employees as consultants or temporary workers
- Offering flexible schedules
- Creating or redesigning jobs to help transition workers to retirement
- Offering phased or gradual retirement
- Training and upgrading workers' skills
- Allowing older workers to transfer to jobs with less pay and responsibility

The aging of the workforce is inevitable, and the lack of talent following the Baby Boomers' exit from organizations will create major gaps for many employers. Creative, thoughtful changes to HR policies and practices, coupled with a focused effort to recruit and retain older workers, may be the steps that differentiate between companies that will succeed and fail in the future. There are ways to provide meaningful work to mature workers while providing great benefits to organizations. HR staff can contribute to the strategic success of organizations by capitalizing on this graying workforce.[20]

Human resource professionals should lead the discussion with organization leaders about the imminent workforce shortage and the tactics that might be used to welcome older workers into their work settings. If you were given the responsibility of doing this:

1. How would you encourage line managers to alter work schedules and other work practices to make them more inviting to older workers? What information might you present that would help to make the case for investing in this segment of the workforce?
2. How might you recruit older workers? What advertising means would you use? What other outreach approaches could you use?

KEY COMPETENCIES: Consultation (Behavioral Competency), Strategy (Technical Competency), and People (Technical Competency)

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FIGURE 4-3 Fastest Growing and Declining Occupations, 2016–2026

Fastest Growing Occupations, 2016–2026		Fastest Declining Occupations, 2016–2026	
Occupation	% Change	Occupation	% Change
Total, all occupations			+7.4
Solar photovoltaic installer	+104.9	Locomotive firers	–78.6
Wind turbine service technician	+96.3	Respiratory therapy technician	–56.3
Home health aide	+47.3	Parking enforcement worker	–35.3
Personal care aide	+38.6	Word processor/typist	–33.1
Physician assistant	+37.3	Watch repairer	–29.7
Nurse practitioner	+36.1	Motor vehicle electronic equipment installer/repairer	–25.6
Statistician	+33.8	Foundry mold and coremaker	–24.0
Physical therapist assistant	+31.0	Metal pourer/caster	–23.4
Software developer (applications)	+30.7	Computer operator	–22.8
Mathematician	+29.7	Telephone operator	–22.6

Source: U.S. Bureau of Labor Statistics.

perfect attendance to attract and retain drivers.[21] The airline industry faces similar challenges as pilots reach retirement age. Tougher training requirements enacted a few years ago are leading to a perilous shortage of pilots, especially for regional airlines. Airline companies are working with legislators to change some of the restrictions on pilot preparation and training in an effort to expand the pool of potential employees.[22]

STRATEGY

Other strategies can be used to manage talent gaps before they become a serious issue. Some companies are moving their operations to regions where skilled talent is available. Other companies may reduce their hiring criteria and invest more in training workers for the jobs that need to be performed.[23] The Last Mile is a creative solution to training convicts to become computer coders in California. This program reduces reoffending and fills a skill gap in the technology market.[24] Rural and other underserved regions of the country now look to physicians from overseas medical schools to fill their needs as U.S. medical schools are not producing enough graduates, especially for jobs in less desirable locations.[25] Innovative solutions like these are needed to fill the talent needs of organizations both now and in the future.

Improving Readiness for Work Many efforts focus on developing skills to improve employees' readiness for work. For instance, the Workforce Innovation and Opportunity Act established a federal program "designed to strengthen and improve our nation's public workforce system and help get Americans, including youth and those with significant barriers to employment, into high-quality jobs and careers and help employers hire and retain skilled workers." The program is administered jointly by the Departments of Labor (DOL) and Education (ED) along with Health and Human Services (HHS).[26] Educational institutions are also developing programs that provide the skills necessary for success in business. Many liberal arts colleges such as Wake Forest University, Wesleyan University, and the University of Chicago offer learning opportunities that help students develop business and technical skills.[27] Other institutions such as UCLA and the College for America offer competency-based and online educational programs to senior business professionals to promote skill enhancement.[28] Coding school immersive "boot camps" have become a popular alternative to quickly train people interested in working in software development. However, there is no accrediting body for these schools, so individuals and companies need to carefully evaluate the quality of training provided.[29]

Organizations, including their human resource departments, can also address skills shortages. A survey of executives working in the United States determined that more than half of organizations planned to dedicate more resources to training their employees. Employees can also shadow their colleagues at work and participate in online discussion boards to develop their skills.[30] The following "HR Perspective: Women Dig Mining Careers" demonstrates how companies are tapping new talent pools to create their own talent pipelines. Partnerships among businesses, education providers, and government are likely to be the key to ensuring that workers have the appropriate knowledge and skills to perform jobs in an ever-changing world.

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HR PERSPECTIVE

Women Dig Mining Careers

BHP Billiton Ltd., one of the world's largest mining companies, is mining workers from an underrepresented workforce segment—women. The company has set a goal of having women represent 50 percent of its workforce by 2025. This is an ambitious goal since BHP's workforce is currently 20 percent female, and jobs in mining are not traditionally filled by women. Diversity programs are being introduced at BHP's industry competitors as well because many of the manual labor jobs in mining are being replaced by robots and automation. Female employees with a background in science or engineering can perform many jobs as well as their male counterparts. In addition, safety and productivity are higher when more women are in the workforce at these companies.

BHP operates mines in remote regions of Australia, commonly referred to as the Outback. These rough-and-tumble locations have typically fostered a macho culture, making them unattractive to women. In addition to routine medical services, women's health clinics in the Outback also provide resources on coping with isolation and domestic violence. Women can be intimidated by the male environment. BHP is trying to change that attitude by adding in yoga classes and flexible work schedules at its remote mines. They allow workers the freedom to work flexibly in ways that make sense to each individual and their team(s). Flexible work is extended to office-based workers and, where feasible, to workers on operating sites. The company's leadership ranks are 18 percent female, and there are three women on the executive committee.

In addition to modifying work schedules and improving conditions at remote mining sites, the company has undergone a change in its culture and engaged its suppliers and all levels of employees. They have a keen focus on eliminating any potential bias, and they compete harder for diverse talent. For example, at their Brisbane logistics control center, people were recruited based on matched skills rather than on mining experience alone. This resulted in women making up 53 percent of the workforce at that site. Ongoing conversations with their male employees are important to assure them that gender balance will not mean that men will be fired and replaced by women. While still a work in progress, BHP has increased the overall share of its workforce that is female to 20.5 percent. There is work to be done to achieve the gender parity by 2025, which has been the company's goal.

The professional association, International Women in Mining (IWiM), offers a number of recommendations about how to achieve that goal. Among the key enabling factors that the association has identified to enhance gender parity in the mining industry are as follows:

- Leadership and a visible commitment to change
- Providing both top-down and bottom-up involvement to ensure collaboration with workers on how to address worker needs
- Getting buy-in from both men and women in this workplace evolution
- Committing to a long-term vision and changing norms and behaviors

BHP leadership has clearly identified business reasons for gender parity (better safety, less wear and tear on equipment, higher output) and also sees this goal as a moral imperative, giving all qualified individuals a chance to dig in to careers in mining.[31]

Considering the obstacles to attracting women to nontraditional careers in mining, answer the following questions about BHP's gender parity initiative.

1. How would you ensure that male workers do not sabotage their female coworkers out of concern for being disadvantaged?
2. What additional training and support would you offer to women to help them overcome skill gaps? What training would you provide to line managers to help them deal with a more diverse workforce?

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LO2 Understand how technology changes jobs and workflow.

Work
Effort directed toward accomplishing results

Job
Grouping of tasks, duties, and responsibilities that constitutes the total work assignment for an employee

4-2 The Nature of Work and Jobs

One way to visualize an organization is as an entity that takes inputs from the surrounding environment and then, through some kind of work, turns those inputs into goods or services. **Work** is effort directed toward accomplishing results, and such effort may be performed by humans, machines, or both. The total amount of work to be performed in an organization must be divided into jobs so that effort can be coordinated in some logical way. A **job** is a grouping of tasks, duties, and responsibilities that constitutes the total work assignment for an employee; these tasks, duties, and responsibilities may change over time, and therefore, the job may change.

Ideally, when the work processes to be done in all jobs in an organization are combined, the total should equal the amount of work that the organization needs to have done—no more, no less. The degree to which this ideal situation is met drives differences in organizational productivity. In addition, jobs increase in number and/or evolve, and duties change and are combined or eliminated as the needs of the organization change. If this doesn't occur, the organization fails to adapt to the changes in its environment and may become outmoded or noncompetitive. Several approaches are used to deal with common issues related to jobs in any organization.

Package delivery titans FedEx and UPS adjust staffing and utilize a network of "pop-up" sorting centers to handle increased demand during the annual holiday season. Automating many steps in the sorting and delivery processes allows the companies to limit seasonal hiring. Workers no longer memorize ZIP codes and manually route packages as technologies such as Radio-frequency identification (RFID) have automated the process. The companies can open or close these satellite operations to meeting fluctuations in shipping demand.[32] Changes in work patterns created by technology shifts lead to new demands on HR and managers.

Technology advances are changing nearly everything about the world of work. For human resource professionals, the technology revolution alters how work flows through the organization and leads to a determination of how to make work more efficient. Assessing changing technologies, formally reviewing jobs through workflow analysis to identify what is to be accomplished, and changing the way jobs are done through job redesign may make people more satisfied. The following sections explore in more detail these issues related to work and jobs.

4-2a Technology Transformation

Dire predictions are being made about a "robot apocalypse" whereby robots will soon replace human workers and unemployment will skyrocket.[33] However, the reality is much different from the doomsday scenario. Automation has historically created more, better-paying jobs, and the current wave of technology advances seems to be doing the same.[34]

Retail and warehousing operations are being transformed with the introduction of collaborative robots that work side by side with workers. The robots can assist employees as they pick items from storage shelves and then transport them to a packaging station. The mobile robot can replace miles of conveyor belts and lead to a more flexible workplace with lower fixed capital equipment. This can increase company agility as changes to work processes can be implemented quickly. Further, it can reduce physical strain on workers, thereby lowering medical problems and industrial accident claims.[35]

Many industries are undergoing major changes in the way work is done. For instance, insurance companies use drones to inspect disaster or accident sites that speeds up claims and eliminates the risk to a human claims adjuster to enter a hazardous area.[36] Emergency room physicians are using telemedicine to reduce waiting time and to handle nonurgent cases more efficiently. This is especially valuable for assessing patients in remote settings. There is often a nurse practitioner on site with the patient who can perform procedures directed by the physician.[37]

These examples show how dramatically different the workplace of today looks compared to yesterday. The technology evolution will continue into the future in ways we can only imagine. Companies are embracing these new technologies in their workplaces. HR and organization leaders need to adopt management practices that support workers through these transitions and maintain a positive environment where both technology and humans are employed effectively.[38]

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4-2b Workflow Analysis

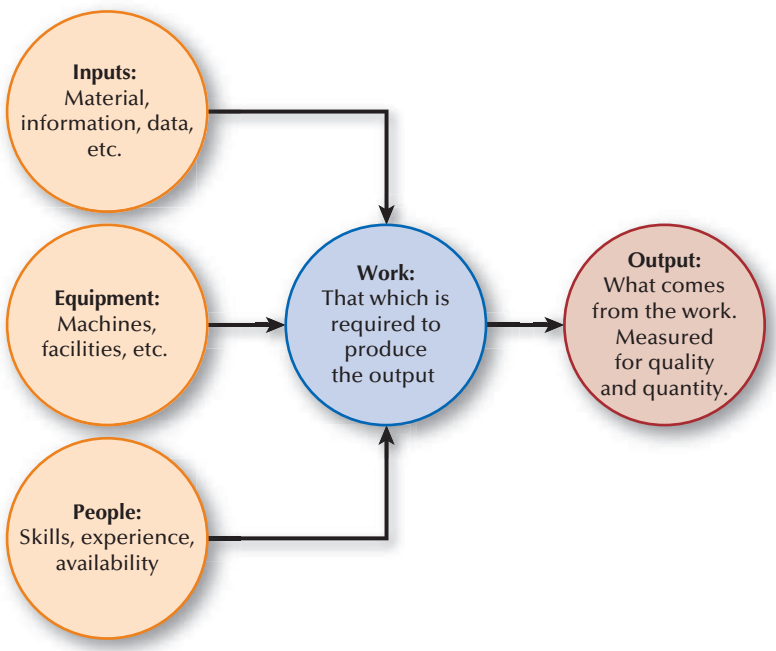
Workflow analysis
Study of the way work (inputs, activities, and outputs) moves through an organization

Workflow analysis is the study of the way work moves through an organization. Such analysis usually begins with an examination of the quantity and quality of the desired and actual *outputs* (goods and services), and then the *activities* (tasks and jobs) that lead to the outputs are evaluated to see if they are achieving the desired outputs. Finally, the *inputs* (people, material, information, data, equipment, etc.) must be assessed to determine if they make the outputs and activities more effective and efficient. A workflow analysis framework is shown in Figure 4-4.

An integrated workflow analysis is likely to lead to better employee involvement, greater efficiency, and more customer satisfaction because the organization's work is divided into jobs that can be coordinated. For example, if a customer experiences a service problem when buying shoes from an online website, a customer service representative (CSR) typically takes the issue to an operations supervisor so that it can be addressed within the warehouse. Besides providing a free return or free shipping on a replacement order, at better-managed companies, a supervisor or manager can input the service problem and the customer's name and contact information into a database so that other special offers can be sent later to ensure that the individual will shop from the online store again in the future. This action may also be delegated to a line employee such as a host or another customer-contact worker.

A workflow analysis of this process might show that there are too many steps involving too many jobs. So, the online store might consider implementing a new customer service system that empowers CSRs to resolve service problems immediately as they occur, rather than trying to find managers to discuss these issues. The process necessitates the redefinition of the tasks, duties, and responsibilities of several jobs, particularly the CSR position. In particular, CSRs should be trained to understand how they are expected to tackle service problems, including how to ensure accurate order processing, what types of offers should be given for certain complaints, and how actions should be reported to management later on. The result should be a more responsive workflow for customers, more efficient responses to service problems, and more empowered jobs for CSRs.

FIGURE 4-4 Workflow Analysis



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LO3 Define job design and identify common approaches to job design.

4-2c Job Design/Job Redesign

Job design refers to organizing tasks, duties, responsibilities, and other elements into a productive unit of work. **Job redesign** involves changing existing jobs in different ways to improve them. Identifying the components of a given job so that these factors can ultimately be enhanced is an integral part of the job design process. Job design is important for a number of reasons:

Job design
Organizing tasks, duties, responsibilities, and other elements into a productive unit of work

Job redesign
Changing existing jobs in different ways to improve them

- Job design can influence *performance* in many different jobs, especially those jobs where employee motivation can be influenced substantially by work factors so that performance improves.
- Job design can affect employees' overall *job satisfaction.* Since people are more satisfied with certain job elements and characteristics than others, identifying what makes a "good" job becomes critical. In addition, lower turnover and absenteeism are often associated with effective job design.
- Under many circumstances, job design can impact both *physical* and *mental health.* Problems such as hearing loss, backache, leg pain, stress, high blood pressure, general fatigue, sleeplessness, and heart disease can sometimes be linked directly to job design.

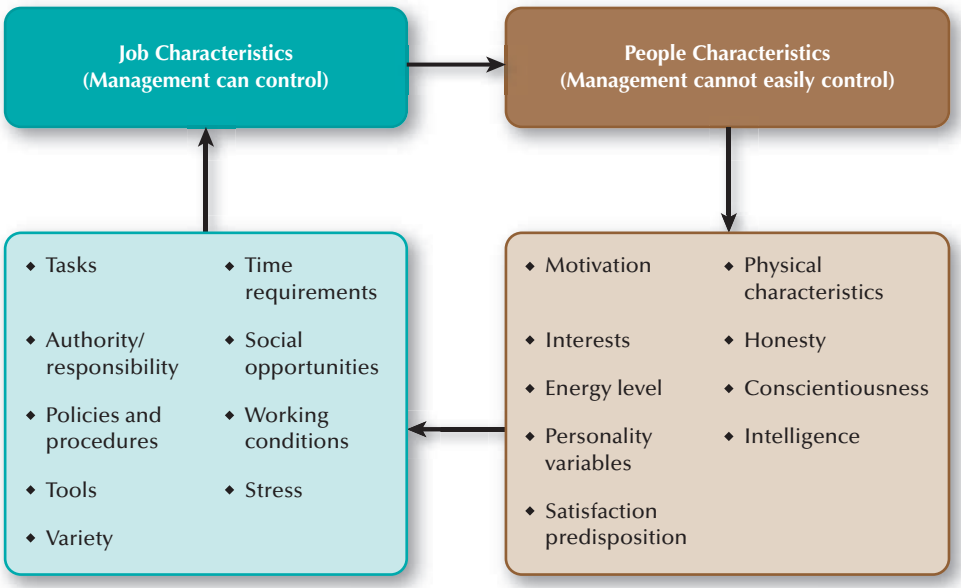
Managers play a significant role in job design because they are commonly the individuals who establish jobs and their design components. Managers must make sure that the expectations, requirements, responsibilities, and accountabilities of work are made clear to all those who work in particular jobs. During job design, managers should consider the nature and characteristics of both jobs and people. As Figure 4-5 indicates, managers can influence or control job characteristics, but they usually cannot easily control the basic characteristics of people.

4-2d Using Contingent Workers as Job Design

Organizations employ a wide variety of workers, not just full-time employees. Depending on economic and competitive factors, the types of workers in firms can vary greatly. These may include full-time and part-time employees, independent contractors, and temporary and contingent workers. A **contingent worker** is not a full-time employee but is a temporary or freelance worker for a specific period of time and type of work. The emergence of the "gig" economy has led to a proliferation of contingent workers who now constitute 35 percent of the total workforce.[39]

Contingent worker
Someone who is not a full-time employee but is a temporary or freelance worker for a specific period of time and type of work

FIGURE 4-5 Some Characteristics of Jobs and People



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The jobs found in organizations can be designed to utilize any of the different types of employees and workers. Although some firms still use the traditional approach of employing full-time and part-time employees, many firms are making significant use of independent, temporary, and contingent workers. For example, Virgin Airlines uses contractors for baggage delivery, heavy maintenance, reservations, and many other noncustomer-facing jobs.[40] These individuals are not considered employees because they generally work at will or on limited contracts, and they may even be working for other employers as well.

According to the U.S. Bureau of Labor Statistics, contingent workers are part of a group of "alternative workers" who may be on call, work through an employment agency, or operate as independent contractors. A number of contingent workers have contracts with employers that establish their pay, hours, job requirements, limitations, and time periods. Because of the inherent advantages, more employers are using contingent or temporary workers to staff different positions and their use is expected to increase.[41]

Person–Job Fit Not everyone would necessarily enjoy being a human resource manager, an engineer, a nurse, or a drill-press operator. However, some people do prefer these specific jobs and do well at them. These issues relate to **person–job fit**, which involves matching the characteristics of people with the characteristics of jobs.

Person–job fit
Matching the characteristics of people with the characteristics of jobs

If a person does not fit a job, he or she can be changed or replaced, or the job can be redesigned to establish greater congruence. However, though an employer can try to make a "round" person fit a "square" job, it is generally difficult to successfully reshape people. If it is possible to redesign a job, the person–job fit may be improved more easily than it would be if the focus were on developing employees. For example, bank tellers interact with people throughout a typical workday. An individual who prefers not to talk to others at work may perform better in a position that does not require so much interaction because this particular aspect of the bank teller job cannot be changed significantly. Consequently, different people will consider some jobs more attractive than others based on the match between individual characteristics and the unchangeable components of a job. As a result, different people will find that they fit different kinds of work in unique ways.

4-2e Common Approaches to Job Design

Job simplification
Breaking a more complex job into relatively small subparts

One way to design or redesign jobs is to simplify the job tasks and responsibilities. **Job simplification** involves breaking a more complex job into relatively small subparts. This may be done to improve productivity as each worker performs the same job tasks repeatedly. It may be appropriate for entry-level jobs; however, making jobs too simple may result in boring work situations that appeal to few people, causing higher turnover. Several other approaches have also been used as part of job design, including job enlargement, job enrichment, and job rotation.

Job Enlargement and Job Enrichment Attempts to alleviate some of the problems encountered with excessive job simplification fall under the general categories of job enlargement and job enrichment. **Job enlargement** involves broadening the scope of a job by expanding the number of different tasks that are performed. **Job enrichment** involves increasing the depth of a job by adding responsibility for planning, organizing, controlling, and/or evaluating the job. Some examples of job enrichment are as follows:

Job enlargement
Broadening the scope of a job by expanding the number of different tasks that are performed

Job enrichment
Increasing the depth of a job by adding responsibility for planning, organizing, controlling, and/or evaluating the job

- Giving employees an entire job to complete rather than just a discrete part of the work to be performed
- Giving employees more flexibility to perform jobs as needed
- Increasing employees' accountability for their work by reducing external control and overly close supervision
- Expanding assignments for employees so that they can perform new tasks and develop special areas of expertise
- Submitting feedback reports to employees rather than only to management so that individuals have more ownership over their development

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Job rotation
Process of shifting a person from job to job

Job Rotation One technique that can break the monotony of an otherwise simple routine job is **job rotation**, which is the process of shifting a person from job to job. There are advantages to job rotation, including that it develops an employee's capabilities for doing several jobs. Further, the organization benefits by having workers with more diverse capabilities, which can increase staffing flexibility. For instance, large convention hotels can successfully use job rotation to prepare food and beverage employees to work in different areas of the organization, including banquets, fine dining, and room service. Such varied job experiences also make the workplace more interesting to employees because they get the opportunity to perform in different types of positions. Providing the appropriate training is more likely to make job rotation successful.

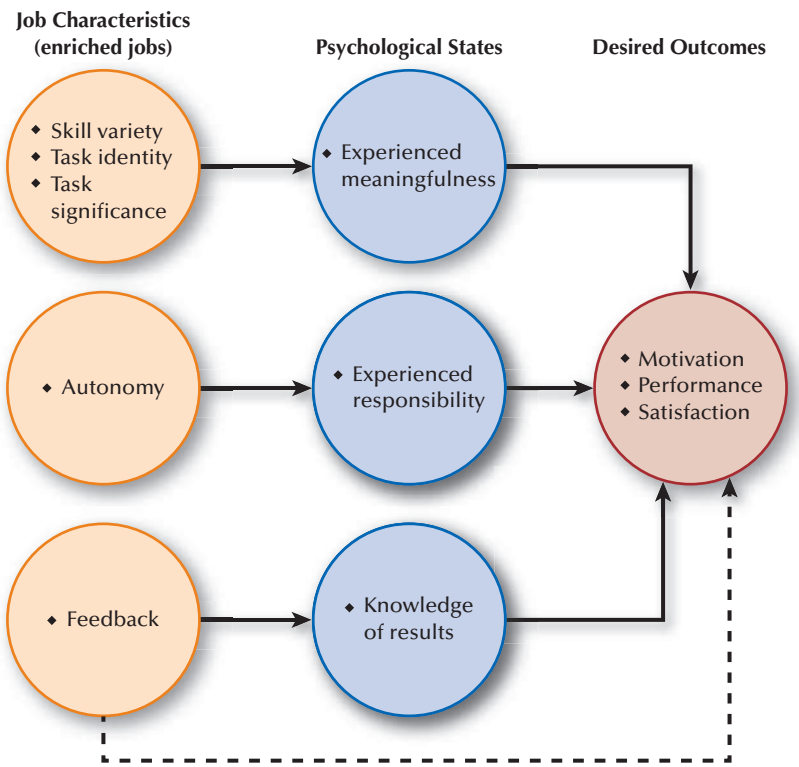
4-2f Characteristics of Jobs to Consider in Design

A model developed by Hackman and Oldham, the job characteristics model, identifies five important design characteristics of jobs that managers can target to enhance the motivating potential of a job.[42] Figure 4-6 shows that *skill variety*, *task identity*, and *task significance* affect the meaningfulness of work; *autonomy* stimulates responsibility; and *feedback* provides knowledge of results. The more that each component characteristic is present, the better the job situation is for an employee because work is inherently more motivating and satisfying. Using a sample of business professionals employed in a large Taiwanese retail home improvement firm, one study found that positive job characteristics are negatively related to turnover intentions.[43] These findings indicate that appropriate job characteristics can be used as a tool to improve employee retention. The following sections detail the various job dimensions that can be enhanced to improve the characteristics of work.

Skill variety
Extent to which the work requires several activities for successful completion

- **Skill variety** is the extent to which the work requires several activities for successful completion. For example, higher skill variety exists when a production line worker performs many different tasks when assembling products such as adding components, inspecting item

FIGURE 4-6 Job Characteristics Model



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quality, and packaging. Skill variety is not to be confused with *multitasking*, which involves doing several tasks at the same time, often with the assistance of computers, telephones, personal organizers, and other means. The impact of multitasking for an employee may be never getting away from the job, which can be an unacceptable outcome for some.

Task identity
Extent to which the job includes a recognizable unit of work that is carried out from start to finish and results in a known consequence

Task significance
Impact the job has on other people and the organization as a whole

Autonomy
Extent of individual freedom and discretion in the work and its scheduling

Feedback
The amount of information employees receive about how well or how poorly they have performed

- **Task identity** is the extent to which the job includes a recognizable unit of work that is carried out from start to finish and results in a known consequence. For example, when a customer calls with a problem, a customer specialist can handle the stages from maintenance to repair in order to resolve the problem.
- **Task significance** is the impact the job has on other people and the organization as a whole. A job is more meaningful if it is important to other individuals and the company. Workers who have a chance to connect with end users of their services may better understand the importance of what they do every day. People who can see how their work benefits others tend to be more motivated.[44]
- **Autonomy** is the extent of individual freedom and discretion in the work and its scheduling. More autonomy leads to a greater feeling of personal responsibility for the work. For example, college professors are given a significant amount of autonomy to develop and teach courses and to pursue their research interests, which can make the work more satisfying.
- **Feedback** is the amount of information employees receive about how well or how poorly they have performed. When an organization uses multiple raters and forms to determine employee performance (e.g., customer ratings, peer evaluations, self-appraisals, manager evaluations), the level of feedback increases because information is being provided by many individuals. The advantage of feedback is that it helps employees understand the effectiveness of their performance, which contributes to their overall knowledge of work.

Motivation, performance, and satisfaction can be influenced by the level of each job characteristic. In other words, as one or more factor increases, employees should become more engaged with their work duties and responsibilities. Autonomy and feedback are especially powerful because they can magnify the effects of the other job characteristics.

4-2g Using Teams in Job Design

Typically, a job is thought of as a series of activities that are performed by just one person. However, where appropriate, jobs may be designed for teams to take advantage of the increased productivity, synergy, and commitment that often follow such design efforts. For these reasons, the use of work teams has become a popular job redesign approach in many companies. Improved productivity, increased employee involvement, greater coworker trust, more widespread individual learning, and greater individual diversity in knowledge, skills, and abilities are among the potential benefits. Some firms have gone as far as dropping such terms as *workers* and *employees* and have replaced them with titles such as *teammates*, *crew members*, and *associates* to emphasize teamwork.

Many organizations emphasize collaboration and team work as a way to improve outcomes and achieve their goals.[45] To realize the maximum benefit from using work teams, it is important to choose the right blend of individual team members and to train them to work together. Teams are not effective if people are simply assigned to work together with no guidance on how to operate as a cohesive groups In fact, five behaviors have been identified to make teams work successfully—trust, conflict, commitment, accountability, and results.[46] Helping teams to work as a unit can improve their results and success. The role of supervisors and managers changes with use of teams because of the presence of team leaders. Rather than giving orders, the team leader often becomes a facilitator to assist the team. Team leaders also mediate and resolve conflicts when they occur among team members, and it is common for them to interact with other teams and managers elsewhere in the company. Consequently, managers may need to be given special training to prepare them for the challenges associated with team leadership.

Special-purpose team
Organizational team formed to address specific problems, improve work processes, and enhance the overall quality of products and services

Special Types of Teams Several types of teams may periodically function outside the scope of members' normal jobs. One is the **special-purpose team**, which is formed to address specific problems, improve work processes, and enhance the overall quality of products and services. Special-purpose teams are often a mixture of employees, supervisors, and managers so that diverse perspectives can be provided.

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Self-directed team
Organizational team composed of individuals who are assigned a cluster of tasks, duties, and responsibilities to be accomplished

Virtual team
Organizational team that includes individuals who are separated geographically but who are linked by communications technology

The **self-directed team** is comprised of individuals who are assigned a cluster of tasks, duties, and responsibilities to be accomplished. Unlike special-purpose teams, self-directed work teams become entities that use regular internal decision-making processes. The use of self-directed work teams in companies must be planned well and fit the underlying culture of the organization if the endeavor is to be successful.

The **virtual team** includes individuals who are separated geographically but who are linked by communications technology. The success of virtual work teams depends on a number of factors, including training of team members on virtual interaction, planning and managing virtual tasks and projects, and using technology to enhance teamwork. Leaders of virtual teams should also be given training so that they have the skills needed to be effective in the online, geographically dispersed work environment.[47]

HR

COMPETENCIES & APPLICATIONS

Telecommuting in the Global Business Environment

International telecommuting has become an important human resource issue in global business organizations. In the past, it was difficult for employees to telecommute from foreign locations because the technology was not sophisticated enough to facilitate good communication and coordination with team members and managers. However, the availability of smartphones, high-speed Internet access, advanced computers, and interactive software enables individuals who are employed at different worksites to complete their work interactively. These tools have helped companies better retain employees and more effectively utilize the talents that they bring to the workplace.

Companies may face a number of challenging situations related to international telecommuting. For instance, an employee may move to a country where an employer has a foreign site and telecommute back to the home office, or an employee may relocate to a country outside of the organization's footprint and telecommute from there. A company may also elect to create a mandatory telecommuting policy in a foreign country to save money, or it may create a more unified telecommuting policy for its global employees.

Regardless of the circumstances, companies should consider the following issues when creating global telecommuting strategies:

- Keep track of where employees reside in order to avoid complicated legal and payroll issues.
- Consider how telecommuting will affect employees who must get accustomed to working in a more solitary work environment.
- Develop a plan that indicates how employees are expected to interact with local worksites, communicate with other employees, and get their work done.
- Identify what resources will be provided by the organization to help employees telecommute.
- Fully consider the legal issues associated with global compensation, safety, and licensing.
- Develop a plan for ensuring data security as information is shared across borders.[48]

Many companies rely on global telecommuting to enhance worker engagement, and human resource professionals need to understand the inherent opportunities and challenges. If you were involved in this process:

1. What kinds of issues would you consider when developing global telecommuting strategies? What issues do you think are the most important?
2. What do think companies can do to make global telecommuting more successful?

KEY COMPETENCIES: Communication (Behavioral Competency) and People (Technical Competency)

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LO4 Discuss how flexible work arrangements help employees achieve work–life integration.

GLOBAL

Global Teams Global operations have resulted in the increasing use of virtual teams in a variety of organizations. Members of these teams seldom or never meet in person; instead, they "meet" electronically via web-based systems. With global teams, it is important for managers and human resource departments to address various issues, including who is to be chosen for the teams, how they are to communicate and collaborate online and in person (if at all), and what tasks and work efforts may be done with these teams. The preceding "HR Competencies & Applications: Telecommuting in the Global Business Environment" feature explores important issues that human resource professionals should consider then working with individuals and teams in the virtual environment.

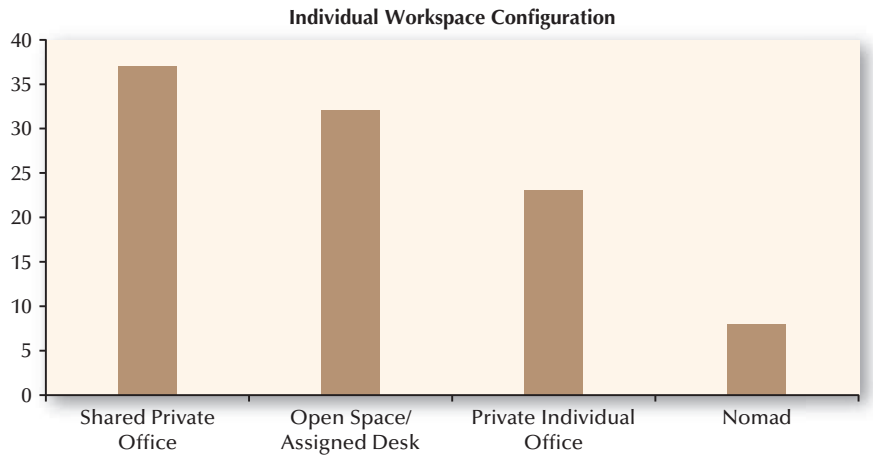
4-3 Designing Flexible Jobs

Flexible work arrangements
Employees perform their jobs independent of time and location

Flexibility can be designed into a job in several different ways, such as by changing *where* or *when* the work can be performed. **Flexible work arrangements** allow employees to perform their jobs independent of time and location. A recent study by SHRM and the Families and Work Institute indicated that a majority of the companies sampled offer some type of flexible work arrangement (flextime, flexible breaks, completing work at home, etc.) to employees.[49] Over 40 percent of Americans recently surveyed by Gallup reported doing some or all of their work from home.[50] It is important for employers to consider these arrangements when designing jobs because flexible work opportunities are generally viewed by employees as being more attractive.

Flexible work is often made possible by using technology to enhance collaboration among employees, enabling them to accomplish work more efficiently and effectively. There is also growing interest in creating *flexible workspaces* that complement flexible work by eliminating cubicles and adding open work areas and shared offices and lounges. Microsoft's Amsterdam facility was built to facilitate "anytime, anywhere" work. The open floor plan was intentionally designed to foster collaboration and interaction. Employees are not assigned private offices. Rather, they have lockers for personal belongings and can roam the building, working wherever they wish. There are a number of small private chambers where personal phone calls and confidential conversations can take place.[51] However, there are some downsides to these open offices, and several companies have added back features to enhance privacy and personal space. While open offices reduce costs for organizations, employee dissatisfaction with these floor plans has led to higher absenteeism and more illness as germs spread easily in open plan spaces. Some workers also have difficulty focusing on work and dealing with noise and other distractions.[52] Decisions about designing work spaces should be

FIGURE 4-7 Workplace Configurations



Source: Steelcase Global Report, 2016.

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a collaborative effort that includes managers as well as front-line workers. Figure 4-7 shows how offices are configured in workplaces around the world.

Despite the benefits provided by flexible work arrangements, there are some inherent challenges such as information overload and attention fragmentation. Too much technological flexibility and connectivity without some consideration to how these factors influence the completion of work can cause problems for some employees. The need for uninterrupted time to synthesize information, reflect, apply judgment, and make good decisions is an important requirement in many professional jobs, but it can be difficult to find this in a 24/7, on-call, flexible workplace. Some organizations prefer to have employees work in traditional office environments because it is believed that direct employee interactions benefit creativity and decision making. For instance, to help foster innovation, IBM suspended all of its flexible work arrangements and telecommuting in favor of requiring employees to work at IBM worksites. Yahoo and Best Buy have also pulled back on flexible and remote work options for employees.[53]

Flexible work arrangements enable employees to work at places other than their usual worksites. These approaches are collectively referred to as *telework* or *telecommuting*.

4-3a Place Flexibility: Telework

Telework
Employees complete work through electronic interactions, telecommunications, and Internet technology

Coworking space
Communal space shared by freelancers and remote workers

Individuals who work at home or places other than an organization's official worksite illustrate **telework**, which means that employees perform their job duties remotely by using mobile devices, telecommunications, electronic communications, and Internet technology. In response to the trend of remote work, a new shared space concept called coworking has emerged. A **coworking space** is communal space shared by freelancers and remote workers. Companies like WeWork, Serendipity Labs, and RocketSpace serve as landlords who purchase and retrofit buildings and rent out small offices for short or long periods of time to various clients. They often install large common areas where tenants can meet and share ideas. These coworking spaces provide remote workers with a sense of community and a chance to network while offering higher-end facilities and services than a local coffee shop.[54]

Advantages and Disadvantages Some advantages of telework are environmental in nature and address problems caused by traffic, vehicle emissions, and overbuilding. Employees often find that they spend less for gasoline, vehicle maintenance, lunches, and dry cleaning. Not traveling to work saves employees time that can be used for other activities. Employees can also be more productive due to higher morale and decreased stress.[55] The ability to telecommute can help attract new employees and retain current employees because they are more satisfied and committed to the employer.[56] Telecommuting can be especially useful during bad weather or widespread health issues such as pandemic flu.

However, some disadvantages are associated with telework. Some typical concerns include the following:

- Employees may not enjoy telework beyond a certain number of hours worked (such as 15 hours per week).
- Employees can feel like they are isolated socially from their coworkers.
- The electronic media used to facilitate telework may limit how well employees can interact with each other.
- Employees who have children and other responsibilities at home may face role conflict when work gets in the way.
- When telework teams include employees who have significant responsibilities at home, individuals might allow poor performance because they feel sorry for team members.
- There may be pay issues for nonexempt employees who telework.
- Some employees may prefer to have more of a boundary between work and home.[57]

Managing Telework The nature of the employment relationship with teleworkers should be outlined in a policy that establishes clear work expectations, as well as the boundaries between work and home. For instance, working long hours and being available 24/7 while having to balance

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home and work requirements can be stressful for employees and may lead to burnout.[58] Maintaining employee motivation when individuals are not physically present at company facilities can also be challenging, particularly for international employees. Also, time zone differences between the United States and other countries may make it difficult for global employees to participate in conference calls or travel extensively for meetings. Calculating pay for nonexempt employees can also be complicated if they are allowed to telework.

After careful consideration of these issues, companies can offer several options for telework:

- *Regular*: Employees may spend scheduled days or every day at an office at home.
- *Brief occasional*: Employees may use a home office on weekends or at night to do a project.
- *Temporary/emergency*: During bad weather, a natural disaster, or other events causing disruption, employees work from home.

4-3b Time Flexibility: Work Scheduling

Considering different work schedules can be part of designing jobs; nonstandard schedules have been developed for employees in various occupations. The traditional work schedule in the United States of eight hours a day, five days a week is in transition. Workers may work fewer or more than eight hours at a workplace, and they may work additional hours at home.

The work schedules associated with jobs vary as some jobs must be performed during "normal" daily work hours and on weekdays, while others require employees to work nights, weekends, and extended hours. There are significant differences in the hours worked in different countries as well. Given the global nature of many organizations, human resource practices must adjust to different locations. Organizations are using many work scheduling arrangements, including shift work, the compressed workweek, part-time schedules, job sharing, and flextime.

Shift Work A common work schedule design is shift work, which requires employees to work on various schedules that function at different times throughout a workday. Many organizations need 24-hour coverage and therefore may schedule three shifts per day, each eight hours long. Most employers provide some form of additional pay, called a *shift differential*, for working the evening or night shifts. Some types of shift work have been known to cause difficulties for some employees, such as weariness, irritability, lack of motivation, and illness. Although shift work is not universally popular, some employers must rely on 24/7 coverage; consequently, shift work is likely to continue to be utilized by some organizations.

Compressed workweek
A workweek in which a full week's work is accomplished in fewer than five days of eight working hours each

Compressed Workweek Another type of work schedule design is the **compressed workweek**, which involves accomplishing a full week's work in fewer than five days of eight working hours each. Compression usually results in more work hours each day and fewer workdays each week, such as a four-day week with 10-hour days or a three-day week with 12-hour shifts. Workers who shift to 12-hour schedules often do not wish to return to 8-hour schedules because they have four days off each week, which increases their free time. However, 12-hour schedules can lead to sleep difficulties, fatigue, and an increased number of injuries, so companies should be aware of these inherent physical challenges.

Part-Time Schedules Part-time jobs are used when less than 40 hours per week are required for some workers to perform their work in an organization. Part-time jobs are attractive to those who may not want to work 40 hours per week, including older employees, parents of small children, and students. In some cases, professionals may choose part-time work because it fits their personal and occupational preferences.

Job sharing
Scheduling arrangement in which two employees perform the work of one full-time job

Job Sharing Another alternative used is **job sharing**, which involves two employees performing the work of one full-time job. For instance, a hospital allows two radiological technicians to fill one job, and each individual works every other week. Such arrangements are beneficial for employees who may not want or be able to work full time because of family responsibilities, school schedules, or other personal and professional reasons.

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HR PERSPECTIVE

Flexing on the Front Line

It is not difficult to imagine how flexible work schedules can be used for administrative and office jobs, especially since much of that work is done by individuals who may have fixed deadlines but do not need to coordinate with others to achieve tasks. Conversely, warehouse and manufacturing jobs seem unlikely candidates for flexible scheduling as the jobs are often performed by a team of workers whose efforts frequently depend on each other. Further, these workers often earn less than more highly skilled employees and may need more flexibility to handle child care problems or balance second jobs and other personal issues. Now, creative HR professionals in a number of companies have found ways to give their front-line workers some flexibility.

High levels of absenteeism at CRP Industries, a distribution company in Cranbury, New Jersey, led their HR Manager, Rachael Sobon, on a search for solutions. She discovered that rigid time-off policies were leading to unintended consequences. Employees were required to take a full-day off, even if they needed only a few hours to go to routine appointments or deal with other personal matters. Employees frequently used up all of their paid sick days early in the year, and when summer vacation season started, they would call off work in order to have some quality time with their families. Seeing the problems caused by outdated HR policies, Sobon revised the sick-day program and implemented a paid-time-off policy that allows workers to take as little as a half-hour off work. Now, employees can advise their managers ahead of time, and schedules can be adjusted based on known time off. CRP also instituted summer options like a compressed work schedule of four 10-hour days or staggered work shifts. The schedules are dependent on job requirements, and employees need to coordinate to be sure all jobs are covered. Cross-training became important so that workers can cover multiple warehouse positions. The company has seen a dramatic reduction in disciplinary actions taken for attendance problems.

Globe Firefighters Suits, a company that produces emergency response uniforms in its Pittsfield, New Hampshire factory, struggled with how to manage its production process when they realized that work in process would be completed in a timely way, even if all workers did not start at the same time. This allowed them to introduce flexible schedules that gave employees the opportunity to choose a start time that worked for their schedules. The company also provides a flexible time-off policy that has decreased absenteeism. Softstar Shoes in Philomath, Oregon, offers flexible start times and flexibility for workers to leave in the middle of the day and return later to finish their tasks.

With these creative examples of how to accommodate blue collar workers, why isn't it more common? Management paradigms often limit the options companies consider. Further, employees in low-skilled jobs seem to be easy to replace, so managers may not feel so strongly about retaining their blue collar workers. However, with the looming talent shortage, companies may need to follow the footsteps of these innovators in order to maintain a quality front-line workforce in the future.[59]

Keep in mind the practices used by these warehousing and manufacturing companies as you consider the following questions:

1. What are some of the myths among managers that might need to be overcome to offer front-line workers greater schedule flexibility? How could HR professionals overcome these objections?
2. Are there ways in which technology might help companies to find creative scheduling solutions for blue collar workers?

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Flextime
Employees work a set number of hours a day but vary starting and ending times

Flextime In **flextime**, employees work a set number of hours a day but vary starting and ending times to get more scheduling flexibility. In another variation on this theme, employees may work 30 minutes longer Monday through Thursday, take short lunch breaks, and leave work at 1 p.m. or 2 p.m. on Friday. Studies have shown that many workers, especially parents, prize free time over pay; in other words, having more free time brings them more satisfaction than earning more money.[60] The preceding "HR Perspective: Flexing on the Front Line" feature explores how some companies have provided for flexibility for blue collar workers.

4-3c Managing Flexible Work

Flexible scheduling allows management to relax some of the traditional "time clock" control of employees, while still covering workloads. In some cases, electronic monitoring may be used to facilitate the management of flexible work. For example, to get some measure of work activity and completion, a call-service firm can electronically monitor home-based employees on their use of phones, breaks, and production. Managers can also increase ongoing communication with employees to determine whether work requirements are being addressed.

4-3d Flexibility and Work–Life Integration

Work–life integration
Employer-sponsored programs designed to help employees blend and bring elements of work and life together

For many employees, living fulfilling professional and personal lives can be challenging. **Work–life integration** involves employer-sponsored programs designed to help employees blend and bring elements of work and life together. For instance, at mortgage lender United Shore Financial, a "firm 40" workweek policy was instituted to ensure that employees get much-needed downtime. Rather than working tirelessly for long hours, the company believes that if employees are assured of working a consistent 40-hour schedule, they will devote work hours to the organization and unplug and focus on their personal lives on their own time.[61] Research indicates that certain flexible work policies are associated with reduced conflicts between work and family.[62] Work–life integration initiatives adhere to the philosophy that achieving career success does not have to be done at the expense of a meaningful personal life. Encouraging employees to enact the following three principles can enhance their satisfaction in both professional and personal settings.[63]

- Be real—Act authentically and clarify what is important to you.
- Be whole—Understand and value how different parts of your life affect each other
- Be innovative—Act creatively to accomplish things in ways that will benefit all the people who are important in your life.

Company culture often signals to employees that working longer is better and that using all vacation time is a sign of lack of commitment to the organization. Managers should consider some challenges associated with managing work–life integration programs. Employees may lose faith in such programs if they are not applied consistently, and since it is not uncommon to have such policies identified and available but not actually practiced in some organizations, employees may dismiss them as "window dressing." In addition, companies have to develop reasonable work standards to avoid creating conflicts between work and home.

Women may have negative experiences when it comes to balancing work and home life. A large global study found that supervisors believe men are better at managing work–life integration than are women and that men are more likely to feel comfortable about missing family activities than are women,[64] which potentially increases women's perceptions of work–family conflict. Recently, some companies are supporting both men and women as they struggle to fulfill commitments in their personal lives and help in parenting obligations. Providing paid paternity and maternity leave and offering gender-neutral flexibility can reduce some of the stigma of taking time off for personal issues.[65]

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LO5 Describe job analysis and the steps in the process.

4-4 Understanding Job Analysis

Job analysis
Systematic way of gathering and analyzing information about the content, context, and human requirements of jobs

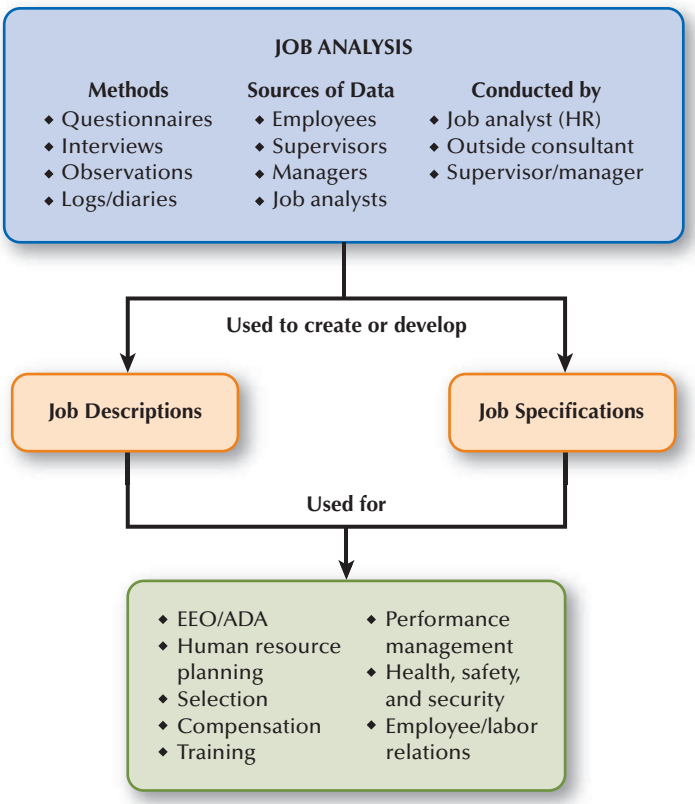
Creating and developing interesting jobs that fit effectively into the flow of an organization's work is called job design. The narrower focus of job analysis involves using a formal system to gather information about what people actually do in their jobs. A basic building block of human resource management, **job analysis** is a systematic way of gathering and analyzing information about the content, context, and human requirements of jobs. Job analysis is the basis for all human resource practices because the process sets up how employees are hired, trained and developed, evaluated, and compensated. It is arguably the foundation on which all HR practices are built. Imagine trying to determine how much a job is worth, what training is needed, or how to select qualified employees if the essential information of jobs is not known.

A basic overview of the job analysis process is summarized graphically in Figure 4-8. The information collected during a job analysis is compiled into *job descriptions, job specifications, and performance standards* for use in many human resource activities.

4-4a Purposes of Job Analysis

Job analysis, or work analysis, has grown in importance as the workforce and jobs have changed.[66] To be effective, human resource planning, recruiting, and hiring all should be based on job requirements identified through job analysis. In equal employment opportunity matters, accurate details on job requirements are needed because the qualifications listed in job descriptions can affect court decisions, particularly with regard to disability accommodations. Additionally, compensation,

FIGURE 4-8 Essentials of Job Analysis



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training, and employee performance appraisals should be based on the specific needs of the jobs. Job analysis is also useful in identifying job factors and duties that may contribute to workplace health and safety as well as employee and labor relations issues. Information from job analyses that can be helpful in making a distinction among jobs includes the following:

- Work activities and behaviors
- Interactions with others
- Performance standards
- Financial and budgeting impact
- Machines and equipment used
- Working conditions
- Supervision given and received
- Knowledge, skills, and abilities needed

4-4b Job Analysis Responsibilities

To be successful, job analysis should be a shared responsibility between the human resources unit and operating managers, and assigning responsibility for job analysis depends on who can best perform various parts of the process. In larger companies, the HR unit supervises the process to maintain its integrity and writes job descriptions and specifications for uniformity. Managers provide job-related information, review the efforts of the HR unit to ensure accuracy and completeness; they may also request new job analyses when jobs change significantly. In smaller organizations, managers may perform all job analysis responsibilities. Figure 4-9 summarizes the typical division of job analysis responsibilities between the HR unit and managers.

Different types of job analysis can be used to obtain information about jobs. The most traditional and widely used method is task-based job analysis; however, some organizations have emphasized a competency-based approach. Both of these job analysis types are discussed in more detail in the following sections.

4-4c Task-Based Job Analysis

Task
Distinct, identifiable work activity comprised of motions that employees perform

Duty
Larger work segment comprised of several tasks that are performed by individuals

Task-based job analysis is the most common type and focuses on the components and characteristics of work embedded within a job. A **task** is a distinct, identifiable work activity comprised of motions that employees perform, whereas a **duty** is a larger work segment comprised of several tasks that are performed by individuals. Since both tasks and duties describe activities, it is not always easy or necessary to distinguish between the two factors. For example, if one of the employment supervisor's

FIGURE 4-9 Typical Division of Responsibilities for Job Analysis

HR Unit	Managers
◆ Coordinates job analysis ◆ Writes job descriptions and specifications for review by managers ◆ Periodically reviews job descriptions and specifications ◆ Reviews managerial input to ensure accuracy ◆ May seek assistance from outside experts for difficult or unusual analyses	◆ Complete or help complete job analysis information ◆ Review job descriptions and specifications and maintain their accuracy ◆ Request new analyses as jobs change ◆ Use job analysis information to identify performance standards ◆ Provide information to outside experts

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duties is to interview applicants, one task associated with that duty would be asking job-related questions. **Responsibilities** are the obligations that individuals have to perform certain tasks and duties within a job. Therefore, the overall goal of task-based job analysis is to identify all the tasks, duties, and responsibilities that are part of a job.

Responsibilities
Obligations that individuals have to perform certain tasks and duties within a job

4-4d Competency-Based Job Analysis

Unlike the traditional task-based approach to analyzing jobs, the competency approach considers how knowledge and skills are used. **Competencies** are individual capabilities that can be linked to enhanced performance by individuals or teams. In Chapter 1, the SHRM model of human resource competencies was introduced, and throughout the book you will see Competencies & Applications features that demonstrate how competencies are utilized in specific functions within human resource management.

Competencies
Individual capabilities that can be linked to enhanced performance by individuals or teams

The concept of competencies varies widely from organization to organization because of the different types of work that can be performed. The term *technical competencies* is often used to refer to employees' specific knowledge and skills. *Behavioral competencies* are a different set of competencies, and some examples of these competencies include the following:

- Customer focus
- Team orientation
- Results orientation
- Communication effectiveness
- Leadership
- Business acumen
- Innovation
- Decisiveness

The competency approach to job analysis focuses on identifying the key individual characteristics that make employees successful on the job, and unlike task-based job analysis, one of the main purposes is to influence future job performance. As such, the competency approach may be more broadly focused on behaviors, rather than just on tasks, duties, and responsibilities. For instance, many supervisors talk about employees' attitudes, but they have difficulty identifying exactly what they mean by *attitude*. Using different approaches, supervisors can attempt to isolate the competencies that they consider to be part of employees' attitudes (perhaps team orientation, selfless service, and conflict resolution), as well as how these factors may affect performance.

As the workplace continues to evolve, there may be a more integrated use of task-based and competency-based job analyses. Another factor that will contribute to the use of both approaches is that in addition to the performance of job tasks and duties, strategic competencies are identified for some jobs. Consequently, human resource professionals (or whoever is conducting job analyses) are more likely to need a more integrated and comprehensive process. The decision about whether to use a task-based or competency-based approach to job analysis is affected by the nature of jobs. Since task-based analysis is likely to remain more widely used because it is the most legally defensible approach, it is the primary focus of the remainder of this chapter.[67]

4-5 Implementing Job Analysis

The process of job analysis must be conducted in a logical manner, following appropriate management and professional psychometric practices.[68] Analysts usually follow a multistep process, regardless of the specific job analysis methods used. The steps for a typical job analysis, as outlined in Figure 4-10, may vary somewhat depending on the number of jobs included and the purpose of the job analysis.

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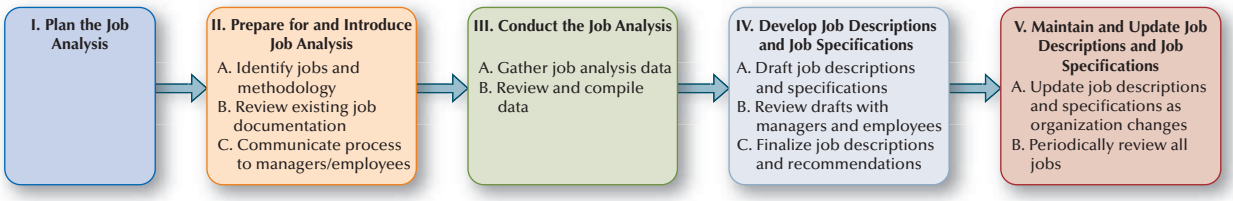
FIGURE 4-10 Steps in the Job Analysis Process



4-5a Plan the Job Analysis

Prior to the job analysis process itself, planning should be done to gather information about jobs from managers and employees. Probably the most important consideration is to identify the objectives of the job analysis, which might be as simple as updating job descriptions or as comprehensive as revising the organization's compensation programs. Whatever the purpose identified, the effort needs the support of top management.

4-5b Prepare for and Introduce the Job Analysis

Preparing for job analysis includes identifying the jobs to be analyzed. Organization charts, existing job descriptions, previous job analysis information, and other resources are reviewed next. This includes identifying who will be involved in conducting the job analysis and the methods to be used. A key part is identifying and communicating the process to appropriate managers, affected employees, and others. It is important to explain the objectives of the job analysis to employees to ensure their cooperation and to reduce their anxiety and fear about the process.

4-5c Conduct the Job Analysis

Data about jobs are collected using various methods; the methods used are based on time and the available resources. A variety of sources of information may be consulted. Ideally, data will be gathered in more than one way and from more than one source to ensure that all perspectives are considered and that the data is comprehensive. Once data from job analyses are compiled, the information can be sorted by job, organizational unit, and job family. Complete information about each job is collected during the job analysis. Figure 4-11 shows the categories of information that is needed to properly analyze jobs.

4-5d Develop Job Descriptions and Job Specifications

At this stage, the job analyst drafts job descriptions and job specifications. Generally, organizations do not recommend having managers and employees write job descriptions for several reasons. First, it reduces consistency in format and details, both of which are important given the legal consequences of job descriptions. Second, managers and employees vary in their writing skills, and they may write the job descriptions and job specifications to reflect what they do and what their personal qualifications are, instead of what the job requires. However, completed drafts should be reviewed by managers and supervisors, and then with employees, before they are finalized.

4-5e Maintain and Update Job Descriptions and Job Specifications

Once job descriptions and specifications have been completed and reviewed by all appropriate individuals, a system must be developed for keeping them current and posted on a firm's intranet source. One effective way to ensure that appropriate reviews occur is to use current job descriptions and job

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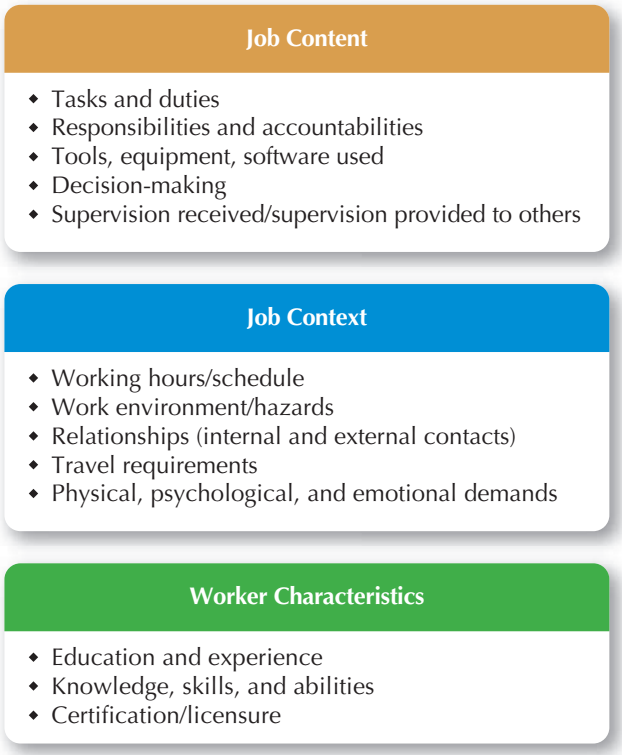
FIGURE 4-11 Information Collected in a Job Analysis



specifications as part of other human resource activities. For example, each time a vacancy occurs, the job description and specifications should be reviewed and revised as necessary before recruiting and hiring efforts begin. Similarly, in some organizations, managers and employees review job descriptions during performance appraisal interviews.

4-6 Job Analysis Methods and Sources

Job analysis information about what people are doing in their jobs can be gathered in a variety of ways. Traditionally, the most common methods have been observations, interviews, and questionnaires. However, the expansion of technology has led to computerization and web-based data collection methods. It is highly recommended to use more than one method to collect information as each method has strengths and weaknesses. The shortfalls from using one method can be compensated for by supplementing with a secondary method. The idea of triangulation is a useful perspective in job analysis. In the social sciences, **triangulation** means that two (or more) methods are used in a study to increase the validity of the results. This must also be done with consideration for the resource constraints of time and money. So, job analysts work to balance the quest for complete information with the realities of limited resources.

Triangulation
Two (or more) methods are used in a study to increase validity of the results

4-6a Observation

With the observation method, a manager, job analyst, or industrial engineer watches an employee perform the job and takes notes that describe the tasks and duties performed. The observation method is limited because many jobs do not have complete and easily observed job duties or job cycles. Thus, observation may be more useful for repetitive jobs with short cycle times. Video

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recording can be done when jobs are hazardous or workers are in remote locations not easily accessible by the job analyst.

Work Sampling One type of observation, work sampling, does not require attention to each detailed action throughout an entire work cycle. This method allows a job analyst to determine the content and pace of a typical workday through statistical sampling of certain actions rather than through continuous observation and timing of all actions. Work sampling is particularly useful for routine and repetitive jobs because the factors of work do not change significantly from one day to the next.

Employee Diary/Log Another observation method requires employees to "observe" their own performance by keeping a diary/log of their job duties, noting how frequently those duties are performed and the time required for each one. Although this approach can generate useful information, it can be burdensome for employees to compile an accurate log while still performing their jobs. Technology can facilitate the logging or diary approach, reducing some of the problems associated with balancing data collection and work completion.

4-6b Interviewing

The interview method requires a manager, job analyst, or human resource specialist to talk with individuals who are knowledgeable about the job. A standardized interview form is often used to record the information and ensure greater consistency. Both the employee and the employee's supervisor should be interviewed to obtain complete details about the job.

Sometimes group or panel interviews are used to collect information about jobs. A team of subject matter experts (SMEs) who have varying insights about a group of jobs is assembled to provide job analysis information. This option may be particularly useful for highly technical or complicated jobs because a great deal of complex information can be collected from groups of employees who work in these jobs

4-6c Questionnaires

The questionnaire or survey is a widely used method of gathering job data because of its ease of use and convenience. A survey instrument that identifies job factors is developed ahead of time by human resource professionals and/or other managers, and this questionnaire is given to employees and managers to complete.

The questionnaire method offers a major advantage in that information about a large number of jobs can be collected inexpensively in a relatively short period of time. However, the questionnaire method assumes that employees can accurately analyze and communicate information about their jobs, which may not be the case in all situations. Further, the questionnaire method assumes that workers are literate in English. It may be necessary to translate to other languages if workers do not speak or write English fluently and to assist those workers whose reading skills are inadequate.

4-6d O*Net

O*Net
An online database containing information on a wide range of jobs and occupational characteristics

A variety of resources to help with job analysis are available from the U.S. Department of Labor (DOL), and these resources have been developed and used over many years by a variety of entities. **O*Net** (www.onetcenter.org) is an online database containing information on a wide range of jobs and occupational characteristics. *Functional job analysis* uses a competency approach to job analysis, and a functional definition of what is done in a job can be generated by examining the three components of *data*, *people*, and *things*. The levels of these components traditionally have been used to identify and compare important elements of jobs in the *Dictionary of Occupational Titles (DOT).* O*Net contains the *DOT* and has hundreds of jobs descriptions already written and available. O*Net is currently the main DOL resource available and provides employers with a wide range of useful items.

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The O*Net database now contains data on more than 800 occupations, classified by industry. Included in the occupational categories are the following factors:

- Task statements of importance, relevance, and frequency
- Abilities (work activities, knowledge, skills, and work content)
- Training, work experiences, and education
- Interests and work values, work styles, and job zones

O*Net can be used in many ways that are highly beneficial to organizations. For example, one way is to see what abilities will be needed in certain jobs; more than 50 abilities are listed, including arm-hand steadiness, fluency of ideas, time sharing, visualization, written and oral comprehension, and speech clarity. Employers can use the abilities and the other components to generate data for some parts of job analysis and for developing job descriptions. The details provided by O*Net give supervisors, managers, and human resource professionals a valuable resource as they develop or revise job descriptions, compare recruiting advertisements, develop training components, and perform other human resource activities.

4-6e Sources of Information for Job Analysis

There are many individuals who have knowledge about particular jobs. When collecting information for a job analysis process, it is helpful to obtain information from a number of informed sources so that all aspects of the job will be understood. Each individual who provides information will have a different perspective and may have specific motivations for including or withholding some information. Therefore, the same principle of triangulation should be used when considering sources of job information. Ideally, more than one source should be consulted so that a complete picture of the job can be developed. Remember that it is possible to analyze a job even if the job is not currently filled in an organization. The job analysis process should be an objective assessment of a job and its requirements. Here are common sources of job information.

Job Incumbent The individual currently working in the job is an obvious starting point for collecting job information. The job incumbent should know the details of tasks and duties that he or she is performing, the tools and equipment used, and all other aspects of the job. However, the job incumbent may not be performing all the tasks and duties that are expected, possibly due to lack of skills or training. Therefore, additional information should be obtained from others who know the job. This also highlights the importance of selecting the appropriate job incumbent when there are multiple people doing the same job. The job analyst should be sure to obtain information from a jobholder that is performing the job at or above expectations and who has been in the job for a period of time.

Immediate Supervisor The individual who supervises the job being analyzed has an important perspective on the job. The supervisor is aware of what constitutes adequate job performance, the worker attributes that lead to success, and the conditions under which the job is supposed to be performed. While a job incumbent might understand job responsibilities one way, the supervisor might have a different outlook on what is expected.

Subject Matter Experts (SMEs) Subject matter experts may be former jobholders, technical experts, or even college teachers who prepare individuals for certain jobs. SMEs can provide insight into technical aspects of a job and may have knowledge of how the particular job is handled in other organizations. SMEs are especially useful when there is no current job incumbent.

Clients or Customers Those individuals who are served by the jobholder can also offer a unique perspective as they have a notion of what they expect the individual to do when serving them. For example, a customer at a bank would have an important idea of what a teller should do when handling transactions and interacting with the customer.

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Job Analyst There are individuals whose sole job is analyzing other jobs. While they lack discipline-based knowledge of each job, they are familiar with a variety of work settings in which they have seen similar jobs and can provide comparative information about the job under study. Job analysts are also trained in a number of data collection techniques and can adjust to many job situations.

When collecting job information, using more than one method and more than one source helps to ensure that all elements of the job are assessed. Conflicting information may be gathered; therefore, careful analysis and verification are important steps to confirm that accurate job descriptions can be written.

4-7 Behavioral and Legal Aspects of Job Analysis

Job analysis involves determining what the core job involves, as well as what employees do (or are expected to do) while working in a job. A detailed examination of jobs, although necessary, can sometimes be a demanding and disruptive experience for both managers and employees, in part because job analysis can identify the difference between what currently is being performed in a job and what should be done. This can be a major issue for some employees, but it is not the only concern. Other behavioral factors can affect job analysis and make the process more challenging.

4-7a Current Incumbent Emphasis

A job analysis and the resulting job description and job specifications should not just describe what the person currently in the job does and that person's qualifications. The incumbent may have unique capabilities and the ability to expand the scope of the job to assume more responsibilities, but the employer might have difficulty finding a suitable replacement if the person were to leave. Consequently, it is useful to focus on core duties and necessary knowledge, skills, and abilities by determining what the job would be if the incumbent were to quit or be moved to a different job.

The content of a job may also reflect the desires and skills of the incumbent employee, which can affect the content of the job analysis. For example, in one firm, an employee promoted to customer service supervisor continued to spend considerable time answering customer calls, rather than supervising employees taking the calls. As part of job analysis discussions, the operations manager discussed the need for the supervisor to train the employees on handling special customer requests and to delegate more routine duties to others.

4-7b "Inflation" of Jobs and Job Titles

People have a tendency to inflate the importance and significance of their jobs because they are not completely objective. Since job analysis information is used for compensation purposes, both managers and employees may hope that "puffing up" jobs will result in higher pay levels, greater "status" for résumés, and more promotional opportunities. Doing so often convolutes the job analysis process and results in inaccurate and/or confusing job descriptions. Inflated job titles also can be used to make jobs sound better (and subsequently increase employee pride) without making major job changes or pay adjustments.

An additional concern is the use of offbeat and unusual titles to describe jobs. For example, what is a Group Idea Management Director, Chief Transformation Officer, or Marketing Evangelist? What does a Human Character Manager really do? These examples illustrate how job titles may be misleading, both inside and outside the place of employment. Titles should convey a clear picture of what a job involves.

4-7c Employee and Managerial Concerns

Both employees and managers may have concerns about the job analysis process. If done correctly, the resulting job description should identify the activities performed in a job. However, it is difficult

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to capture all facets of a job in which employees perform a variety of duties and operate with a high degree of independence.

Employee Fears One concern that employees may have involves the purpose of a detailed investigation of their jobs. Some employees fear that an analysis of their jobs will limit their creativity and flexibility by overly formalizing their duties. They may also be concerned about pay deductions or even layoffs as a result of job analysis. However, having accurate, well-communicated job descriptions can assist employees by clarifying their roles and the expectations within those roles. One effective way to handle anxieties is to involve employees in the revision process so that there is some employee input and ownership of the compiled information.

Managerial Straitjacket Managers and supervisors may be concerned that the job analysis and job descriptions will unrealistically limit their flexibility. Since workloads and demands change rapidly, managers and supervisors may elect to move duties to other employees, cross-train employees, and have flexible means available to accomplish work. If job descriptions are written or used restrictively, employees may argue that a change or omission to a job description should limit management's flexibility to require that work. In organizations with unionized workforces, some very restrictive job descriptions may exist.

Because of such difficulties, the final statement in many job descriptions is a miscellaneous clause that consists of a phrase similar to "Performs other duties as needed upon request by immediate supervisor." This statement covers unusual situations in an employee's job that cannot all be highlighted in a job description. However, duties covered by this phrase cannot be considered essential functions under legal provisions, including the Americans with Disabilities Act, which is discussed in the next section.

4-7d Legal Aspects of Job Analysis

The *Uniform Guidelines on Employee Selection Procedures* (in Appendix F) make it clear that human resource requirements must be tied to specific job-related factors if employers are to defend their actions as a business necessity. Job descriptions are frequently the link to these job-related factors because they describe important tasks, duties, and responsibilities, and they often provide a basic overview of the individual characteristics needed to perform work.[69]

Job Analysis and the Americans with Disabilities Act One result of the Americans with Disabilities Act (ADA) is increased emphasis by employers on conducting job analyses, as well as developing and maintaining current and accurate job descriptions and job specifications. The ADA requires that organizations identify the *essential job functions*, which are the fundamental duties of a job. These do not include the marginal functions of the positions. **Marginal job functions** are duties that are part of a job but are incidental or ancillary to the purpose and nature of the job. As covered in Chapter 3, the three major considerations used in determining essential functions and marginal functions are the following:

Marginal job functions
Duties that are part of a job but are incidental or ancillary to the purpose and nature of the job

- Percentage of time spent on tasks
- Frequency of tasks performed on the job
- Importance of tasks performed

Job analysis should also identify the physical demands of jobs. For example, the important physical skills and capabilities used on the job of a nursing professional could include being able to hear well enough to aid clients and doctors. However, hearing might be less essential for a heavy equipment operator working in a quarry.

Job Analysis and Wage/Hour Regulations As will be explained in Chapter 11, the federal Fair Labor Standards Act (FLSA) and most state wage/hour laws require that the percentage of time employees spend on manual, routine, or clerical duties affects whether they must be paid overtime for hours worked in excess of 40 hours a week. To be exempt from overtime,

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employees must perform their primary duties as executive, administrative, professional, or outside sales employees. *Primary* has been interpreted to mean occurring at least 50 percent of the time.

Other legal compliance efforts, such as those involving workplace safety and health, can also be facilitated and enhanced by the data provided by job analysis and job descriptions. It is difficult for an employer to have a legal staffing system without performing job analysis. Job analysis is truly the most basic human resource activity and the foundation for most other personnel decision and efforts.

HR

COMPETENCIES & APPLICATIONS

Writing Appropriate Job Descriptions

Developing and maintaining current job descriptions are important activities in human resource management because these documents affect so many other important personnel functions, including staffing, training, and compensation. Some key suggestions for writing job descriptions that include the essential functions and duties of a job are as follows:

- *Compose specific duty statements.*
  1. A precise action verb and its object
  2. The frequency of the duties and the expected outcomes
  3. The tools, equipment, aids, and processes to be used
- *Be logical.* If the job is repetitive, describe the tasks as they occur in the work cycle. For varied jobs, list the major tasks first and follow these activities with the less frequent and/or less important tasks (in order).
- *Use proper details.* Make sure the description covers the meaningful duties of the job.
- *Be specific.* For example, instead of saying "Lifts heavy packages," say, "Frequently lifts heavy packages weighing up to 50 pounds."
- *Use the active voice.* Start each statement with a functional verb in the present tense (third-person singular)—for instance, *compiles, approves,* or *analyzes*. Avoid terms like *handles, maintains*, and *processes.*
- *Describe, do not prescribe.* Say, "Operates electronic imaging machine," not "Must know how to operate electronic image machine." (The latter is a job specification, not a job description.)
- *Be consistent.* Define terms *like may*, *occasionally*, and *periodically*.
- *Include a miscellaneous clause.* This clause provides flexibility and may be phrased as follows: "Performs other related duties as assigned by supervisory personnel."

Several other factors should be considered when writing appropriate job descriptions:

- *Think about the future.* Consider how jobs may change over time, as well as the impact these changes might have on needed skills.
- *Have some priorities.* To reduce unneeded complexity, avoid discussing too many duties.
- *Limit critical characteristics.* Specify only five or six characteristics that candidates need to have to work in a job.
- *Talk about culture.* Describe the company's culture to let others know what it's like to work there.
- *Focus on continuous improvement.* Keep revising the job description to make it better.[70]

Based on these suggestions, consider the following questions:

1. What do you think are the most important characteristics of good job descriptions?
2. What kinds of issues would you consider when writing job descriptions?

KEY COMPETENCIES: Critical Evaluation (Behavioral Competency) and People (Technical Competency)

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LO6 List the components of job descriptions.

4-8 Job Descriptions and Job Specifications

The output from a job analysis is used to develop a job description and its job specifications. Together, these two documents summarize job analysis information in a readable format and provide the basis for defensible job-related actions.

4-8a Job Descriptions

Job description
Identifies a job's tasks, duties, and responsibilities

In most cases, a job description and a job specification are combined into one document that contains several sections. A **job description** identifies a job's tasks, duties, and responsibilities. It describes what is done, why it is done, where it is done, and, briefly, how it is done. Writing job descriptions can be challenging because identifying the necessary soft skills needed to perform a job, as well as the typical duties, can be difficult.[71] The preceding "HR Competencies & Applications: Writing Appropriate Job Descriptions" feature has suggestions for writing job descriptions.

4-8b Job Specifications

Job specifications
The knowledge, skills, and abilities (KSAs) an individual needs to perform a job satisfactorily

While the job description outlines activities to be done, the **job specifications** list the knowledge, skills, and abilities (KSAs) an individual needs to perform a job satisfactorily. KSAs might include the education, experience, work skill requirements, personal abilities, and mental and physical requirements a person needs to do the job, not necessarily the current employee's qualifications.[72]

4-8c Performance Standards

Performance standards
Indicators of what the job accomplishes and how performance is measured in key areas of the job description

Performance standards flow directly from a job description and indicate what the job accomplishes and how performance is measured in key areas of the job description. If employees know what is expected and how performance is to be measured, they have a much better chance of performing satisfactorily. Unfortunately, performance standards are often not developed as supplemental items in job descriptions. Even if performance standards have been identified and matched to job descriptions, they must be communicated to employees if the job descriptions are to be effective tools.

4-8d Job Description Components

A typical job description contains several major parts. The following sections present an overview of the most common components. Each organization formats job descriptions in a way best suited to its inherent culture and management practices. Consistency of information and formatting across all the organization's jobs ensures uniformity.

Identification The first part of the job description is the identification section, which includes the job title, department, reporting relationships, location, and date of analysis. It is advisable to note other information that is useful in tracking jobs and employees through HR systems. Additional items commonly noted in the identification section are job code, pay grade, exempt/nonexempt status under the FLSA, and the EEOC classification (from the EEO-1 form).

General Summary The general summary is a concise statement of the general responsibilities and components that make the job different from others. One human resource specialist has characterized the general summary statement as follows: "In thirty words or less, describe the essence of the job." Often, the summary is written after all other sections are completed so that a more complete overview is prepared.

Essential Job Functions and Duties The essential functions and duties are generally listed in order of importance in this component of the job description. It contains clear, precise statements on the major tasks, duties, and responsibilities performed in a job. Writing this section

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FIGURE 4-12 Sample Job Description and Job Specifications

Identification Section

Position Title: Customer Service Supervisor

Department: Marketing/Customer Service — EEOC Class: O/M
Reports To: Marketing Director — FLSA Status: Exempt

General Summary

Supervises, coordinates, and assigns work of employees to ensure customer service department goals and customer needs are met.

Essential Job Functions

1. Supervises the work of customer service representatives to enhance performance by coordinating duties, advising on issues or problems, and checking work. (55%)
2. Provides customer service training for company employees in all departments. (15%)
3. Creates and reviews reports for service orders for new and existing customers. (10%)
4. Performs employee performance evaluations, training, and discipline. (10%)
5. Follows up with customer complaints and issues and provides resolutions. (10%)
6. Conducts other duties as needed guided by marketing director and executives.

Knowledge, Skills, and Abilities

- Knowledge of company products, services, policies, and procedures.
- Knowledge of marketing and customer programs, data, and results.
- Knowledge of supervisory requirements and practices.
- Skill in completing multiple tasks at once.
- Skill in identifying and resolving customer problems.
- Skill in oral and written communication, including Spanish communications.
- Skill in coaching, training, and performance evaluating employees.
- Skill in operating office and technological equipment and software.
- Ability to communicate professionally with coworkers, customers, and vendors.
- Ability to work independently and meet managerial goals.
- Ability to follow oral and written instructions.
- Ability to organize daily activities of self and others and to work as a team player.

Education and Experience

Bachelor's degree in business or marketing, plus 3–5 years of industry experience. Supervisory, marketing, and customer service experience helpful.

Physical Requirements	**Percentage of Work Time Spent on Activity**			
	0–24	**25–49**	**50–74**	**75–100**
Seeing: Must be able to see well enough to read reports.				X
Hearing: Must be able to hear well enough to communicate with customers, vendors, and employees.				X
Standing/Walking: Must be able to move about department.			X	
Climbing/Stooping/Kneeling: Must be able to stoop or kneel to pick up paper products or directories.	X			
Lifting/Pulling/Pushing: Must be able to lift up to 50 pounds.	X			
Fingering/Grasping/Feeling: Must be able to type and use technical sources.				X

Working Conditions: Normal working conditions absent extreme factors.

Note: *The statements herein are intended to describe the general nature and level of work being performed, but are not to be seen as a complete list of responsibilities, duties, and skills required of personnel so classified. Also, they do not establish a contract for employment and are subject to change at the discretion of the employer.*

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is often the most time-consuming aspect of preparing job descriptions because of the amount and detail of the information reported.

Job Specifications The qualifications needed to perform the job satisfactorily are identified in the job specifications section. The job specifications typically are stated as: (1) knowledge, skills, and abilities; (2) education and experience; and (3) physical requirements and/or working conditions. The components of the job specifications provide information necessary to determine what accommodations might and might not be possible under the ADA.

Disclaimers and Approvals Many job descriptions include approval signatures by appropriate managers and a legal disclaimer. This disclaimer allows employers to change employees' job duties or to request employees to perform duties not listed so that the job description is not viewed as a contract between the employer and the employee. Figure 4-12 contains a sample job description and job specifications for a customer service supervisor. Also, Appendix A has sample job descriptions and job specifications for human resource management jobs.

SUMMARY

- The workforce is changing but not entirely in the predictable ways.
- The labor force participation rate has declined, reducing the percentage of people in certain groups who are in the workforce.
- In general, the workforce is getting older, more educated, and more diverse.
- Skill gaps, in general and in particular industries, are making it difficult for companies to find enough qualified workers.
- Work in an organization is divided into jobs, and workflow analysis shows how work flows through the organization.
- Advances in technology are creating significant changes to workplaces and jobs.
- Job design involves developing jobs that people can do well. It may include simplification, enlargement, enrichment, or rotation.
- Use of contingent workers is increasing as the gig economy becomes more prevalent.
- Designing jobs so that they incorporate skill variety, task identity and significance, autonomy, and feedback can improve jobs for employees.
- Work teams can be used when designing jobs.
- Jobs can be designed for place and/or time flexibility.
- Telework is leading to more place flexibility and can be regular, brief occasional, or temporary/emergency.
- Shift work, compressed workweeks, part-time positions, job sharing, and flextime can provide time and other schedule flexibility.
- Organizations are creating ways to help workers with work–life integration challenges.
- Job analysis is arguably the foundation of all human resource management practices.
- Job analysis is a systematic investigation of the content, context, and human requirements of a job.
- A number of methods to collect information for job analysis are used, with interviews and questionnaires being the most popular.
- There are a variety of informed sources of information that can be contacted during a job analysis.
- The behavioral reactions of employees and managers along with legal compliance issues must be considered as part of job analysis.
- The end products of a job analysis are job descriptions, job specifications, and performance standards.

CRITICAL THINKING CHALLENGES

1. Describe how changes in the workforce have been impacting organizations, including organizations for which you have recently worked.
2. For many individuals, the nature of work and jobs is changing. Describe these changes, some reasons for them, and how they are affecting both human resource management and individuals.
3. Explain how you would conduct a job analysis in a company that has never had job descriptions. Utilize O*Net as a resource for your information.
4. You have recently assumed the role of Human Resource Manager in your company. In reviewing the company records, you note that the job descriptions were last updated five years ago. The company's President has

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taken the position that there is no need to update the job descriptions. However, you also note that the company has grown by 50 percent during the past five years, resulting in many changes, including some in job functions. You want to build a business case to convince the President of the need to update the job descriptions. To help you build your case, use the information on the purpose of job descriptions at www.hrtools.com.

A. How can job descriptions be used as a management tool?
B. What role do job descriptions have in helping companies comply with various legal issues?

CASE Chatting with the HR Chatbot

The brave new world of artificial intelligence (AI) is beginning to appear in applications for delivering human resource management services. Imagine how Amazon's Alexa for Business device might be used to provide the "human" touch to employees. Alexa has mastered thousands of skills and continues to get smarter every day. Amazon is hoping that companies might put Alexa to work for tasks like booking hotel rooms, scheduling and administering virtual meetings, and doing other duties that can be programmed into an algorithm. IBM is producing a chatbot that is designed to replicate a human voice. The chatbot can be used with employment recruiting, during onboarding and training of employees, and for answering questions in an employee service center. These intelligent assistants may be the next revolution in workplace technology.

These AI/chabots are becoming more popular due to changing consumer and employee preferences. Millennials and individuals in Generation Z have little patience when making a request; they typically expect a response within 10 minutes. It can be difficult for human workers to respond that quickly with accurate and timely information. AI devices can scour countless company documents and other sources of information to rapidly compile all of the facts needed to response to an inquiry. IBM's Watson computer can quickly identify important information and connect it together to deliver to the person asking the question. Workers who are accustomed to getting this speedy service in their personal lives will soon expect their company's HR department to be just as efficient. So, HR professionals of the future may need to start learning about how this technology can help them serve employees better.

Talent acquisition and onboarding processes can be greatly improved by incorporating AI. Consistency in the responses to frequently asked questions about employee benefits and career opportunities can enhance the employee experience. This technology can be especially helpful to workers who operate remotely and rarely interact with HR staff in person. A chatbot created by Loka, called Jane, provides real-time answers to a variety of HR questions. She can easily field questions such as "Is Memorial Day a paid holiday?" or "What is the copay for a generic prescription?" Jane can do much more, however. She can be used to proactively promote the benefits and programs with which employees are not familiar. Jane can be designed to reach out to employees to notify them of the current wellness programs, like flu shots or weight loss challenges sponsored by the company. She can also collect information and prepare a report to management showing areas of concern. Perhaps many employees are asking questions about a particular learning and development program. Jane can bring this to the attention of HR leaders so that they can investigate further.

Training professionals may also utilize AI technology. IBM's Jill Watson served as a teaching assistant for online courses. She was available to deal with learner questions 24/7/365. This allowed the learner to move forward with the online course, rather than waiting for guidance from a live instructor. While not able to field every question, Jill was successful 40 percent of the time. Thus, trainers could spend their time dealing with more complex issues and working with learners face to face.[73]

QUESTIONS

1. What skills will HR professionals and training professionals need to develop to successfully utilize AI technology? How can HR professionals ensure that employees remain connected personally to the organization if much of their communication is delivered via AI technology?
2. What ethical issues might emerge by using AI to collect information about employee inquiries or participation in company-sponsored programs? What steps should HR take to protect employee privacy?

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SUPPLEMENTAL CASES

Unilever Jumps on the Flexible Work Bandwagon

This case describes a company that addressed workforce changes by offering flexible work arrangements to its employees. The company involved managers and trained them in how to effectively utilize and manage remote workers. (For the case, visit MindTap® at www.cengage.com/login.)

Bon Secours Health Care

This case shows how a health care organization uses flexible work arrangements to provide care for patients, as well as to attract and keep employees. (For the case, visit MindTap® at www.cengage.com/login.)

The Reluctant Receptionist

This case illustrates how incomplete job analysis and job descriptions create both managerial and employee problems. (For the case, visit MindTap® at www.cengage.com/login.)

Jobs and Work at R. R. Donnelley

This case describes how a printing firm had to increase productivity and redesign jobs. (For the case, visit MindTap® at www.cengage.com/login.)

Flexible Work and Success at Best Buy

This case illustrates flexible scheduling at Best Buy. (For the case, visit MindTap® at www.cengage.com/login.)

END NOTES

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CHAPTER 5

Individual/Organization Relations and Retention

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Discuss five different views of motivation at work.

LO2 Explain the nature of the psychological contract.

LO3 Define the difference between job satisfaction and engagement.

LO4 Identify a system for controlling absenteeism.

LO5 Classify different kinds of turnover and explain how turnover can be measured.

LO6 Summarize various ways to manage retention.

WHAT'S TRENDING IN INDIVIDUAL/ORGANIZATION RELATIONS AND RETENTION

HR professionals should develop workplaces that build stronger connections with employees. They must also be aware that organizational characteristics directly affect employee motivation, job attitudes, and engagement. Absenteeism and turnover often occur when organizations are not managed well, while high retention results when a satisfying work environment is created. Given these issues, here's what's currently trending in the area of individual/organization relations and retention:

1. Fostering employee motivation is always an ongoing concern for HR professionals. Companies are finding ways to enhance employees' work attitudes so that they are motivated to perform at high levels on the job.
2. Employee engagement often leads to greater loyalty and job performance. Persistently low levels of engagement create many opportunities for employers to improve work characteristics and conditions.
3. Employee withdrawal is a constant challenge for companies in many industries, particularly those in the service sector. Unfortunately, such withdrawal, which is often precipitated by an undesirable work environment, can lead to excessive absenteeism and turnover. By partnering with line managers and senior leaders, HR professionals can focus their efforts on creating a workplace that discourages employees to leave their jobs.
4. Gathering and analyzing data about employee turnover and retention are becoming more common with the introduction of data analytics and data mining.

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HEADLINE

Starwood Hotels' Employees Create Guest Experience

Organizations in the service sector rely on their customer-facing employees to create a great experience that encourages customers to return in the future and recommend the company to others. This idea, called the "employee-customer-profit model," shows that the connections between employees and customers will drive profits for the company. This approach also emphasizes the importance of hiring, motivating, and retaining workers who can deliver that superior service.

The HR team at Starwood Hotels teamed up with the company's Guest Intelligence Team (that measures guest feedback) to better understand exactly what customers expect of the hotel experience and how employees could ensure that they meet those expectations. Employee engagement was obviously an important aspect of the hotel-guest experience, and Starwood sought to find ways to create a company where employees would be excited, engaged, and willing to serve customers at the highest level. The company identified four innovations for employee engagement.

The first step was redesigning the employee engagement survey. They tailored the survey to include more hospitality/service-focused questions, as well as questions that tied to the company's business strategy. Rather than having HR spearhead the survey development, they obtained input from various functional managers around the company. This not only provided a more comprehensive survey but also resulted in greater buy-in from those managers for acting on results from the survey feedback.

Once the survey was distributed to employees and input was received, the analyses went further than past engagement surveys. The team looked for specific linkages between employee survey items and guest survey results. They learned that front desk employees were a crucial link to guest satisfaction. Employees who took pride in their work provided a welcoming, helpful experience to guests, which in turn connected to more satisfied guests and more return visits. So, this highlighted the importance of selecting the right people to staff the front-desk jobs.

The customer satisfaction survey was also modified to inquire about specific

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employee behaviors that affected guests' experiences at the hotel. Asking customers to assess the level of engagement, pride, and knowledge of staff provided a second perspective on how employees were doing their jobs. An added benefit of this was the frequency of data collected. Guest surveys are done every day while employee surveys are done once a year. Therefore, more data was available for quicker response by the hotel leadership.

Action plans following the survey were more robust and had greater manager commitment because the managers were involved in developing the surveys. Managers could also see how their employees' actions were leading to particular levels of customer satisfaction and profitability for each hotel. Starwood Hotels HR team, in partnership with the customer service team, created an environment that fostered individual performance and positive organizational outcomes, demonstrating the multiplier effect of investing in employee engagement initiatives.[1]

Ideally, organizations employ people who have the ability to keep the company moving forward successfully. However, the value of employees is based on the level of their job performance. This performance depends on the effort they put into work, their ability, and the support they receive from the employer. Effort is in part determined by motivation, a topic that is worthy of consideration here. An individual's expectations about work, job satisfaction, commitment, engagement, and loyalty are some of the variables that can influence motivation, effort, and job performance.

These factors can also influence two potentially expensive HR challenges, absenteeism and turnover. Both factors represent withdrawal from the organization, which involves employees' feelings of separation. Understanding why people stay with an organization (called retention) or choose to withdraw requires organizational leaders to consider how companies treat employees. Desirable rewards, opportunities for development, reasonable HR policies, effective management of job and work–life issues, and workplace collegiality can enhance such treatment. The basics for understanding the relationships between employees and employers, as well as the associated consequences, are covered in this chapter.

LO1 Discuss five different views of motivation at work.

5-1 Individuals at Work

The relationship between individuals and their employers helps explain why people might choose to leave particular jobs or stay. For an employer to want to keep an employee, the individual must be performing well and making valuable contributions to the workplace.[2] Several factors affect the performance of employees, including individual abilities, the amount of effort expended, and the organizational support received. HR practices aim to address these areas so that performance is enhanced and retention is increased. The role of the HR staff often depends on the expectations of upper management as well as the culture of the organization. As with any management function, HR management activities should be developed, evaluated, and changed as necessary so that they contribute positively to the performance of individuals in their jobs and enhance overall organizational performance.

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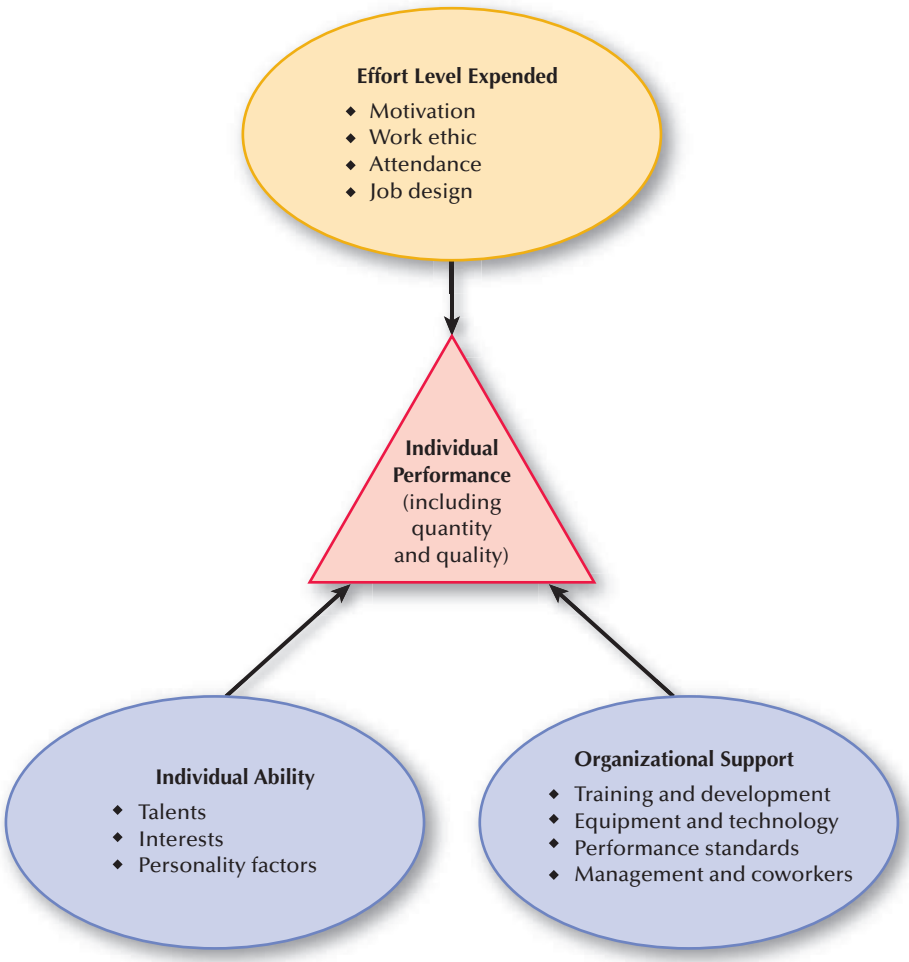
FIGURE 5-1 Components of Individual Performance



5-1a Individual Performance Factors

The three major factors that affect how a given individual performs are illustrated in Figure 5-1. They are (1) ability to do the work, (2) effort expended, and (3) organizational support. The relationship of those factors is broadly defined in management literature as follows:

$$\text{Performance } (P) = \text{Ability } (A) \times \text{Effort } (E) \times \text{Support } (S)$$

Employee performance is determined by the degree to which an individual has all three elements. Since the three elements are multiplicative, performance can be diminished if any factor is reduced or absent. For instance, assume that several production workers have the ability to do their jobs well and work productively, but the organization provides outdated equipment and/or the supervisors' management style causes negative reactions among the workers. These conditions would likely result in low job performance because the work environment is not supportive.

Another example involves a customer service representative in a call center who has both excellent abilities and support. However, the individual dislikes "being tied to a telephone cord" all day and is frequently absent because of low satisfaction with the requirements of the job, even though the position pays well. In that case, the effort expended by the employee is low, dragging performance down.

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In both cases, individual performance is likely to be lower compared to employment situations where all three components exist in a positive manner. Individual motivation is often a predictor of effort expended, so a brief overview of motivation as it affects performance is presented next.

5-1b Individual Motivation

Motivation
The desire that exists within a person that causes that individual to act

Motivation is the desire that exists within a person that causes that individual to act. People usually act for a number of reasons, but they are often tied to goals that have been set by themselves or by others around them. Thus, motivation is a goal-directed drive, and the process seldom occurs in a void. The words *need*, *want*, *desire*, and *drive* are all similar to *motive,* from which the word *motivation* is derived. Understanding motivation is important because compensation, turnover, and other HR concerns are related to it.

A number of theorists have developed their particular views and models of motivation. Some approaches focus on intrinsic motivators that are inside an individual, while others concentrate on extrinsic factors that enhance motivation externally. Each approach has contributed to the understanding of human motivation. Four approaches are examined briefly in the following sections.

Need Theories The earliest need-based theory of human motivation was developed by Abraham Maslow in the 1940s. This theory of motivation assumes that only unsatisfied needs motivate individuals. Maslow classified human needs into five categories that ascend in a definite order. Until the more basic needs are adequately met, a person will not fully strive to meet higher needs. Maslow's well-known hierarchy of needs theory specifies the following five levels of human needs: (1) *physiological needs*, (2) *safety and security needs*, (3) *belonging and love needs*, (4) *esteem needs*, and (5) *self-actualization needs.*

An assumption often made by those using Maslow's hierarchy is that workers in modern, technologically advanced societies have basically satisfied their physiological, safety, and belonging needs. Therefore, they will be motivated first by the needs for self-esteem and the esteem of others and then by self-actualization. Conditions to satisfy these needs should therefore be present in the workplace to enable the job itself to be meaningful and motivating to employees.

A second need-based theory was developed in the 1960s by David McClelland.[3] His three needs theory states that individuals are driven by three primary needs:

- Need for achievement
- Need for affiliation
- Need for power

Individuals driven by a need for achievement will focus primarily on setting and attaining goals. They seek feedback to monitor and adjust their performance toward their goals and appreciate recognition when they succeed. Individuals driven by a need for affiliation will focus primarily on establishing relationships with others. They are social people who thrive on interacting and connecting with others. Finally, individuals driven by a need for power will focus on using all available resources and means to accomplish goals for the organization. They will seek to influence others in pursuit of the overarching objectives.

McClelland says that most individuals have one or two primary needs that motivate their decisions and actions. The major insight for managers is that it is important to identify the driving force for each individual in the work unit. Appropriate work assignments and rewards can be determined that will maximize each employee's motivation.

Two-Factor Theory Frederick Herzberg's motivation/hygiene theory assumes that one group of factors, *motivators*, accounts for increases in individual motivation because of enrichment and other positive work characteristics. Alternatively, *hygiene factors* can cause employees to become dissatisfied with work if these basic expectations are not adequately addressed; however, hygiene factors do not directly motivate employees.

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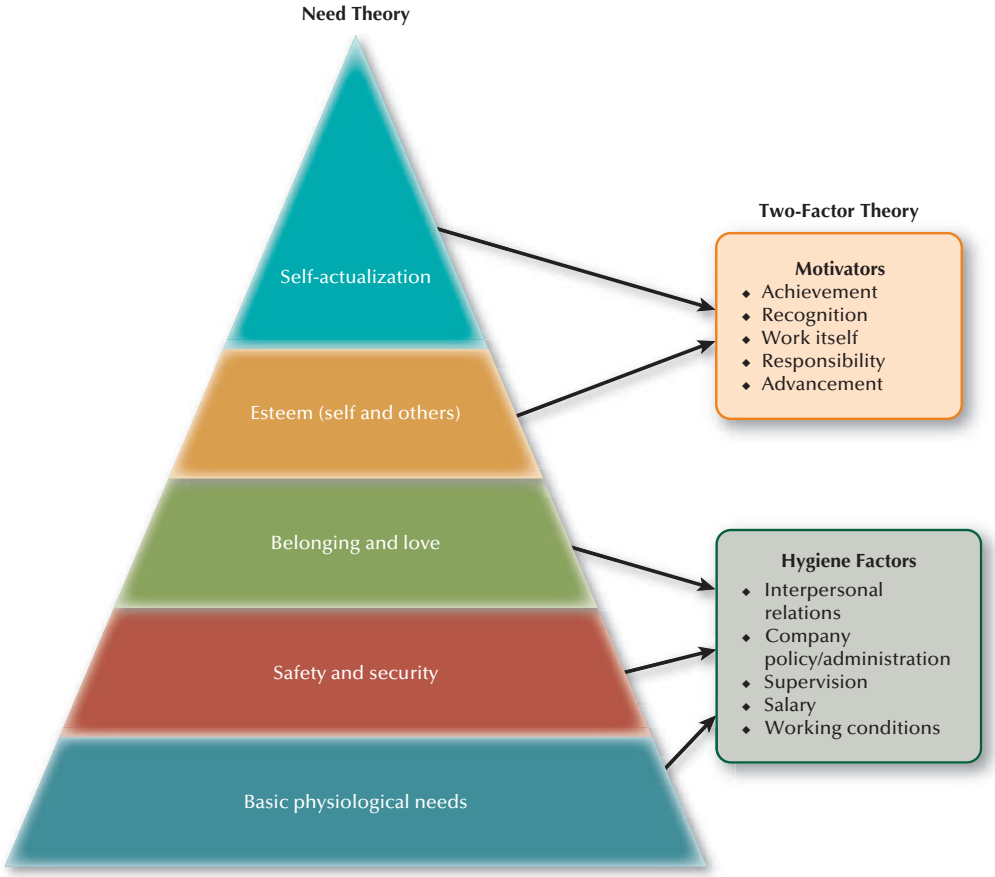
FIGURE 5-2 Need Theory and Two-Factor Theory Compared



Motivators	Hygiene Factors
• Achievement	• Interpersonal relationships
• Recognition	• Company policy/administration
• Work itself	• Supervision
• Responsibility	• Salary
• Advancement	• Working conditions

The implication of Herzberg's research for management and HR practices is that even when managers carefully consider and address hygiene factors to avoid employee dissatisfaction, employees may not be motivated to work harder. The two-factor theory suggests that only motivators lead to greater effort from employees and thereby enhance employee performance. Subsequent research has questioned whether the two groups of factors are really as distinct as Herzberg thought.[4] Figure 5-2 shows a comparison of Maslow's needs theory and Herzberg's two-factor theory.

Expectancy Theory Lyman Porter and E. E. Lawler extended the original work of Victor Vroom who first proposed expectancy theory.[5] This theory of motivation suggests that motivation is influenced by what people expect. If expectations are not met, people may feel that they have been treated unfairly and consequently become dissatisfied. This theory states that individuals base decisions about their behaviors on their expectations that one or another alternate behavior is more likely to lead to desired outcomes. Figure 5-3 shows the three linked relationships connecting effort to rewards.

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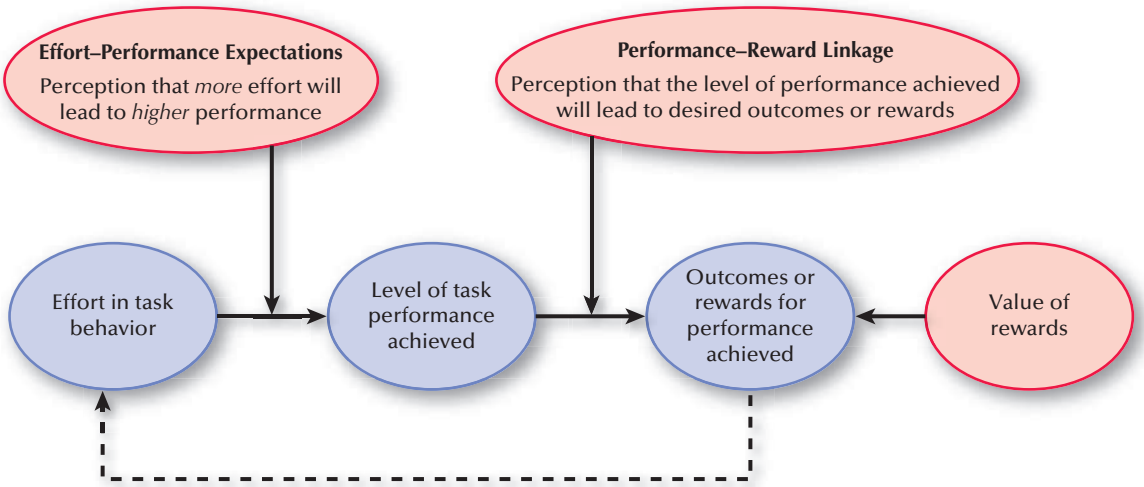
FIGURE 5-3 Simplified Expectancy Model of Motivation



- *Effort–performance expectations* refer to employees' beliefs that working harder will lead to high performance. If people do not believe that working harder leads to high performance, then their efforts may diminish.
- *Performance–reward linkage* considers individuals' expectations that high performance will actually lead to rewards. The performance–reward relationship indicates how instrumental or important effective performance is in producing desired results.
- *Value of rewards* refers to how valuable the rewards are to the employee. One determinant of employees' willingness to exert effort is the degree to which they value the rewards offered by the organization.

This model of motivation suggests that employees' levels of effort (motivation) are not simply a function of rewards. Employees must believe that they have the *ability to perform the tasks well*; they must expect that *high performance will result in receiving rewards*; and they must *value those rewards.* If all three conditions are met, employees will be motivated to exert greater effort on the job.[6]

Equity
The perceived fairness of what the person does compared with what the person receives for doing it

Equity Theory People want to be treated fairly at work, which is the basic underlying theme embedded in equity theory. **Equity** is defined as the perceived fairness of what the person does compared with what the person receives for doing it. *Inputs* are what a person brings to the organization, including educational level, experience, productivity, loyalty, knowledge, and other skills or efforts. *Outcomes* received by a person are the rewards received in exchange for their inputs. Outcomes include pay, benefits, recognition of achievement, prestige, and any other rewards received. An outcome can be either tangible, which can include economic benefits (such as money) or intangible (such as recognition or achievement).

The employee's view of fair value is critical to the relationship between performance and job satisfaction because one's sense of equity is an exchange-based and comparative process. Assume an employee is a registered nurse in a hospital who exchanges talents and efforts (inputs) for the tangible and intangible rewards (outcomes) the hospital provides. To determine perceived equity, the employee compares his or her talents, skills, and efforts to those of other nurses, both internally and at other hospitals. These comparison workers are called *referent others*, and the selection of such workers is a critical aspect of equity theory. That perception, whether it is accurate or inaccurate, significantly affects that person's evaluation of the fairness of inputs and outcomes. A sense of inequity occurs when the comparison process results in an imbalance between inputs and outcomes, which can lead to negative results at work. Workers further expect to be treated fairly in everyday work-related decisions. Immediate supervisors are, therefore, key players in ensuring a sense of

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HR ETHICS

Working with Slackers Hurts Motivation

Research suggests that a large majority of employees report having to deal with slackers who intentionally don't work hard enough, making this issue a key ethical concern that relates to both workplace justice and fairness. Unfortunately, only a small percentage of individuals actually "cry foul" on colleagues who shirk their work responsibilities, which can perpetuate the problem and harm the motivation, satisfaction, and performance of other workers. Coworkers also end up working about four to six more hours each week to make up for the allocation of work that slackers don't complete, which can harm their own ability to perform at high levels.

But why don't people report slackers so that something can be done? At a minimum, employees should confront individuals who don't do their assigned work. Quite often, it's just easier for people to look the other way because they believe confrontation isn't worth the hassle. Unfortunately, most hardworking employees overlook all the risks associated with letting slackers get away with their selfishness and poor performance.

Companies much teach employees how to respond to workplace loafing. Situations should be handled diplomatically, but shirkers need to be "called on the carpet" for their lack of conscientiousness. In particular, training can be provided to help workers address slacking so that their motivation remains high. Companies should consider the following issues as they provide training to help employees deal with slackers:

- *Don't be judgmental*. Start talking to your slacking coworker with an open mind and a curious demeanor. The individual might not understand how his or her slacking negatively affects you.
- *Make your coworker feel comfortable*. Show respect and describe how there are work objectives that you share in common.
- *Share your perceptions*. Talk about the behaviors you are witnessing in an impersonal way and convey how such conduct is not meeting expectations.
- *Talk about the challenges*. Describe how the slacking behavior is adversely impacting your own efforts and productivity.
- *Ask for feedback*. Determine if your coworker views the situation in a different light. You may not fully understand some of the circumstances that lead to the slacking behavior.[7]

Slacking is a common problem in business, and HR professionals should be sensitive to the inherent challenges so that these issues can be effectively addressed. Consider the following questions:

1. What kinds of signs might you look for when determining whether slacking is a problem? How should you encourage employees to report such poor performance?
2. Besides the training already discussed, what do think companies and HR departments can do to reduce the likelihood of coworker slacking?

fairness by not "playing favorites" or showing preference for one worker over another in decisions such as delegating work tasks among the group.[8] Figure 5-4 shows the model of equity theory.

5-1c Management Implications for Motivating Individual Performance

Motivation can be tied to employees making successful progress in meaningful work. Some would argue that this is the most powerful basis for motivation. Managers can undermine the meaningfulness of a person's work and therefore motivation by dismissing its importance, moving people off work before they finish it, constantly shifting goals, or neglecting to keep people updated on changing priorities. All these can diminish the motivation associated with meaningful work.[9] The behavior of coworkers can also harm motivation. The preceding "HR Ethics: Working with Slackers Hurts Motivation" feature explores how employee loafing/shirking is a critical concern that can negatively affect individual motivation.

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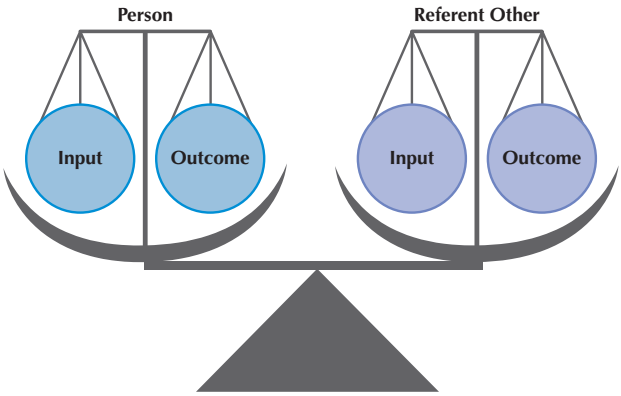
FIGURE 5-4 Equity Theory Model



Individuals who perceive a negative imbalance between their own inputs and outcomes and the referent other's inputs and outcomes can adjust in two ways:

Decrease Inputs	Increase Outputs
Stop working extra hours	Ask for a raise
Take longer breaks	Theft or other ways to get "more" from the company
Stop offering ideas for improvements	

Organizational values and practices may be important tools that can be used to motivate employees. A recent survey determined that being appreciated and respected in the workplace, being able to utilize personal capabilities, and liking the job were the top values that motivated workers. Other motivational issues included pay, employment security, good managers/leaders, and positive HR practices such as performance feedback, training, and benefits.[10] This research suggests that companies should improve these areas to increase employee motivation.

Many organizations spend considerable money to "motivate" their employees by using a wide range of tactics. For example, some firms use motivational speakers to inspire employees. Other employers give T-shirts, mugs, books, and videos to employees as motivators. However, the effectiveness of these expenditures has been questioned, particularly given the short-term nature of many of these programs and rewards. Managers and HR professionals would be better served by focusing on more substantive employment factors that have the capacity to increase individual motivation in the long term. Whatever issues are considered, answering a question often asked by managers—How do I motivate my employees?—requires diagnosing employees' efforts, abilities, and expectations, as well of those of the organization.

An important consideration when working to improve worker motivation is that one size does not fit all. Managers should get to know each employee as an individual who has unique talents and motivations.[11] While these theories may help managers understand general concepts of motivation, it is the one-to-one connection that can help a manager to identify the specific drivers for each employee.

LO2 Explain the nature of the psychological contract.

5-2 Individual Workers and Organizational Relationships

The relationship between individuals and their employers can be affected by HR practices, supervisory treatment, and organizational expectations and can vary widely from favorable to unfavorable. Important elements of these relationships include the psychological contract, job satisfaction, commitment, engagement, and loyalty (see Figure 5-5). Understanding these factors is more than just academically interesting. The economic health of organizations depends on the performance of employees, which is driven by their ability and motivation to perform well. Employers must find ways to positively affect elements of individual–organization relationships so that employees contribute positively to organizational objectives and outcomes.

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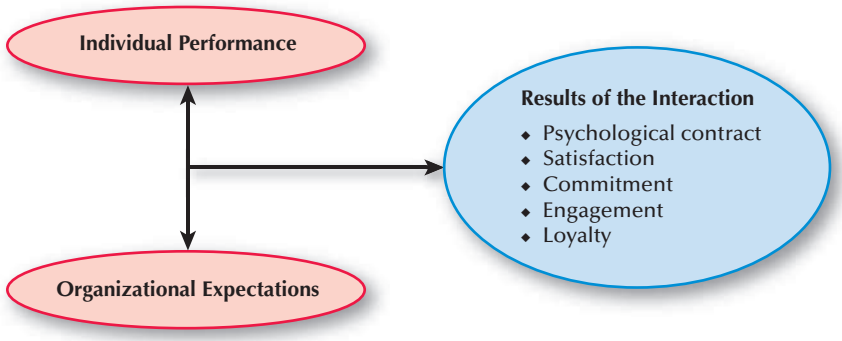
FIGURE 5-5 The Individual–Organizational Relationship



5-2a Psychological Contract

Psychological contract
The unwritten expectations employees and employers have about the nature of their work relationships

A concept that has been useful in understanding individuals' relationships with their employers is the **psychological contract**, which refers to the unwritten expectations employees and employers have about the nature of their work relationships. Psychological contracts can create either positive or negative relationships between employers and individuals, so companies have a vested interest in cultivating appropriate and reasonable expectations to improve these ties. Psychological contracts are based on developing trust, building commitment, and improving loyalty with the ultimate goal of meeting both the employer's and employee's needs.

Unwritten psychological contracts between employers and employees encompass expectations about both tangible items (e.g., wages, benefits, employee productivity, and attendance) and intangible items (e.g., loyalty, fair treatment, and job security). Employers may attempt to detail their expectations through employee handbooks and policy manuals, but those materials are only part of the total "contractual" relationship. It is important to understand that significant parts of psychological contracts are often perceived rather than explicitly stated.

The Changing Psychological Contract Employees usually expect to exchange their efforts and capabilities for secure jobs that offer competitive pay, desirable benefits, opportunities to learn and develop, fair treatment, and career progression, among many other positive factors. But as some organizations have responded to business challenges by downsizing or employing more contingent workers, long-service employees may question whether they should remain loyal to and stay with their employers. In other words, the contract has been altered in many organizations.[12]

Strengthening psychological contracts requires HR professionals and line managers to focus on several elements of these arrangements. A psychological contract often involves the following expectations:

Employers Will Provide	Employees Will Contribute
• Competitive compensation and benefits	• Continuous skill improvement and increased productivity
• Flexibility to balance work and home life	• Reasonable length of service
• Career development opportunities	• Extra efforts and results when needed

ETHICS

Psychological contracts can be strengthened and employee commitment enhanced when the organization addresses key expectations during the new hire orientation process. A study of European Army recruits showed that when orientation focused on clearly defining roles, organizational values, and how the new employee fit into the work unit, new recruits reported higher levels of connection to their superiors and peers. They had a better grasp of expectations and felt a higher sense of obligation to their duty.[13] There is also some evidence that shows employees of different generations value different aspects of the psychological contract. Job content and career development are more important to Generation Y workers, while those in Generation X and Baby Boomers value the social atmosphere in the organization.[14]

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Conversely, psychological contracts can be violated—not only by personal mistreatment but also by a perception that the organization has abandoned an important principle or cause. For instance, when unethical or illegal behavior is committed by upper management, the psychological contract is violated and employees may feel anger, distrust, reduced loyalty and commitment, and increased willingness to leave. Serious ethical scandals may be particularly damaging to psychological contracts because awareness of unethical behavior is so widespread. Employees who believe that the employer has not fulfilled its side of the contract are less engaged in their work and more likely to quit their jobs.[15] Therefore, it is important to understand what an employee expects from the employer to ensure that both parties agree on what is reasonable and to prevent subsequent violations of the contract.

GLOBAL

Global Psychological Contract Concerns With many organizations having global operations, the psychological contract becomes more complicated. Employees in foreign countries and expatriate employees from the United States have varying psychological contract expectations. If organizational expectations are not made clear prior to relocation of expatriates, there is a greater chance that the assignment will be cut short or the employee will quit upon returning home.[16]

An additional concern for multinational firms is the need to meet the diverse psychological contract expectations of individuals in different cultures and countries. Consider the number of jobs that have been shifted from the United States and Europe to China, India, Indonesia, Bulgaria, the Philippines, and other countries with different cultures. Being aware of varying psychological contract issues with international employees is important if global HR efforts are to succeed.

5-2b Job Satisfaction and Commitment

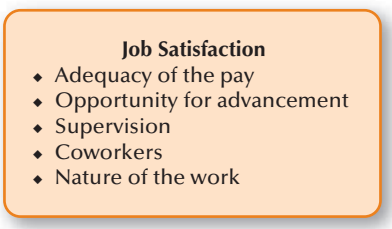
LO3 Define the difference between job satisfaction and engagement.

Job satisfaction
The positive feelings and evaluations derived from an individual's employment in a job

In its most basic sense, **job satisfaction** involves the positive feelings and evaluations individuals have about their employment. For example, recognizing an employee for a job well done by providing time off from work is likely to promote job satisfaction. There are many things a company can do from an HR perspective to increase employee job satisfaction such as providing fair pay and benefits, offering opportunities for promotion, training and developing workers, and communicating work expectations with regular performance appraisals. Interestingly, in recent years, employee job satisfaction has been on the rise. However, much of that is due to employees lowering their expectations of what a job should provide. Workers are less inclined to expect the company to provide secure retirement benefits and generous health care programs.[17] Figure 5-6 shows some of the most commonly recognized components of job satisfaction.

Alternatively, job *dissatisfaction* occurs when work experiences are negative and expectations are not met. An employee who expects fairness and equity will likely be dissatisfied if raises or promotions are given to less-qualified employees. Research conducted by SHRM showed that while respectful treatment of workers is of great importance to workers, only about one-third report being satisfied with that aspect of their jobs. Further, the same study showed that satisfaction with the trust between employees and senior managers is a source of dissatisfaction for three-fourths of

FIGURE 5-6 Components of Job Satisfaction



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the workers studied. Overall, 88 percent of employees were at least "somewhat satisfied" with their jobs.[18] Clearly, organizations have an opportunity to improve the job satisfaction of their workers and may see benefits in improved employee health, job performance, commitment, and retention.[19]

Many organizations and researchers study job dissatisfaction. At any one time, from 15 percent to 40 percent of working people across the nation are dissatisfied with their jobs. Higher unemployment rates usually mean more dissatisfied workers in the workforce because it is more difficult to change jobs, and people stay longer with jobs they do not like. Managers directly impact job satisfaction, and younger employees tend to have lower job satisfaction than older employees.[20] There is some evidence that older employees evaluate job satisfaction based on relationships with colleagues while younger employees consider income, advancement opportunities, and job security to be more important.[21]

Sometimes job satisfaction is called *morale*, a term usually used to describe the job satisfaction of a group or organization. A workplace that develops and emphasizes fair policies, organizational justice, ethical practices, teamwork, and a positive culture is in a good position to improve employee morale. Factors that can decrease morale include demanding and stressful work, poor management–employee interactions, undesirable rewards, work–life conflicts, and a lack of enrichment at work.

Poor morale and job satisfaction among employees often lead to attendance problems, low work performance, and retention issues. This is why HR professionals and operating managers must properly evaluate and manage employee work attitudes to ensure good retention. One way employers do this is by regularly surveying employees. One specific type of survey used by many organizations is an **attitude survey**, which focuses on employees' feelings and beliefs about their jobs and the organization. An annual employee survey of federal workers determined that over 80 percent like the work they do, understand how their work supports their agency's goals, and believe their work is important; critical job characteristics that can improve employee motivation (as discussed in Chapter 4). Further, the vast majority report that their supervisors treat them with respect and support their personal and professional needs. However, only 31 percent of them believe that the survey results will be used to improve the agency where they work. This is discouraging since failing to take action on these results may lead to reduced participation in the future and creates an environment where employees may lose enthusiasm and hope for changes.[22]

Attitude survey
A survey that focuses on employees' feelings and beliefs about their jobs and the organization

Management can respond to survey results after they are compiled. If the employer takes appropriate corrective actions, employees may view the company more positively. However, if management ignores the survey results, employees may become dissatisfied. This is why HR professionals should partner with managers to address the opportunities and challenges identified in employee surveys. Since employees may be less enthused about completing a lengthy annual survey, some companies have begun to use quick *pulse surveys* that are brief and more targeted to gather feedback on a limited number of topics. They can be used to follow up with employees after an organizational change or to regularly track employee sentiment. Pulse surveys are typically conducted more often than once a year, which allows the organization to more easily track small changes in employees' attitudes about the company.[23] Artificial intelligence programs called sentiment-analysis software is even used at companies like Intel, Twitter, and IBM to gauge employee's underlying emotions.[24] As with any survey, feeding back information to employees and taking steps to address issues are important to demonstrate leaders' commitment to the workforce.

The degree to which workers believe in and accept organizational objectives and want to remain employed at a company is called **organizational commitment**. Job satisfaction influences organizational commitment, and both of these factors can affect employee retention and turnover. Levels of job satisfaction and organizational commitment are, in part, determined by the interaction of the individual and the work environment. Managers and HR professionals must therefore create employment situations that prompt positive work attitudes and foster employee commitment. Note that all types of commitment are not equally positive. Some employees remain with their employer because they are emotionally invested in its mission and fully support the goals of the organization. This type of commitment is desirable as it directly connects the employee to the workplace.[25] Conversely, there are individuals who remain with their employers, known as "workforce prisoners," who are firmly entrenched in the organization with no intention to leave but who lack the

Organizational commitment
The degree to which workers believe in and accept organizational objectives and want to remain employed at a company

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motivation to do their best work and may perhaps affect the motivation of their coworkers. This type of commitment is undesirable and can lead to decreased morale and performance, so assessment of employee commitment should also seek to determine *why* employees are staying.[26]

HR PERSPECTIVE

Getting Engaged at PwC

Connecting with employees in a way that captures not only their minds but also their hearts is not a simple task. Employees are diverse, and their motivations and needs differ from person to person. At the auditing and consulting firm of PwC, Millennials make up a growing percentage of the workforce. Many employees of this generation value different aspects of the workplace and organizational environment. PwC worked with researchers from USC and London Business School to study the engagement level of Millennial workers. While this generation of workers shared some similarities with older workers, they found distinct differences that led to updating their people strategies.

Since a large percentage of new hires are recent college graduates, the PwC workforce is quite young, with two-thirds of its employees in their 20s to early 30s. An underlying assumption of traditional HR practices in the industry is that reaching the coveted role of partner is the driving force for all employees. PwC learned that for younger workers that is no longer the case. Liking what you do and working for an organization with values similar to your own are far more important than investing long hours hoping for the rare promotion to partner.

Flexibility, training, and mobility are highly prized by many employees in the Millennial cohort. The importance of work–life balance had a strong impact on employee commitment, job satisfaction, and turnover. In response, PwC shifted its HR practices to better match what employees need and want. The Full Circle program allows employees to stop working for a while if personal needs demand their time. They can return when they are able. The Flexibility2 Talent Network allows people to work only during the busy season in the first quarter of the year and then take a break. Introducing these nontraditional career paths reduced turnover by three percentage points.

Employee input into important issues at the company is now welcomed and encouraged. Communication is frequent so that employees always know what the firm is doing and planning. Over 70 percent of employees contributed ideas to a request for innovative ways the firm can operate in the future. Transparency in compensation programs shows employees explicitly how pay is determined and what future career progression might offer in terms of rewards.

Since financial rewards are not necessarily the strongest motivator, support and appreciation are emphasized. Nonfinancial rewards such as training and sabbaticals are offered to demonstrate appreciation and commitment to enhance employees' lives and careers. Involving employees in corporate responsibility programs drives greater retention as employees can see that there is a link between their personal values and those of the company. Showing consistency between words and actions is crucial for Millennials to remain engaged.

PwC is working to create an environment that offers employees a way to merge their personal values, skills, and desires into the organizational setting. Flexible career options, continuous communication and input, and nonfinancial rewards have helped the firm to reduce turnover and improve employee engagement.[27]

Respond to the following questions considering what PwC is doing to improve engagement:

1. As an HR professional, how would you prepare managers for the flexible work options and adjustments in career planning for new employees? How would you help longer-service employees to work effectively with workers in these flexible roles?
2. What can organizations do to ensure that their strategies and decisions align with their values? How would you demonstrate this to employees?

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5-2c Employee Engagement, Loyalty, and Organizational Citizenship

Employee engagement
The extent to which an employee's thoughts and behaviors are focused on his or her work and their employer's success

Employee engagement is the extent to which an employee's thoughts and behaviors are focused on his or her work and their employer's success. Interest in employee engagement has been growing in the field of HR management because it can affect many important performance outcomes. For instance, engaged workers are more productive, exhibit greater dedication, perform at higher levels, and have higher retention than do unengaged workers.[28] Descriptions of engaged employees and disengaged employees are shown in Figure 5-7.

The concept of engagement suggests that workers can contribute much more effectively to organizational results if they feel more connected to the workplace. Unfortunately, recent Gallup research suggests that employee engagement continues to be a challenge in many firms, with only 32.5 percent of employees being engaged with their work, 51 percent not being engaged, and 16 percent being activity disengaged.[29] An HR department should therefore work with managers and employees to find better ways to improve engagement levels throughout an organization.[30]

Engagement can be enhanced by emphasizing the company's culture and practices during interviews, having managers support this culture in a consistent manner (such as during orientation), and providing employees with a supportive group of coworkers who make them feel part of the team. Ensuring that workers have the proper tools and equipment, showing appreciation for their work, listening to their concerns and suggestions, and recognizing their contributions are all inexpensive, yet effective, ways to boost employee engagement. Surprisingly, higher pay and benefits are rarely the solution to engagement, despite their possible impact on improving satisfaction. Engagement is more about building an emotional connection between workers and their employers that increases their enthusiasm and involvement in their jobs.[31] The preceding "HR Perspective: Getting Engaged at PwC" feature explains how a consulting firm addressed engagement of its Millennial workers.

Loyalty Many employees still want security, stability, a supervisor they respect, competitive pay and benefits, and the opportunity to advance. But competition and increasing costs of doing business have led companies to trim payrolls and to no longer offer some employment opportunities. As a result, the era of company loyalty might have passed, as more people become part of the gig economy and the contingent workforce.

Loyalty
Being faithful to an institution or employer

Loyalty can be defined as being faithful to an organization or employer. Loyalty is a reciprocal exchange between organizations and their workers. Employees' loyalty to a company depends on their perceptions of the company's loyalty to them. The trend toward employees bearing more of the financial risk for retirement savings, health insurance, and career development has sent a clear message that the employee must control his or her own future because the employer is not loyal.[32] Evidence suggests that some employees unfortunately don't believe that their companies reciprocate the loyalty that they show.[33]

FIGURE 5-7 Engaged and Disengaged Employees

Engaged Employees	Disengaged Employees
◆ Put in extra effort	◆ Simply put in time
◆ Are highly involved in their jobs	◆ Do not do best work
◆ Employ both effort and thought	◆ Are "checked out"/apathetic
◆ Are active/busy	◆ Do only their basic jobs
◆ Are fully invested in their jobs	◆ React only to pay

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ETHICS

But there may be unique ways for managers to improve loyalty in organizations, as well as engagement. Loyal employees who are confronted with dysfunction in the workplace experience high levels of job stress and lower well-being. They report more job tension than employees whose loyalty is low. Therefore, keeping dysfunction such as bullying and mistreatment to a minimum may alleviate this stress and enhance loyalty.[34] Additional research shows that when organizations support workforce health and safety, workers show greater loyalty and in turn work more safely.[35] Therefore, creating an ethical workplace where workers are treated with dignity and respect demonstrates the organization's loyalty to workers and can lead workers to respond in a similar fashion.

Organizational Citizenship Related to both engagement and loyalty is the concept of organizational citizenship. **Organizational citizenship behavior** (OCB) occurs when an employee voluntarily acts in a way that goes above and beyond the written job description to contribute to the organization's success. Research suggests that individuals have many different motives that may encourage them to perform OCBs at work, some of which focus on the company while others focus on coworkers.[36] Examples of company-directed OCBs are getting involved and engaged in a project that helps the company's bottom line and volunteering to be on a committee that creates positive organizational policies. Examples of coworker-directed OCBs include helping a coworker complete a work activity so that a deadline is reached and cheering on a colleague for receiving a reward. Organizational citizenship behavior generally leads to a more desirable workplace, more positive social interactions, and higher job performance.[37] Employers might be able to encourage OCBs with the proper work characteristics and approaches. Since research has shown that gratitude is positively related to OCB, companies can reward employees in a manner that builds greater appreciation and recognition, which may promote citizenship as well as engagement.

Organizational citizenship behavior
Occurs when an employee acts in a way that improves the psychological well-being and social environment of an organization

5-2d Organizational Trust

An important aspect of workplace attitudes is the level of trust that employees have in their direct supervisors as well as top leaders. **Organizational trust** is an employee's feeling of confidence that the organization will act in a way that benefits rather than harms him or her. Recent research showed that while a majority of employees believed that trust in management was very important, managers were less likely to agree. Lying, stealing the ideas of others, gossiping, and other communication problems were considered to be significant concerns about management, and such misbehavior is arguably caused by a low regard for trust. Further, employees who feel little trust in leadership are themselves more likely to commit counterproductive work behaviors such as theft, sabotage, bullying, or slacking on the job.[38]

Organizational trust
An employee's feeling of confidence that the organization will act in a way that benefits rather than harms him or her

ETHICS

Trust is a visible reflection of the ethical culture of an organization. When employees feel that organization practices or management conduct is unethical, they are unlikely to place trust in leaders.[39] Organization leaders who build trust can improve employee commitment, loyalty, and engagement.[40] Organizational success is related to the level of trust employees have in leadership. Financial performance, productivity, and quality are better in organizations where trust is high than those in which employees have little trust in their leaders.[41] The following "HR Ethics: The Formula for Building Trust" feature provides key ways in which organization leaders can earn the trust of their employees.

Work attitudes, engagement, loyalty, and trust are all factors that can influence decisions to remain with or leave an organization, and, ultimately, they are reflected in employee retention and turnover statistics. Individuals who are dissatisfied with their jobs or not committed to a company are more likely to withdraw from an organization. Disengaged and disloyal employees are also unlikely to perform well or be recognized in their jobs, also leading to withdrawal. One kind of withdrawal is turnover, which means an individual leaves an organization. Another kind of withdrawal is absenteeism, which involves failing to report to work when scheduled. Absenteeism is covered in the next section.

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HR ETHICS

The Formula for Building Trust

Organizational culture is often seen as a major determinant of organizational outcomes—be they positive or negative. On the one hand, positive outcomes can be innovation, customer loyalty, profitability, and employee engagement. On the other hand, negative outcomes might be deception, fraud, unethical decisions, employee misbehavior, and turnover. One particularly powerful element of organization culture is trust. Regardless of whether an organization is a private sector firm or a public sector agency, trust is tied to organization performance. But what is behind a culture where trust thrives? Recent research in neuroscience shows that there are a number of management policies that may increase organizational trust, some of which include the following:

- Recognize individuals who meet or exceed their goals.
- Design difficult but achievable challenges.
- Hold everyone accountable to fulfilling their responsibilities and achieving their goals.
- Give employees latitude to do their work as they see fit.
- Allow workers to choose the work they want to do.
- Share information frequently and broadly.
- Intentionally build relationships with coworkers.
- Enable and support personal and professional growth.
- Allow employees to be vulnerable and don't punish for making mistakes.

Taking the above actions actually capitalizes on how the human brain already operates. People under stress are likely to produce neurochemicals that interfere with their performance. The practices identified here help employees to produce positive neurochemicals (like oxytocin and dopamine) and enhance their performance by creating a safe, nurturing, and trusting environment. Employees working in this type of environment are challenged and recognized but also have strong, healthy relationships with coworkers and managers.

This solidifies organizational trust, leading to positive results for the individual and the company. Employees in high-trust organizations have 70 percent less stress than those in low-trust organizations, 69 percent have greater intentions to stay with the company, and 70 percent report higher job satisfaction. They are also more productive and creative than those in low-trust organizations. Organizations that foster a trusting culture can see great results because their employees find leaders trustworthy, and they themselves feel empowered and challenged. This leads to a win-win situation where positive outcomes are more likely.[42]

Thinking about how to establish trust in organizations, answer these questions:

1. What steps can you take as an individual contributor to enable your supervisor to trust you? How can managers begin to establish trust with their employees?
2. What HR practices would be recommended to institute some of the recommendations here for building organizational trust?

LO4 Identify a system for controlling absenteeism.

Absenteeism
Any failure by an employee to report for work as scheduled or to stay at work when scheduled

5-3 Employee Absenteeism

Employees who are absent from their work and job responsibilities create major issues in the relationship between an employee and employer. **Absenteeism** is any failure by an employee to report for work as scheduled or to stay at work when scheduled. Being absent from work may seem like an insignificant matter to an employee. But if a manager needs 12 people in a unit to get the work done and 4 of the 12 are frequently absent, either the output of the unit will decrease or additional workers will be needed to meet demand. Some people are also not concerned about

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arriving at work on time. Tardiness can be closely related to absenteeism. For some employers, productivity losses due to absenteeism can be very expensive. The average daily cost is 1.3 times the wages of the absent worker.[43] Employees observe the absenteeism of their coworkers and may adjust their own attendance behavior if they feel that they are carrying the load when others fail to report to work.[44]

5-3a Types of Absenteeism

Employees can be tardy or absent from work for several reasons. Clearly, some absenteeism is inevitable because of illness and other personal reasons. Though absences such as those that are health related are unavoidable and understandable, they are still very costly. Many employers have sick leave policies that allow employees a certain number of paid days each year for *involuntary* absences. However, much absenteeism is avoidable, or *voluntary.* Absence can also be planned (the least disruptive), unplanned, incidental (less than a week), or extended (lasting beyond a week).

Many employees see no real concern about being absent or late to work because they feel that they are "entitled" to some time off. In many firms, a relatively small number of individuals are responsible for a large share of the organization's total absenteeism. Regardless of the reason, employers need to know if someone is going to be absent so that they can make adjustments. Organizations have various ways for employees to report their absences. Some have automated phone systems that employees can call while others may use e-mail or intranet reporting systems. Since some absences may be excused under leave policies or laws like the Family and Medical Leave Act, it is important to document all employee absences and the reasons for time away from work.[45]

5-3b Controlling Absenteeism

Effective absence management involves striking a balance between supporting employees who are legitimately unable to work and meeting operational needs. Voluntary absenteeism can be more effectively controlled if managers understand its causes and the associated costs. Figure 5-8 shows some of the direct and indirect costs associated with absenteeism. Once the causes and costs are understood, managers can use a variety of approaches to reduce it including attendance rewards, paid time-off programs, unused leave buyback policies, illness verification, and disciplinary actions. Attendance and scheduling software solutions are helping companies to better plan their staffing needs and providing employees with more reliable schedules. For example, Walmart, unlike many retailers, does not rely on on-call scheduling to staff its stores. Rather, the company now uses software that gives full- and part-time employees a fixed schedule for up to six months. This simplifies things for employees as they can better plan personal needs around their work schedule, which should reduce unplanned absences.[46] Regardless of the strategies utilized, organizational policies on absenteeism should be stated clearly in an employee handbook and consistently enforced by supervisors and managers.

Companies use methods such as the following to address absenteeism:

- *Disciplinary approach:* People who are absent in excess of policy limits receive warnings and more severe discipline if their attendance does not improve.
- *Positive reinforcement:* Positive reinforcement includes actions such as giving bonuses, recognition, time off, and other rewards for meeting attendance standards.
- *Combination approach:* A combination approach ideally rewards desired behaviors and punishes undesired behaviors. This carrot-and-stick approach uses discipline to punish offenders and various rewards to recognize employees with outstanding attendance. For instance, employees with perfect attendance may receive incentives of travel and other rewards. Those with excessive absenteeism would be disciplined.
- *No-fault policy:* With a no-fault policy, the reasons for absences do not matter, and the employees must manage their own attendance unless they abuse that freedom. Once absenteeism exceeds normal limits, then disciplinary action up to and including termination of employment can occur.

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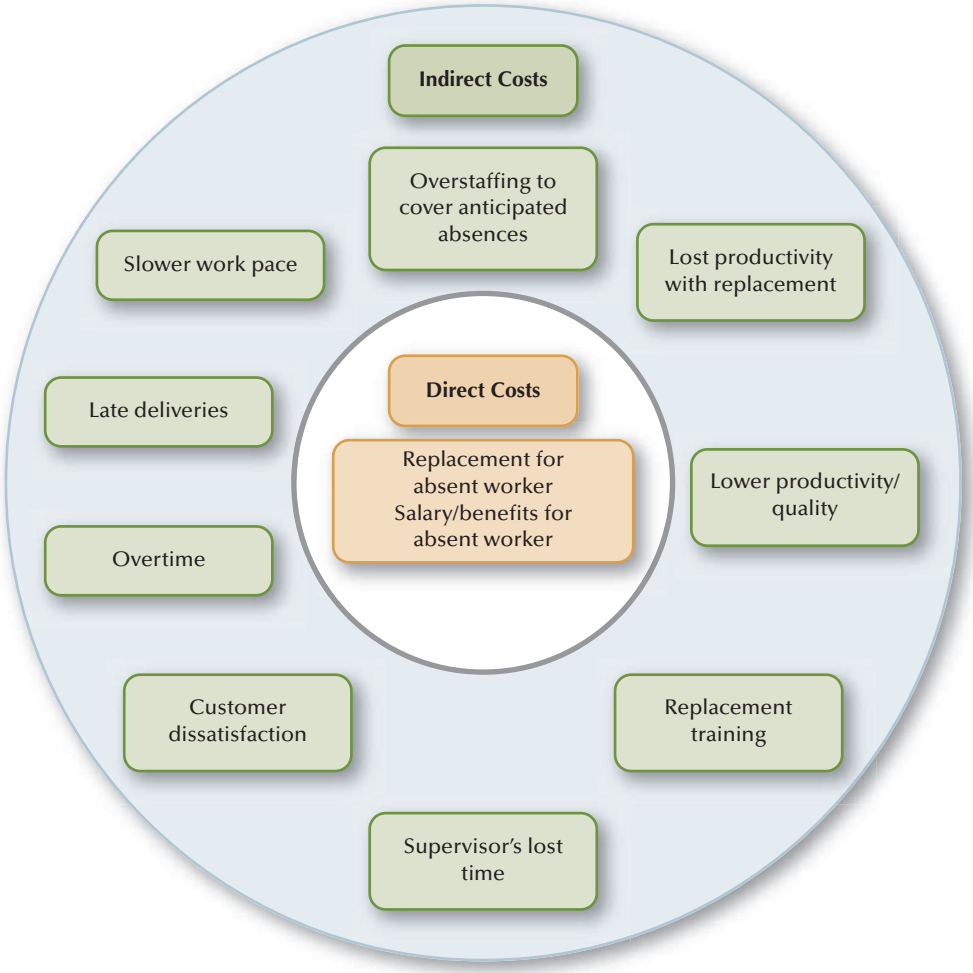
FIGURE 5-8 Sources of Direct and Indirect Costs of Absenteeism



- *Paid-time-off (PTO) programs:* Some employers have paid-time-off (PTO) programs, in which vacation time, holidays, and sick leave for each employee are combined into a PTO account. Employees use days from their accounts at their discretion for illness, personal time, or vacation. PTO programs generally reduce absenteeism, particularly one-day absences, but they often increase overall time away from work because employees use all of "their" time off by taking unused days as vacation days.

While encouraging employees to come to work on time every day ensures that the organization can meet work demands, there can be an overemphasis on attendance. It is important to recognize that workers should not report to work under some circumstances. **Presenteeism** is when employees come to work even when they're not well enough to. Employers need to balance the need for full staff availability with the negative consequences of scaring workers who are ill to come to work, which can lead to spreading illness and reducing productivity.[47]

Presenteeism
When employees come to work even when they're not well enough to

MEASURE

5-3c Measuring Absenteeism

A major step in reducing absenteeism is deciding how the organization will record and calculate absences and then how to benchmark those rates. Controlling or reducing absenteeism must begin with continuous monitoring of the absenteeism statistics in work units. Monitoring helps managers

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pinpoint employees who are frequently absent and departments that have excessive absenteeism. Various methods of measuring or computing absenteeism exist. One formula suggested by the U.S. Department of Labor follows:

$$\frac{\textit{number of persons} - \textit{days lost through job absence during period}}{\textit{(average number of employees)} \times \textit{(number of workdays)}} \times 100$$

The absenteeism rate can also be based on number of hours instead of number of days.

One set of metrics that can be calculated is the rate of absenteeism, which can be based on annual, monthly, quarterly, or other periods of time. Other useful measures of absenteeism might include the following:

- *Incidence rate.* The number of absences per 100 employees each day
- *Inactivity rate.* The percentage of time lost to absenteeism
- *Severity rate.* The average time lost per absent employee during a specified period of time (a month or a year)

Additional insights can be gained by separating absenteeism data into short-term and long-term categories. Different problems are caused by employees who are absent for one day 10 times during a year and employees who are absent one time for 10 days. Average rates of absenteeism according to the Bureau of Labor Statistics are approximately 2.8 percent. The highest rates of absenteeism are found in health care support jobs and personal care and service occupations.[48]

5-4 Employee Turnover

LO5 Classify different kinds of turnover and explain how turnover can be measured.

Turnover
The process in which employees leave an organization and have to be replaced

While absenteeism is a low-level employee withdrawal issue, a higher-level problem is when employees withdraw by leaving the organization. **Turnover** is the process in which employees leave an organization and have to be replaced. Many organizations have found that turnover is a very costly problem. For instance, it can cost as much as 33 percent of a worker's annual salary to replace that individual.[49] The substantial costs of turnover make this an issue that organizations work to address in various ways.

Turnover rates and costs often vary by organization and industry. For example, the overall turnover rate for all industries is 15 percent. But companies in service industries such as fast food restaurants have an average annual rate of 100 percent, retail has 59 percent, and supermarkets have 100 percent turnover. On the other hand, federal and state governments have 1.3 percent turnover.[50] The Bureau of Labor Statistics reports that the average American worker stays in a job for 4.4 years and that Millennial employees switch jobs every two years.[51]

Research shows that many factors can lead to turnover. For instance, job dissatisfaction, low levels of various kinds of work commitment, work–life conflict, and decreased justice may cause people to quit their jobs. Forces such as the availability of other employment opportunities and unemployment rates are also tied to employee turnover. Turnover typically goes up as unemployment rates drop and dissatisfied employees can find other jobs.[52] Research on turnover shows that many factors in the work context and environment play a major role in whether employees remain with a firm or leave.[53] Another study determined that employees may be more likely to leave their current job if they feel that they are not "where they expected to be" at a certain point in their lives. Therefore, predicting turnover involves not only determining *why* employees may leave but *when* they may decide to do so.[54]

Organizations must be proactive about managing turnover so that the work outcomes are not adversely impacted. In particular, HR professionals and line managers must look for signs that point to possible turnover among employees. Some of these signs include the following:

- Low interest in getting promoted within the firm
- Low motivation to keep managers happy

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- A reluctance to be involved in long-term work opportunities
- Decreased motivation to be enrolled in training and development opportunities
- Fewer contributions in meetings
- Just getting by or working only enough to get work done[55]

5-4a Types of Employee Turnover

Turnover can be classified in several ways. One classification uses the following categories, although the two types are not mutually exclusive:

- **Involuntary Turnover**
  Employees are terminated for poor performance or work rule violations, or through layoffs
- **Voluntary Turnover**
  Employees leave by choice

Involuntary turnover is triggered at all levels by employers terminating workers because of organizational policies and work rule violations, excessive absenteeism, performance standards that are not met by employees, and other issues. Voluntary turnover can be caused by many factors, some of which are not employer controlled. Common voluntary turnover causes include job dissatisfaction, pay and benefits levels, supervision, geography, and personal/family reasons. Alternative employment opportunities may lead to turnover for individuals, especially those in highly specialized jobs such as IT.

Another view of turnover classifies it on the basis of whether it is good or bad for the organization:

- **Functional Turnover**
  Lower-performing or disruptive employees leave
- **Dysfunctional Turnover**
  Key individuals and high performers leave

Not all turnover in organizations is negative. On the contrary, functional turnover represents a positive change. Some employee departures are desirable—when those who leave are lower-performing, less reliable, and/or disruptive individuals. Of course, dysfunctional turnover also occurs. That happens when key individuals leave, often at crucial times. For example, a construction manager leaves in the middle of building an office complex to take a promotion at another firm. This departure causes the time line to slip because it takes time to fill the job vacancy. Further, other members of the project team may begin to seek out and accept jobs at competitive firms or join the manager at his new firm. This is truly dysfunctional turnover.

Employees quit for many reasons, only some of which can be controlled by the organization. Another classification uses the following terms to differentiate types of turnover:

- **Uncontrollable Turnover**
  Employees leave for reasons outside the control of the employer
- **Controllable Turnover**
  Employees leave for reasons that could be influenced by the employer

Some examples of reasons for turnover the employer cannot control include the following: (1) the employee moves out of the geographic area, (2) the employee decides to stay home to care for other family members, (3) the employee's spouse is transferred, or (4) the employee is a student worker who graduates from college. Even though some turnover is inevitable, employers recognize that reducing turnover saves money, and they must address turnover that is controllable. Organizations are better able to keep employees if they address the concerns of those individuals that might lead to controllable turnover.

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Churn
Hiring new workers while laying off others

Turnover and "Churn" Hiring new workers while laying off others is called **churn**. This practice raises a paradox in which employers sometimes complain about not being able to find workers with the right skills while they are laying off other employees.

As organizations face economic and financial problems that result in layoffs, the remaining employees are more likely to consider jobs at other firms. In this situation, turnover is more likely to occur, and efforts are needed to retain existing employees. HR actions such as information sharing, opportunities for more training/learning, and emphasis on job significance can help to lower individuals' turnover intentions.

MEASURE

5-4b Measuring Employee Turnover

Turnover is a considerable challenge for organizations, and to make matters worse, many companies do not formally measure employee separations. A survey of 977 business professionals conducted by the American Management Association determined that 42 percent stated that their companies had a formal approach for assessing employee turnover. Almost 30 percent claimed to have an informal approach, 12 percent indicated that their employers do not monitor quitting, and 17 percent didn't know if turnover was monitored at all.[56] This is a serious concern given that replacement costs are significant.

The turnover rate for an organization can be computed on a monthly, quarterly, or yearly basis. The following formula, in which *separations* means departures from the organization, is widely used:

$$\frac{\textit{number of employee separations during the year}}{\textit{total number of employees at midyear}} \times 100$$

Turnover rates vary widely among industries and organizations, ranging from almost 0 percent to more than 100 percent a year. The Bureau of Labor Statistics maintains extensive data on job openings and labor turnover, which it provides on its website as the JOLTS program. This information can be useful for organizations looking for industry trends and comparisons. As a part of HR management metrics, turnover data can be gathered and analyzed in many ways, including the following categories:

- Job and job level
- Reason for leaving
- Demographic characteristics
- Knowledge, skills, and abilities
- Department, unit, work shift, and location
- Length of service
- Education and training
- Performance ratings/levels

Two examples illustrate why detailed analyses of turnover are important. A manufacturing organization had a company-wide turnover rate that was not severe, but 80 percent of the turnover occurred within one department. Specific actions such as training supervisors and revising pay levels were needed to resolve problems in that unit. In a different organization, a global shipping/delivery firm identified reasons for turnover of sales and service employees and was able to focus on those reasons and reduce turnover in that group. The actions taken reduced turnover significantly, which contributed to an annual savings of several million dollars in direct and indirect costs. In both of these examples, the targeted turnover rates declined as a result of employer actions taken in response to turnover analyses.

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HR PERSPECTIVE

All Aboard the Retention Bus

LinkedIn competes for technical talent with countless firms in Silicon Valley and around the world. Finding and retaining high-quality engineers is an ongoing priority for this social networking company. Competitors were raiding LinkedIn's talent pool a few years ago, so the company needed to find a way to stop the flow of engineers out of the company.

Enter the Love Bus Tour. The company's Vice President of HR partnered with the Head of Engineering to spread the love to LinkedIn's engineers. The goal was to reach out to engineers, providing them recognition and appreciation for their contributions and addressing any "flight risk" potential. Top leaders showed a real commitment to the effort by taking the road tour to visit and talk with the engineers, rather than delegating this responsibility to HR or front-line managers. The whole idea was to emphasize how important these technical employees were to the company's operations and future. Here's what the company did:

- Identified top performers since they were highly valuable.
- Involved line managers in career conversations with technical talent by giving a workshop in retention and career planning.
- Personally connected with top performers. Each top performer received a personalized thank-you note from the Head of Engineering.
- Engaged senior leaders with top performers. One-on-one meetings were held between each top performer and top executives.
- Collected data and developed personalized action plans. Feedback from the career conversations led to talent plans for the engineers.

After the first "tour" of the Love Bus, engineers who participated in the program had an attrition rate of 8 percent compared to 13 percent for those not involved in the program. The program was expanded in the second year and involved even more engineers and managers. The results were again lower attrition (5.5 percent compared to 9.2 percent) and higher job satisfaction and manager effectiveness.

Identifying key members of the organization and reaching out to them proactively may reduce turnover because these workers would know that they are appreciated, valued, and have a bright future at the company.[57]

Based on LinkedIn's program, answer the following questions:

1. How would you evaluate the effectiveness of LinkedIn's outreach efforts to improve retention? Is there anything you would do differently?
2. What might you do to retain employees who might not be in the top performer category but are still valuable? How could some of the elements of the Love Bus program be applied beyond those high performers?

5-5 HR Metrics: Determining Turnover Costs

A major step in reducing the expense of turnover is to decide how the organization will calculate and record employee departures, as well as how to benchmark the turnover rates. Determining turnover costs can be relatively simple or very complex, depending on the nature of the efforts made and the data used. Data stored in an organization's human resource information systems or payroll

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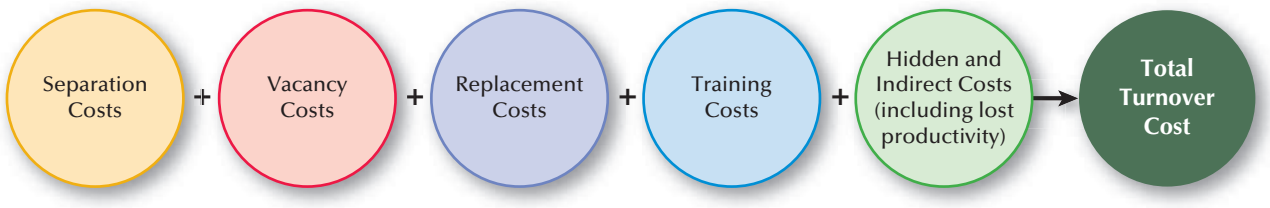
FIGURE 5-9 Components of Turnover Cost



records is frequently used to track the flow of talent into and out of the organization. Additional data may be required to determine productivity, customer service, quality, and other indirect costs of turnover. Turnover metrics illustrate that turnover is an expensive HR and managerial issue that must be constantly evaluated and addressed. Figure 5-9 summarizes the costs of turnover.

MEASURE

5-5a Detailing Turnover Cost

Factors to be included in calculating turnover costs include the following:

- *Separation costs*. HR staff and supervisory time, pay rates to prevent separations, exit interview time, unemployment expenses, legal fees for challenged separations, accrued vacation expenditures, continued health benefits, and others
- *Vacancy costs*. Temporary help, contract and consulting firm usage, existing employee overtime, and other costs until the person is replaced
- *Replacement costs*. Recruiting and advertising expenses, search fees, HR interviewer and staff time and salaries, employee referral fees, relocation and moving costs, supervisor and managerial time and salaries, employment testing costs, reference checking fees, preemployment medical expenses, relocation costs, and others
- *Training costs for the new worker*. Paid orientation time, training staff time and pay, costs of training materials, supervisor and manager time and salaries, coworker "coaching" time and pay, and others
- *Hidden/indirect costs*. Costs that are less obvious, such as reduced productivity, decreased customer service, lower quality, additional unexpected employee turnover, missed project deadlines, and others

As noted, not all turnover is negative. Losing low performers should be considered positive. There may be an "optimal" amount of useful turnover necessary to replace low performers and add part-time or contract workers with special capabilities to improve workforce performance.

5-5b Optimal Turnover

Even though turnover is a key concern for companies, some managers don't know how much turnover is optimal for their particular workgroups. A survey showed that nearly one-third of managers didn't have an idea about optimal turnover. Almost half believed that optimal turnover should be 10 percent or less.[58] This means that HR departments should partner with managers to help them determine what their optimal turnover rates really are.

Turnover costs and benefits can be calculated separately for various organizational segments. HR departments frequently strive to minimize all types of turnover, but, in some cases, more turnover activity can be better. For example, reducing turnover makes sense when it is very expensive, when those leaving are more valuable than their replacements, when workers are highly skilled, or when there may not be suitable replacements. However, more turnover activity in certain segments of the organization may be acceptable if it costs very little, those leaving are less valuable than their replacements, minimal training is needed, or there are many good replacements available.[59] Clearly,

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every organization should determine the costs of its current turnover levels and identify areas where costs are excessive and corrective action is needed. LinkedIn's creative solution to turnover issues is explained in the preceding "HR Perspective: All Aboard the Retention Bus" feature.

5-6 Retaining Talent

In one sense, retention is the opposite of turnover. However, the reasons key people choose to stay with an employer may not be the opposite of those that compel others to quit. Retaining top talent is a concern for many employers, and understanding retention is the key to keeping more of those top performers.

5-6a Myths and Realities about Retention

Keeping valuable employees is a challenge for all organizations and becomes even more difficult as labor markets change. Unfortunately, some myths have arisen about what it takes to retain employees. Some of the most prevalent myths and realities that exist are as follows:

1. *Money is the main reason people leave.* Money is certainly an important consideration, and if people feel they are being paid inadequately, they may be more likely to leave. But if they are paid competitively, other aspects of the job become more important than the pay they receive.
2. *Hiring has little to do with retention.* This is not true. Recruiting and selecting people who fit well with the job and organizational culture can greatly increase retention. It is important to select for retention. Achieving a good match between people and work environments can do a great deal to improve employee retention.
3. *If you train people, you are only training them for another employer.* Developing skills in employees may indeed make them more marketable, but it also tends to improve retention. When an employer provides employees with training and development assistance, job satisfaction may increase, and employees may be more likely to stay, particularly if they see more future opportunities internally.
4. *Do not be concerned about retention during organizational change.* Periods of organizational change cause employees great anxiety and concern about their future. Although some jobs may be cut because of organizational factors, the remaining employees that the company *would like to keep* may have the most opportunity and reason to leave voluntarily. For example, during a merger or acquisition, most workers are concerned about job security and the company's future. If they are not made to feel a part of the new organization early on, many may leave or evaluate other alternatives.
5. *If high performers want to leave, the company cannot hold them.* Employees are "free agents," who can indeed leave when they choose. The key to keeping high-performing employees is to create an environment in which they want to stay, grow, and contribute.

5-6b Drivers of Retention

Employee retention can be affected by a variety of job-related and personal factors. For instance, if employees choose to leave an organization for family reasons, there may be a limited number of actions the employer can take to keep them on the job. However, there are significant actions that an employer can take to retain employees in many other circumstances. If employees want work–life balance in their careers or opportunities for training and development, companies can take steps to address these preferences.

The actual reasons that people stay or leave may also vary by job, industry and organizational issues, geography, and other factors. Yet, many of these factors are within the employer's control. Figure 5-10 illustrates some of the drivers of retention, or areas in which employers can take action to increase the probability of keeping employees.

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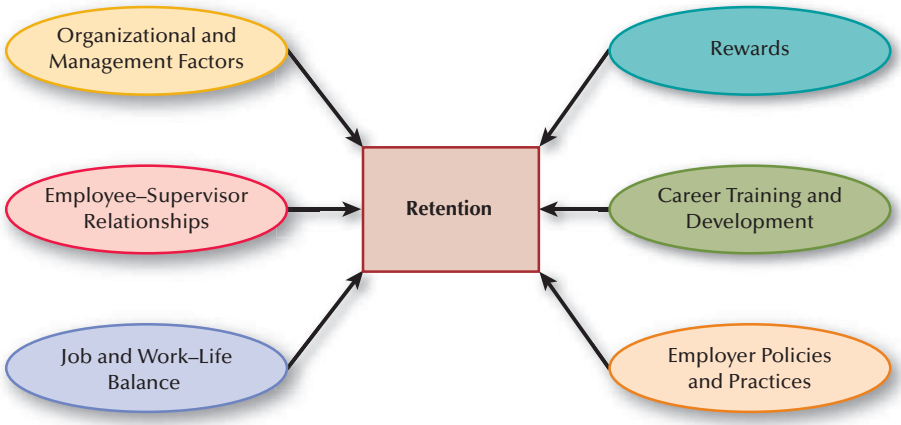
FIGURE 5-10 Drivers of Retention



Organizational and Management Factors Many organizational and management factors influence individuals' job satisfaction and their decisions to stay with or leave their employers. Organizations that have clearly established goals and hold managers and employees accountable for accomplishing results are viewed as better places to work, especially by individuals wishing to progress both financially and professionally. Further, effective management provides the resources necessary for employees to perform their jobs well.

Organizations that provide their employees with training they can use in their current jobs tend to improve retention. Therefore, companies might invest in skill-building that can be directly utilized within the organization to maximize their training investment. In addition, general career development can also help to retain employees.[60] Mergers and acquisitions present special retention challenges as the company is undergoing a change with an uncertain future. So, organizations involved in these business activities should pay special attention to cultural issues, communication, and employee concerns during these times.[61]

Additionally, when company recognition programs are linked to organizational values and employees are rewarded for acting consistently with those guiding principles, retention improves.[62] A final factor affecting how employees view their organizations is the quality of organizational leadership. Evidence suggests that the degree to which supervisors listen to their employees and give the employees a "voice" in work-related matters can have a significant impact on retention.[63]

Work Group Relationships Work relationships that affect employee retention include *supervisory/management support* and *coworker relations.* A supervisor or manager builds positive relationships and aids retention by being fair and nondiscriminatory, allowing work flexibility and work–family balancing, giving feedback that recognizes employee efforts and performance, and supporting career planning and development. One study found that when managers use pressure to get results rather than inspirational appeals, employees were more likely to leave their jobs.[64]

Additionally, many individuals build close relationships with coworkers. Such work-related friendships do not appear on employee records, but these relationships can be an important signal that a workplace is positive. Various survey results show that the development of friendships may be an important consideration when managing worker retention, particularly among Millennials.[65] Overall, what this means is that it is not just *where* people work but also with *whom* they work that affects employee retention.

Job Security and Work–Life Integration Many individuals have experienced a decline in job security during the past decades. Downsizings, layoffs, mergers and acquisitions, and organizational restructurings have affected employee commitment, loyalty, and retention. As coworkers encounter and cope with layoffs and job reductions, the anxiety levels of the remaining employees rise. Consequently, employees start thinking about leaving before they also get laid off. Companies that focus on job continuity and security tend to have higher retention rates.

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Some jobs are considered desirable and others are thought to be undesirable, but not all people agree on which jobs are which. As mentioned previously, the design of jobs and people's preferences can vary significantly. Job design factors that can impact retention include the following:

- A knowledge, skills, and abilities mismatch, either through overqualification or underqualification, can lead to turnover.
- Job accomplishments and workload demands that are dissatisfying or excessively stressful may impact performance and lead to turnover.
- Both timing of work schedules and geographic locations may contribute to burnout in some individuals but not others.
- The ability of employees to integrate work and life requirements affects their job performance and retention.

Rewards The tangible rewards that people receive for working come in the form of pay, incentives, and benefits. Employees often cite better pay or benefits as the reason for leaving one employer for another. Employers can retain workers if they offer *competitive pay and benefits*, meaning that rewards are similar to what other employers provide. If compensation levels are substantially below market rates, turnover is often higher. Further, offering rewards that are valued by employees may mean a more individualized approach is needed as different employees may value different rewards.[66]

Career Training and Development Many employees indicate that organizational efforts to aid their career training and development can significantly affect employee retention. *Opportunities for personal growth* lead the list of reasons individuals took their current jobs and why they stay there. Training and development efforts can be designed to demonstrate an employer's commitment to keeping employees' knowledge, skills, and abilities current. Also, training and development can help underused employees attain new capabilities. Such programs have been used successfully in many different organizations such as Southwest Airlines, Hyatt Hotels and Resorts, and the U.S. armed forces. Through formal career planning efforts, employees and their managers discuss career opportunities in the organization and career development activities that will help them grow. Career development and planning efforts can include formal mentoring programs. The efforts should also focus on providing professionals with the right opportunities that help advance their careers, opportunities like working in other areas of the firm or getting promoted.[67] For instance, IT organizations are using career development programs so that technology-savvy employees can expand their skills outside of technical areas. Programs in some firms focus on developing the competencies that employees need in managerial jobs.

ETHICS

Employer Policies and Practices Other factors found to affect retention are employer policies. For instance, the reasonableness of HR policies, the fairness of disciplinary actions, and the means used to allocate work assignments and opportunities all affect employee retention. If individuals feel that policies are unreasonably restrictive, are unethical, or are applied inconsistently, they may be more likely to look at jobs offered by other employers.

The increasing demographic diversity of U.S. workplaces makes the *nondiscriminatory treatment* of employees important, regardless of gender, age, race, and other characteristics. The organizational commitment and job satisfaction of ethnically diverse individuals are affected by perceived discriminatory treatment. Many firms have recognized that proactive management of diversity issues affects individuals of all backgrounds. Companies should also consider the unique needs of diverse employees. For instance, employers can better retain Millennials by providing a more flexible workplace, as well as focusing on opportunities that allow the company to give back to various stakeholders.[68]

5-6c Retaining Top Performers

Organizations that cannot consistently retain their top performers have greater difficulties in creating a sustainable talent pipeline and achieving organizational objectives. Consequently, HR professionals must develop creative ways to retain high-performing employees. Just as Figure 5-11 indicates, HR professionals can focus on providing work opportunities that position high-performers to move up

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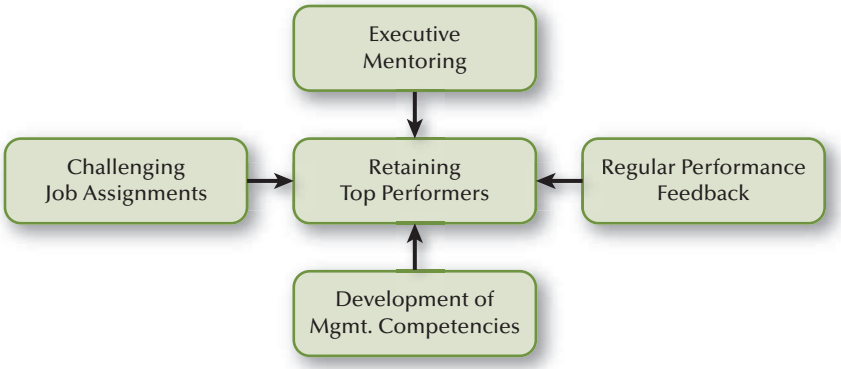
FIGURE 5-11 Retaining Top Performers



in the company. These opportunities can include mentoring with executives, challenging job assignments, development opportunities that build managerial competencies, and regular performance feedback.[69] Organizations should also consider using *rerecruiting* to enhance retention. Rerecruiting is a strategic HR approach that involves getting outstanding employees to further connect with employers by focusing on the opportunities that initially attracted them to the organization.[70] Such discussions can encourage high performers to commit to the organization in a long-term capacity.

LO6 Summarize various ways to manage retention.

MEASURE

5-7 Managing Retention

The previous sections have summarized the results of many studies and popular HR practices to identify factors that can affect retention. Retention is important because turnover can cause poor performance in otherwise productive units. The focus now turns toward the keys to managing retention as part of effective HR management.

5-7a Retention Assessment and Metrics

Calculating both turnover and retention statistics provides a better picture of the movements of employees. The turnover formula was discussed previously. Retention rates can be calculated as the percentage of workers who remain in the firm from one point in time to another point in time.[71]

To ensure that appropriate actions are taken to enhance retention, management decisions require data and analyses rather than subjective impressions, anecdotes of selected individual situations, or panic reactions to the loss of key people. Examples of a process for managing retention are highlighted in Figure 5-12.

Analysis of turnover data is an attempt to uncover the cause of retention problems. Managers should recognize that turnover is only a symptom of other factors that may be causing problems. When the causes are treated, the symptoms may be eliminated. Some of the first areas to consider when analyzing data about retention include the work, pay and benefits, supervision, occupations, departments, and demographics of those leaving and those who stay. Common methods of obtaining useful perspectives are employee surveys, exit interviews, and stay interviews.

Employee Surveys As mentioned earlier in this chapter, employee surveys can be used to diagnose specific problem areas, identify employee needs or preferences, and assess employee perceptions of HR activities. Not all HR professionals believe that annual surveys are the best way to gather input from employees as the once-a-year process may generate more information than leadership can address in a short time. Therefore, providing various avenues for employees to express their opinions and concerns may be a good approach.[72] Whether surveys or other methods cover

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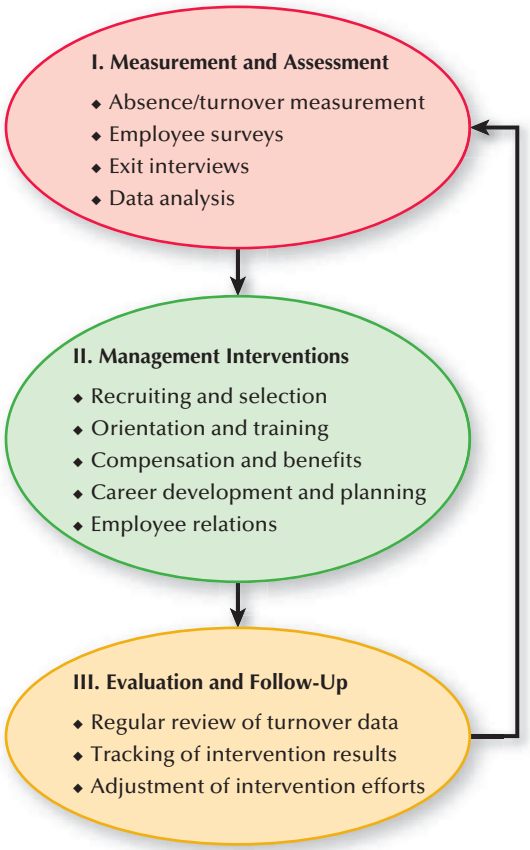
FIGURE 5-12 Process for Managing Retention



general employee attitudes, job satisfaction, or specific issues, the results must be examined as part of retention measurement efforts.

Regardless of the topics in a survey, employee input provides data on the "retention climate" in an organization. By obtaining data on how employees view their jobs, their coworkers, their supervisors, and organizational policies and practices, these surveys can be starting points for reducing turnover and increasing the length of time that employees are retained. Some employers conduct attitude surveys annually, while others do so intermittently.

Asking employees to respond candidly to an attitude survey builds employees' expectations that actions will be taken on the concerns identified. Therefore, a crucial part of conducting an attitude survey is providing feedback to those who participated in it. It is especially important that even negative survey results be communicated to avoid fostering the appearance of hiding the results or placing blame. Also, leaders should develop actions plans for how results can be used in a strategic manner to positively change how organizations function.[73]

Exit interview
An interview in which individuals who are leaving an organization are asked to explain their reasons

Exit Interviews One widely used means for assisting retention assessment efforts is the **exit interview**, in which individuals who are leaving the organization are asked to explain their reasons. HR must regularly summarize and analyze the data by category (e.g., reasons for leaving, department, length of service) to provide managers and supervisors with information for improving company efforts.[74] As described in the following "HR Competencies & Applications: Conducting Exit Interviews" feature, the exit interview process should include certain elements. Some HR departments contact former employees who were valuable contributors, as they may be willing to provide more information on e-mail questionnaires or in telephonic conversations conducted sometime after they have left the organization.

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HR

COMPETENCIES & APPLICATIONS

Conducting Exit Interviews

Departing employees may be reluctant to divulge their real reasons for leaving. A skilled HR interviewer may be able to gain useful information that departing employees do not wish to share with managers and supervisors. The following suggestions may be useful when conducting exit interviews:

- Decide who will conduct the exit interview and when the discussion will occur. These interviews can occur on the last day or so of a departing individual's employment, but it might be better to conduct them a few days before because an employee will be less distracted by the upcoming change.
- Emphasize that the information provided by the departing employee will be treated confidentially and used to make improvements.
- Utilize a checklist or a set of standard questions so that the information can be summarized. Typical areas covered include reasons for leaving, supervision, pay, training, liked and disliked aspects of the job, and details on the organization to which the employee is moving.

When doing the actual exit interview, numerous questions can be asked. Those typically asked include the following:

[Q]: Why are you leaving?
[Q]: What have you liked and disliked about your job and managers?
[Q]: What company actions have made you and other employees more or less positive?
[Q]: What would or would not lead you to recommend this employer to future possible hires?
[Q]: Did you receive adequate training and support? Please explain.
[Q]: Did the job match your expectations when you were hired? If not, what failed to meet your expectations?
[Q]: What was frustrating about working here?
[Q]: What suggestions do you have to improve working conditions?
[Q]: Do you believe that any decisions or actions regarding your employment were discriminatory or unfair? Please explain.

Based on these suggestions, consider the following questions:

1. How would you conduct useful exit interviews?
2. What of kinds of questions would you ask?

KEY COMPETENCIES: Communication (Behavioral Competency) and Organization (Technical Competency)

Stay interview
An interview that focuses on why employees want to continue working for the organization

Stay Interviews A special type of outreach to current employees is to conduct a stay interview. A **stay interview** is an interview that focuses on why employees want to continue working for the organization. Consider that an exit interview, while valuable, is too late to address specific issues when an employee is leaving. A stay interview can build trust between workers and their supervisors and gives the organization information about the level of current employee satisfaction and engagement. Using stay interviews is most appropriate when the organization has a culture of open communication and trust. Just as with employee survey results, it is important to address issues that employees identify during stay interviews.[75]

5-7b Retention Evaluation and Follow-Up

Management can take numerous actions to deal with retention issues. The choice of a particular action depends on the specific turnover and retention problems in a particular organization and should be custom-tailored for that organization.

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Tracking intervention results and adjusting intervention efforts should be part of retention evaluation and follow-up. Some firms use pilot programs to see how changes affect retention before extending them to the entire organization. For instance, to test the effect of flextime scheduling on employee turnover, a firm might try flexible scheduling in one department. If the turnover rate in that department drops in comparison to the turnover rates in other departments still working with set schedules, the firm might extend the use of flexible scheduling to other departments.

SUMMARY

- Individual performance is captured by the following formula:
  Performance *(P)* = Ability *(A)* × Effort *(E)* × Support *(S)*
- Motivation is explained by many theories—some of the most commonly used are needs theories, two-factor theory, expectancy theory, and equity theory.
- Psychological contracts are unwritten expectations that employees and employers have about the nature of their work relationships.
- The interaction between individuals and their jobs affects both job satisfaction and organizational commitment. The extent to which employees feel linked to organizational success can affect employee engagement and loyalty.
- Employee engagement is the extent to which an employee's thoughts and behaviors are focused on the employer's success.
- Loyalty to an employer depends on the employee's perception that the employer is loyal in return.
- Organizational trust is a critical aspect of ethical workplaces.
- Absenteeism and tardiness are related, and both require analysis and management.
- Absenteeism has both direct and indirect costs that add up to an expensive problem.
- Turnover occurs when employees leave an organization and must be replaced. It can be classified in many ways, but it should be measured and its costs determined.
- There is an optimum level of turnover that is likely *not* zero.
- Drivers of retention include organizational, managerial, and job factors that may affect employees' work–life balance, compensation and other rewards, career training and development, and employer policies and practices.
- Retention of employees is a major focus of HR management efforts in organizations.
- Retention is assisted by the use of retention measures, including employee surveys, exit interviews, and stay interviews.
- Managing retention should include evaluation and tracking of both retention actions and turnover follow-up.

CRITICAL THINKING CHALLENGES

1. Describe your expectations for a job. How well does your employer meet the expectations you hold about the psychological contract?
2. If you became the new manager at a restaurant with high employee turnover, what actions would you take to increase retention of employees?
3. As the HR Manager, you must provide the senior management team with turnover costs for the following high-turnover position. Use websites such as www.talentkeepers.com and www.keepemployees.com to calculate turnover and analyze the variables involved. Also identify any other data that might be relevant and then discuss how you would reduce the turnover.

   Position: Machine operator
   Number of employees: 250
   Number of turnovers: 85
   Average wage: $11.50/hour
   Cost of benefits: 35% of payroll
4. Your company has reaped the benefits of having long-term, tenured employees, but many of them are now approaching retirement. It is anticipated that approximately 20 percent of the company's workforce will retire in the next three to five years. In reviewing the remaining workforce through HR planning efforts, you have become aware of work–life balance issues that need to be reviewed and addressed. The company president has requested that you prepare a retention plan outlining these issues as well as ways to address them. Resources to help you address the issues in the retention plan can be found at www.workfamily.com.
   A. What steps will you take to identify key priorities in the work–life balance issues?
   B. How will you present a business case to gain management support for addressing those issues to help retain existing workers and to fill the positions vacated by retiring employees?

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CASE Giving Time to Get Employees Engaged

Technology companies are known for offering generous pay and benefits to attract and retain highly skilled workers. But employees often crave more than a rich paycheck and creative benefits. Many, especially Millennial generation employees, want to use their time to give back to causes that are important to them. When companies provide the support for them to do so, employees get more engaged and committed to their work and their employers.

Cadence Design Systems, ranked number 38 on a recent Fortune Magazine's great places to work list, employs over 7,000 people in 35 countries. Finding ways to connect with a workforce of that size is not easy. But the company found a way to appeal to prospective and current workers through its Cadence Cares volunteer initiative. One of the company's core values is giving back to the communities where it operates. Consequently, it was a natural extension to involve employees at all levels in those efforts.

Employees are given 40 hours of paid time off to work on volunteer projects of their choosing. The company matches employee financial contributions to charities and last year contributed over $150,000 in matching funds. Further, the company donates products and software to universities around the globe. The company even runs a Corporate Citizenship Challenge among all of its operations to encourage employees to use their talents and time to improve their communities.

While Cadence's volunteer program was in place for many years, it was not as well-utilized as leaders wanted. The company's HR director discovered that it was not being promoted or advertised to employees, so few knew about it. She partnered with the senior leadership team to promote the program using e-mail, posters, and employee meetings. Managers had to be included and trained so that they would support their employees' volunteer efforts by allowing time off when requested.

One of the outcomes of the program has been an increase in the number of Millennial workers who have joined the company. They are attracted to the community giving and involvement of this program. Some recommendations for companies trying to enhance employee engagement are as follows:

- If your goal is to boost employee morale and camaraderie, then arrange for a group event that requires teamwork—such as building houses or planting trees.
- If your goal is to value employees' individuality, then provide for time off that employees can use to work on projects for which they have passion.
- If your goal is to maximize the impact of volunteer efforts, then identify a nonprofit that would benefit from the talents of your employees and do a project for them.

For Cadence Design Systems, giving employees time and support to pursue philanthropic activities that they really care about leads to employees who are more engaged, satisfied, and committed to the company.[76]

QUESTIONS

1. Identify other companies that offer volunteer programs and compare their programs to that at Cadence. What are some of the outcomes those companies have achieved regarding employee recruiting, engagement, or retention?
2. As a future job seeker, how important would a company's charitable work be in your job search decision? Research this aspect of recruiting and retention to learn if workers in the Millennial generation and Generation Z value this more than Generation X or Baby Boomer workers. How might this affect companies in the future?

SUPPLEMENTAL CASES

Carolina Biological Uses Survey to Assess Worker Engagement

This case describes a company that introduced a survey platform, Net Promoter System, to learn about customers' impressions of the company's service level. However, the company went a step further and used the same platform to determine employee engagement levels and took action when issues were identified. (For the case, visit MindTap® at www.cengage.com/login.)

The Clothing Store

This case describes one firm's approach to improving employee retention. (For the case, visit MindTap® at www.cengage.com/login.)

Accenture: Retaining for Itself

This case describes what a large consulting company does to help retain a virtual workforce. (For the case, visit MindTap® at www.cengage.com/login.)

Alegent Health

This case discusses how Alegent, a large nonprofit health care system, improved employee retention and reduced turnover. (For the case, visit MindTap® at www.cengage.com/login.)

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CHAPTER 6

Recruiting High-Quality Talent

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Explain strategic recruiting decisions regarding employment branding, outsourcing, and other related issues.

LO2 Identify distinct labor markets and describe their unique characteristics.

LO3 Explain how technology and social networking affect recruiting processes for employers and candidates.

LO4 Identify three internal recruiting sources and issues associated with their use.

LO5 Highlight five external recruiting sources.

LO6 Define recruiting measurement and metrics and illustrate how analytics can be used to improve talent acquisition.

WHAT'S TRENDING IN RECRUITING

The recruitment of employees is a critical part of the HR function in organizations. Instead of just relying on newspaper ads and paper résumés, managers should use a company's positive reputation and sound technology to hire great employees. Employers must also identify job candidates from a variety of areas and provide them positive recruiting experiences. Here's what's currently trending in the strategic and technological aspects of recruiting:

1. Branding is an important component of employee recruitment. Companies must develop their cultures and work environments to be "employers of choice," thus attracting some of the best job candidates.
2. Technology has vastly changed the way recruiting is conducted in organizations. Artificial intelligence, Big Data, and automated processes improve cost-effectiveness and enhance the positive impact of recruiting efforts.
3. In order to conduct successful recruiting, employers must source applicants from many different talent pools. Highly trained internal candidates, employees working for rival firms, and individuals employed in other industries all represent potentially good hires.
4. There is a growing need to improve the recruiting experiences of applicants. From the initial application to the continued communication needed to keep candidates informed, HR professionals and hiring managers should constantly evaluate how to improve the recruiting function from an applicant perspective.[1]

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HEADLINE

Artificial Intelligence Makes Recruiting Smart

Artificial intelligence (AI) is currently shaping how talent acquisition is conducted in companies. AI involves a machine or computer that can learn, solve problems, and understand language in a manner similar to the way people do. Enhanced business conditions, smaller recruiting staffs, the need for technological solutions, and improvements to the utilization of data are all factors that have led to the rise of AI.

But what can this technology do to improve recruiting in organizations? AI can increase efficiency by sourcing information about job candidates based on information posted online. It can also effectively screen individuals to determine fit with the jobs that are being filled, providing extra research when it is needed. Finally, AI can incorporate chatbots (or chatting functions) that enable it to communicate with job candidates, providing them feedback and answering their questions.

A variety of AI solutions have been developed by highly innovative companies. For instance, FirstJob, a firm located in San Francisco that specializes in HR technology, developed Mya, an application that keeps job candidates informed of the search process and fields their questions. It also answers specific questions about hiring organizations through e-mail, social media, and other online interactions. Developed by IBM, Watson is another AI platform that helps hiring professionals improve the efficiency of the recruiting function. It does this by highlighting what jobs will be hard to fill, which applicants work the best, and what positions should be filled first.

There are other applications that enhance recruiting. Affectiva, the Boston-based firm that specializes in software that identifies human emotions, offers a solution that assesses applicant characteristics by monitoring their verbal and nonverbal communication in video-based interviews. Additionally, the Chandler, Arizona-based firm HiringSolved developed a virtual assistant called RAI, which communicates with recruiters to determine what types of employees are needed by an organization. The assistant helps identify appropriate applicants and e-mails them about available positions.

In order for AI to work effectively, appropriate data is needed that provides the

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information companies can use. This means managers should be aware of the information collected by AI to avoid biases. By using available AI platforms and relying on good data, corporate recruiting can be enhanced.[2]

Talent acquisition
Process of finding and hiring high-quality talent needed to meet the organization's workforce needs

Recruiting
Process of generating a pool of qualified applicants for organizational jobs

The next two chapters explain the process of **talent acquisition**, the process of finding and hiring high-quality talent needed to meet the organization's workforce needs. There are two primary stages of acquiring talent—recruiting and selection. In this chapter, we discuss **recruiting**, the process of generating a pool of qualified candidates. In Chapter 7, we discuss selection, the process of choosing among candidates. As a whole, talent acquisition involves organizing and managing many different processes and tasks related to hiring. For instance, the recruiting process connects companies to sources of potential employees, while selection involves tasks such as picking the best available talent from different pools. But for these processes to work, employers must figure what jobs they need to fill, identify the right job candidates, and reach out to these individuals. This is difficult because companies frequently don't get enough qualified applications and face competition from other hiring organizations. It is, therefore, important for organizations to increase their budgets dedicated to talent acquisition so that recruiting efforts are adequately supported.[3]

Talent acquisition depends on workforce planning (Chapter 2) and general economic and labor market conditions. On the one hand, in a *buyers' market*, companies have more freedom and bargaining power when hiring employees. On the other hand, when labor markets are tight (called a *sellers' market*), talent acquisition can be challenging. Hiring authorities report that many applicants lack basic skills, which makes it difficult to find qualified people to fill jobs.[4] Consequently, organizations try to improve talent acquisition by properly managing their recruiting efforts.

6-1 Recruiting

Recruiting becomes more important and complex as labor markets evolve and HR practices change. For instance, evidence suggests that a majority of companies are increasing their recruiting efforts, with few of them reporting plans to automate work or lay off workers in the near future.[5] Yet, findings also show that hiring individuals who have in-demand skillsets is expected to be difficult for many employers. There is also a preference for automated recruiting, with many organizations planning to try various technologies to improve the process. Firms that do use technology-assisted recruiting report having fewer problems than do companies that rely on traditional recruiting practices.[6]

There are also cost considerations associated with recruiting. Although recruiting can be expensive, think about the cost of unfilled jobs. For example, consider a retail company where there are three vacant checker positions. Assume these three vacancies cost the company $300 for each business day the jobs remain vacant. If the jobs are not filled for four months, the cost of this failure to recruit in a timely fashion will be about $26,000. That is a lot of business lost due to inadequate staffing.

While the cost of hiring (or not hiring) employees can be significant, the *quality* of recruits is important as well. For example, if an organizational strategy focuses on service quality as a competitive advantage, a company might hire only from the top 15 percent of candidates for critical customer-facing jobs and from the top 30 percent of candidates for all other positions. While this approach may raise the cost per hire, it will improve workforce quality and allow the organization to maintain its competitive edge.

STRATEGY

These examples illustrate how recruiting can be an important part of an organization's overall strategy and not simply an expense to be minimized. To be effective, recruiters need to understand

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FIGURE 6-1 Strategic Components of Effective Recruiting

competitors' business strategies and practices, labor market dynamics, the importance of both quality and quantity of talent, and time and money limits. Figure 6-1 highlights these components of effective strategic recruiting.

LO1 Explain strategic recruiting decisions regarding employment branding, outsourcing, and other related issues.

6-1a Strategic Recruiting and Human Resources Planning

Since talent is a key to ensure the production of the organization's goods and services, strategic planning for the business should include planning for workforce needs and recruiting. Strategic recruiting involves

- Understanding how the business strategies impact how and where to successfully recruit qualified employees,
- Identifying keys to success in the labor market, including competitors' recruiting efforts,
- Determining the appropriate balance between quality and quantity of workers needed,
- Recognizing the resource limits of time and money related to fulfilling recruiting activities, and
- Measuring the effectiveness of recruiting efforts.

Recruitment planning can pinpoint not only the kinds and numbers of applicants but also how difficult recruiting efforts may be depending on the type of jobs being filled. In addition, effective recruiting focuses on discovering talent before it is needed.

6-2 Strategic Recruiting Decisions

Top executives and line managers share responsibility with human resources to manage the talent pipeline. In particular, these parties must work together to develop creative recruiting strategies and positive business practices that result in impactful hiring. For instance, UBS Group recruited cryptographers by tweeting encrypted notes that provided information about work opportunities,

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and the Houston-based food distributor Sysco Corp. developed a program that hires a handful of college graduates annually to work in the company's IT units.[7] Evidence also indicates that recruiters are focusing on "culture fit" when determining who to hire, and there is much more willingness to negotiate compensation to get good talent.[8] Finally, there is greater interest in using technology to improve talent acquisition in companies, including the use of Big Data, workforce analytics, and more integrated platforms.[9]

Adopting a "strategic" talent management mind-set that leads to organizational competitive advantages also involves making important decisions about key recruiting issues. These issues include assigning responsibility for carrying out recruiting, establishing the employment brand, determining the optimal mix of core and flexible workers, and considering diversity.

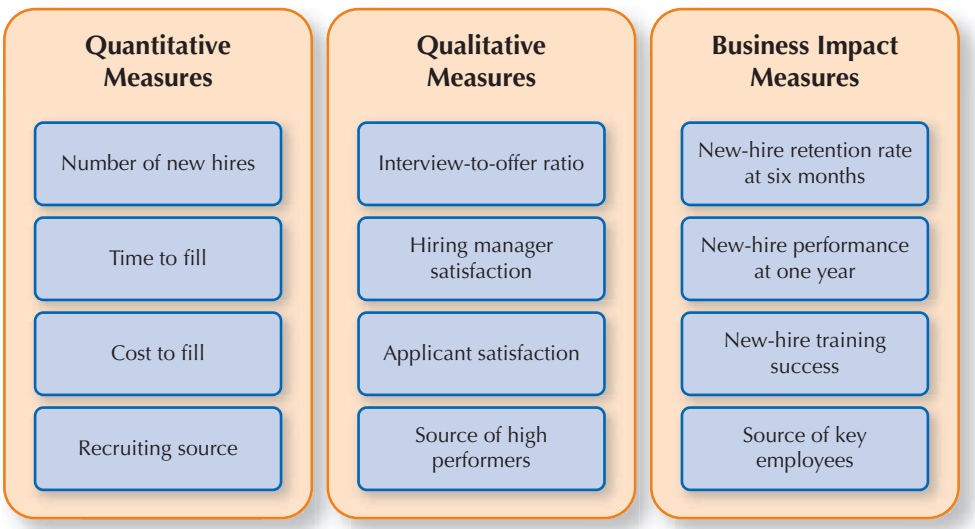
6-2a Assigning Responsibility for Recruiting

A basic decision is whether recruiting will be done by the employer or outsourced to a third party. This decision need not be entirely an either/or situation. In most organizations, HR staff members handle much of the recruiting. Since they understand the organization's culture, values, and strategies, inside recruiters may be better able to match candidates for the best job fit. However, recruiting can be time-consuming, and HR staff and managers have many other responsibilities. Outsourcing is a way to decrease the burden on internal recruiters. There are a number of ways in which recruiting can be outsourced.

Outsourcing the Recruiting Function Recruitment process outsourcing (RPO) is a rapidly growing and popular option that streamlines hiring, reduces costs, provides recruiting expertise (marketing, diversity, etc.), and enhances the applicant pool.[10] RPO firms can offer a menu of recruiting services from placing advertisements to initial screening of applicants. RPO firms may serve a broad range of industries or specialize in particular sectors such as health care or financial services.[11] As with all outsourcing activities, companies should carefully research RPOs and ensure high-quality performance. Figure 6-2 shows various performance criteria that organization leaders can use to assess an RPO vendor.[12]

Employers often experience a number of benefits when they use RPOs. For example, providers can help companies automate the recruiting function, use technology to improve efficiencies, capitalize on employee referrals, and build a positive corporate brand.[13] But there are some risks for companies that decide to use RPO as a recruiting strategy. RPOs often can't fix problems in

FIGURE 6-2 Ways to Evaluate RPO Firm Performance



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HR groups, they may not be the best brand ambassadors, they can be expensive, and they may not be able to help in highly specialized labor markets (or markets that don't have much available talent).[14]

Professional Employer Organizations and Employee Leasing Another type of outsourcing is professional employer organizations (PEOs) and employee leasing. The employee leasing process is simple: An employer signs an agreement with the PEO, after which the employer's staff is hired by the leasing firm and leased back to the company for a fee. In turn, the leasing firm writes paychecks, pays taxes, prepares and implements HR policies, keeps all the required HR records for the employer, and bears legal liability.

One advantage of leasing employees is that they may receive better benefits than they otherwise would get in many small businesses. But all this service comes at a cost to employers. Leasing companies often charge employers between 4 percent and 6 percent of employees' monthly salaries. Thus, while leasing may save employers money on benefits and HR administration, it also may increase total payroll costs.

Whether recruiting is carried out by internal recruiting staff or outsourced to a third-party vendor, a primary consideration is presenting an attractive employment opportunity to a prospective employee. Developing a positive employment brand is critical for enticing high-quality talent to consider employment with the company.

6-2b Employment Branding and Employer of Choice

Employment brand
Distinct image of the organization that captures the essence of the company to engage employees and outsiders

The **employment brand** is the distinct image of the organization that captures the essence of the company to engage employees and outsiders. The brand is a set of qualities that promises a unique employment experience. Evidence suggests that an employer's brand is much more critical to job applicants today than it was in the past, so many firms develop their brands through technology such as posting company videos, hosting blogs, and highlighting worker testimonials.[15] Targeting Millennials and engineers, General Electric used funny ads to rebrand itself as a high-tech firm that focuses on global issues, while Ford reached out to software engineers by rebranding the company as high tech, sustainable/philanthropic, and innovative.[16]

Organizations also strive to develop reputations as employers of choice. Those seen as desirable places to work are better able to attract qualified applicants compared to those that have poor reputations. Offering enticements such as a positive culture, solid leadership, job advancement and security, community outreach, desirable compensation and benefits, reasonable travel requirements, and a winning record are all ways that companies work to brand themselves as employers of choice.[17]

There are many "best employer survey" lists and online sources that rank and/or evaluate organizations in terms of employee engagement, job satisfaction, pay, benefits, flexible schedules, corporate social responsibility, and other characteristics. In particular, Glassdoor provides in-depth information about work life in many organizations that is posted by current and former employees.[18] Being aware of these rankings and feedback is important because companies identified as the best places to work often have less turnover and experience increased applicant quality.[19]

Having a positive brand and being recognized as an employer of choice requires time, effort, and monetary investments, much like developing a brand for a company's products. By bringing HR and marketing functions together, "recruitment marketing" that relies on a variety of media and online outlets can be used to develop an employment brand. Companies such as 84 Lumber and General Electric ran television ads during the Super Bowl and Academy Awards programs in an effort to connect with job seekers.[20] The following "HR Competencies & Applications: Manage Your Employment Brand" feature explains other ways to manage the employment brand.

An employment brand can create positive perceptions of a company by highlighting its commitment to individual excellence and development, as well as the benefits and opportunities offered to employees. But the employment brand must reflect the genuine work environment and not simply be a marketing creation that doesn't match the true experiences inside the organization.

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COMPETENCIES & APPLICATIONS

Manage Your Employment Brand

Successfully managing an employment brand doesn't happen by accident. To create and advertise the compelling story behind your company, take time to identify your employment brand and determine what makes your company unique. The following tips may help you get the most out of your branding efforts:[21]

- *Leverage your corporate brand.* Your company may already be well known for its products and services. Use that name recognition to connect with prospective employees.
- *Use the 80/20 rule.* When advertising jobs, be sure to spend most of the time talking about the job (80 percent) and less time promoting your brand (20 percent).
- *Engage visitors.* Use videos of employees rather than text to deliver the brand message. Video content is often more exciting and memorable than are just words.
- *Encourage current employees to spread the word.* Get employees to talk to others in their personal and professional networks. Doing so can increase the possibility of employee referrals.
- *"Mobilize" your message.* Create an easy-to-use mobile career site that allows users to connect on the go. Providing access to more information is always a plus.

Recruiting and employer branding should be seen as part of an organizational marketing effort that is linked to the overall image and reputation of the organization and its industry. If you were responsible for enhancing your organization's employment brand:

1. How would you convince senior leaders that the investment would be worthwhile?
2. Who would you partner with inside and outside your organization to develop and convey your brand message?

KEY COMPETENCIES: Business Acumen; HR Expertise: People/Talent Acquisition

6-2c Core versus Flexible Staffing

Core workers
Employees who are foundational to the business

Flexible workers
Employees who are hired on an "as-needed" basis

Another strategic decision involves how much recruiting will be done to fill staffing needs with core and flexible workers. **Core workers** are those employees who are foundational to the business; they typically work year-round, and the organization invests in their development. **Flexible workers** are employees who are hired on an "as-needed" basis. Thinking of the supply chain, they are just-in-time workers who are employed for specific projects or periods of time.

Decisions as to who should be recruited hinge on whether to seek core employees or to use more flexible approaches, which might include temporary workers or independent contractors. Figure 6-3 shows how a company's workforce might be divided among different types of workers. Many employers have determined that keeping a large core workforce is too costly and limits flexibility. The large number of employment regulations also constrains the employment relationship, making many employers reluctant to hire new full-time core employees. Using flexible workers means that labor costs go from being a fixed expense to one that is variable, based on product demand and other economic conditions.

Flexible staffing involves workers who are not traditional employees. Alternative employment is becoming much more common in the United States and around the world. About one-third of U.S. and foreign workers are considered part of the flexible (or contingent) workforce.[22] Using flexible staffing arrangements allows an employer to avoid some of the costs of full-time benefits such as vacation pay, health care, and pension plans. Flexible staffing may lead to recruiting in different markets because it includes using temporary workers and independent contractors. For instance, firms such as Amazon, Macy's, Target, United Parcel Service, and FedEx commonly hire seasonal

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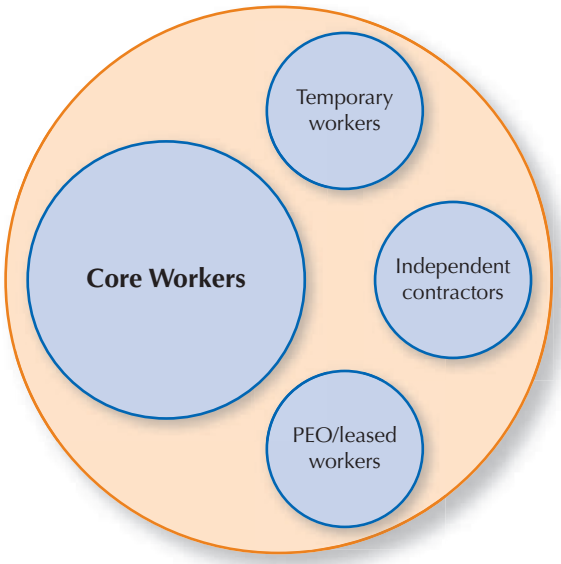
FIGURE 6-3 Combination of Core and Flexible Workers



workers and specialists to cover staffing needs during the holiday season and special events.[23] Despite the many benefits, there are also many challenges associated with using flexible staffing, including low motivation, low performance, and increased costs. Evidence suggests that traditional staffing is still the most preferred and frequent kind of employment arrangement compared to contingency staffing.[24]

Temporary Workers Many workers are employed as temporary workers in organizations. Employers can hire their own temporary staff members or contract with agencies that supply temporary workers on an hourly, daily, or weekly basis. Originally developed to provide clerical and office workers to employers, temporary workers in professional, technical, and even managerial jobs are becoming more common; these workers provide many benefits to organizations.[25]

Some employers hire temporary workers as a way to screen individuals to move into full-time, regular employment. Better-performing workers may move to regular positions when these positions become available. This "try before you buy" approach is potentially beneficial to both employers and employees. In addition, companies hire temporary workers because matching the firm's needs with the right workers can be easier, the costs associated with benefits can be avoided, and staffing flexibility is often greatly enhanced. However, if individuals come through temporary service firms, those firms typically bill client companies a placement charge if a temporary worker is hired for a full-time position. Employing temporary workers as opposed to full-time workers can also have implications regarding federal laws such as the Family Medical Leave Act and the Fair Labor Standards Act.[26] Finally, research indicates that temporary employees' quitting intentions may not be easily reduced by increased job satisfaction, and that positive relationships with managers and supervisors can't strengthen the ability of job satisfaction to reduce their quitting intentions.[27] Companies might motivate and inspire temporary employees' by offering orientation/training, flexible work, greater recognition, improved communication, and permanent employment.[28]

Independent Contractors Some firms employ independent contractors as workers who perform specific services on a contract basis. These workers must be truly independent as determined by regulations used by the U.S. Internal Revenue Service and the U.S. Department of Labor. This information is discussed further in Chapter 11. Independent freelancers are used in many areas, including IT, software programming, system design, administrative support, personal services,

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FIGURE 6-4 Advantages and Disadvantages of Using Flexible Staffing Alternatives

Advantages	Disadvantages
◆ Organizations can hire workers without incurring high costs.	◆ Flexible workers may perform less effectively than core workers.
◆ Reduces time spent on recruiting efforts such as screening and initial training of workers.	◆ Flexible workers may lack motivation because there are few opportunities for long-term employment and job advancement.
◆ Gives the organization staffing flexibility.	◆ Time limits on temporary work contracts prevent significant enhancements in individual skills and knowledge.
◆ Reduces the organization's legal compliance requirements.	◆ Flexible workers in high demand fields may command premium wages.
◆ Organization saves money by not providing employee benefits.	

sales/marketing, and others; "gig workers" are contracted to complete various work assignments through some form of technology.[29]

One major reason employers use independent contractors is to obtain significant savings because benefits are not provided to these individuals. Many freelancers "moonlight," supplementing their income from a traditional job with contract work, or they have multiple sources of income, including contract assignments. The freelance workforce is large and growing, and organizations like the Freelancers Insurance Company sell insurance and retirement plans to this employee group.[30]

Companies can mix and match the core workforce with temporary and contract workers as their business needs change. There may be conflicts between these various workforce segments, and managers should tune in and work hard to integrate the efforts from all workers to produce goods and services for customers. For example, core workers may view temporary workers as competitors and may treat them poorly to discourage them from performing above standards. Temporary workers have fewer ties to the company and may be less engaged, which can upset the full-time workers. Figure 6-4 shows the advantages and disadvantages of using flexible staffing alternatives.

6-2d Recruiting and EEO: Diversity Considerations

Recruiting strategies take into account a number of equal employment opportunity (EEO) and diversity considerations. Figure 6-5 shows the major issues companies face when proactively addressing a diverse applicant pool.

EEO and Recruiting Efforts Recruiting activities are subject to various equal employment laws and regulations. As part of legal compliance in the recruiting process, organizations may work to reduce disparate impact, or underrepresentation of protected-class members compared to the labor markets utilized by the employer. If disparate impact exists, the employer may need to make special efforts to attract protected-class individuals. For employers with affirmative action programs (AAPs), special ways to reduce disparate impact can be identified as goals listed in those plans. Also, many employers who emphasize internal recruiting should take steps to attract minority applicants externally if disparate impact exists in the current workforce.

Equal Employment Opportunity Commission (EEOC) guidelines state that no direct or indirect statements of protected characteristics are permitted in recruiting materials or advertisements. These guidelines affect interviews, advertisements, and other recruiting activities. Some examples of impermissible terminology are *young and enthusiastic*, *(specific) religious values*, and *journeyman lineman.* Also, advertisements should contain wording about being an equal opportunity employer

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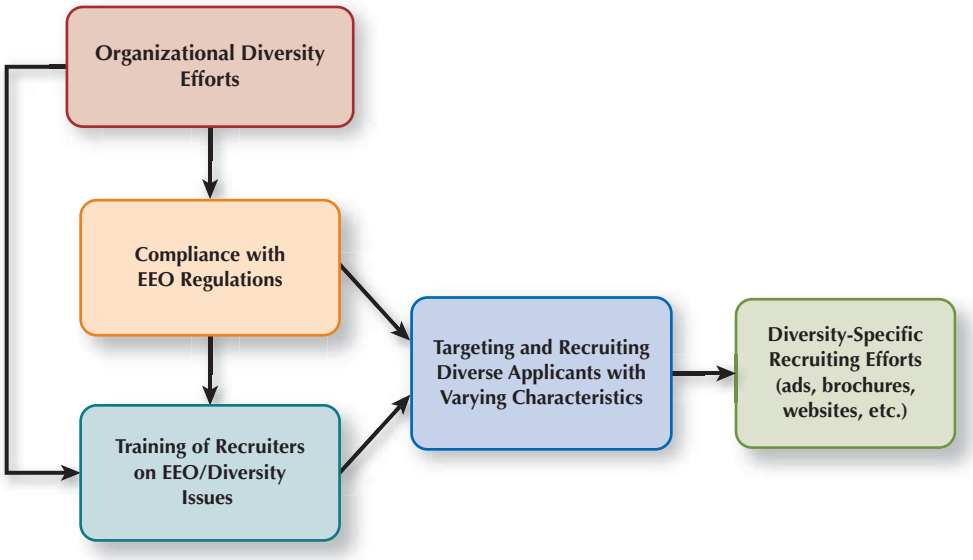
FIGURE 6-5 Recruiting and Diversity Considerations



or even more specific designations such as EEO/M-F/AA/ADA. Employers demonstrate inclusive recruiting by having diverse individuals represented in company materials, in advertisements, and as recruiters.

Recruiting Diversity Evidence indicates that workplace diversity can increase innovation in the workplace, as well as enhance the ability of positive HR practices to increase firm performance.[31] A broad range of factors can be considered when recruiting for diversity. Many employers have expanded efforts to recruit workers from nontraditional labor pools. These recruits for certain jobs may include the following:

- Persons with different racial/ethnic backgrounds
- Workers over 40 years of age, particularly retirees
- Single parents
- Workers with disabilities
- Welfare-to-work workers
- Long-term unemployed

The growth in racial/ethnic workforce diversity means that a wider range of potential employment sources should be utilized. Changes in diversity also need to be monitored and evaluated to ensure that the workplace, through properly managed recruiting strategies, is representative of these population demographics. For example, the growth in Hispanics in the United States means that specialized recruiting programs might be needed to identify and attract qualified individuals from this group for employment. Other potential employees may include older workers and retirees who are interested in seeking new employment opportunities. Having a diverse workforce that includes all age groups is highly advantageous.[32] The following "HR Perspective: Companies Recruit Millennials to Secure Age-Diverse Talent" feature highlights how firms hire younger workers.

Single parents may be attracted to a family-friendly employer that offers flexibility, including part-time work, because balancing job and family life is often difficult. Some firms recruit stay-at-home parents by using flexibility and work-at-home technology. Other employers attract women who are returning to the workplace after taking time off, and many fast food chains operating in India such as Burger King, Pizza Hut, Kentucky Fried Chicken, Taco Bell, Domino's Pizza, and McDonald's use various programs to recruit women into their restaurants.[33] Finally, individuals with disabilities are often overlooked despite their education and skill qualifications.

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HR PERSPECTIVE

Companies Recruit Millennials to Secure Age-Diverse Talent

Millennials are individuals who were born from around the early 1980s to the late 1990s, and they are currently the biggest component of the working population. This group is also expected to grow tremendously in the near future—Millennials will eventually make up an astounding three quarters of the workforce. Unfortunately, Millennials are often stereotyped as being spoiled, unmotivated, fickle, and technology-addicted, which can sometimes harm their job prospects. Many organizations are ignoring these unfair stereotypes in favor of recruiting talented Millennials into their ranks. Millennials indeed offer employers many benefits. They are often good at developing innovative ideas and are willing to share them. It is also common for them to be good with technology.

Employers are developing specific strategies to recruit Millennials. Companies are using social media and other technology to identify the right job candidates, and then they contact the most qualified individuals to discuss opportunities. Manpower, a staffing firm based in Milwaukee, sends texts and chats to job candidates to communicate key work opportunities. USG Corp., the manufacturer of construction materials located in Chicago, encourages individuals to apply for positions using their cell phones, and the firm attaches videos to job ads to highlight how work is done. Communication that is more informal, personal, and timely is also preferred, and Millennials want to know about the company's principles and culture. They also want to know how they can develop their careers with an employer.

Other companies are relying on unique approaches to recruit Millennials. General Electric and Lincoln Electric both use virtual reality at career fairs and conventions to showcase the work being done by these organizations. In addition, the Goldman Sachs Group is using Snapchat messaging and the music streaming provider Spotify to reach out to potential employees and provide them information about the company. Individuals can even submit personal videos that function as interviews.

Employers must be careful not to focus on age when recruiting Millennials, like making claims in job ads that the younger workers are an asset. Instead they should focus on the kinds of work experiences that Millennials prefer, including flexible work, an interactive workplace, and opportunities for achievement.[34] Following these guidelines, as well as developing positive strategies to recruit Millennials, companies can achieve a diverse workplace. Consider the following questions:

1. Identify some of the stereotypes associated with Millennials. What could companies do to minimize these stereotypes?
2. How would you evaluate the various strategies used by companies to recruit Millennials? What other strategies could be used to effectively recruit this segment of the working population?

Gender-Neutral Recruiting Studies have shown that women are less likely to apply when job ads contain masculine sounding words such as *determined*, *assertive*, or *aggressive*. Women are more likely to apply when words like *dedicated*, *responsible*, or *conscientious* are used in advertisements. While evidence also suggests that using words and phrases in job ads such as *whatever it takes*, *superior*, *proven*, *tackle*, *word hard*, *play hard*, and *driving innovation* may result in more male applicants, using more feminine language in job ads connected to work in female-dominated industries (i.e., health care) can result in fewer male applicants.[35] Consequently, using gender-balanced adjectives and phrases in recruiting ads is a sound strategy. Also, favoring either women or men in recruitment and selection efforts is a violation of Title VII of the Civil Rights Act, except when gender is considered a bona fide occupational qualification.[36]

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Generational Differences in Recruiting The work values and preferences found among different generations can impact every aspect of the employment experience. In terms of recruiting, distinct approaches may be needed to connect with members of different generations. Baby Boomers (born between 1946 and 1964) may be more comfortable with traditional job posting methods and less inclined to use mobile technology to find a job. Generation X (born between 1965 and 1980) workers may value flexible work arrangements, child care, and other work–life balance programs. People in Generation Y (born between 1980 and 2000) utilize mobile technology extensively and value meaningful work and an opportunity to actively contribute to work policies and arrangements.

6-3 Understanding Labor Markets

LO2 Identify distinct labor markets and describe their unique characteristics.

Labor markets
The supply pool from which employers attract employees

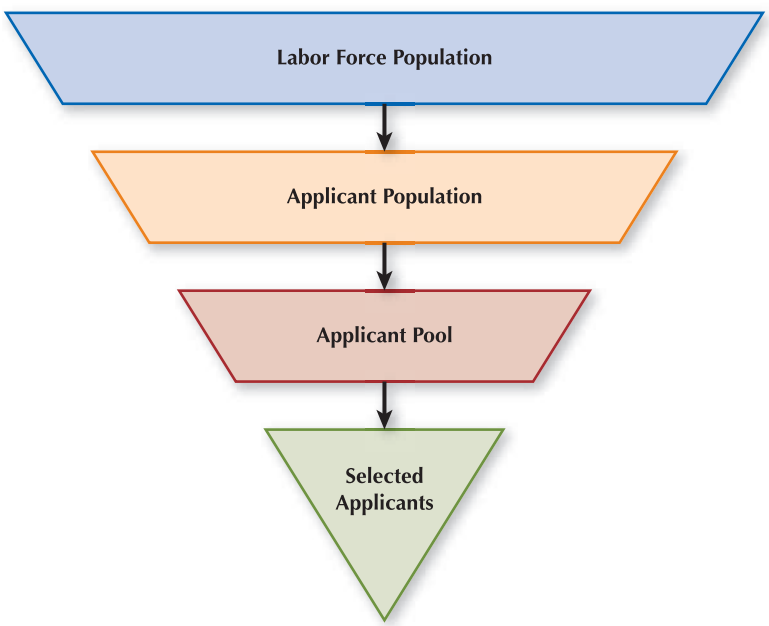
Learning some basics about labor markets aids in understanding recruiting. **Labor markets** are the supply pool from which employers attract employees. As with any supply chain, there are a variety of markets from which a buyer can obtain needed resources. Figure 6-6 depicts how the sourcing process is like the funnel in which the broad scope of labor markets narrows progressively to the point of selecting the best applicants. Of course, if the selected applicants reject the offers, then HR staff members must reach back into the supply chain, or applicant pool, for other candidates and, in extreme cases, may need to reopen the recruiting process.

6-3a Elements of the Labor Market

Labor force population
All individuals who are available for selection if all possible recruitment strategies are used

Several methods can be used to identify labor markets. One useful approach is to take a broad view of labor markets and then narrow them down to specific recruiting sources. The broadest labor market component and measure is the **labor force population**, which is made up of all individuals who are available for selection if all possible recruitment strategies are used. For firms with operations in multiple countries, the labor force population can be much larger than that of a business operating in only one country. For example, some U.S.-based airlines have customer service centers located in the Philippines, India, and other countries as well as the United States. The labor force

FIGURE 6-6 Elements of the Labor Market



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population for such businesses is much broader than that of a business operating in only one of these countries.

Applicant population
A subset of the labor force population that is available for selection using a particular recruiting approach

The **applicant population** is a subset of the labor force population that is available for selection if a particular recruiting approach is used. This population can be broad or narrow depending on the jobs needing to be filled and the approaches used by the employer. For example, if a firm is recruiting highly specialized engineers for multiple geographic locations, the recruiting methods may involve a broad range of approaches and sources, such as contacting professional associations, attending conventions, utilizing general and specialized websites, using recruiting consulting firms, and offering recruitment incentives to existing employees.

However, a smaller firm in a limited geographic location might limit its recruiting for management trainees to MBA graduates from major universities in the area. This recruiting method would result in a different group of applicants from those who might apply if the employer were to advertise the openings for management trainees on a local radio station, post a listing on Internet job boards, or encourage current employee referrals and applications. It is acceptable to advertise for local talent when its suits a particular job and an employer's preferences, but such an approach should not adversely impact job candidates based on Title VII of the Civil Rights Act and other legislation.[37]

Applicant pool
All persons who are actually evaluated for selection

The **applicant pool** consists of all persons who are actually evaluated for selection. Many factors can affect the size of the applicant pool, including the reputation of the organization and industry, a company's screening efforts, the job specifications, and the information available.

6-3b Recordkeeping of Applications

It is important to carefully define exactly who is an applicant and who is not because many employers are required to track and report applicant information to comply with equal employment and affirmative action plans. It is also important because employers may need this documentation if an applicant files a lawsuit. Any minimally qualified person who is interested in a position should be considered an applicant even if no formal posting of the job opening in question has been made or the person has not filed any sort of formal application. Figure 6-7 provides the definition of *Internet applicant* established by the EEOC and Office of Federal Contract Compliance Programs (OFCCP).[38]

Documenting Applicant Flow It is useful to develop an *applicant tracking system* when considering the applicant pool. Using such a system can make the recruiting process more effective. For example, new applicant tracking systems rely on advanced technology and social media, provide better user interfaces, applicant experiences, and analytics, and offer features that enable employers to reach out to more applicants.[39]

FIGURE 6-7 EEOC and OFCCP Definition of *Internet Applicant*

An *Internet applicant* is an individual who satisfies all four of the following criteria:

- The individual submitted an expression of interest in employment through the Internet or related electronic data technologies;
- The contractor considered the individual for employment in a particular position;
- The individual's expression of interest indicated that the individual possesses the basic qualifications for the position; and
- The individual, at no point in the contractor's selection process prior to receiving an offer of employment from the contractor, removed himself or herself from further consideration or otherwise indicated that he/she was no longer interested in the position.

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Employers must collect data on applicants' race, sex, and other demographics to fulfill EEO reporting requirements. Many employers ask applicants to provide EEOC reporting data on a separate form that may be attached to the application form. To avoid claims of impropriety, it is important that employers review and store this information separately and not use it in any selection decision. Since completing the form is voluntary, employers can demonstrate that they tried to obtain the data.

Unemployment Rates and Labor Markets The labor market follows the laws of economic supply and demand, and the unemployment rate varies with the business cycle. When the unemployment rate is high, many people are looking for jobs. When the unemployment rate is low, there are fewer applicants. The low unemployment rate makes recruiting difficult for nonprofit organizations because the salaries offered are often not comparable to those offered by for-profit firms.[40] The tech industry has a low unemployment rate, leading companies to offer generous compensation and desirable work characteristics to recruit IT employees.[41] Similar labor market characteristics exist in education, with some states relaxing credential standards to hire more teachers when there is low unemployment.[42]

Unemployment rates also vary depending on particular skill needs. Recruiting for jobs that require few specialized skills is quite different than recruiting for highly skilled workers. For instance, the federal government faces challenges when hiring cybersecurity specialists because of shortages in the field and expectations for high pay.[43] But low unemployment has encouraged some firms to hire individuals who have a high school diploma or less education.[44] Regardless of the types of jobs being filled, companies should adopt creative solutions to help attract and develop the right workers needed to fill jobs.

6-3c Different Labor Markets and Recruiting

The supply of workers in various labor markets differs substantially and affects staffing. To provide information that is useful for recruiting, labor markets can be viewed in several ways. These labor markets can include both internal and external sources. Organizations recruit in many labor markets, including the following:

- Industry-specific and occupational
- Educational and technical
- Geographic

Industry and Occupational Labor Markets Labor markets can be classified by industry and occupation. For example, the biggest increases in U.S. jobs until the year 2022 will be in the fields of health care, health care support, construction, and personal care fields, and jobs in nursing are widely available because of retirements and other factors.[45] These jobs represent the health care, retail, and education industries. A shortage of qualified applicants will make filling these jobs more difficult during the next few years. Various analyst, scientist, research, and engineering jobs that require math competencies, as well as software developer/engineering positions in the manufacturing industry, are considered to be high-demand occupations.[46]

Recruiting for other highly specialized jobs can also be challenging. For instance, Electric Boat, a manufacturer of submarines, found it difficult to fill skilled labor positions in welding, pipe fitting, and machining.[47] Retirements and more extensive flight time requirements have caused regional airlines to offer generous compensation to recruit pilots.[48] On the flipside, factory work in manufacturing firms has declined with slower projected growth due to increased automation and technology use.[49]

Educational and Technical Labor Markets Another way to look at labor markets is by considering the educational and technical qualifications that define the people being recruited. Employers may need individuals with specific licenses, certifications, educational backgrounds, or even learning

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experiences. For instance, software developers are recruited by some employers as freelancers to work on special projects, while Craig Technologies and ZipRecruiter rely on competitor poaching, niche recruiters, and outreach efforts to fill STEM jobs.[50] By networking extensively with executives, alumni, and recruiters, business schools are also taking active steps to ensure that MBA students are getting the kinds of experiences that make them attractive to organizations, and firms such as Amazon, Electronic Arts, and others are reaching out to college students and recruiting on campuses to find talent; some companies even recruit academics to fill important organizational roles.[51]

Another special labor market is suppliers and contractors for U.S. military forces. Firms such as Cintas Corporation, with more than 34,000 employees, and Raytheon, with 77,000 employees, serve as federal government defense contractors. The need to recruit for specialty jobs in engineering and technology by such firms illustrates why considering different types of technical labor markets is necessary. Some firms are even recruiting former generals to head various operations based on their leadership abilities and military experiences.[52] The following "HR Competencies & Applications: Decoding Military Résumés" feature highlights the challenges of recruiting former members of the military.

HR COMPETENCIES & APPLICATIONS

Decoding Military Résumés

Members of the armed forces face particular challenges when they try to reenter civilian life and careers. In general, they are hardworking, resilient, and adaptable team players. Despite the fact that many were quickly forced into leadership and decision-making roles during their active duty years, stereotypes can work against them outside of the military. Many employers have inaccurate beliefs that service members are rigid, bureaucratic, and out of touch with the needs of business.

Translating the military experience into terms that nonmilitary hiring authorities can understand is critical to help former service members find employment after their service obligations are fulfilled. While veterans must learn how to convey their skills and experience in terms that employers can understand, companies can also take the initiative to learn more about military career demands.

HR professionals can take proactive steps to increase hiring of veterans, including the following:

- Ask for help from current employees who served in the military. They can explain terminology used and certifications or knowledge designations. Since they know your organization's structure and culture, they can help hiring managers see how the military experience would best fit within the company.
- Do a little legwork and research by reviewing military websites. This helps individuals understand the military's core values and how they might reflect the organization's value system.
- Be aware that many automated résumé screening programs screen out veterans because they don't use *management-speak* on their résumés.

Consider adding keywords like *veteran* or *military* to widen the search criteria. Hiring veterans can be a win-win situation, as the organization might access a highly qualified and dedicated worker while doing a great public service.[53] Based on these ideas, answer the following questions:

1. What can hiring managers do to create a welcoming environment for military veterans? How could they help ease the transition from military to corporate life?
2. What attributes of military veterans would lead to success in business? How could these characteristics be emphasized in recruiting efforts?

KEY COMPETENCIES: Relationship Management, Global/Cultural Effectiveness; HR Expertise: People/Talent Acquisition

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Geographic Labor Markets One common way to classify labor markets is based on geographic location. Markets can be local, area or regional, national, or international. Local and area labor markets vary significantly in terms of workforce availability and quality, and changes in a geographic labor market may force changes in recruiting efforts. For instance, if a new major employer locates in a region, existing area employers may see a decline in their numbers of applicants.

Geographic markets require different recruiting considerations. For example, attempting to recruit locally for a job market that is a national competitive market will likely result in disappointing applicant rates. A catalog retailer that tries to recruit a senior merchandising manager from the small town where the firm is located may encounter difficulties, although it may not need to recruit nationally for workers to fill administrative support jobs. Varying geographic labor markets must be evaluated as part of recruiting. It is often a function of how much the jobs pay in addition to the quantity of available talent.

6-3d Recruiting Source Choices: Internal versus External

Most employers use both internal and external recruiting sources. Both promoting from within the organization (internal recruitment) and hiring from outside the organization (external recruitment) come with some advantages and disadvantages.

Organizations that face rapidly changing competitive environments and conditions may need to place a heavier emphasis on external sources. A possible strategy might be to promote from within if a qualified applicant exists and to go to external sources if not. However, for organizations operating in environments that change slowly, emphasis on promotion from within may be more suitable. An organization's goals for time to hire and the number of qualified applicants factor into the decision of whether to focus on internal or external recruiting.

Organizations differ in terms of the sequencing of recruiting internally or externally. Some exhaust internal sources before searching outside of the company. Others recruit in both labor markets at the same time to fill jobs faster. Recent evidence suggests that internal recruiting might produce the best results overall because existing employees who are given new work opportunities tend to perform considerably better than external hires, at least in the first three years of employment in a new job.[54] Once the various recruiting policy decisions have been addressed, the actual recruiting methods can be identified and used for both internal and external recruiting.

6-4 Technology for Recruiting

LO3 Explain how technology and social networking affect recruiting processes for employers and candidates.

Technological advances have led to dramatic changes in the way people find jobs. The growth in the Internet has led both employers and employees to use Internet recruiting tools. Internet links, websites, blogs, tweets, and other types of Internet/web-based applications have become vital elements of every company's recruiting strategy.[55] Mobile technology is a key trend in employment recruiting, allowing many job seekers and recruiters to use smartphones, texting, and Snapchat to contact each other, communicate about job opportunities, and even conduct preliminary interviews.[56] Automation of recruiting processes and the use of AI are also becoming more common and can enhance recruitment activities.[57]

6-4a Social Media and Networking

Passive job candidates Qualified individuals who aren't actively looking for work but might be interested if the right job comes along

Technology-enabled social media and networking continues to evolve. Job seekers and employers continue to find new ways to connect, share information, and match the best applicants to jobs. In particular, virtual online communities are a goldmine of networking opportunities for companies looking to identify talent, particularly **passive job candidates**, qualified individuals who aren't actively looking for work but might be interested if the right job comes along. Figure 6-8 shows the growth in the use of social media for recruiting. With millions of users, companies should use social networks to improve recruiting efforts.

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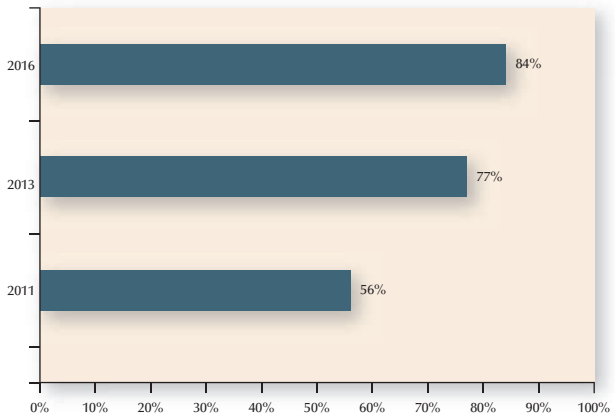
FIGURE 6-8 Percentage of Firms Utilizing Social Media for Recruiting Purposes



Source: "SHRM Survey Findings: Using Social Media for Talent Acquisition," *HR Magazine*, April 2016, p. 26.

An important new skill for recruiters is building and accessing connections via social media. Recruiters should develop their own networks and build a company's presence and brand on social media, as well as find ways to engage current employees to contact potential applicants on social networks.[58] Hard Rock Cafe did just that when it used Facebook to hire 120 people for a new restaurant in Florence, Italy—in 30 days![59] It is also important for job applicants to develop their own personal brands for prospective employers by determining their online visibility, increasing online activity, and updating information.[60]

Social networking provides employers many options for building their employment brands and finding employees. For example, Facebook developed Facebook Jobs, a platform that enables employers to post job ads and interested individuals to apply for these jobs. In particular, the service uses various criteria to connect work opportunities with potential applicants and will help companies identify passive job candidates; Facebook Messenger is used to communicate between recruiters and candidates.[61]

LinkedIn A well-known professional social networking website is LinkedIn. Individuals create a professional profile/personal brand and can link to other users, as well as connect with potential employers. LinkedIn's focus is professional networking, and, therefore, it can be a powerful way to expand candidates' job-search options. Likewise, companies can create employer branding content and invite users to "link in" with them. This identifies potential employees and helps spread the word on job vacancies.[62]

Twitter Social, legal, and employment-related messages can be transmitted using Twitter, a social networking site that has added many millions of users over the years. Although messages are limited to 280 characters, tweeting has rapidly become a social network recruiting method. Recruiters tweet messages to both active and passive job candidates and then follow up with longer e-mails to facilitate recruiting.

6-4b Web-Based Recruiting Options

Whether an organization is recruiting internally or externally, web-based recruiting is a primary way to advertise job vacancies. Of the many recruiting sites available to companies, the most common are Internet job boards, professional/career websites, and employer websites. While social networking sites and other technologies are gaining in popularity, these web-based methods are still heavily used.

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Internet Job Boards Many Internet job boards, such as Indeed, Monster, Glassdoor, and CareerBuilder, provide places for employers to post jobs or search for candidates. These broad-based job boards offer access to numerous candidates across a wide range of professions and jobs. Niche websites like College Recruiter, AllRetailJobs, JobsInTrucks, HealthcareJobsite, and eFinancialCareers target specific occupations and make it more efficient for job seekers and employers to find each other.[63] Applicants can use these websites to establish a profile and upload their résumé, which is made available to all employers who use the website. Combining an easy-to-use applicant experience and search capabilities for employers makes these websites a robust and productive choice for recruiters and job seekers.

Professional/Career Websites Many professional associations have employment links on their websites. As an illustration, for HR jobs, see the Society for Human Resource Management site (www.shrm.org) or the Association for Talent Development site (http://jobs.astd.org). Many professional associations provide job links to their members as a benefit of membership. Many private corporations maintain specialized career or industry websites that focus on IT, telecommunications, engineering, medicine, and other areas. Use of these targeted websites may reduce recruiters' search time and efforts. Also, posting jobs on such websites is likely to target applicants specifically interested in the job field and may reduce the number of less-qualified applicants.

Employer Websites Despite the popularity of job boards and association job sites, many employers have learned that their own company websites can be very useful when recruiting candidates and reinforcing the employer brand. Employers include employment and career information on their websites under headings such as *Employment* or *Careers*. This is the place where recruiting (both internal and external) is often conducted. On many of these sites, job seekers are encouraged to e-mail résumés or complete online applications.

Since a website can be an effective tool for marketing the company, the formatting of the employment section of an organization's website must be creative and attractive enough to effectively market jobs and careers. A company website should present a favorable image of the employer by outlining information on the organization, including its products and services, organizational and industry growth potential, and organizational operations. Including positive employee testimonials on recruiting websites may make the employer more desirable and credible to job candidates; thus, HR departments and other hiring managers should consider incorporating such statements into the online recruiting process.

6-4c E-Video and Recruiting

With video capabilities of all types available, employers are using videos in several ways. Some firms use videos to describe their company characteristics, job opportunities, and recruiting means. Suppliers such as Monster and CareerTV have worked with employer clients to produce online recruitment videos. As the saying goes, "A picture is worth a thousand words." That is one reason videos can so effectively engage candidates and provide a realistic image of the company. Video interviews can save time and money for candidates who are not near the hiring location. Recent research shows that over one-third of organizations are using some type of video for talent acquisition.[64]

6-4d Gamification

Gamification
Using game thinking and software to engage people in solving problems

Organizations are using scavenger hunts, trivia contests, games, puzzles, and other interactive competitions to interject excitement into the hiring process. **Gamification** uses game thinking and software to engage people in solving problems. It leverages our natural desire to compete and achieve, and many people entering the workforce have grown up with video games and are very comfortable with these programs.

Companies might use industry-related quizzes, company knowledge trivia contests, or information "hunts" to get potential candidates to investigate the company and uncover job opportunities. Games may be hosted online or might be incorporated into on-campus visits or job fair booth

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activities.[65] Candidates are beginning to expect a level of interaction and participation during the recruitment process. To attract the best candidates, recruiters should work to differentiate their organizations through gamification.

6-4e Legal Issues in Internet Recruiting

With the expansion of Internet recruiting, new and different concerns have arisen. Several of these issues have ethical and legal implications. The following examples illustrate some of these concerns:

- When companies use screening software to avoid looking at the thousands of résumés they receive, are rejections really based on the qualifications needed for the job?
- How can data about an individual's protected characteristics be collected and analyzed for reports?
- Are too many individuals being excluded from the later phases of the Internet recruiting process based on unlawful information?
- Which applicants really want jobs? If someone has accessed a job board and sent an e-mail asking an employer about a job opening, does the person actually want to be an applicant?
- What are the implications of Internet recruiting in terms of confidentiality and privacy?

Evaluating information on the Internet that is gathered about people who apply for jobs through boards, company websites, and other online platforms has become common. Consequently, the loss of personal privacy is a potential disadvantage with Internet recruiting. As a company receives résumés from applicants, it is required to track those applicants and file its EEO report. But the personal information that can be seen by employers on websites such as Facebook, LinkedIn, and others may be inappropriate and often not job-related, and when employers access it, they may be violating ethical standards and legal provisions (i.e., unlawfully considering protected characteristics). Employers should be particularly cautious about evaluating photos or comments posted on LinkedIn, Facebook, and Twitter in the hiring process. Information posted on social media may not be accurate or representative of the candidate and may not relate to job requirements or demands.[66]

A number of states have enacted social media privacy laws that restrict employers from requesting access to personal online networking accounts to screen applicants.[67] Hiring managers and HR staff should proceed cautiously when they are considering checking candidates' social media profiles. It's important to find a balance between invading candidates' privacy and trying to reduce the risk of making a bad hire.[68] Since Internet usage has legal implications for recruiting, HR employment-related policies, training, and enforcement should be based on legal advice. In addition to various legal challenges, there are many ethical concerns related to hiring and social media.

6-4f Advantages of Using Technology in Recruiting

Employers have found many advantages to using technology to support recruiting. Compared to traditional recruiting methods such as newspaper advertising, employment agencies, and search firms, technology-enhanced recruiting can save the company money. Web-based job postings and social media are less expensive than newspapers or job fairs. In addition, web postings can be updated frequently and can be accessed by candidates at any hour of the day or night.

Another major advantage is that by reaching out to so many people who potentially represent diverse backgrounds and regions, a very large pool of applicants can be generated. The ability to find passive job seekers is enhanced with web postings and social media. Technology-enhanced recruiting can also save time. Applicants can respond quickly to job postings by sending electronic responses, instead of using snail mail. Recruiters can respond more rapidly to qualified candidates to obtain additional information, request additional details, and establish times for further communication, including interviews.

The use of technology can enhance the employment brand through consistent messaging that reinforces the company's product brand. Videos, employee testimonials, and interactive games and contests all create an experience that is impossible to duplicate in a newspaper ad.

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6-4g Disadvantages of Using Technology in Recruiting

The advantages of Internet recruiting should be balanced against disadvantages, some of which have already been suggested. Since more people will see job postings, technology-enhanced recruiting often creates additional work for HR staff members and others internally. More online job postings must be sent, many more résumés must be reviewed, and more e-mails, blogs, and tweets need to be dealt with. Expensive specialized software may also be needed to track the high volume of applicants resulting from the recruiting efforts.

In addition, many online applicants might not be qualified for open jobs, and some companies are shying away from web-based job boards in favor of social networking websites that provide better leads. Further, while some social networking websites such as LinkedIn and Twitter can be viable sources of leads, some applicants still prefer to use traditional search methods because of concerns over the limitations of technology—some companies are finding that traditional approaches are positive as well.[69] And employers may find that applicants become wary of online hiring practices if the trend of accessing social media persists.[70]

Another issue with Internet recruiting is that some applicants may have limited Internet access, especially individuals from lower socioeconomic groups and from certain racial/ethnic groups, raising issues of fairness in hiring. Individuals with disabilities may face significant challenges with social networking.[71] In addition, it is easy to access Internet recruiting sources, but not all who do so are actively looking for new jobs. However, these applicants require much employer time to process.

Technology-enhanced recruiting is here to stay, but it should be used in combination with traditional methods to ensure that qualified applicants from all walks of life are aware of job vacancies and are able to respond effectively.

LO4 Identify three internal recruiting sources and issues associated with their use.

6-5 Internal Recruiting Methods

Filling openings internally may motivate employees to stay and grow in the organization rather than pursuing career opportunities elsewhere. The most common internal recruiting methods include organizational databases, job postings, career plans, current employee referrals, and rerecruiting of former employees and applicants. Some of the common pros and cons of internal recruiting are highlighted in Figure 6-9.

FIGURE 6-9 Pros and Cons of Internal Recruiting

Pros	Cons
◆ Improves morale of promotee	◆ "Inbreeding" may lead to less diverse workforce
◆ Provides more accurate performance history	◆ Tunnel vision thinking may lead to a lack of new ideas
◆ Lowers recruiting costs	◆ May lower morale for individuals not promoted
◆ Offers hope and motivation to employees	◆ Employees may engage in "political" infighting for promotions
◆ Facilitates succession planning, future promotions, and career development	◆ Employees promoted may need to be trained or developed
◆ Improves organization fit because current employees understand the company's culture, hierarchy, and policies/practices	◆ Some managers may block the internal movement of good performers

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6-5a Organizational Databases

HR information systems (HRISs) allow HR staff to maintain background and knowledge, skills, and abilities (KSAs) information on existing employees. As openings arise, HR can access databases by doing a keyword search and receiving a listing of current employees meeting the requirements. Software can sort employee data by occupational fields, areas of career interests, previous work histories, and other variables. For instance, if a firm has an opening for someone with an engineering degree and fluency in Mandarin Chinese, the key words *engineering* and *Mandarin* can be entered in a search field, and the program displays a list of all current employees with these two qualifications. Online and electronic talent profiles can also be developed to identify good talent.

The advantage of such talent databases is that they can be linked to other HR activities. Opportunities for career development and advancement are major reasons individuals stay with or leave their employers. With talent databases, internal opportunities for individuals can be identified. Employee profiles are continually updated to include items such as additional training and education completed, special projects handled, and career plans and desires noted during performance appraisals and career-mentoring discussions.

6-5b Job Posting

Job posting
System in which the employer provides notices of job openings, and employees respond by applying for specific openings

A primary way to recruit current employees for other jobs within the organization is **job posting**, a system in which the employer provides notices of job openings, and employees respond by applying for specific openings. Without some sort of job posting system, it is difficult for many employees to find out what jobs are open elsewhere in the organization. In many unionized organizations, job posting and bidding can be quite formal because the procedures are often spelled out in labor agreements. Seniority lists may be used by organizations that make promotion decisions based strictly on seniority.

Job postings have moved from flyers on the bulletin board to real-time job listings on the company's intranet. The purpose of the job posting system is to provide employees with more opportunities to move within the organization. Jobs are generally posted internally before any external recruiting is done. The organization should allow a reasonable period of time for current employees to check notices of available jobs before it considers external applicants.

Employees whose bids are turned down should discuss with their supervisors or HR department representatives what KSAs are needed to improve their opportunities in the future. In the end, only one individual can receive the promotion or transfer. To maintain harmony and motivation in the organization, it is important to explain to each unsuccessful bidder where his or her qualifications fell short. This is an ideal opportunity to reinforce the company's commitment to offer training and development to assist these employees.

When establishing and managing a job posting system, it is useful to consider how the organization might deal with the following issues:

- What happens if no qualified candidates respond to postings?
- Should employees inform their supervisors that they are applying for another job?
- Are there restrictions on how long an employee must stay in a job before applying for another internal one?
- What types of or levels of jobs will not be posted?

Career Plans Many organizations try to fill vacancies through promotions or transfers from within whenever possible. Software provider SAP actively promotes internal positions to the existing workforce through monthly e-mail notifications listing "hot" jobs. This has resulted in a low

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attrition rate of 6 percent to 8 percent, well below the 10 percent industry average. Integrating employee career plans with internal job opportunities can reduce employee turnover, enhance individuals' skills and talent, and improve productivity.[72] Companies should also take steps to prevent "talent hoarding," which occurs when managers are reluctant to let high-performing employees leave their areas for other work opportunities.[73]

Although often successful, internal transfer and promotion of current employees may have some drawbacks. For instance, a person's performance on one job may not be a good predictor of performance on another because different skills may be required. Consider that the best candidate for Sales Manager may not be the top salesperson because the manager's job requires a very different skill set. Also, as employees transfer or are promoted to other jobs, individuals must be recruited to fill the vacated jobs. Planning on how to fill those openings should occur before the job transfers or promotions, not after.

6-5c Employee-Focused Recruiting

One commonly used source of potential recruits is suggestions from current or former employees. Since current and former employees are familiar with the employer, most of them will not refer individuals who are likely to be unqualified or who will make them look bad. Also, follow-up with former employees is likely to be done only with individuals who were good performers. Companies are also staying in touch with former employees through online networking websites so that they may be encouraged to work for the organization again.

Referrals from Current Employee A reliable source of people to fill vacancies is colleagues, friends, and family members of current employees. Current employees can acquaint potential applicants with the advantages of a job with the company, furnish e-mails and other means of introduction, and encourage candidates to apply. Compared to other methods, employee referrals often lead to higher-quality hires made in less time. Software programs can automate the process for even greater efficiency, and social media can improve employee referrals.[74] However, relying too heavily on them as an exclusive recruiting method may cause problems regarding equal employment regulations if diverse applicants are underrepresented in the organization's current workforce. Therefore, some external recruiting might be necessary to avoid legal problems in this area.[75]

Employers in many geographic areas and occupational fields have established employee referral incentive programs. Midsized and larger employers are more likely to use employee referral bonuses. Referral programs typically provide a bonus to the referring employee. Health care software firm Aquilent pays a $2,000 referral bonus after the referred candidate meets his or her six-month anniversary. In addition, the referring employee receives a $100 restaurant gift card and is entered into a grand prize drawing.[76] The following "HR Perspective: Employee Referrals Go 'Social'" feature explains how companies are using employees' connections to expand their recruitment efforts.

Rerecruiting of Former Employees and Applicants Former employees and applicants are another source for recruitment. Both groups offer a time-saving advantage because something is already known about them. Seeking them out as candidates is known as **rerecruiting** because they were recruited previously.

Rerecruiting
Seeking out former employees and recruiting them again to work for an organization

Boomerangs Commonly known as boomerangs, individuals who have left an organization for other jobs are sometimes willing to return because the other positions and employers turned out to be less attractive than initially thought. Retirees are another source of talent that can be hired again

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HR PERSPECTIVE

Employee Referrals Go "Social"

Many managers dream of taking a good idea and making it better through the use of technology. Chicago-based data security firm Trustwave has put its employee referral program on steroids by making it easy for employees to refer connections from their social networks. The HR department's weekly broadcast to its 1,100 employees highlights four featured job vacancies. Employees are encouraged to pass along these job leads to qualified network connections on LinkedIn, Facebook, Twitter, and other social medial platforms.

Employees who refer an individual who is eventually hired score a referral bonus of $5,000. Employees who refer the most new hires are recognized within the company and earn other awards. At one point, this partnership between employees and the company helped Trustwave fill 25 percent of its 399 new hires through employee referrals. Their results are consistent with industry averages of approximately 30 percent hires by referral.

Social networks are especially valuable because employees often remain in contact with former coworkers, professional associates, and classmates from college or trade school. New-generation referral software allows employees to share their networks with the company. Then, when job vacancies match someone in the employee's network, the software notifies the employee and suggests that the employee get in touch with that connection. Because it is voluntary, only those employees who wish to share their networks are included in the automated process.

Employee referrals can save time and money, and they can result in better hires for the organization. Leveraging employees' social networks can speed up the process and help companies find hidden talent.[77]

Given these practices, consider the following questions:

1. What incentive might you offer to employees to entice them to share their social network contact lists with referral software programs?
2. How would you determine the appropriate financial bonus for employee referrals?

KEY COMPETENCIES: Ethical Practice; HR Expertise: Organization/Technology & Data

to fill key positions.[78] Some organizations welcome them back, while others turn a cold shoulder. Annese & Associates, a New York-based communications provider, strongly encourages boomerangs to come back. Alternatively, Bloomberg shuns anyone who leaves the company and views them as traitors who are not treated warmly if they try to return.[79]

Exit interviews can be a key recruiting tactic to let good performers know that they would be welcomed back in the future. The key to getting boomerangs to return is connections with their former managers. Organizations with a favorable view toward boomerangs should encourage managers to maintain contact with good performers who leave the organization.[80]

Alumni Networks To enhance such efforts, some firms have established alumni networks to keep in contact with individuals who have left and also to allow the companies to rerecruit individuals as appropriate openings arise. The idea of these networks began in the consulting industry but has spread to financial services, technology, manufacturing, and other industries. Some of the alumni networks are established by the company, while others are created by the alumni themselves. In either case, they can be a valuable source of candidates who are familiar with the organization and might be great rehires.[81]

Another potential source consists of former applicants. Although they are not entirely an internal source, information about them can be found in the organization's files or an applicant database.

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Recontacting those who have previously applied for jobs and had good qualifications can be a quick and inexpensive way to fill unexpected openings. For instance, one firm that needed two cost accountants immediately contacted qualified previous applicants and was able to hire two individuals who were disenchanted with their current jobs at other companies.

LO5 Highlight five external recruiting sources.

6-6 External Recruiting Sources

External recruiting is part of effective talent acquisition. Regardless of the methods used, external recruiting involves some common advantages and disadvantages, which are highlighted in Figure 6-10. Some prominent traditional and evolving recruiting methods are highlighted next.

6-6a Media Sources

Media sources such as newspapers, magazines, television, radio, and billboards have been used widely in external recruiting. Some firms have sent direct mail using purchased lists of individuals in certain fields or industries. Internet usage has led to media sources being available online, including postings, ads, videos, webinars, and many other expanding media services. In some cities and towns, newspaper ads are still very prominent, though they may trigger job searchers to go to an Internet source for more details.

Recruiting patterns differ depending on company and location; for instance, different types of recruiting might be used to fill jobs at community banks in rural areas than those used to fill jobs in larger urban banks. Whatever medium is used, it should be tied to the relevant labor market, the job, and the company, and it should provide sufficient, easy-to-understand information.

Effectiveness of Evaluating Media Ads HR recruiters should measure the responses that different ads generate to evaluate the effectiveness of various sources. The easiest way to track responses to ads is to use different contact names, e-mail addresses, or phone number codes in each ad so that the employer can identify which advertisement has prompted each applicant response that is received.

Although the total number of responses to each ad should be tracked, judging the success of an ad only by this number is a mistake. For example, it is better to have 10 responses with two qualified applicants than 30 responses with only one qualified applicant. After individuals are hired, follow-up should therefore be done to see which sources produced longer-lasting and better-performing employees.

FIGURE 6-10 Advantages and Disadvantages of External Recruiting

Advantages	Disadvantages
◆ New employees bring new perspectives that can be applied to business opportunities and challenges. ◆ Training new hires may be cheaper and faster because of prior external experience. ◆ New hires are likely to have fewer internal political issues/challenges in the firm. ◆ New hires may bring new industry insights and expertise. ◆ Potentially larger applicant pool generated by search efforts.	◆ The firm may not select someone who will fit well with the job and the organization. ◆ The process may cause morale problems for internal candidates not selected. ◆ New employees may require longer adjustment periods and orientation efforts. ◆ The recruiting process may take more time and resources. ◆ Recruiters often must evaluate more applications.

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Another consideration is the cost of using each type of media. If an Internet posting that cost $500 leads to one hirable candidate, the cost-per-hire figure is quite high compared to a television advertisement that cost $5,000 and resulted in 20 hirable candidates.

6-6b Competitive Recruiting Sources

Other sources for recruiting include professional and trade associations, trade publications, and competitors. Many professional societies and trade associations have websites or publications that provide job ads to their members. Such sources may be useful for recruiting specialized professionals.

Some employers have extended recruiting to customers. Some retailers such as Walmart and Best Buy have aggressive programs to recruit customers to become employees in stores. While in the store, customers can pick up applications, apply online using kiosks, and even schedule interviews with managers or HR staff members. Other firms have included employment announcements when sending out customer bills or newsletters.

6-6c Employment Agencies

Employment agencies, both public and private, are a recruiting source. Every U.S. state has its own state-sponsored employment agency. These agencies operate branch offices in cities throughout the state and do not charge fees to applicants or employers. They also have websites that potential applicants can use without having to go to the offices.

Private employment agencies operate in most cities. For a fee collected from either the employee or the employer, these agencies do some preliminary screening and put employers in touch with applicants. Private employment agencies differ considerably in the levels of service, costs, policies, and types of applicants they provide.

Headhunters
Employment agencies that focus their efforts on executive, managerial, and professional positions

Headhunters The size of the fees and the aggressiveness with which some employment agencies pursue candidates for executive and other openings have led to such firms being called **headhunters**. These employment agencies focus their efforts on executive, managerial, and professional positions. Executive search firms are split into two groups: (1) *contingency firms* that charge a fee only after a candidate has been hired by a client company and (2) *retainer firms* that charge the client a set fee whether or not the contracted search is successful. Most of the larger firms work on a retainer basis. However, search firms are generally ethically bound not to approach employees of client companies in their search for job candidates for another employer.

6-6d Labor Unions

Labor unions may be a useful source of certain types of workers. For example, in the electrical and construction industries, unions traditionally have supplied workers to employers. A labor pool is generally available through a union, and workers can be dispatched from the hiring hall to particular jobs in order to meet the needs of employers.

In some instances, labor unions can control or influence recruiting and staffing activity. An organization with a strong union may have less flexibility than a nonunion company in deciding who will be hired and where those people will be placed. Unions can benefit employers through apprenticeship and cooperative staffing programs, as they do in the building and printing industries.

6-6e Job Fairs and Creative Recruiting

Employers that need to fill a large number of jobs quickly may participate in job fairs and special recruiting events. Job fairs have been held by economic development entities, employer and HR associations, and other community groups to help bring employers and potential job candidates together. For instance, the SHRM chapter in a midwestern metropolitan area annually sponsors

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a job fair at which 75 to 100 employers can meet applicants. Publicity in the city draws several hundred potential recruits for different types of jobs.

Job fairs can give participating companies access to a very large pool of applicants. However, many of those applicants may be unqualified or unsuitable for hiring. In addition, well-known employers are likely to have a lot of traffic at their booths, while smaller and/or unfamiliar firms may struggle to get noticed. Industry- or skill-specific events usually have more qualified candidates. Such job fairs can also attract employed candidates who are casually looking around but may not put their résumés on the Internet.

Job fair coordinators work hard to make the experience fun and interactive by adding amenities such as food, music, live art shows, and contests to combat the stigma of "boring" employment events.[82] Virtual job fairs are becoming more common to recruit college students. Collegefeed is a third party that sets up virtual job fairs at schools such as Stanford and Carnegie Mellon. The university placement staff does not have to deal with administrative details or worry about hosting the virtual job fair on its own website. Although employers and students do not meet face-to-face, the convenience of virtual job fairs helps busy candidates learn about job opportunities.[83]

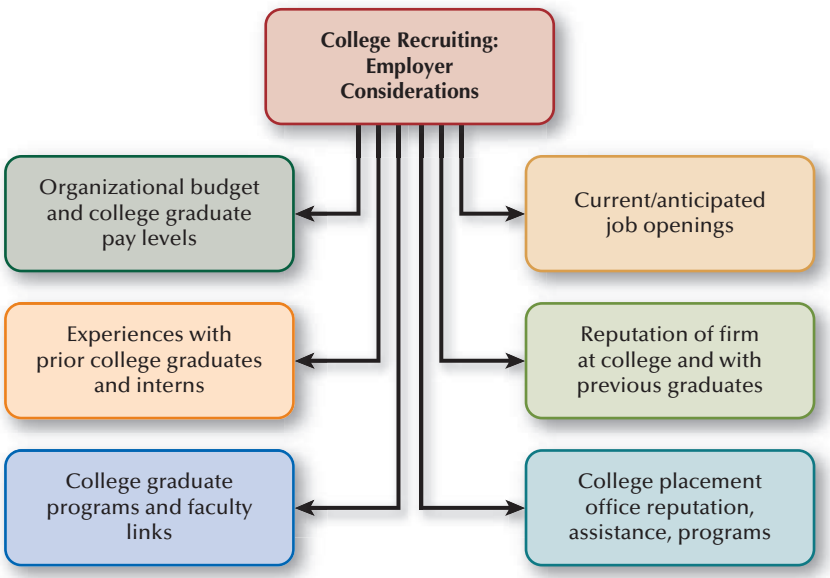
6-6f Educational Institutions and Recruiting

College and university students are a significant source of entry-level professional and technical employees. Most universities maintain career placement offices where employers and applicants can meet. Many considerations affect an employer's choice of colleges and universities at which to conduct interviews, as Figure 6-11 indicates.

Since college/university recruiting can be expensive and require significant time and effort, employers need to determine whether current and future jobs require individuals with college degrees in specific fields. They should also carefully select the colleges where they are likely to find the greatest hiring success.

Numerous factors determine success in college recruiting. Some employers actively build continuing relationships with individual faculty members and career staff at designated colleges and universities. Maintaining a presence on campus by providing guest speakers for classes and student groups increases an employer's contacts. Some CEOs even visit college campuses to connect with students and recent graduates.[84] Employers with a continuing presence and support on a campus are more likely to see positive college recruiting results.

FIGURE 6-11 College Recruiting: Considerations for Employers



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Desirable Attributes of College Recruits For many employers, grade point average (GPA) is a key criterion for evaluating job candidates during on-campus interviews. Some employers are beginning to put less emphasis on the name of the university and more focus on the student's experience as it relates to the job requirements. Hiring managers are asking students to show off projects they worked on, explain how they developed skills, and highlight their interpersonal capabilities. Real-world experience can outweigh attending an elite university.[85]

Internships Since employers are more likely to hire college candidates with related employment experience, internships can critically enhance résumés. Internship experience is very important to employers, candidates, and college/university efforts. Internships give college students the opportunity to work for different companies and gain important career exposure. The relationship between an intern and his or her supervisor has a major impact on the quality of the experience, so companies should assign supportive managers who are able to offer a positive experience.[86] These work arrangements often lead to full-time employment after graduation, benefiting both the intern and the hiring organization.[87] As will be discussed in Chapter 11, recent Department of Labor compensation guidelines prescribe a "primary beneficiary" test to determine whether or not individuals should be paid for their time working in internships. Nonprofit and government employers are not subject to these guidelines.

School Recruiting High schools and vocational/technical schools may be valuable sources of new employees for some organizations. Many schools have a centralized guidance or placement office. Participating in career days and giving company tours to school groups are ways to maintain good contact with school sources. Cooperative programs, in which students work part-time while attending school, may also generate qualified future applicants for full-time positions.

Employers recognize that they may need to begin attracting capable students while they are in high school. For example, GE, IBM, and other corporations fund programs to encourage students with science and math skills to participate in summer engineering internships. Some employers specifically target talented members of minority racial/ethnic groups in high schools and provide them with career encouragement, summer internships, and mentoring programs as part of workforce diversity efforts.

6-7 Recruiting Evaluation and Metrics

LO6 Define recruiting measurement and metrics and illustrate how analytics can be used to improve talent acquisition.

MEASURE

To determine the effectiveness of various recruiting sources and methods, it is important to evaluate recruiting efforts. The primary way to discover whether recruiting efforts are financially effective is to conduct formal analyses as part of recruiting evaluation. The emergence of Big Data and analytics is making this process easier than it was in the past.[88] Various other factors can be measured when evaluating recruiting, such as conversion rates for the various stages of recruiting (or the "recruiting funnel") and quality of job candidates.[89] Figure 6-12 indicates many key recruiting measures that employers frequently use to evaluate their recruiting efforts.

6-7a Evaluating Recruiting Quantity and Quality

Organizations evaluate recruiting effectiveness to see how their recruiting efforts compare with their goals and budget, past patterns, and the recruiting performance of other organizations. Measures of recruiting effectiveness can be used to see whether sufficient numbers of targeted population groups are being attracted and to determine the best sources of applicants.

Information about job performance, absenteeism, cost of training, and turnover by recruiting source helps adjust future recruiting efforts. For example, some companies find that recruiting at certain colleges or universities furnishes stable high performers, whereas recruiting at other schools

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FIGURE 6-12 Recruiting Measurement Areas

provides employees who are more prone to leave the organization. General metrics for evaluating recruiting include quantity and quality of applicants.

Quantity of Applicants Since the goal of a good recruiting program is to generate a large pool of applicants from which to choose, *quantity* is a natural place to begin evaluation. The basic measure here considers whether the quantity of recruits is sufficient to fill job vacancies. A related question is as follows: Does recruiting at this source provide enough qualified applicants with an appropriate mix of diverse individuals?

Quality of Applicants In addition to quantity, a key issue is whether the applicants' qualifications are sufficient to enable the organization to fill the job openings. Do the applicants meet job specifications, and do they perform the jobs well after hire? What is each recruiter's failure rate for new hires? Measures that can be used include performance appraisal scores, months until promotion, production quantity, and sales volume for each hire.

6-7b Evaluating Recruiting Satisfaction

The satisfaction of two groups is useful in evaluating recruiting. Certainly, the views of managers with openings to fill are important because they are HR "customers" in a very real sense. But the applicants (those hired and those not hired) are also an important part of the process and can provide useful input.

Managers can respond to questions about the quality of the applicant pool, the recruiter's service, the timeliness of the process, and any problems that they experienced. Applicants might provide input on how they were treated, their perceptions of the company, the length of the recruiting process, and other aspects.

6-7c Evaluating the Time Required to Fill Openings

Looking at the length of time it takes to fill openings is a common means of evaluating recruiting efforts. If openings are not filled quickly with qualified candidates, the organization's work and productivity are likely to suffer. If it takes 45 days to fill vacant positions, managers who need those employees will be unhappy, and unfilled positions cost money. Further, it may tarnish customer relationships if the company cannot deliver as promised.

Generally, it is useful to calculate the average amount of time it takes from contact to hire for each source of applicants because some sources may produce recruits faster than others. For

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example, one firm calculated the following averages for nonexempt, warehouse, and manufacturing jobs:

Source	Average Time from Contact to Hire (days)
Internet applicants	32
Employment agencies	25
Walk-in candidates	17
Employee referrals	12

These data reveal that when this firm used the Internet and employment agencies, it took significantly longer to fill the openings than when it relied on walk-in candidates and employee referrals. Matching sources used to the time available showed that employee referrals resulted in the fastest recruiting results for this particular group of jobs. However, different results might occur when filling executive jobs or highly skilled network technician jobs. Overall, analyses need to be made across the organization, by geographic region, and by different types of jobs.

6-7d Evaluating the Cost of Recruiting

Different formulas can be used to evaluate recruiting costs. The calculation most often used to measure such costs divides total recruiting expenses for the year by the number of hires for the year:

$$\frac{\text{total recruiting expenses}}{\text{number of recruits hired}}$$

The problem with this approach is accurately identifying items that should be included in recruiting expenses. Should expenses for testing, background checks, relocations, or signing bonuses be included, or are they more properly excluded?

Once such questions are answered, the costs can be allocated to various sources to determine how much each hire from each source costs. It is logical for employers to evaluate the cost of recruiting as a primary metric. Recruiting costs might include employment agencies, advertising, internal sources, and external means. The costs can also be sorted by type of job—costs for hiring managers, administrative assistants, bookkeepers, and sales personnel will all be different.

Cost is certainly an issue, and some employers are quite concerned about cost per hire, but quality might be the trade-off. If an organization rushes the hiring process, it is possible that less-qualified candidates will be hired. Then time will be spent in dealing with mismatched or underperforming employees. And the organization will incur more costs as it works to hire a replacement.

6-7e General Recruiting Process Metrics

Because recruiting activities are important, the costs and benefits associated with them should be analyzed. A cost–benefit analysis of recruiting efforts may include both direct costs (advertising, recruiters' salaries, travel, agency fees, etc.) and indirect costs (involvement of operating managers, public relations, image, etc.). Cost–benefit information on each recruiting source can be calculated. Comparing the length of time that applicants hired from each source stay in the organization with the cost of hiring from that source also offers a useful perspective.

Yield ratios
Comparison of the number of applicants at one stage of the recruiting process with the number at the next stage

Yield Ratios One means for evaluating recruiting efforts is **yield ratios**, which compare the number of applicants at one stage of the recruiting process with the number at the next stage. The result is a tool for approximating the required size of the initial applicant pool. It is useful to visualize yield ratios as a pyramid in which the employer starts with a broad base of applicants that progressively narrows. As Figure 6-13 depicts, to end up with five hires for the job in question, the example company must begin with 100 applicants in the pool, as long as yield ratios remain as shown.

A different approach to using yield ratios suggests that over a specific length of time, organizations can develop ranges for crucial ratios. When a given indicator ratio falls outside that range, it

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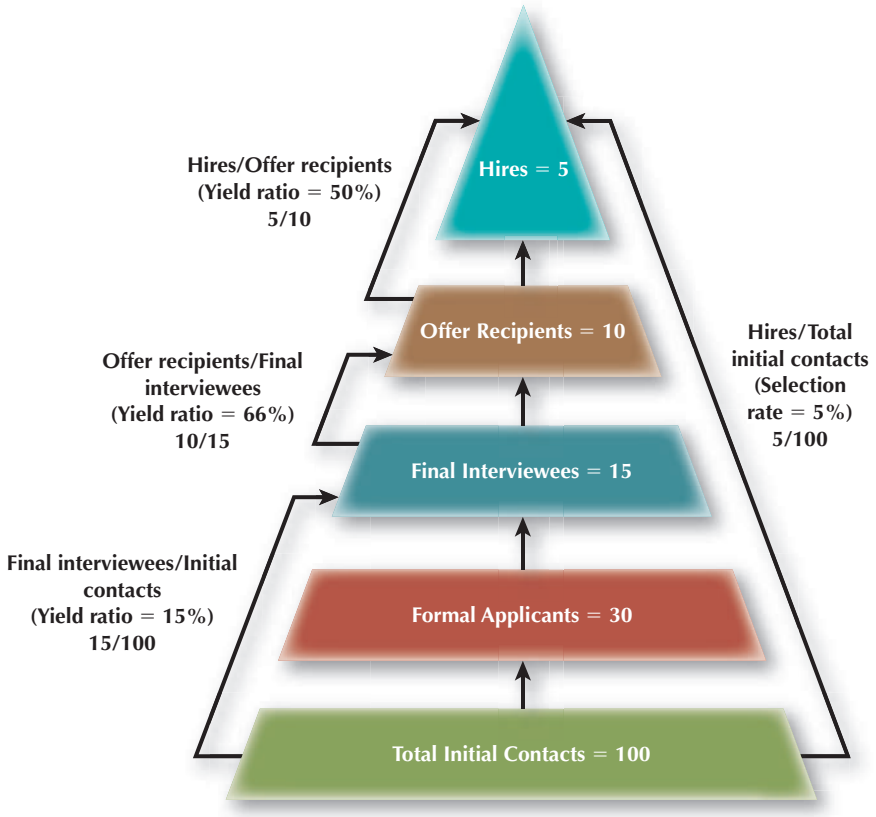
FIGURE 6-13 Sample Recruiting Evaluation Pyramid



may indicate problems in the recruiting process. As an example, in recruiting at colleges, the following ratios might be useful:

$$\frac{\text{college seniors given second interviews}}{\text{total number of seniors interviewed}} = \text{range of 30\% to 50\%}$$

$$\frac{\text{number who accept offer}}{\text{number invited to the company to visit}} = \text{range of 50\% to 70\%}$$

$$\frac{\text{number hired}}{\text{number offered a job}} = \text{range of 70\% to 80\%}$$

$$\frac{\text{number finally hired}}{\text{total number interviewed on campus}} = \text{range of 10\% to 20\%}$$

Selection rate
Percentage hired from a given group of candidates

Selection Rate Another useful calculation is the **selection rate**, which is the percentage hired from a given group of candidates. It equals the number hired divided by the number of applicants; for example, a rate of 30 percent indicates that 3 out of 10 applicants were hired. The selection rate is also affected by the validity of the selection process. A relatively unsophisticated selection program might pick 8 out of 10 applicants for the job. Four of those might turn out to be good

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employees. A more valid selection process might pick 5 out of 10 applicants, but 4 of 5 perform well. Selection rate measures not just recruiting but selection issues as well. So do acceptance rate and success base rate.

Acceptance rate
Percentage of applicants hired divided by total number of applicants offered jobs

Acceptance Rate Calculating the acceptance rate helps identify how successful the organization is at hiring candidates. The **acceptance rate** is the percentage of applicants hired divided by the total number of applicants offered jobs. After the company goes through all the effort to screen, interview, and make job offers, most of those offered jobs will hopefully accept them. If they do not, HR can investigate why managers and HR staff cannot "close the deal." It is common for HR staff to track the reasons candidates turn down job offers. That analysis helps explain the rejection rate by learning how competitive the employer is compared with other employers and highlighting what factors are causing candidates to choose employment elsewhere.

Success Base Rate A longer-term measure of recruiting effectiveness is the applicants' success base rate. The success base rate can be determined by comparing the number of past applicants who have become successful employees against the number of applicants they competed against for their jobs, using historical data within the organization. Also, benchmarking data can be used to compare the success base rate with the success rates of other employers in the geographic area or industry. This rate indicates whether the quality of the employees hired results in employees who perform well and have low turnover. For example, assume that if 10 people were hired at random, 4 of them would perform satisfactorily. Thus, a successful recruiting program should aim to attract the 4 in 10 who are capable of doing well at the particular job.

Realistically, no recruiting program will attract only people who will succeed in a particular job. However, efforts to make the recruiting program attract the largest proportion possible of those in the base rate group can make recruiting efforts more productive in both the short and long term.

6-7f Improving Recruiting Effectiveness

To make recruiting more effective, consider the following recruiting activities:

- *Mining résumés:* A software approach to getting the best-fitting résumés from a big database
- *Tracking applicants:* An approach that takes an applicant all the way from a job listing to performance appraisal results
- *Using an employer career website:* A convenient recruiting place on an employer's website where applicants can see what jobs are available and apply
- *Providing an internal mobility system:* A system that tracks prospects in the company and matches them with jobs as they become available
- *Providing realistic job previews:* A process that individuals can use to get details on the employer and the jobs
- *Responsive recruiting:* An approach whereby applicants receive timely responses

Recruiting effectiveness can be improved by using evaluation data to target different applicant pools, tap broader labor markets, change recruiting methods, improve internal handling and interviewing of applicants, and train recruiters and managers.

Another key way to improve recruiting effectiveness rests with the recruiters themselves. Those involved in the recruiting process can either turn off recruits or create excitement. For instance, recruiters who emphasize positive aspects of the jobs and their employers can enhance recruiting effectiveness. Thus, it is important that recruiters communicate well with applicants and treat them fairly and professionally; training can improve the effectiveness of recruiters.[90] Effective recruiting is crucial for every company, as it leads to the opportunity to select individuals for employment who will enhance organizational success.

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SUMMARY

- Talent acquisition is the process of finding and hiring the high-quality talent needed to meet the organization's workforce needs.
- Talent acquisition involves recruitment and selection—much like managing the supply chain.
- Recruiting is the process of generating a pool of qualified applicants for an organization's jobs through a series of activities.
- Recruiting must be viewed strategically and tied to HR planning.
- Recruiting is a shared responsibility between HR and line managers, and each group contributes specific expertise to the process.
- Developing and managing the employment brand is an important aspect of attracting the most appropriate individuals to the organization.
- Organizations utilize both core and flexible workers to produce goods and services.
- The decision to use internal or external recruiting sources should take into account the advantages and disadvantages of each source. Efforts should be made to recruit a diverse workforce, including older workers, individuals with disabilities, women, and members of various racial/ethnic groups.
- Elements of the labor market are labor force population, applicant population, and applicant pool.
- Labor markets can be categorized by geographic area, industry, occupation, qualifications, and other characteristics.
- Technology has had a major impact on recruiting, and social media and other Internet platforms are important sources of applicants.
- While Internet recruiting may save money and time, it may also generate more unqualified applicants and may not reach certain groups of potential applicants.
- The most common methods of internal recruiting include organizational databases, job postings, career plans, employee-focused recruiting, and rerecruiting of former employees and applicants.
- The most common external recruiting sources are media, competitors, labor unions, employment agencies, job fairs and other special events, and educational institutions.
- Recruiting efforts should be evaluated to assess the effectiveness of the methods and approaches.

CRITICAL THINKING CHALLENGES

1. What labor markets should be considered when recruiting to fill an opening for a housekeeping staff at a local hospital? What labor markets should be considered for staffing the chief surgeon for the local hospital?
2. Discuss ways a regional bank could effectively use the Internet to recruit bank tellers.
3. Describe how a local firm might be able to utilize college/university interns to generate future applicants for anticipated job openings within the next one to two years.
4. Assume you are going to look for a current job of interest to you. Utilize general job websites such as Monster, Taleo, Job, Yahoo!, and Indeed to learn about job possibilities for yourself.
5. Your small home health care service company of about 50 workers has traditionally recruited employees using newspaper print advertisements. Applications have been decreasing from these ads, so you are looking for alternative ways to generate more applicant flow. The company president has requested that you, as HR manager, prepare an overview of how educational/academic and Internet recruiting efforts might improve the recruiting traffic. Present pros and cons of these new methods and compare them to newspaper recruiting.
   A. What will your company need to do differently to actively use educational/academic and Internet recruiting as you compete with other employers for qualified applicants?
   B. As you recruit home health care professionals, identify the niche websites that you recommend be used for your Internet postings and the reasons for your recommendations. Identify possible educational/academic sources in your region.

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CASE General Electric Hires Marketing Expert to Build Employment Brand

General Electric hired marketing expert Shaunda Zilich to head up the company's efforts to build a branding strategy and improve recruiting effectiveness. Her background working in various jobs in different organizations made her especially well-suited to manage the recruiting efforts at General Electric. In particular, she heads up several groups that focus on establishing General Electric's global brand so that it appeals to a variety of job applicants. Zilich believes that her background in marketing shapes the way she approaches global recruitment because sales and staffing are so linked in practice. Many employers use the employment brand and the marketing function together to hire excellent employees.

Zilich offers helpful advice for positive and effective recruiting. In addition to developing a positive brand, employers need to be people-oriented. They can connect with others by getting to know job applicants better, identifying their interests and professional goals. Recruiting professionals should also understand how to effectively interact with candidates to determine exactly what they want from an employer. Once these characteristics are identified, then recruiters can start matching individuals to open positions. Such a matching process can result in a long-term career in a company, or it can result in a more short-term career but still beneficial employment situation.

Zilich also believes that organizations should encourage current employees to be ambassadors of a company's brand, spreading the word about the available opportunities. Part of this message includes the kinds of experiences that interest job applicants. For example, corporate sustainability and social responsibility are important to potential employees, and these issues can be included in recruiting messages to generate interest. Zilich claims that successful recruiting is tied to good messaging that is delivered at the right time. Doing this allows company to identify good talent that is interested in the company's mission, even if individuals are not actively looking for new work opportunities.

General Electric is taking the right steps to build a successful recruiting program. The company seeks to build a bridge between marketing and HR, which has enabled it to more broadly define how people are recruited, hired, and matched to particular work opportunities. By highlighting the company's unique culture, it generates interest among job candidates, even the passive ones who aren't looking to leave their current jobs.[91] Given these strategies, consider the following questions:

QUESTIONS

1. How would you evaluate General Electric's decision to hire an individual with a marketing background to lead the company's recruiting efforts? Do you think this approach would work in other organizations?
2. What are some ways that employers can use their brands to enhance the recruitment of employees? What current issues could be connected to a brand in order to recruit qualified and motivated employees?

SUPPLEMENTAL CASES

Finding Employees in the Customer Database

This case illustrates how many organizations must ramp up their hiring during the holiday season in order to adequately cover staffing needs. (For the case, visit MindTap® at www.cengage.com/login.)

FedEx's Independent Contractors: Is the Company Really Recruiting Employees?

This case shows that to be able to define workers as independent contractors, an organization must meet several legal requirements that distinguish independent contractors from employees. (For the case, visit MindTap® at www.cengage.com/login.)

Recruiting at Kia

This case highlights how the car manufacturer Kia utilized an extensive recruiting process to hire good employees at a facility in Georgia. (For the case, visit MindTap® at www.cengage.com/login.)

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Northwest State College

This case shows how recruiting policies can work against successful recruiting in a tight labor market. (For the case, visit MindTap® at www.cengage.com/login.)

Enterprise Recruiting

This case highlights how a large car rental firm successfully uses a range of recruiting approaches. (For the case, visit MindTap® at www.cengage.com/login.)

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CHAPTER 7

Selecting Human Resources

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Understand selection and placement and the levels of person/environment fit.

LO2 Explain two important qualities of selection predictors—reliability and validity.

LO3 Discuss the steps of a typical selection process.

LO4 Identify three types of selection tests and legal concerns about their uses.

LO5 Contrast several types of selection interviews and some key considerations in conducting these interviews.

LO6 Specify how legal concerns affect background investigations of applicants and use of medical examinations in the selection process.

LO7 Describe the emerging challenges and best practices associated with employee selection.

WHAT'S TRENDING IN EMPLOYEE SELECTION

The HR process of selecting employees is continuing to evolve as employers consider a variety of strategic, economic, legal, and professional conditions that are constantly changing. These varied conditions shape activities such as applying for work, screening, and hiring in different ways. Here's what's trending in employee selection:

1. Increased legal oversight of the selection process means that companies must develop fair hiring practices. For instance, there is interest in expanding protection for applicants who have criminal records through ban-the-box policies.
2. Easily-accessible applicant information that is posted online creates a digital fingerprint that follows people throughout their careers and lives. Employers often use such information in hiring decisions, so policies should be developed to better manage this part of screening.
3. Continuous screening, which involves the ongoing collection of information about employees after they are hired, is on the rise. Companies may implement ongoing screening of employees in an effort to reduce the likelihood of misconduct and poor job performance.
4. Companies are starting to screen contingent employees (gig workers, freelancers, independent contractors, etc.) because they represent a growing segment of the workforce and are needed to fill temporary and seasonal work opportunities. Properly screening these individuals is important because they affect a company's brand.[1]

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HEADLINE

Lights . . . Camera . . . Action! Firms Use Tryouts and Auditions to Hire Employees

With employers receiving so many applications for open positions, hiring the right employees is often a difficult task. In addition, applicants can "fake" good answers and behaviors during interviews, which make selection decisions even more challenging. Relying on past indicators of performance can also be unreliable when determining how well individuals will perform. Given these concerns, some employers are using tryouts and other creative interview activities (e.g., auditions) to identify the best workers for jobs.

Tryouts require individuals to perform actual work duties while employed on a contract or temporary basis, arrangements that are similar to probationary employment. These assignments can include short-term projects that mimic the typical responsibilities of a position, or they may involve simply interacting with coworkers and functioning within the broader corporate culture so that hiring managers can determine if there is proper fit. Similarly, auditions require candidates to behave in ways that are expected in real work roles. The idea behind these activities is to identify what job candidates do well and how they might improve moving forward. Seeing individuals perform in work-related roles provides a very direct way to evaluate how they will contribute to the workplace.

The San Francisco-based firm Automattic, which developed the WordPress blog and other applications, ditched its traditional selection procedures in favor of tryouts that require applicants to work with coworkers on assignments that are similar to ones to be completed if they are hired. Extensive feedback about job performance is also provided to individuals. Entelo, another firm based in San Francisco that offers recruiting software, also relies on tryouts to hire competent employees. Individuals are given part-time assignments that last about 2–4 weeks, which they complete at night and over weekends. These tryout programs have enabled Automattic and Entelo to hire about 40–50 percent of participants.

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Companies utilize other innovative activities to assist with employee selection. For instance, Cold Stone Creamery relies on auditions to hire many of its employees. Applicants are required to sing and dance in interviews to determine how well they might entertain customers. These auditions also indicate how well individuals can help create a fun and dynamic environment at work, something that differentiates Cold Stone Creamery from other ice cream vendors. Likewise, San Francisco-based Uber created a "Code on the Road" challenge that asks riders to answer several timed queries that show how well-suited they are to writing computer code. Individuals who perform well are contacted about available work opportunities.[2]

These trends and many additional topics will be addressed in this chapter. The selection of high-quality employees depends on effective recruiting to generate positive applicant pools, which is discussed in the previous chapter (Chapter 6). And the success of each new employee also depends on the ability of first-line managers to ensure appropriate training that leads to high job performance, which will be explored in the next chapter (Chapter 8).

LO1 Understand selection and placement and the levels of person/environment fit.

7-1 Selection and Placement

Selection is the second phase of the talent acquisition process. It involves choosing individuals with the correct qualifications needed to fill jobs in an organization. When looking at selection as part of the supply chain, think about recruiting as putting out the "request for proposals" and selection as narrowing down to the best "supplier" of talent. Without qualified employees, an organization is far less likely to succeed because it will not be able to take care of important business strategies.

Selection
The process of choosing individuals with the correct qualifications needed to fill jobs in an organization

7-1a Placement

The ultimate purpose of selection is **placement**, or fitting a person to the right job. Placement of people can be seen primarily as a matching process. How well an employee is matched to a job can affect the amount and quality of the employee's work, as well as the training and operating costs required to prepare the individual to perform. Further, employee morale is often enhanced because good fit encourages individuals to be positive about their jobs and what they accomplish.[3]

Placement
Fitting a person to the right job

Selection and placement activities typically focus on applicants' knowledge, skills, and abilities (KSAs), but they should also include the candidate's motivation and needs. Psychologists label this *person/environment fit (P/E fit).* P/E fit is vitally important to create a good match for both the employee and the organization. For maximum job satisfaction and performance, employees should be a good fit at all levels of the organization, as shown in Figure 7-1.

Employers are concerned about the congruence between people and companies, a process called **person/organization fit**. Person/organization fit is important from a *values and culture* perspective,

Person/organization fit
The congruence between individuals and organizational factors

FIGURE 7-1 Person/Environment Fit (P/E Fit)

Organization Level	Fit Category	Fit Elements
• Organization (macro)	• Person/organization fit	• Values, culture
• Group/work unit (meso)	• Person/group fit	• Interpersonal, team skills
• Job (micro)	• Person/job fit	• Knowledge, skills, abilities, and motivation

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with many organizations trying to positively link a person's principles to the values of the company. Zappos and LogMeIn are two organizations that emphasize cultural value fit when interviewing and hiring new employees.[4] Organizations also tend to favor job applicants who effectively blend into how business is conducted, and they often avoid individuals who do not fit. For instance, there may be some reluctance to hire managers who have worked in controversial industries that don't match a hiring organization's values.[5] It is also important for employees to act in ways consistent with culture. Research suggests that when new hires use communication styles in their e-mails that are similar to other employees, they are more likely to stay, perform well, and be promoted into leadership roles.[6] Finally, person/organization fit is also important from an applicant perspective, with one study showing that positive perceptions of fit led to greater application and hiring success.[7]

Person/group fit
The congruence between individuals and group or work unit dynamics

In addition to being a good match for the organization, it is also important that each individual works well with others in their work unit or department. Thus, **person/group fit** is the congruence between individuals and group or work unit dynamics. A qualified employee who does not communicate well, share information, or otherwise act as an effective team member can harm the group's performance. Companies are structured into teams or groups that operate as a coordinated unit; therefore, getting the right people on the team is especially important.[8]

Person/job fit
Matching the knowledge, skills, abilities, and motivations of individuals with the requirements of the job

Selection decisions often begin with establishing **person/job fit**, that is, matching the knowledge, skills, abilities, and motivations of individuals with the requirements of the job. Fit is related not only to work satisfaction but also to company commitment and intentions to quit work.

Job analysis (Chapter 4) is conducted to help identify the most important KSAs for job success. Lack of fit between a person's KSAs and job requirements can be classified as a *mismatch.* A mismatch results from poor pairing of a person's needs, interests, skills, abilities, personality, and expectations with characteristics of the job, available rewards, coworker relationships, and the organizational culture.[9] If an individual is poorly suited for a job and/or company, it is difficult to achieve acceptable performance, and the hiring organization can incur many costs because of poor fit.[10]

Attraction-selection-attrition (ASA) theory
Job candidates are attracted to and selected by firms where similar types of individuals are employed, and individuals who are very different quit their jobs to work elsewhere

Placement decisions are complex because of the many ways in which people must be a good fit for the work environment. As a result, the **attraction-selection-attrition (ASA) theory** is often used to better understand the concept of fit in companies. The ASA theory proposes that job candidates are attracted to and selected by firms where similar types of individuals are employed, and individuals who are very different quit their jobs to work elsewhere. Based on these ideas, it is easy to see why P/E fit is important for long-term selection and placement strategies. If positive fit is established, organizations should have a motivated and committed workforce that is more likely to stay and perform.[11]

7-1b Selection Responsibilities

Selection is a key responsibility for all managers in a company. Organizations vary in how they allocate selection responsibilities between HR specialists and operating managers. Meeting Equal Employment Opportunity Commission (EEOC) requirements and the strategic implications of staffing have encouraged many companies to place greater emphasis on hiring procedures and techniques and to centralize selection within the HR department. In other companies, each department (or its management team) screens and hires its own staff. Managers, especially those working in smaller firms, often select their own employees because these individuals directly impact their work, and there is often no HR staff to help make these decisions. But the validity and effectiveness of this approach may be questionable because managers may lack training in selection procedures and regulations.

Another approach is to have HR professionals initially screen job candidates, and then managers or supervisors make the final selection decisions from the qualified applicant pool. Generally, the higher the position being filled, the greater the likelihood that the ultimate hiring decisions will be made by operating managers rather than HR professionals. The talent acquisition function in any organization may involve some or all of the activities shown in Figure 7-2.

Selection responsibilities are influenced by the existence of a central employment office, which is usually located in the Human Resources function. In smaller organizations, there is not enough staffing activity to justify a full-time employment specialist. But for larger firms, centralizing activities in an employment office might be appropriate. Centralized HR can improve legal compliance and ensure consistency in selection procedures. Further, HR staff is more likely to be aware of best practices and current trends that can be adopted by the company.

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FIGURE 7-2 Talent Acquisition Functions

Pre-Hire	Post-Hire
◆ Receive applications	◆ Place and assign new hires
◆ Interview applicants	◆ Orient and onboard new hires
◆ Administer pre-employment tests	◆ Conduct follow-up evaluations on new employees
◆ Conduct background screening	◆ Conduct exit interviews with departing employees
◆ Schedule physical examination	◆ Maintain appropriate records and reports

HR PERSPECTIVE

A Focus on Competencies for Strategic Hiring

The HR profession often emphasizes the assessment of individual competencies as a strategic way to improve the selection process in organizations. In fact, SHRM advances a competency-based model as a guide for certification. One of the competencies included is "critical evaluation," which has some bearing on assessments made during selection. The use of competency-based hiring approaches is beneficial for several reasons. For instance, questions that tap competencies in interviews can be used many times, thereby making this part of selection easier. Focusing on competencies can also enhance workplace diversity because different kinds of people are ultimately hired based on their unique and varying characteristics. Finally, competencies can help employers highlight "transferable skills" that can be useful in many different types of jobs.

These advantages have led many firms to create competency-oriented strategies for improved hiring. Colorado-based Devereux Cleo Wallace started using such a strategy when focusing on more traditional selection criteria such as experience and academic background were the likely cause of high turnover rates. Highlighting competencies enabled the firm to identify the right soft skills needed to perform work effectively. Employee turnover also decreased dramatically. Colorado Springs Utilities also assesses competencies during interviews, which are treated as a combination of knowledge, skills, and behavior-based characteristics. The real estate company Colliers International and the dental equipment maker A-dec also focus on competencies in selection to enhance the quality of assessment and reduce turnover.

So how should companies develop such hiring strategies? First, employees should identify which competencies are relevant for the positions being staffed, including hiring managers, top performers, and possibly outside experts in the process. Then, the list of competencies should be cut down to a manageable number. Finally, questions that tap competencies should be created, using them in actual interview situations with some follow up to determine their effectiveness.[12]

Consider the following questions about using competencies in hiring:

1. Why should employers consider using competency-based approaches in hiring? What are the advantages? Are there any possible disadvantages?
2. If you were the HR manager working for a medium-sized company with adequate resources, how would you highlight competencies in selection decisions? How would you change the selection process to accommodate this focus on competencies?

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7-1c Selection, Criteria, Predictors, and Job Performance

STRATEGY

Selection decisions are all about predicting which applicants will be the most successful on the job. Since no two individuals are exactly the same, the selection process is used to determine how those differences might affect job performance. There is a great deal of science and a little bit of art to these decisions. Employers such as Google also use technology, large quantities of data, analytics, and other quantitative metrics to predict how individuals will perform in jobs, thus enhancing selection decisions and increasing fit; gamification, digital interviewing, and social networks are several ways that talent may be identified.[13]

Companies develop selection and other people strategies to hire the right employees, which requires some consideration of individual and work characteristics. For instance, humans tend to be creatures of habit, so the best predictor of future behavior is often past behavior. Of course, past behavior is not an absolute predictor, but it tends to be a good indicator of how well an individual will perform in the future. Selection methods and measures attempt to capture past behavior to help predict the future.[14] Employers may assess other factors that enable job candidates to perform at work, including individual potential, "practical intelligence" (the ability to recognize undesirable courses of action), and "transferable talent" (key abilities that can be matched with the right jobs).[15]

There is also interest in selection strategies that identify broad individual competencies that lead to success.[16] The preceding "HR Perspective: A Focus on Competencies for Strategic Hiring" highlights this approach. Competencies are particularly key when hiring people to work in HR roles, and one study found that 37 percent of business executives believed that HR candidates do not possess "leadership & navigation" competencies, as well as "communication" (36 percent), "business acumen" (35 percent), "critical evaluation" (35 percent), and "relationship management" (33 percent) compentencies.[17] But it is also important for companies to be strategic about "forward filling" jobs before individuals leave, which involves evaluating what emerging KSAs are needed for work and identifying the right people to hire.[18]

Regardless of whether an employer uses job-specific KSAs or a more general skill set or competency approaches, effective selection of employees involves using selection criteria to predict future employee behavior. The heart of an effective selection system is an understanding of what constitutes good job performance. Knowing what good performance looks like in a particular job helps identify the qualities an employee must have to achieve successful performance. These are called *selection criteria*.

Selection criterion
Characteristic that a person must possess to successfully perform job duties

A **selection criterion** is a characteristic that a person must possess to successfully perform job duties. Figure 7-3 shows that ability, motivation, intelligence, conscientiousness, appropriate risk, emotional control, communication skills, and permanence might be the selection criteria for many jobs. Selection criteria that might be more specific to managerial jobs include leading and deciding, supporting and cooperating, organizing and executing, and enterprising and performing.

Predictors of selection criteria
Measurable or visible indicators of selection criteria

To determine whether candidates possess certain selection criteria (such as ability and motivation), employers use **predictors of selection criteria**, which are measurable or visible indicators of those characteristics (or criteria). Figure 7-3 shows how job performance, selection criteria, and predictors are interrelated. Candidates who possess higher levels of these predictors would be expected to be better performers. Choosing appropriate predictors is not an easy task, but if done well, the organization can make better hiring decisions and improve overall performance. Prediction decisions aren't perfect, so we try to reduce the number of errors by using high-quality predictors. See the following "HR Competencies & Applications: Understanding Errors in Selection Decision Making" feature for an explanation of errors in decision making.

LO2 Explain two important qualities of selection predictors—reliability and validity.

7-1d Reliability and Validity

Several indicators are used to determine how error-free decisions will be if specific predictors are used. Reliability and validity are two very important qualities of predictors, which are discussed in the following sections. See Appendix E for a more detailed explanation of these concepts.

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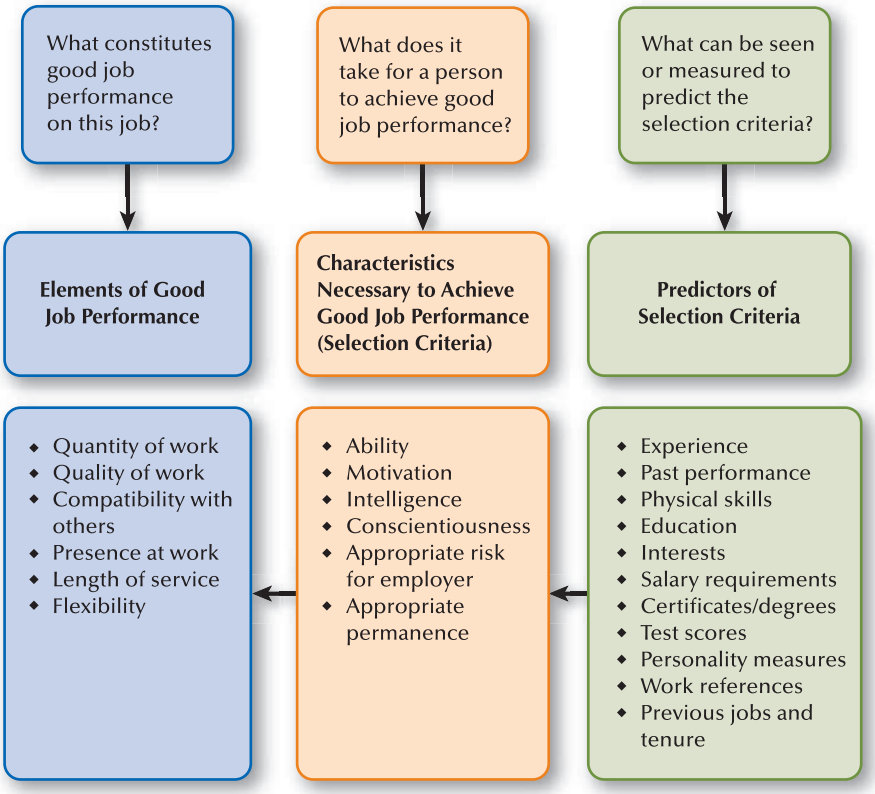
FIGURE 7-3 Job Performance, Selection Criteria, and Predictors



Reliability
The extent to which a test or measure repeatedly produces the same results over time

Reliability The extent to which it repeatedly or consistently produces the same results over time reflects a predictor's **reliability**. For example, if a person took a test in December and scored 75 and then took the same test again in March and scored 76, the test is probably reliable. Reliability can be increased by using the same testing procedure and conditions every time a test is administered. When using a 10-minute keyboarding test, it is important to use the same stopwatch, keyboard, and sample text for all candidates. It is also important to provide the same testing conditions for all applicants. Avoid putting one candidate in a noisy open office for the test and testing another candidate in a quiet isolated office. It would be unfair to compare results of tests given this way because the reliability would be low. A predictor that is not reliable is of no value in selection. Further, a test that has low reliability is unlikely to be valid.

Validity
The extent to which a test measures what it claims to measure

Validity The second quality of predictors that we evaluate is validity, or accuracy. **Validity** refers to how well a test measures what it claims to measure. That sounds like circular logic, doesn't it? Think of a rain gauge. A rain gauge may be an accurate tool to measure the amount of rain that falls but not to measure air temperature. This emphasizes the idea that a test's validity is not assessed in the abstract. Rather, when a test is validated, it is assessed for accuracy in a specific context. Several types of validity are used in selection.[19]

Criterion-related validity is one method for establishing the validity associated with a predictor. Criterion-related validity involves obtaining scores on a selection predictor like a driving test and then later measuring the job performance of each employee. Then statistical analysis is used to identify a relationship between the two scores.

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HR

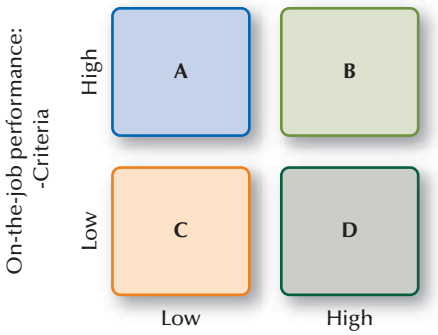
COMPETENCIES & APPLICATIONS

Understanding Errors in Selection Decision Making

When using any kind of test, both test administrators and test takers want to believe in the results and rely on them when making decisions. Think about a medical test, for example. If a patient has taken a screening test for diabetes, a result that is accurate will help the patient and physician determine what to do. If the test results are negative, the patient would believe that he does not have diabetes and would go on living life as before. Alternatively, if the results are positive, the patient would consult with his physician to plan out a course of treatment. The decision made by the patient clearly depends on the results of the test—which he trusts are accurate. The same thing occurs when we use tests to help us make hiring decisions.

Errors in testing can and do occur. Two different types of errors in particular can happen—false positive and false negative. In the preceding example, how would things change for our patient if the test results were inaccurate? If the results of the test are negative but in fact the patient does have diabetes, then his health will suffer because of lack of treatment. This is a false negative, when the test results incorrectly indicate that the individual does not have some condition. Conversely, if the results of the test are positive but the patient does not really have diabetes, he will treat a condition that he does not have and perhaps become ill. This is a false positive, when the test results incorrectly indicate that the individual does have some condition.

Think about this in terms of employment testing. If a company administers a test that results in inaccurate assessment of applicants, then some unqualified people might be hired, and some qualified people might not be hired. In either case, the company would not be making the best hiring decisions, and employee performance would probably be lower than if the test were more accurate. Look at the following graph. There are four quadrants titled A, B, C, and D.



In quadrant A, the results of the selection test indicate that the applicant will not perform well on the job. However, if the person were hired anyway, he would turn out to be a high performer. That's the false negative. In quadrant B, the results of the selection test indicate that the applicant will be a high performer. The person is hired and he is, in fact, a high performer. That's a correct decision, a true positive. Now it's your turn, so answer the following questions:

1. Can you explain the results in quadrants C and D?
2. What are the implications to those making selection decisions? How can we reduce the number of false positive and false negative results?

KEY COMPETENCIES: Critical Evaluation, HR Expertise: People/Talent Acquisition & Retention; Organization/Technology & Data

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Concurrent validity
Measured when an employer tests current employees and correlates the scores with their performance ratings

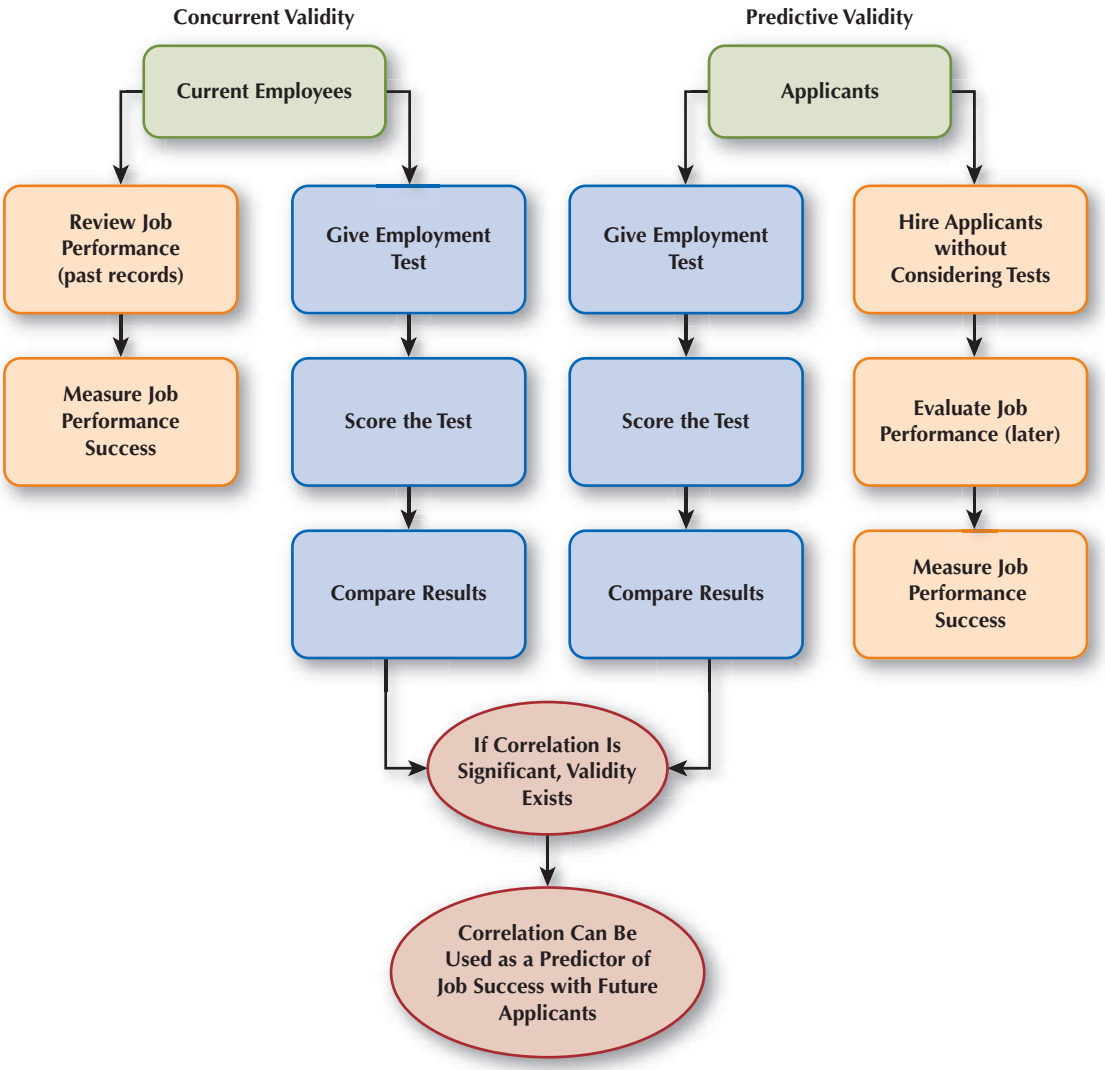
A criterion-related validity study can be conducted in two different ways—using current employees or using applicants. **Concurrent validity** uses current employees to validate a predictor or "test." As shown in Figure 7-4, concurrent validity is measured when an employer tests current employees and correlates the scores with their performance ratings on appraisals.

Concurrent validity may be easier to assess because employees are readily available and can take the predictor test immediately. This shortens the time needed to complete the validation study. A disadvantage of the concurrent validity approach is that employees who have not performed satisfactorily at work are probably no longer with the firm and, therefore, cannot be tested. Also, extremely good employees may have been promoted or may have left the company for better work situations. Any learning on the job might also confound test scores.

Predictive validity
Measured when applicants' test results are compared with subsequent job performance

Another method for establishing criterion-related validity is predictive validity. To calculate **predictive validity**, applicants' test results are compared with their subsequent job performance (see Figure 7-4). Conducting the predictive validity study involves administering a predictor test to applicants but not using the results to make hiring decisions. That allows a company to hire people with a wide range of scores on the predictor and assess whether their subsequent job performance differs. Job success is then measured by assessing factors such as absenteeism,

FIGURE 7-4 Concurrent and Predictive Validity



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accidents, errors, and performance appraisal ratings. For example, if the employees who scored high on the driving test end up being better performers than those who scored poorly on the test, then the driving test can be considered a valid predictor of job performance. The driving test could then be used for future hiring decisions with some level of confidence that better employees would be selected.

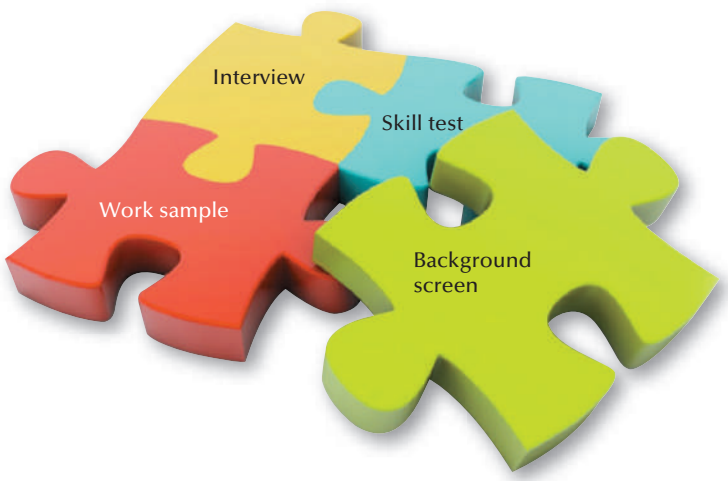
7-1e Combining Predictors

If an employer chooses to use only one predictor, such as a pencil-and-paper test, to select individuals, the decision becomes straightforward. If the test is valid, encompasses a major dimension of a job, and an applicant does well on the test, then that person could be given a job offer. When an employer uses predictors such as three years of experience, a college degree, and acceptable aptitude test score, job applicants are evaluated on all of these requirements and the multiple predictors must be combined in some way.[20] Two approaches for combining predictors are as follows:

- *Multiple hurdles*: A minimum cutoff is set on each predictor, and each minimum level must be "passed." For example, to be hired, a candidate for a sales representative job must achieve a minimum education level, a certain score on a sales aptitude test, and a minimum score on a structured interview.
- *Compensatory approach*: Scores from individual predictors are added and combined into an overall score, thereby allowing a higher score on one predictor to offset, or compensate for, a lower score on another. The combined index takes into consideration performance on all predictors. For example, when making decisions about admitting students into graduate business programs, a higher overall score on an admissions test might offset a lower undergraduate grade point average.

A key concept in selection is obtaining a comprehensive profile of each applicant. It is like putting together a puzzle, as shown in Figure 7-5. Companies use various methods to collect information about applicants that help them select the best person for the job. In the interest of time and cost efficiency, it is best to use several methods that each add to the overall candidate record without duplicating too much information. Each step in the selection process should provide unique information to fill in the blanks. It is generally not advisable to rely on only one or two methods (such as applications and interviews) when making hiring decisions.

FIGURE 7-5 Comprehensive Selection Process



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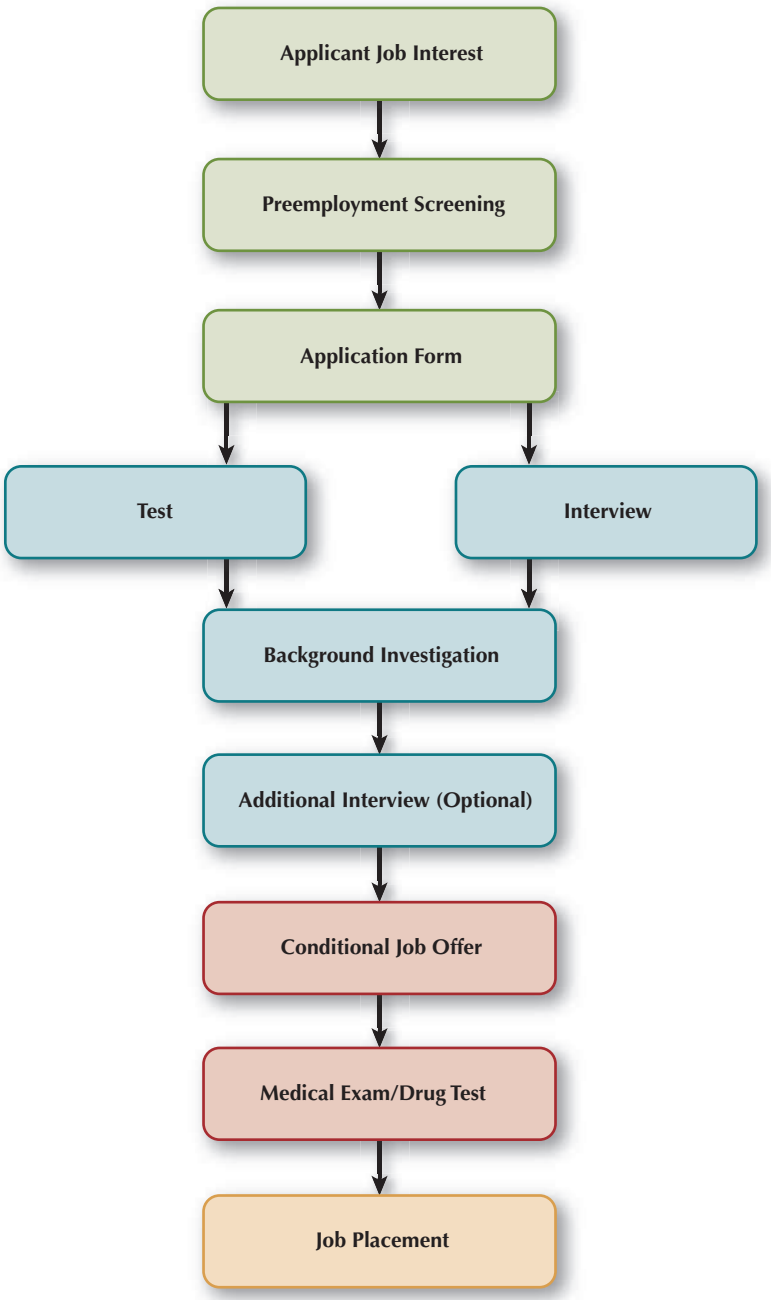
LO3 Discuss the steps of a typical selection process.

7-2 The Selection Process

Most organizations follow a series of consistent steps to process and select job applicants. Company size, job characteristics, the number of people needed, the use of electronic technology, and other factors lead to variations in the basic process. Selection can take place in a day or over a much longer period of time, and certain phases of the process may be omitted or the order changed, depending on the employer and the job being filled. There is no "one best way" that works for all situations. Each company establishes a process that offers it the best results in terms of quality and quantity of applicants. Figure 7-6 shows steps in a typical selection process.

FIGURE 7-6 Selection Process Flowchart



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7-2a Legal Considerations in Selection

A number of federal regulations and guidelines influence the selection process. In particular, the Uniform Guidelines on Employee Selection Procedures define important concepts and practices that companies must follow.

Job-relatedness
A qualification or requirement in selection is significantly related to successful performance of job duties

Job-relatedness means that a selection qualification or requirement is significantly related to successful performance of job duties. A thorough job analysis is conducted to establish that every qualification, such as high school education or nursing certification, is important for jobholders to perform assigned tasks. For example, requiring taxi drivers to hold a valid driver's license is a job-related qualification.

Business necessity
A practice that is necessary for safe and efficient operations

Business necessity relates to a practice that is necessary for safe and efficient operations, such as restricting employees from wearing garments that might get caught in machinery even though the attire may be required by the employee's religion. To protect the safety of employees, customers, clients, and/or patients, employers may institute particular selection criteria as a business necessity.

What is a *test*? Under federal guidelines, any method of collecting information about job applicants that is used to make hiring decisions is considered a test. This definition is very broad, covering everything from looking at applicants' Facebook profiles to informal conversations during dinner. The standards of reliability and validity apply to all such tests, and hiring authorities should carefully consider all sources of information used in making selection decisions. These concepts are incorporated into the selection process to keep the company in compliance with legal requirements and to aid in high-quality hiring practices.

7-2b Applicant Job Interest

Individuals seeking employment can indicate interest in many ways. Historically, individuals have submitted résumés by mail or fax, or they have applied in person at an employer's location. But with the growth in Internet recruiting, most individuals now complete applications online or submit résumés electronically.

Regardless of how individuals express interest in employment, the selection process has an important public relations dimension. Discriminatory hiring practices, impolite interviewers, unnecessarily long waits, unreturned telephone inquiries, inappropriate testing procedures, and lack of follow-up responses can produce unfavorable impressions of an employer. Job applicants' perceptions of the organization will be influenced by how they are treated.

Realistic Job Previews Many individuals know little about companies before applying for employment. Consequently, when deciding whether to accept a job offer, they seek out information during the selection process, including compensation data, work characteristics, job location, and promotion opportunities. Unfortunately, some employers make jobs appear better than they really are. **Realistic job previews** provide potential employees with an accurate introduction to a job so that they can better evaluate the employment situation. Indeed, a realistic job preview can directly identify necessary training and clarify a job role.

Realistic job previews
Process through which a job applicant receives an accurate picture of a job

Companies can use videos, employee testimonials, and job shadowing to provide applicants a realistic look at the work environment. A real benefit of realistic job previews is that applicants may withdraw from consideration if they don't think the job will be a good fit. This saves the company time invested in wooing a candidate who will end up turning down the job offer.[21] Another advantage is that realistic job previews can enhance applicant trust in a potential employer.[22]

7-2c Pre-Employment Screening

Many employers conduct pre-employment screening to determine if individuals meet the minimum qualifications for open jobs before they are allowed to fill out an application.

Electronic Assessment Screening The use of electronic pre-employment screening or assessment has grown. Computer software is often used to review résumés and application forms

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received during the recruiting and application process. Large companies often use software to receive, evaluate, and track the applications of many potential employees in order to save time during the screening process.

When a job posting generates 1,000 or more applications (which is not unusual for large companies or in difficult economic times), responding to each would be a full-time job. Electronic screening can speed up the process by using disqualification questions, screening questions to get at KSAs and experience, administering valid assessment tests, and performing background, drug, and financial screening. Some of the assessments might include auditions for the job that are conducted on the basis of simulations of specific job-related tasks. A good strategy is to use simple electronic assessment early to reduce the number of applicants before requiring applications or interviews, which leaves a much more qualified pool of remaining applicants with which to work. However, the trade-off to increased efficiency is often the elimination of individuals who might be qualified but who do not make it through the screening process.[23]

A common and sometimes controversial trend involves managers screening candidates based on useful information obtained from their social media and networking profiles.[24] But doing so can also have negative consequences for applicants and companies. The legality and appropriateness of such screening is questionable because managers may access available information without consistency or regard to job demands and/or the truthfulness of the content. Information found on Facebook or other online platforms can also lead to discrimination against applicants due to their religion, sexual orientation, and other protected chacteristics.[25] Although it may be tempting to just click on an applicant's profile, top candidates may develop a negative opinion of the organization or, even worse, take legal action if they are not hired because of the information found on social networking sites.[26] Companies must walk a fine line and realize that random, haphazard screening in this manner is likely to attract attention from lawmakers who will no doubt restrict the practice if it becomes too prevalent.[27]

7-2d Applications and Résumés

Some employers do not use pre-employment screening prior to having applicants fill out an application form. Instead, they have every interested individual complete an application first. These completed application forms then become the basis for pre-screening information. Properly prepared, the application form serves five purposes:

1. It is a record of the applicant's desire to obtain a position.
2. It provides the interviewer with an applicant profile that can be addressed during the interview.
3. It is a basic employee record for applicants who are hired.
4. It can be used for research on the effectiveness of the selection process.
5. It is a formal document on which the applicant attests to the truthfulness of all information provided.

Many employers use only one application form for all jobs, but others use several forms depending on the position. For example, a hotel might use one form for management and supervisory staff and another for line employees. High-tech and other technology-based companies also staff many different kinds of administrative, managerial, and technical jobs, which can result in the use of multiple application forms. Other issues involve the use of online application forms. Employers should be careful not to make applications too lengthy, and they should be wary of cyberattacks that target the online application process.[28]

Application Disclaimers Application forms typically include disclaimers and notices so that appropriate legal protections are clearly stated. Recommended disclosures include the following:

- *At-will employment*: Indicates the right of the employer or the employee to terminate employment at any time with or without notice or cause (where applicable by state law)
- *Reference contacts*: Requests permission to contact previous employers listed by the applicant on the application form or résumé

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- *Employment testing*: Notifies applicants of required drug tests, pencil-and-paper tests, physical exams, or electronic or other tests that will be used in the employment decision
- *Application time limit*: Indicates how long application forms are active (typically six months) and that individuals must reapply or reactivate their applications after that period
- *Information falsification*: Conveys to an applicant that falsification of application information can be grounds for serious reprimand or termination

EEOC Considerations and Application Forms An organization should retain all applications and hiring-related documents and records for three years. Guidelines from the EEOC and court decisions require that the data requested on application forms must be job related. Though frequently found on application forms, questions that ask for the following information are illegal:

- Marital status
- Height and weight
- Number and ages of dependents
- Information on spouse
- Date of high school graduation
- Emergency contact information
- Social Security number

Most of the litigation surrounding application forms has involved questions regarding the gender and age of a potential employee, so special attention should be given to removing any items that relate to these personal characteristics. Concerns about inappropriate questions stem from their potential to elicit information that should not be used in hiring decisions. Figure 7-7 shows a sample application form containing questions that generally are legal.

Résumés as Applications Applicants commonly provide background information through résumés. E-notes and narrative résumés that are more informal and conversational are even used sometimes as a way to highlight individual capabilities and experiences.[29] When the situation arises, EEOC standards require that an employer treat a résumé as an application form. If an applicant voluntarily furnishes some information on a résumé that cannot be legally obtained, the employer should not use that information during the selection process. Some employers require those who submit résumés to complete an application form as well so that there is consistent information on every applicant and appropriate comparisons can be made.

But some companies have moved away from résumés in favor of other approaches that allow them to gather information from applicants. Carnival Corp. and Hilton Worldwide Holdings Inc. ask individuals to submit video introductions and interviews instead of résumés, while Unilever does not collect résumés and instead interacts with job candidates online through smartphones, games, and video interviews.[30] Coding competitions, games, and puzzles are also used to by some firms such as Jaguar Land Rover to hire software engineers and programmers.[31]

Regardless of how the background information is collected, there are several issues that should be considered when screening applications. Applications are better than résumés because all candidates must furnish the same information. Résumés are marketing tools used by applicants to present information they want employers to know, but they may also omit negative information. Candidates need to consider that the typical résumé review takes less than five minutes; therefore, an easy to read, well-organized résumé can promote pre-screening success.[32] Also, highlighting an individual brand, summarizing important strengths and accomplishments, and proofreading for typos are important considerations for developing good résumés.[33]

To avoid problems with negligent hiring, companies should dutifully check the truthfulness of the information presented on résumés and application forms. Research from CareerBuilder suggests that over half of all applicants knowingly embellish their past work experiences.[34] An emerging trend to combat this problem is the preverified résumé. Job seekers submit their résumés to a third party that conducts a background screening and certifies individual credentials. The following "HR Perspective: The Good Housekeeping Seal of Approval?" feature explains this process.

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FIGURE 7-7 Sample Application Form

Application for Employment
An Equal Opportunity Employer*

Today's Date _____

PERSONAL INFORMATION

Please Print or Type

Name (Last)	(First)	(Full middle name)		
Current address	City	State	Zip code	Phone number ( )
What position are you applying for?	Date available for employment?			E-mail address
Are you willing to relocate? ☐ Yes ☐ No	Are you willing to travel if required? ☐ Yes ☐ No			
Have you ever been employed by this Company or any of its subsidiaries before? ☐ Yes ☐ No	Indicate location and dates			
Can you, after employment, submit verification of your legal right to work in the United States? ☐ Yes ☐ No	Have you ever been convicted of a felony? ☐ Yes ☐ No	*Convictions will not automatically disqualify job candidates. The seriousness of the crime and the date of conviction will be considered.*		

PERFORMANCE OF JOB FUNCTIONS

Are you able to perform all the functions of the job for which you are applying, with or without accommodation? ☐ Yes, without accommodation ☐ Yes, with accommodation ☐ No
If you indicated you can perform all the functions with an accommodation, please explain how you would perform the tasks and with what accommodation.

EDUCATION

School level	School name and address	No. of years attended	Did you graduate?	Course of study
High school				
Vo-tech, business, or trade school				
College				
Graduate school				

PERSONAL DRIVING RECORD

This section is to be completed ONLY if the operation of a motor vehicle will be required in the course of the applicant's employment.			
How long have you been a licensed driver?	Driver's license number	Expiration date	Issuing State
List any other state(s) in which you have had a driver's license(s) in the past:			
Within the past five years, have you had a vehicle accident? ☐ Yes ☐ No	Been convicted of reckless operation? If yes, give dates: or drunken driving? ☐ Yes ☐ No	Been cited for moving violations? If yes, give dates: ☐ Yes ☐ No	
Has your driver's license ever been revoked or suspended? If yes, explain: ☐ Yes ☐ No	Is your driver's license restricted? If yes, explain: ☐ Yes ☐ No		

*We are an Equal Opportunity Employer. We do not discriminate on the basis of race, religion, color, gender, age, national origin, or disability.

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HR PERSPECTIVE

The Good Housekeeping Seal of Approval?

With over half of all job candidates exaggerating information on their résumés, honest candidates are trying to find a way to stand out and let employers know that their résumés are truthful. Much like the Good Housekeeping Seal of Approval, which promises customers that they will receive a product as advertised, the preverified résumé assures employers that a job candidate's credentials reflect accurate information.

Job seekers can purchase verification services from a number of third-party vendors. Background screening companies such as Employment Screening Resources and TalentWise offer a menu of options to users. Users can pay a small fee to have details about their education, work history, professional licenses, or criminal history verified by these agencies. When they submit their résumé to the employer, it has already been screened and verified.

These screening services are well-regarded within the professional community. Employment Screening Resources is accredited by the National Association of Professional Background Screeners, and TalentWise was named as a top provider by *HRO Today*.

Employer reactions are mixed because the quality of the screener must be established, and some companies have their own standards and processes to verify candidates. There is also a potential disparate impact issue if preverified résumés are given preference and those without them are members of a protected group.

Job candidates might want to conduct the screen to get peace of mind of knowing that a background screen run by an employer won't turn up anything unexpected. However, it is not likely that offering a preverified résumé will improve an applicant's chances of advancing through the hiring process. Companies still need to hire individuals with all the necessary KSAs. The preverified résumé may demonstrate that you are honest and truthful, but don't expect employers to show you any preference because of the "seal of approval."[35]

Based on this information, consider the following questions about the preverification of résumés:

1. Would you consider using a service to preverify your résumé before you begin a job search? Why or why not?
2. If you were the HR manager for a small company with a limited budget, what would you consider to be the pros and cons of considering preverified résumés? Would you change the selection process for candidates who provide them?

7-2e Security Concerns and Immigration Verification

Businesses need to be proactive about verifying the identities and credentials of job applicants. Part of these efforts rest on careful examination of the accuracy of the details included on résumés and applications. Because it is illegal to knowingly hire employees who are not in the country legally, businesses are required to review and record identity documents, such as Social Security cards, passports, and visas, and to determine if they appear genuine. If HR personnel knowingly accept fraudulent documents, it may create legal liability. Company assets may be seized, and top managers may be prosecuted. U.S. Immigration and Customs Enforcement (ICE) can also audit the records of a business to ensure that it is compliant with employment eligibility laws and rules.

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Employers must use the revised form I-9 for each employee hired and must determine within 72 hours whether an applicant is a U.S. citizen, registered alien, or illegal alien. A government program called E-Verify, run by the Department of Homeland Security, helps with this process. The use of E-Verify is mandatory for government contractors and subcontractors, and several states require all public and private employers to use this service.[36] E-Verify has improved the security of its website and offers a service called Self Lock to allow users to protect their personal information.[37]

An employer should have policies in place to ensure compliance with immigration requirements and to avoid knowingly hiring or retaining illegal workers. I-9s should be completed, updated, reviewed, audited, and stored.[38] More companies are using paperless I-9 systems and software to better manage employment eligibility verification, because electronic processing reduces errors, incompleteness, and illegibility and improves overall documentation management; however, some of these programs may not comply with government standards and might create concerns about information management.[39]

LO4 Identify three types of selection tests and legal concerns about their uses.

7-3 Selection Testing

Low confidence in basic screening techniques, including the evaluation of applications forms and résumés, encourages employers to use selection testing to hire qualified employees.[40] While federal guidelines define all data collection methods as tests, this section specifically addresses traditional employment tests, of which there are many kinds. Literacy tests, skill-based tests, personality tests, physical ability tests, and honesty tests can be used to assess various individual factors that are important to determine P/E fit. Valid employment tests help companies predict before hiring which applicants will likely be the most successful. In many instances, tests are not used as an "up or down" decision; rather, they provide valuable information about particular aspects of candidate suitability. For example, stockbrokers who failed a basic exam required to sell securities at least one time have worse disciplinary records than those that pass the exam on the first try.[41] Companies may even consider using such testing earlier in the selection process to identify the best talent.[42]

Selection tests must be evaluated extensively before being utilized for hiring decisions. The development of test items should be linked to a thorough job analysis, which is covered in Chapter 4. Also, initial review of the items should include an evaluation by knowledge experts, and statistical and validity assessments of the items should be conducted.

7-3a Ability Tests

Tests that assess an individual's ability to perform in a specific manner are grouped as *ability tests*. These are sometimes further categorized into *aptitude tests* and *achievement tests*. Aptitude tests attempt to measure potential, while achievement tests attempt to measure demonstrated skill or competence. For example, an individual may have a high level of math aptitude, but until he studies algebra, he will not have mathematical achievement.

Cognitive ability tests
Tests that measure an individual's thinking, memory, reasoning, verbal, and mathematical abilities

Cognitive ability tests measure an individual's thinking, memory, reasoning, verbal, and mathematical abilities. Valid tests such as the Wonderlic Personnel Test and the General Aptitude Test Battery (GATB) can be used to determine applicants' basic knowledge of terminology and concepts, word fluency, spatial orientation, comprehension and retention span, general and mental ability, and conceptual reasoning. Some companies are considering using the Graduate Management Admission Test (GMAT) to assess candidates' cognitive ability.[43]

General mental ability testing is well established as a valid predictor for many jobs, but since some minority groups tend to score lower on such exams, there is considerable controversy over whether such tests *ought* to be used. When these tests are used, the case for business necessity must be made, and the instrument used should be validated for the organization using it. If a company can find a better way of assessing candidates than using a cognitive ability test, it may avoid problems of disparate impact.[44]

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Physical ability tests
Tests that measure an individual's physical abilities such as strength, endurance, and muscular movement

Psychomotor tests
Tests that measure dexterity, hand–eye coordination, arm–hand steadiness, and other factors

Work sample tests
Tests that require an applicant to perform a simulated task that is a specified part of the target job

Situational judgment tests
Tests that measure a person's judgment in work settings

Physical ability tests measure an individual's physical abilities such as strength, endurance, and muscular movement. At an electric utility, line workers must regularly lift and carry equipment, climb ladders, and perform other physical tasks; therefore, testing applicants' mobility, strength, and other physical attributes is job-related. Physical ability tests that assess muscular strength and endurance may result in disparate impact against female applicants, particularly when the results are not linked to job activities and performance.[45] But business necessity makes it acceptable to use such tests when they reflect essential job duties and requirements.[46]

Various skill-based tests can be used, including **psychomotor tests**, which measure a person's dexterity, hand–eye coordination, arm–hand steadiness, and other factors. Tests such as the MacQuarie Test for Mechanical Ability can measure manual dexterity for assembly line workers and others who regularly use psychomotor skills.

Many organizations use situational tests, or **work sample tests**, which require an applicant to perform a simulated task that is a specified part of the target job. Requiring an applicant for an administrative assistant's job to type a business letter as quickly as possible would be one such test. Examples of work samples include an audition for someone seeking a role in a drama group's play or a tryout for a sports team.[47]

Situational judgment tests are designed to measure a person's judgment in work settings.[48] The candidate is given a scenario or case and a list of possible solutions to the problem and is required to make judgments about how to deal with the situation. In this sense, situational judgment tests simulate the characteristics and challenges of a job.[49]

Assessment Centers An assessment center is not a place but a selection process composed of a series of evaluative tests during which candidates are assessed by multiple raters. In an assessment center, candidates may go through a comprehensive interview, a pencil-and-paper test, individual and group simulations, and various work exercises. Individual performance can then be evaluated by a panel of trained raters.

The tests and exercises in an assessment center must reflect the content of the job for which individuals are being screened and the types of problems faced on that job. For example, a technology communications organization used a series of assessment centers to hire employees who would interact with clients. The company found that these centers improved the selection process and also provided new employees with a good road map for individual development. Consequently, while assessment centers are often expensive to develop and conduct, they often reduce the potential for disparate impact and result in better staffing decisions.[50] However, research shows that better results are obtained when there is low transparency about the characteristics being assessed.[51]

7-3b Personality Tests

Personality is a unique blend of individual characteristics that can affect how people interact with their work environment. Consequently, employers often use various personality tests to evaluate how well candidates' attributes match job characteristics and other work criteria. In this capacity, tests that are valid, reliable, and job related can be useful for selection purposes.

Although many personality characteristics exist, some experts believe that there are a relatively small number of underlying major traits. One of the most widely accepted approaches to studying personality traits is the "Big Five" personality framework.[52] The Big Five traits are generally considered to be useful predictors of various types of job performance in different occupations. The factors are shown in Figure 7-8. There is usually not an "ideal" personality profile because different kinds of jobs require different combinations of traits.

Potential Issues with Personality Tests Faking is a major concern for employers using personality tests. Many test publishers admit that test profiles can be falsified, and they try to reduce faking by including questions that can be used to compute a social desirability or "lie" score. Researchers also favor the use of "corrections" based on components of the test to account for

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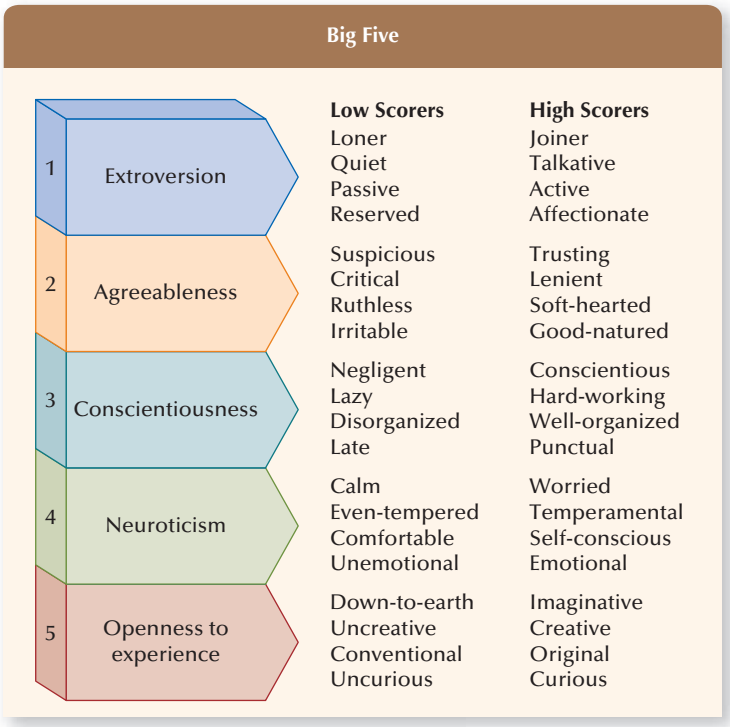
FIGURE 7-8 Big Five Personality Characteristics



Source: http://blog.lib.umn.edu/paldr001/myblog/2011/11/ocean-or-canoe-the-model-of-personality.html.

faking—a preference that also constitutes a strong argument for professional scoring of personality tests. Another possibility is use of a fake warning, which instructs applicants that faking can be detected and can result in a negative hiring impression.[53]

An additional issue is the possibility that personality tests might inadvertently discriminate against individuals with disabilities by measuring mental health challenges (depression, bipolar disorder, etc.). Automated personality tests may screen out applicants who have the skills but may not meet a particular personality profile. Both Kroger and CVS look more carefully at how personality tests are affecting hiring decisions. To ensure fair evaluation of all applicants, the companies modified the questions on their tests to eliminate inquiries that might expose mental health issues.[54]

7-3c Emotional Intelligence Tests

Emotional intelligence
The ability to recognize and manage our own feelings and the feelings of others

Emotional intelligence reflects the soft skills that are critical for establishing good working relationships within the work unit and organization. **Emotional intelligence** is the ability to recognize our own feelings and the feelings of others and to effectively manage our own and others' emotions.[55] Figure 7-9 details the four dimensions of emotional intelligence.

As organizations use more teams and collaborative methods to accomplish tasks, selecting individuals who are aware of emotions in the workplace becomes more important. In particular, leaders who have a high level of emotional intelligence perform better and achieve superior outcomes than leaders with less of this competence. The concept of emotional intelligence is relatively common across countries, which means that as company operations span the globe, similar qualities lead to better results.[56]

Leaders and employees who have a high level of emotional intelligence tend to be more creative and perform better on the job. They also may be more effective in team settings and handle

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FIGURE 7-9 Dimensions of Emotional Intelligence

Source: Adapted from http://coachingleaders.emotional-climate.com/emotional-intelligence/.

stress better than employees lower in emotional intelligence.[57] As with all tests, a thorough job analysis can help establish the appropriate level of emotional intelligence needed for success on a particular job.

Emotional intelligence can be measured with psychological tests, but it can also be evaluated with behavior-based activities such as face-to-face interviews, situational judgment tests, and other "performance tasks."[58] The use of behavioral assessments is an emerging trend in the selection practices of many organizations. These assessments focus on determining candidates' suitability for jobs based on a range of attributes. The following "HR Perspective: Behavioral Assessments" feature explains how several companies are benefiting from their use.

ETHICS

7-3d Honesty and Integrity Tests

Companies use different tests to assess the honesty and integrity of applicants and employees to prevent hiring dishonest employees, to reduce the frequency of lying and theft on the job, to communicate to applicants and employees alike that dishonesty will not be tolerated, and to reduce accidents. If used properly, honesty and integrity tests can be valid as broad screening devices for organizations. Research also indicates that even though honesty tests can be expensive to administer, they may reduce workers' compensation claims and save the company money.[59] They can even enhance employers' perceived trustworthiness of job candidates.[60]

However, these instruments have limitations. For instance, socially desirable responses are a key concern, and some questions can be considered overly invasive, insulting, and not job related. Sometimes false positives are generated (or an honest person is scored as dishonest). Test scores might be affected by individual demographic factors such as gender and race.

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HR PERSPECTIVE

Behavioral Assessments

Companies assess job candidates on a wide range of attributes to improve P/E fit. Testing knowledge or hard skills can often be done in a relatively straightforward and easy way by asking candidates questions about the job content area or having them perform a sample of the job duties. Such ability tests help ensure that those hired will be capable of successfully performing the tasks involved in the job.

But there is much more to P/E fit than a good match between the applicant and the job requirements. Employers also need to determine whether applicants will work well with their designated work teams/units and be a good long-term fit for the organization. Assessing the applicant's fit with the organization's culture, their work style, and their potential are much more difficult.

That's where behavioral assessments come into play. A company usually works with experts in Industrial/Organization Psychology to identify the competencies that have proven to lead to successful job performance. This often involves studying top performers to see what differentiates them from average or poor performers. Those qualities are then built into an assessment tool, which is often administered online early in the screening process. Each company can customize its assessment to measure employee performance elements that are most critical to success. Two companies in the same industry may value different aspects of employee performance.

AMC Theaters found that using a behavioral assessment to determine applicants' friendliness, service orientation, and dependability reduced turnover to well below industry averages and improved employee engagement by 40 percent. This led to increased customer satisfaction scores, which in turn resulted in higher revenue at its theaters. Seaport Hotel & World Trade Center Inc. in Boston instituted a 20-minute behavioral assessment in its online screening process and reduced turnover to single-digit levels. The assessment focused on determining each job candidate's cultural fit for a particular job in the hotel.

These powerful results have led to an uptick in the use of behavioral assessments. While skill and knowledge tests are used by over half of U.S. companies, over a third are now using behavioral assessments to refine their selection process and generate better organization results.[61] Based on the popularity of behavioral assessments, consider the following questions:

1. What ethical and legal concerns does the use of behavioral assessments raise? Do you believe that these assessments might be more subject to bias than skill and knowledge tests might be?
2. How do you think applicants might react to being asked to complete a behavioral assessment? Would you personally hesitate to participate in this type of screening for a job?

Polygraphs The polygraph, more generally and incorrectly referred to as a lie detector, is a mechanical device that measures a person's galvanic skin response, heart rate, and breathing rate. The idea behind the polygraph is that if a person answers a question deliberately incorrectly, the body's physiological responses will "reveal" the falsification through the recording mechanisms of the polygraph. As a result of concerns about polygraph validity, Congress passed the Employee Polygraph Protection Act, which prohibits most private-sector employers from using polygraphs for pre-employment screening purposes. Federal, state, and local government agencies are exempt from the act, as are certain private-sector employers such as security companies and pharmaceutical companies. The act permits employers to use polygraphs as part of internal investigations of theft or loss. But in those situations, the polygraph test should be taken voluntarily, and the employee should be allowed to end the test at any time.

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LO5 Contrast several types of selection interviews and some key considerations in conducting these interviews.

7-4 Selection Interviews

Interviews are one of the most common methods used for selection. Interviews are conducted both to obtain information about candidates and to provide information and reinforce the employer brand. They are an important part of "selling" the job opportunity to qualified applicants and of applicants "selling" themselves as the best choice.[62] Increasingly, interviews are being conducted virtually through some form of video interface.[63]

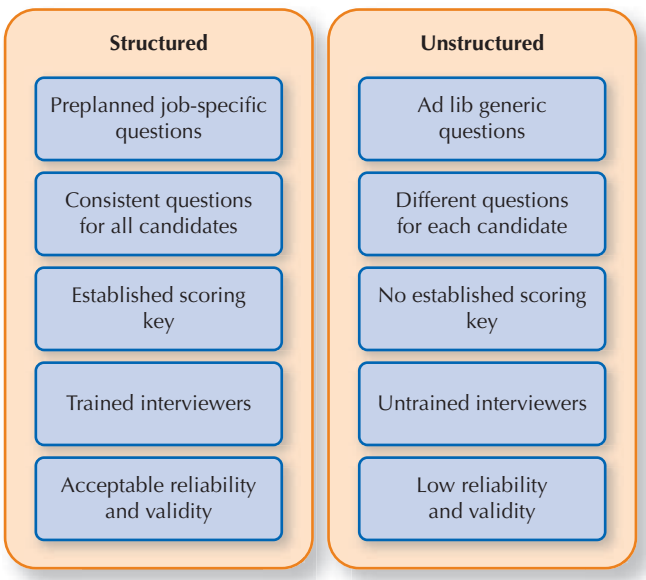
Interviews are often conducted at two levels: first, as an initial screening interview to determine if the person has met minimum qualifications and, then later, as an in-depth interview with HR staff members and/or operating managers to determine if the person will fit the designated job. Advance preparation is critical to get the most out of a pre-screening interview.[64] Before the in-depth interview, information from all available sources is pooled so that the interviewers can reconcile conflicting information that may have emerged from tests, application forms, and references.

7-4a Interview Quality

Selection interviews must meet the same standards for reliability and validity as all selection methods. In general, interviews are really quite poor predictors because many interviewers are not skilled at the process and rely too much on gut instinct. Establishing both high *intra-rater reliability* (within the same interviewer) and *inter-rater reliability* (across different interviewers) is difficult but can be achieved through the use of structured interviews. Inter-rater reliability becomes important because several interviewers are often involved in selecting employees from a pool of applicants.

Interviews must also be valid to enable useful selection. To be valid, interviews must accurately assess specific candidate qualities such as leadership ability, communication skills, or collaboration. Validity can vary depending on the degree of structure that is utilized in an interview format. Basically, an unstructured interview does not usually provide much actual validity, leading to growth in the popularity of structured interviews. The differences between structured and unstructured interviews are shown in Figure 7-10.

FIGURE 7-10 Comparison of Structured and Unstructured Selection Interviews



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7-4b Structured Interviews

Structured interview
Interview that uses a set of prepared job-related questions that are asked of all applicants

A **structured interview** involves a set of prepared job-related questions that are asked of all applicants so that comparisons can be made more easily, resulting in better selection decisions. The structured interview is useful in the initial screening process because many applicants can be effectively evaluated and compared. However, the structured interview does not have to be rigid. The predetermined questions should be asked in a logical manner but should not be read word-for-word. Applicants should be allowed adequate opportunity to explain their answers, and interviewers should probe with additional questions until they fully understand the responses. A standardized scoring key helps improve inter-rater reliability, as all interviewers score answers based on the same criteria. This process can make the structured interview more reliable and valid than other interview approaches, thus reducing bias.[65]

Structured interviews, including biographical, behavioral, and situational types, are useful when making selection decisions. The structured format ensures that a given interviewer has similar information on each candidate. It also ensures greater consistency in the subsequent evaluation of those candidates when several interviewers ask the same questions of applicants. Companies should train all interviewers so that they can conduct effective interviews using a structured interview format. Interview questions and possible responses are based on job analysis and checked by job experts to ensure content validity. The interviewer typically codes the suitability of the answer, assigns point values, and adds up the total number of points each interviewee has received.

Biographical Interview A *biographical interview* focuses on a chronological assessment of the candidate's past experiences. This type of interview is widely used and is often combined with other interview techniques. Overall, the process provides a sketch of past experiences.

Behavioral interview
Interview in which applicants give specific examples of how they have performed a certain task or handled a problem in the past

Behavioral Interview In the **behavioral interview** format, applicants are asked to describe how they have behaved or performed a certain task or handled a problem in the past, which may predict future actions and show how well applicants are suited for current jobs.[66] An example of a behavioral interview line of questioning might be: "Tell me about a time when you initiated a project. What was the situation? What did you do? What were the results?" Questions such as these can be useful because candidates must describe what they have done to complete job requirements.

Situational interview
Structured interview that contains questions about how applicants might handle specific job situations

Situational Interview The **situational interview** involves questions about how applicants might handle specific job situations. A variation is termed the *case study interview,* which requires a job candidate to diagnose and correct organizational challenges during the interview. Situational interviews assess what the interviewee would consider to be the best option, not necessarily what he or she did in a similar situation.[67] A useful technique for prompting high-quality responses is the STAR method, which is described in the following "HR Competencies & Applications: Catching Star Employees" feature.

7-4c Less-Structured Interviews

Some interviews are unplanned and are not structured at all. Such interviewing techniques may be appropriate for fact finding or for counseling interviews but are not good for selection interviewing. These interviews may be conducted by operating managers or supervisors who have had little interview training. An *unstructured interview* occurs when the interviewer improvises by asking questions that are not predetermined. A *semistructured interview* is a guided conversation in which broad questions are asked and new questions arise as a result of the discussion, for example, "What would you do differently if you could start over again?"

Some interviewers ask unusual questions such as "If you were a cartoon character, who would you be and why?" While such questions seem entertaining, unless creativity is an essential part of the job being filled, answers may be meaningless, and candidates may become confused or

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HR COMPETENCIES & APPLICATIONS

Catching Star Employees

Nobody wants to hire an underperformer or someone who will create problems at work. Most hiring managers hope to "catch a star employee" who will perform well and contribute to the success of the organization. Hiring stars makes the manager's job simpler and more rewarding. So, what's a manager to do?

Adopting the STAR method during employment interviews helps separate out the great applicants from the rest of the pack. Managers who are trained in this interviewing method can better determine the quality of each applicant's experience as it relates to the job. STAR is an acronym that stands for:

- **S**ituation
- **T**ask
- **A**ction
- **R**esult

The *situation or task* is the challenge that applicants faced or needed to accomplish. Applicants will explain the context in a succinct, informative way. For example, if you ask applicants to talk about how they handled a crisis in the past, they would provide specific details about the particular crisis and what was needed to overcome it.

The *action* is the essence of this interviewing method. Applicants should explain in detail what steps they took and the skills and resources used to accomplish the task. Applicants should demonstrate how they leveraged their skills to achieve particular results. They may also explain why they took certain actions and did not do other things. This analytical approach demonstrates that the candidate is able to critically assess actions and link them to outcomes.

The *result* is, of course, the final outcome. How did things turn out? Applicants who can reflect on what went well and what they might do differently if facing a similar situation show maturity and self-awareness, qualities that organizations value.

Star applicants will provide responses in this format to show how their knowledge and skills can benefit the organization. Hiring managers can prompt applicants to follow this approach by simply asking each applicant to explain the situation/task, action, and result.[68]

The STAR method is a formal process for evaluating job interview responses. Respond to the following questions that explore this approach:

1. Compare the pros and cons of using a technique like the STAR method to conduct employment interviews.
2. Would you anticipate that managers might resist using a formal method such as the STAR system? Might they perceive that it would limit their discretion in the hiring process?

KEY COMPETENCIES: Communication, Ethical Practice, HR Expertise: People/Talent Acquisition & Retention

turned off. The use of offbeat questions is appropriate only if a job-related attribute is being assessed and responses are evaluated according to a scoring rubric. When posing any interview question, always ask yourself, "What am I trying to learn about a candidate's ability to do the job?"

Group interview
Several job candidates are interviewed together by a hiring authority

Group Interview A **group interview** occurs when several job candidates are interviewed together by a hiring authority. They may be especially useful when hiring for entry-level jobs when skill requirements are low and job fit involves factors such as scheduled work hours, availability of transportation to the work site, and other practical details. They can also be beneficial to assess interpersonal skills and teamwork. When a company must hire a high volume of low-skilled workers, it may not need or have time for individual interviews. However, recognize that candidates

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know they are competing for a limited number of jobs, and group interviews can, therefore, become disagreeable.[69]

Nondirective interview
Interview that uses questions developed from the answers to previous questions

A **nondirective interview** uses questions that are developed from the answers to previous questions. The interviewer asks general questions designed to prompt applicants to describe themselves. The interviewer then uses applicants' responses to shape the next question. With a nondirective interview, as with any less-structured interview, difficulties related to selection decisions include keeping the conversation job-related and obtaining comparable data on various applicants. Many nondirective interviews are only partly organized; as a result, a combination of general and specific questions is asked in no set order, and different questions are asked of different applicants for the same job. Comparing and ranking candidates is thus more open to subjective judgments and legal challenges, so this type of interview is best used for selection sparingly, if at all.

7-4d Who Conducts Interviews?

Job interviews can be conducted by an individual, several individuals sequentially, or panels or teams. For some jobs, such as entry-level positions requiring few skills, applicants might be interviewed solely by an HR professional. For other jobs, employers screen applicants via multiple interviews, beginning with an HR professional and followed by the appropriate supervisors and managers. Then a selection decision is made collectively. Managers need to ensure that multiple interviews are not redundant.

Panel interview
Interview in which several interviewers meet with the candidate at the same time

Team interview
Interview in which applicants are interviewed by the team members with whom they will work

Other interview formats are also utilized. In a **panel interview**, several interviewers meet with the candidate at the same time so that the responses are heard by all.[70] Panel interviews may be combined with individual interviews. In a **team interview**, applicants are interviewed by the team members with whom they will work. However, without proper planning, an unstructured interview can occur during these group sessions, and applicants are sometimes uncomfortable with the format. In addition, research suggests that adding more interviewers does not necessarily improve hiring outcomes.[71]

7-4e Effective Interviewing

Many people think that the ability to interview is an innate talent, but this is simply not the case. Just being personable and liking to talk is no guarantee that someone will be an effective interviewer. In fact, there are many factors related to interviewers that can influence how well interviewees perform, including the ability to prompt good social interaction, personality, and the design and structure of the interview itself. Even the questions that are asked of individuals can arguably affect the quality of interview sessions. Figure 7-11 provides a variety of questions commonly used in selection interviews and what they are attempting to predict.

Interviewing skills are developed through training and practice.[72] Suggestions for making interviewing more effective are as follows:

- *Plan the interview.* Interviewers should review all information before the interview and then identify specific areas for questioning.
- *Control the interview.* This includes knowing in advance what information must be collected, systematically collecting it during the interview, and stopping when that information has been collected. An interviewer should not monopolize the conversation.
- *Use effective questioning techniques.* Use questions that will produce full and complete answers that can be evaluated on the basis of job-relatedness.
- *Get a balanced view.* To enable informed hiring decisions, interviews should consider both the positive and negative attributes of job candidates.

Other approaches can enhance interview effectiveness. Interviewers should prepare for interview sessions, make candidates feel comfortable, provide realistic job previews, avoid "gut feelings" about individuals, and refrain from asking personal questions.[73] From a candidate

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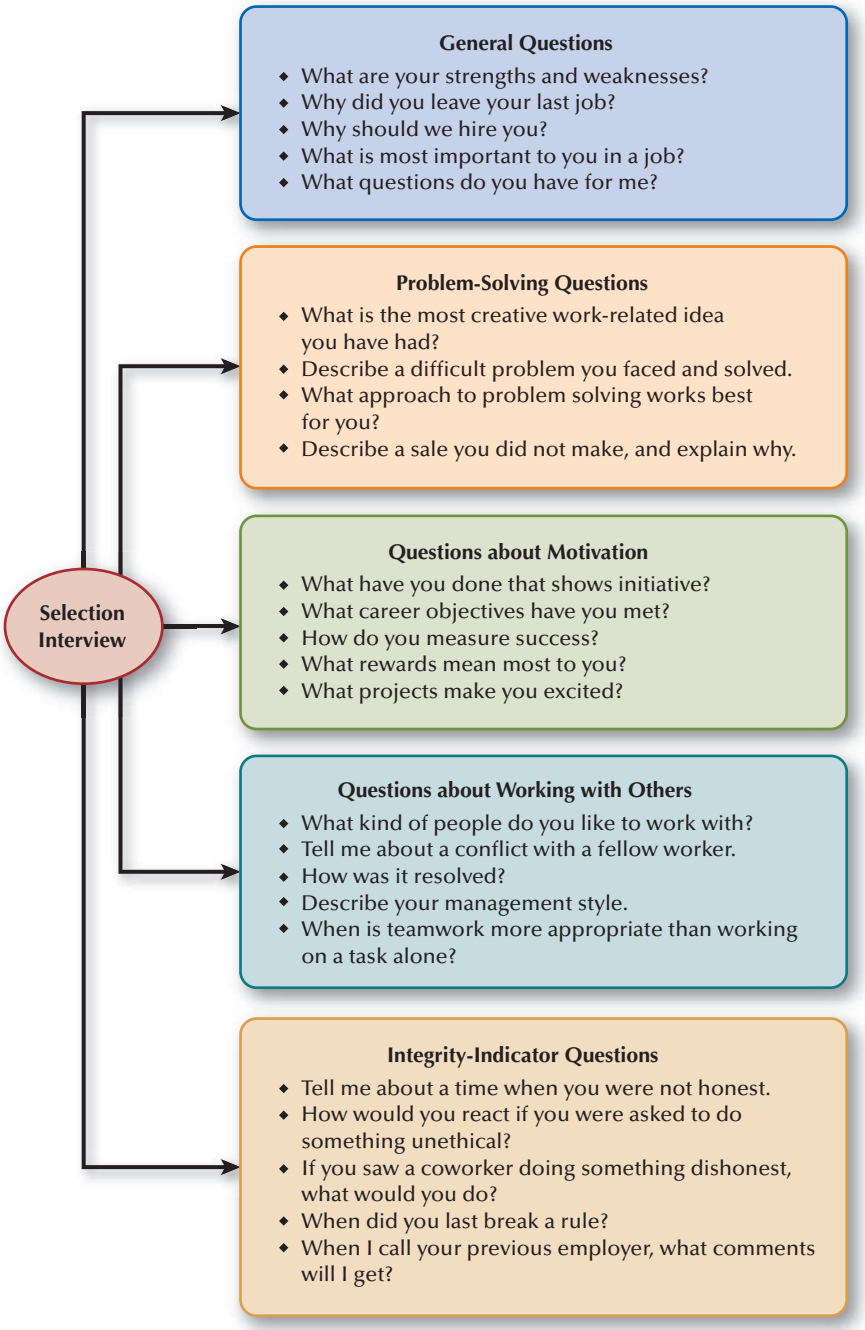
FIGURE 7-11 Questions Commonly Asked in Selection Interviews



perspective, individuals should practice interviewing, be prepared, show interest, establish good rapport, highlight personal characteristics that fit a job, and avoid unprofessional, unflattering, and/or deceptive behaviors (i.e., looking at a cell phone or eating during interview, talking too much, spending too much time discussing why a previous job didn't work out, covering up tattoos, etc.).[74]

Questions to Avoid Some cities and states are considering laws that prevent employers from asking job candidates about their pay history or obtaining their W-2 forms, so these kinds of

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questions should be avoided in selection interviews.[75] The following types of questions should also be avoided:

- *Yes/no questions*: Unless verifying specific information, the interviewer should avoid questions that can be answered "yes" or "no." For example, "Did you have good attendance on your last job?" will probably be answered simply "yes."
- *Obvious questions*: An obvious question is one for which the interviewer already has the answer and the applicant knows it.
- *Questions that rarely produce a true answer*: Avoid questions that prompt a less-than-honest response, for example, "How did you get along with your coworkers?" The likely answer is "Just fine."
- *Leading questions*: A leading question is one to which the answer is obvious from the way the question is asked. For example, "How do you like working with other people?" suggests the answer "I like it."
- *Illegal/inappropriate questions*: Questions that involve information such as race, age, gender, national origin, marital status, number of children, and other family-related issues are illegal. They are just as inappropriate in the interview as on the application form.
- *Questions that are not job related*: All questions should be directly related to the job.

Listening Responses to Avoid Effective interviewers avoid listening responses such as nodding, pausing, making casual remarks, echoing, and mirroring. The applicant might try to please the interviewers by observing the feedback provided. However, giving no response to an applicant's answers may imply boredom or inattention. Therefore, interviewers should use friendly but neutral comments and gestures during the interview.

7-4f Problems in the Interview

Operating managers and supervisors are more likely than HR personnel to use poor interviewing techniques because they lack training or do not interview often. Several problems include the following:

- *Snap judgments*: Some interviewers decide whether an applicant is suitable within the first two to four minutes of the interview and spend the rest of the time looking for evidence to support their judgment.
- *Negative emphasis*: When evaluating suitability, unfavorable information about an applicant is often emphasized more than favorable information.
- *Halo effect*: The *halo effect* occurs when an interviewer allows a positive characteristic, such as agreeableness, to overshadow other evidence. The phrase *devil's horns* describes the reverse of the halo effect; this occurs when a negative characteristic, such as inappropriate dress, overshadows other traits.
- *Biases and stereotyping*: "Similarity" bias occurs when interviewers favor or select people whom they believe to be like themselves on the basis of a variety of personal factors. Interviewers should also avoid any personal tendencies to stereotype individuals because of demographic characteristics and differences.
- *Cultural noise*: Interviewers must learn to recognize and handle cultural noise, which results from social mores and cultural values and leads to responses that applicants believe are socially acceptable rather than factual.

Managers and others involved in the selection process may fall victim to their own unconscious biases. Without realizing it, interviewers might discount candidates who are different from them; training and other guidance are often provided to reduce concerns about bias.[76] To combat the problem of hidden biases, BAE Systems offers training to its employees. Since training its managers, the company has increased the number of women and minorities targeted for advancement. Helping people recognize and manage their biases is important for fair assessment of all candidates.[77]

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LO6 Specify how legal concerns affect background investigations of applicants and use of medical examinations in the selection process.

7-5 Background Investigations

Background checking is critical for a wide range of positions, including schoolteachers, janitors, bank tellers, and many others. Background information can be obtained from a variety of sources, including past job records, credit history, testing records, educational and certification records, drug tests, criminal history, sex offender lists, motor vehicle records, and military records. Advancements in technology and access to information online have made it simpler for employers of all sizes to conduct background checks. Background checks are important because evidence suggests that information presented on résumés is often not accurate and may be falsified.[78]

Failure to check the backgrounds of people who are hired can lead to embarrassment, legal liability, and increased costs.[79] Hiring workers who commit violent acts on the job is one example. For jobs in certain industries, such as those that provide services to children, services to vulnerable adults, security, in-home services, and financial services, background checks are mandated in some states. Federal regulations mandate background checks for people with commercial drivers' licenses who drive tractor-trailer rigs and buses interstate. Background checks are a significant concern in the trucking and transportation industries, with Uber and truck drivers facing extra scrutiny with background checks.[80]

7-5a Negligent Hiring and Retention

An employer's liability hinges on how well it investigates an applicant's background. Consequently, information provided on the application form should be investigated, verified, and documented.

Negligent hiring Occurs when an employer fails to check an employee's background and the employee later injures someone on the job

Negligent retention Occurs when an employer becomes aware that an employee may be unfit for work but continues to employ the person, and the person injures someone

Negligent hiring occurs when an employer fails to check an employee's background and the employee later injures or harms someone while performing job duties. There is a potential negligent hiring problem when an employer hires an unfit employee, a background check is insufficient, or an employer does not research potential risk factors that would prevent a positive hire decision. Similarly, **negligent retention** occurs when an employer becomes aware that an employee may be unfit for employment but continues to employ the person, and the person injures someone.

To reduce the probability of negligent hiring, companies verify applicant information and conduct background screening. Many organizations use outside vendors that specialize in conducting background checks because these firms can provide such services much more efficiently and effectively. Before contracting with a background screening company, it is advisable to verify the agency's reputation and licensure.[81]

ETHICS

Many employers use social media websites and the Internet to conduct background checks on employees, believing that websites provide extra insight into a job candidate's individual characteristics regardless of the information that has been provided to the company through the application form or résumé.[82] Employers also use online network sites such as Facebook to obtain a variety of personal information about applicants. Anyone on the Internet can post damaging information about individuals, further complicating the process of performing fair and legitimate background checks if this information is utilized in job selection.

7-5b Legal Constraints on Background Investigations

Various federal and state laws protect the rights of individuals whose backgrounds may be investigated during pre-employment screening. An important step when conducting a background investigation involves letting an applicant know about screening and obtaining a signed release authorizing the employer to conduct the investigation; the forms should be easy to understand.[83] Another requirement is making sure that background investigations are relevant to the jobs being performed and a business necessity.[84]

Credit History and Criminal Background Checks Many employers check applicants' credit histories. The logic is that poor credit histories may signal, either correctly or incorrectly, a

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certain level of responsibility. Firms that check applicants' credit records must comply with the federal Fair Credit Reporting Act, which requires the following:

- Disclosing that a credit check is being conducted
- Obtaining written consent from the person being checked
- Furnishing the applicant with a copy of the report

Some state laws also prohibit employers from obtaining certain credit information. Credit history should be checked on applicants for jobs in which use of, access to, or management of money is an essential job function. For example, financial institutions have a vested interest in checking the credit histories of employees who handle money, and retailers might conduct credit checks on cashiers and managerial staff who also deal directly with money. Credit scores may be acceptable predictors of job performance but are not valid for assessing the potential for workplace deviance. Mismanaged credit checks might violate the Fair Credit Reporting Act and prompt complaints to the EEOC. Companies should use these assessments only when needed, such as hiring for a job that involves financial responsibility.[85]

Employers also conduct criminal background checks to prevent negligent hiring lawsuits and other liabilities related to insurance coverage, safety, and finances.[86] However, they must make sure that these checks are performed consistently and fairly across different employees applying for similar types of positions. Lawmakers have taken an interest in the examination of an applicant's criminal history because it often results in adverse impact. The following "HR Highlight: Ban-the-Box Legislation Affects Hiring" feature explains legislative restrictions on employers' ability to use applicants' criminal history in selection decisions.

7-5c Medical Examinations and Inquiries

Medical information about applicants may be used to determine their physical and mental abilities to perform jobs. Physical standards for jobs should be realistic, justifiable, and linked to essential job requirements. In some instances, companies may ask applicants if they can perform work and require medical assessments as part of business necessity, such as when top corporate leaders are hired.[87]

ADA and Medical Inquiries The Americans with Disabilities Act (ADA) prohibits the use of pre-employment medical exams, except for drug tests, until a job has been conditionally offered. Also, the ADA prohibits a company from rejecting an individual because of a disability and from asking job applicants any question related to current or past medical history until a conditional job offer has been made. Even though workers with disabilities can competently perform many jobs, they may sometimes be rejected because of their physical or mental limitations.[88] Once a conditional offer of employment has been made, some organizations ask the applicant to complete a pre-employment health checklist, or the employer pays for a physical examination of the applicant. It should be made clear that the applicant who has been offered the job is not really hired until the physical inquiry is successfully completed.

Drug Testing Drug testing, a widely used selection tool, may be conducted as part of a medical exam, or it may be done separately. A federal court concluded that pre-employment drug tests are not considered to be medical exams under the ADA, but not hiring an individual because of drug use for treatment purposes could violate the ADA.[89] If drug tests are used, employers should remember that the accuracy of tests varies according to the type of test used, the drug tested, and the quality of the laboratory where the test samples are sent. Since prescription drugs may impact test results, applicants should complete a detailed questionnaire on this matter before the testing. Safety-sensitive jobs may require a more stringent screening process than jobs with limited safety concerns.[90] Another issue involves the types of drugs targeted—given that some states have legalized the medical and/or recreational use of marijuana, companies may elect to drop this drug from screening efforts.[91]

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HR HIGHLIGHT

Ban-the-Box Legislation Affects Hiring

Checking one small box on an employment application might mean an applicant is eliminated from consideration regardless of skills or qualifications. That small box is the question on most applications that asks about criminal convictions. Most HR professionals indicate that a nonviolent felony conviction would be heavily weighted in a decision regarding an applicant, and a violent felony would be even more difficult to overcome in the hiring process.

Individuals with a criminal past face high hurdles to find gainful employment after serving their time in prison. However, being employed is one of the things that can help prevent former convicts from returning to a life of crime. Companies find themselves in a difficult situation trying to navigate between two conflicting obligations—(1) to provide a safe and secure work environment and (2) to provide equal opportunity for all qualified applicants. Employers must also face the challenge of hiring employees when there is low unemployment.

Since a higher percentage of black and Hispanic men and women are imprisoned sometime during their lives than are white individuals, the EEOC took action to improve chances for former convicts. The agency issued guidelines that essentially prohibit companies from a blanket policy of disqualifying candidates with a criminal history, that is, they "banned the box." Instead, any screening policy must link the specific criminal conduct with the risks associated with a specific position in the company. Employers need to consider the following:

- Nature or gravity of the offense
- Time elapsed since the conviction and/or release from prison
- Nature of the job being sought

Ban-the-box laws have now been enacted in many states and cities around the United States, covering public employees and (in some cases) private sector workers. Laws can conflict on this issue, with some being stricter than others and prescribing different ways to manage the screening process. Consequently, HR professionals should consult with their legal counsel to ensure that any consideration of criminal background meets all requirements across states and federal jurisdictions.[92] Changing the use of criminal background checks presents some challenges to an organization's practices. Discuss these questions that relate to such screening:

1. What are the potential consequences (both positive and negative) of limiting the impact of criminal history on employment decisions?
2. For what types of jobs would you recommend companies utilize criminal background checks? For what types of jobs would they be unnecessary?

If an individual "tests positive" for drug use, an independent medical laboratory should administer a second—more detailed—analysis. Whether urine, blood, saliva, or hair samples are used, the process of obtaining, labeling, and transferring the samples to the testing lab should be outlined clearly, and definite policies and procedures should be established and followed.

7-5d Previous Employment Checks and Personal References

Work-related references from previous employers and supervisors can provide a valuable snapshot of a candidate's background and characteristics. Coworkers can also provide useful information about an individual's soft skills.[93] Previous employment checks protect the company from negligent hiring claims, provide an overview of job candidates' past performance and honesty, and verify work credentials. Figure 7-12 outlines some of the important reasons for contacting applicant references.[94]

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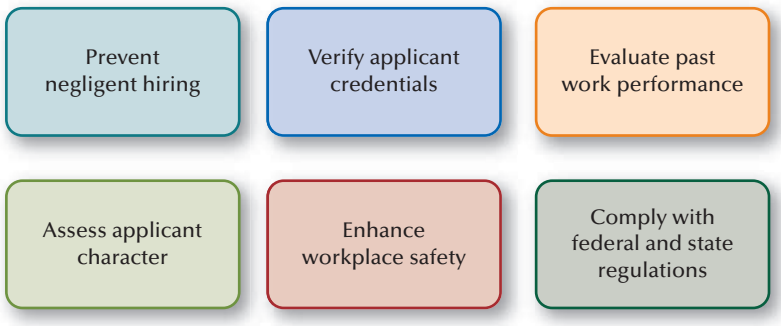
FIGURE 7-12 Why Conduct Previous Employment Checks



Personal references provided by job candidates are often of limited predictive value because individuals knowingly pick references who will speak highly of them. Previous supervisors and employers can often provide more useful information that can be utilized to more effectively evaluate job candidates. Good questions to ask previous supervisors or employers include the following:

- What were the dates of employment?
- What was the position held?
- What were the job duties?
- What strengths and weaknesses did you observe?
- Why did the individual leave employment?
- Would you rehire?

There are many ways to conduct employment checks, and one of the most common methods involves obtaining information via telephone. Managers should consider using an approach that attempts to verify the factual information given by the applicant. Some organizations send preprinted reference forms to individuals who are giving references for applicants. These forms often include a release statement signed by the applicant so that those providing references can see they have been released from liability on the information they furnish.

7-5e Additional Selection Criteria

In the quest to find the best person for the job, hiring authorities sometimes consider additional indicators such as previous job tenure, time gaps between jobs, and educational credentials. Using this information should follow the basic guidelines of job-relatedness, business necessity, and P/E fit.

Previous job tenure
A measure of how long the applicant has stayed on jobs held in the past

Previous job tenure is a measure of how long the applicant has stayed on jobs held in the past. For jobs requiring very little training, short tenure may not be as big a concern as for jobs that require substantial training. Employers that must invest a great deal of time training new hires to master job duties may be legitimately interested in assessing applicants' service tenure.

Criticism of *job hoppers* has decreased in recent years, and many hiring managers now expect that workers will leave the organization in a few years. In fact, a survey of HR managers showed that to be considered a job hopper, an applicant would have to change jobs six times in a 10-year period. Recent studies have shown that the average worker stays on the job for about five years.[95] So, it's helpful to be realistic about what to expect from newly hired employees.

Long-Term Unemployed Some hiring managers view long gaps between jobs as a red flag on an applicant's profile. Time gaps between jobs may be caused by a number of factors, many of which are not related to the applicant's suitability for employment. Individuals who have been laid off in economic downturns may face bias or discrimination, which makes it more difficult to find a new job. Since skills may erode during periods of unemployment, some companies hesitate to give these individuals an opportunity.

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To combat this problem, the federal government enlisted support from over 300 business leaders, who pledged to adopt the following best practices when assessing long-term unemployed applicants:

1. Ensure that job advertisements do not discourage or discriminate against unemployed people.
2. Review screening procedures to ensure that unemployment status is not given inappropriate weight in hiring decisions.
3. Proactively reach out to agencies and other groups that work with long-term unemployed candidates.
4. Share best practices within the employer community.[96]

Educational Credentials Hiring managers frequently use the attainment of a college degree to determine applicants' suitability for various jobs. However, there is some question as to the validity of this credential, as one study showed that merely possessing a college degree does not predict subsequent job performance. In any case, a college degree may indicate that applicants understand specific subject matter that is critical for work, or that they possess important soft skills.[97]

Some companies, like Boston Consulting Group, have recently begun to require applicants to report their scores on the SAT college entrance exam as a selection criterion. The SAT score is easy for hiring managers to understand as an indicator of cognitive ability. Because this request is becoming more common, some college students and recent graduates are including their score on their résumé. However, some hiring managers dismiss the SAT as a useful predictor and might actually be annoyed when candidates voluntarily provide it.[98]

Hiring managers are also less impressed with the prestige or pedigree of an applicant's college alma mater than they are with knowledge and skills related to the job field. Industry experience and expertise often outweigh the name of the college on a candidate's degree.[99]

7-5f Making the Job Offer

The final step of the selection process involves extending an offer. Offers are made to job candidates whose skill and attribute profiles demonstrate that they will be a good fit for the job. A threshold selection approach that evaluates job candidates across different tests and evaluative procedures on the basis of clear benchmarks can be an effective tool for identifying top individuals for job offers.[100]

Job offers are often made via telephone. Many companies then formalize the offer in a letter that is sent to the applicant. Some believe that the offer document should be reviewed by the employer's legal counsel and that the terms and conditions of employment should be clearly identified. Care should be taken to avoid vague, general statements and promises about bonuses, work schedules, or other matters that might change later. These documents should also allow the selected candidate to sign an acceptance of the offer and return it to the employer, where it becomes part of the candidate's personnel file. Figure 7-13 details information that should be included in an employment offer letter.

FIGURE 7-13 Elements of an Employment Offer Letter

Job Details	Pay-Related Items	Employee Benefits	Working Conditions
• Title	• Pay grade or level	• Health insurance	• Start date
• Overview of job duties	• FLSA-exempt status	• Retirement or pension plan	• Days and hours of work
• Key responsibilities	• Incentive pay details	• Paid time off	• Work location
• Reporting relationships	• Pay period and pay dates	• Eligibility dates for all plans	• Employment-at-will statement
• Full- or part-time status		• Employee costs	

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LO7 Describe the emerging challenges and best practices associated with employee selection.

7-6 Emerging Challenges and Best Practices

There are several emerging challenges associated with the selection process. Many concerns relate to the time it often takes for a company to actually hire employees. Employers can rely on a variety of useful "best practices" to reduce many of these challenges.

7-6a Time to Hire and Related Concerns

Evidence indicates that the process of hiring employees is increasingly taking longer, with an average time of well over three weeks for many positions and over two months for white-collar jobs; getting hired in the government, aerospace/defense, and energy/utilities sectors takes much longer than does getting a job in restaurants, bars, and supermarkets.[101] These negative experiences can collectively harm candidates' overall impression of an employer, which can reduce the likelihood that companies can successfully hire high-quality employees.[102]

7-6b Best Practices for Employee Selection

There are a number of best practices that can be used by hiring organizations to improve employee selection and candidate experiences. For instance, it is important for employers to emphasize job-related criteria when identifying selection instruments and evaluating job candidates. Individuals should also have many opportunities to demonstrate their strengths and positive characteristics in preselection activities (interviews, tests, etc.). More importantly, good communication should be established with job candidates by providing them insight into what work will be like (realistic job previews, descriptions of jobs, etc.), keeping them informed about the process (plans, timelines, etc.), and providing feedback about outcomes.[103]

SUMMARY

- Selection is the process that matches individuals and their qualifications to jobs in an organization.
- Placement of people should consider person/job fit, person/group fit, and person/organization fit.
- Mismatches in fit can occur because of skills, geography, poor interpersonal skills, earning expectations, and work–family issues.
- Predictors linked to criteria are used to identify applicants who are most likely to perform jobs successfully.
- To comply with various legal requirements, selection decisions must be based on job-related criteria.
- To produce fair, legal selection decisions, predictors must be reliable and valid.
- The selection process—from applicant interest through pre-employment screening, application, testing, interviewing, and investigating backgrounds—must be handled by trained, knowledgeable individuals.
- Federal guidelines define the term *test* very broadly to include all forms of collecting information on job applicants.
- Application forms must meet EEO guidelines and ask only for job-related information.
- Selection tests include ability tests, assessment centers, personality tests, emotional intelligence tests, and honesty/integrity tests. Some are controversial.
- Structured interviews, including behavioral and situational types, are more effective and face fewer EEO compliance concerns than do unstructured and nondirective interviews.
- Interviews can be conducted individually, by multiple individuals, or using technology. Regardless of the method, effective job-related questioning techniques should be used.
- A candidate's background can be investigated in a variety of areas. Employers must take care to avoid potential legal concerns such as negligent hiring and negligent retention both when requesting and giving reference information.
- Checking credit history should be done only for jobs that involve handling money or finances.
- There are many challenges associated with employee selection, including the extensive time it takes to hire employees.
- Employers can use different best practices to enhance employee selection, which can involve giving job candidates opportunities to convey their strengths and improving communication throughout the process.

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CRITICAL THINKING CHALLENGES

1. You are the HR manager for a commercial airline. You have been assigned to develop a realistic job preview for flight attendants. Your objective is to give a balanced picture of the job so that applicants will better understand what they will be asked to do. Job duties, schedules, and other facets of the job should all be well understood early in the recruiting process to avoid poor P/E fit later on.
   A. How would you gather information about the job context and environment? Explain what sources you would use and why.
   B. How could you use technology to show the positive and negative aspects of the job?
2. Develop a work sample test to screen applicants for a college professor's job.
3. Develop a slate of six to eight behavioral interview questions to use for hiring a server for a restaurant. Review the job description on http://www.onetonline.org/ to identify essential job functions and qualifications.
4. You are preparing to train managers to recognize and overcome their inherent biases. To prepare for this session, take the online Implicit Association Test to determine if you have any unconscious biases. You can find the test at https://implicit.harvard.edu/implicit/.
5. How would you conduct a complete background investigation on applicants for the job of school bus driver to minimize concerns about negligent hiring?

CASE "To Test, or Not to Test, That Is the Question" for Amtrak, Integra LifeSciences

Many companies rely on personality tests to help with the selection of employees. In fact, evidence indicates that almost one-fourth of firms utilize these instruments to assess how well applicants fit into different work roles and environments. Some tools focus on measuring the Big Five personality traits, which include the factors conscientiousness, openness to experience, agreeableness, extroversion, and neuroticism. Others like the Myers-Briggs Type Indicator and Predictive Index identify different preferences and self-perceptions of individuals, which might affect their willingness and ability to perform on the job. Some personality tests are even being offered through gaming exercises to obtain a better assessment of traits and skills—Pymetrics and Knack both offer these kinds of instruments.

Despite their ability to predict employment fit, using personality tests to assist with selection decisions may not work well in all situations. For instance, they may not effectively predict the future work performance of employees. These tests may also unfairly classify people into categories that can ultimately be altered by individuals with the right effort. Providing socially desirable responses (or "faking" good answers) is another concern with these tests. Finally, the use of personality tests may adversely affect candidates who are disabled or those who are members of other protected groups.

Still, personality tests can be an effective tool for screening and hiring new employees. The transportation agency Amtrak has been using such a test to determine how well job applicants fit the culture of the organization. In particular, the instrument identifies different personality characteristics that are associated with important work-related factors such as collaboration, ethics, safety, and customer service. The expected retirement of many Amtrak employees motivated the firm to use this personality test; it also needed a hiring approach that ensured good employee/company fit. Many thousands of individuals have already taken the online test that takes about 45 minutes to complete. The results place applicants into categories of "strong," "moderate," and "minimal" fit for the purposes of screening. Amtrak can then select which individuals to interview and hire.

Not all employers choose to incorporate personality tests into their employee selection processes. New Jersey-based Integra LifeSciences elected not to use them during the company's transformation efforts. According to top official Padma Thiruvengadam, these tests might needlessly categorize people, thus limiting the company's ability to identify individuals who can help it effectively transition. Integra LifeSciences will likely utilize such tests in the future when the company is functionally more stable.[104]

QUESTIONS

1. Explain why it is or is not a good practice to use personality tests in employee selection. What are some of the advantages and disadvantages of personality tests used in this way?
2. Evaluate the rationale used by Amtrak and Integra Life Sciences to justify using or not using personality tests. Do you agree with these decisions?
3. Imagine that you are the Chief HR Officer for a company that is considering the use of personality tests to make better selection decisions. What advice would you provide your executive leadership team? What issues would be the most critical in your development of company policy?

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SUPPLEMENTAL CASES

It's All in the Family

This case highlights how some companies are hiring the sons and daughters of influential foreign officials and businesspersons in China to enhance the likelihood that they will get business. (For the case, visit MindTap® at www.cengage.com/login.)

Using Data to Enhance Hiring Decisions

This case demonstrates the power of using data and statistical analysis to recruit high-quality workers who will perform well and stay with the company for a long time. (For the case, visit MindTap® at www.cengage.com/login.)

Full Disclosure on Sex Offenders?

This case investigates how Megan's Law, which specifies that all states must register all convicted sex offenders so that residents are aware of their presence in a neighborhood, generates implications about the use of criminal registries in hiring and employee management. (For the case, visit MindTap® at www.cengage.com/login.)

Strategic Selection: A Review of Two Companies

This case shows how Hallmark and United Health Group use selection as part of their strategic approach to HR. (For the case, visit MindTap® at www.cengage.com/login.)

Selecting a Programmer

This case demonstrates how using a test after a pool of candidates has already been interviewed can present some difficulties. (For the case, visit MindTap® at www.cengage.com/login.)

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SECTION 3

CHAPTER 8
Training Human Resources

CHAPTER 9
Talent, Careers, and Development

CHAPTER 10
Performance Management and Appraisal

Talent Development

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CHAPTER 8

Training Human Resources

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Define training and discuss why a strategic approach is important.

LO2 Explain the major categories of training and describe instructional systems design.

LO3 Identify three types of analyses used to determine training needs.

LO4 Specify how to design a training program for adult learners.

LO5 Explain different means of internal and external training delivery.

LO6 Provide an example for each of the four levels of training evaluation.

WHAT'S TRENDING IN TRAINING HUMAN RESOURCES

Training initiatives ensure that workers are capable of fulfilling job responsibilities and contribute to the organization's success. The ever-changing business environment creates some opportunities and challenges with regard to how companies maintain and upgrade workers' knowledge and skills. The business environment impacts training in the following ways.

1. The explosion in technology has led to dramatic changes in how companies deliver training. The process of "ongoing" learning "on the go" in brief, accessible modules is replacing more traditional methods. Video and interactive content, social media, and mobile technology are key tools in technology-enhanced training.
2. Viewing training as an investment rather than a cost changes what leaders and executives expect from training programs. The introduction of data analytics offers trainers the opportunity to prove the value of training with solid numbers and metrics.
3. Skill gaps are being identified between what is needed to perform today's jobs and the lack of qualified people to fill them. Many executives cite skill gaps as a major source of concern for their organizations. In particular, improving employees' soft, technical, and customer service skills, enhancing their engagement, and preparing companies for change are considered to be key strategic considerations.
4. Tracking and recognizing employees' learning achievements highlights the importance of skill and knowledge acquisition to both employers and employees. Companies are rewarding employees with virtual badges and other forms of recognition for the completion of training programs.[1]

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HEADLINE

Patagonia's Multifaceted Training Program

Since its start in 1973, Patagonia has always stood by its core values. The company promotes an outdoor lifestyle, offers high-quality and functional clothing, and promotes environmental awareness. These values have enabled Patagonia to expand internationally, opening many retail stores in other countries and offering online shopping options. The company also focuses on its employees, which make up a total workforce of over 1,200 individuals—400 of them are employed at its headquarters in Ventura, California. Patagonia's employees have diverse backgrounds, particularly from the perspective of age and work location.

For some time, the company had provided in-person training to employees that enabled them to develop useful skills for the workplace. However, there was interest in offering additional training that could enhance the instruction provided in-house. In 2008, Patagonia contracted with lyndaPro, a firm that offers a library of online-based video training that enhances various business and creative skills (i.e., using Microsoft Excel, Adobe Illustrator, and other programs). The problem was that these modules could not be simultaneously accessed "on demand" by all workers due to the licensing agreement.

In an effort to better manage and advance the company's training strategies and programs, Patagonia created a new Learning and Development Department. It was also decided that employees needed more complete access to the online training modules, and in 2012, the firm bought lyndaEnterprise. This program provided everyone in the company immediate access to all of the content and training offered on the lynda.com website. The move was heavily promoted through display posters, employee meetings, and presentations and was considered a success.

Such access to high-quality training has been advantageous for Patagonia's employees. In particular, the seasoned workers have benefitted from the additional computer and software training. Individuals who prefer more human

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interaction enjoy the in-person sessions that are also provided by Patagonia. The success of these programs has motivated Patagonia to create a learning management platform that provides more customized training targeting the professional interests and needs of its employees.[2]

Organizations rely on capable, energized workers to survive because the business environment is constantly changing. Talent development efforts are critical activities focused on building employees' competencies and commitment so that they can effectively respond to these changes. Unfortunately, some individuals don't have the necessary characteristics to perform well in jobs, and an increasing skills gap is recognized in certain occupations. Employees may also stagnate as a result of their skills becoming obsolete. These realities encourage large and small companies alike to use talent development (i.e., education, training, and development programs) as a mechanism for improving employee's skills and securing a competitive edge in different industries; government initiatives and apprenticeship programs also focus on building trade-based skills.[3]

In addition, talent development programs focus on both short-term and long-term approaches to help employees succeed in their present jobs, as well as prepare them for future growth opportunities. In this chapter, we focus on training, the short-term view. In Chapter 9, we take the long-term view and address development programs. Chapter 10 discusses the critical role of performance management. These three elements of talent development work together to provide the key competencies needed for individual and organization success.

Training
Process whereby people acquire capabilities to perform jobs

Training is the process whereby people acquire capabilities to perform jobs. Training provides employees with specific, identifiable knowledge and skills for use in their present work situations. Organizational training may focus on building "hard," "technical," or "trade" skills, such as teaching sales representatives how to use intranet resources, showing a branch manager how to review an income statement, or helping a machinist apprentice learn how to set up a drill press. "Soft" skills, which include communicating, mentoring, managing a meeting, and working as part of a team, are in high demand because they are critical in many occupations; they are also lacking in many employees. Fortunately, individuals' soft skills can also be enhanced with the proper direction.[4]

Companies use a wide range of delivery methods to build workers' skills. As with many human resource programs, there is rarely one best way to deliver training. Hands-on approaches along with technology-based solutions can work effectively based on the content to be learned, the learner's current skill level, budget considerations, and many other factors. Each organization tries to obtain the greatest value for its training investment. This has led to many innovations and changes in the training arena. Training and development is a specialty field within the human resource discipline. There is a specific professional association, the Association for Talent Development, devoted to the practice of developing employees. The organization recently changed its name from the American Society for Training and Development to reflect the broader scope of activities within the field of talent development.[5]

8-1 Organizational Strategy and Training

LO1 Define training and discuss why a strategic approach is important.

STRATEGY

Training represents a significant expenditure for most employers. However, it has historically been viewed tactically rather than strategically, which means that training is seen as a short-term activity rather than one that has longer-term effects on organizational success. There was some shift in the perceptions of training's value during the last recession. For example, some companies continued to provide training that was necessary for long-term strategic goals rather than simply eliminating all training commitments.

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8-1a Strategic Training

Training can indeed help an organization accomplish its goals. For example, if increasing sales revenue is a critical part of the company's strategy, appropriate training would identify what is causing lower sales and recommend a solution. For maximum impact, HR and training professionals should get involved with the business and partner with operating managers to help solve their problems. Addressing strategic issues and helping the company develop business-critical skills, competencies, and processes will add value in a way that simply training to "run the business as usual" cannot.[6] Additionally, treating training strategically can help reduce the tendency of managers to think that training alone can solve most employee or organizational problems. With a strategic focus, the organization is more likely to assess whether training can actually address these issues and what else might be done. Training alone cannot fix all organizational problems.

A strategic decision by Walt Disney Company exemplifies how to use training strategically. Recognizing that animation artists are exceptionally difficult to find, Disney managers created the Character Animation Program World. Aspiring animators could study under the guidance of retired animation experts. Thus, the program created the sustainability Disney needed to continue producing the animation feature films that made it famous.[7] Only a long-term outlook on training leads managers to such solutions.

Other organizations serve as positive examples of strategic training. For instance, Defense Acquisition University, the Department of Defense's corporate-based educational institution, uses benchmarking and various metrics to better align its teaching effort with strategic goals, despite the known difficulties associated with such alignment.[8] The global firm Hilti, which employs thousands of individuals in more than 100 countries and specializes in such areas as marketing, research, manufacturing, and technology, developed the program Strategy Champion 2020 to develop a work environment that supports information sharing and learning experiences over topic-specific training.[9]

However, not all training is effective. For example, training programs don't always improve business performance. Some companies also don't measure training effectiveness in appropriate ways, often relying on participants' opinions of the instruction received. To be a strategic investment, training must align with company goals *and* contribute to the achievement of key performance indicators. In other words, it must be strategic in nature *and* produce positive results.

8-1b Investments in Training

Investments in employee training represent significant expenses for companies. Providing effective training requires companies to dedicate adequate resources to ensure high-quality learning experiences for employees (i.e., exceptional teaching, useful instructional aids, attractive programs, etc.). Instructors typically represent the biggest cost of training, including both full-time staff members and individuals hired on a contract basis.[10] Just over 60 percent of spending is dedicated to internal training efforts in companies, 28 percent of spending goes to external (or outsourced) training, and 11 percent is allocated to tuition reimbursement programs.[11]

Research shows that organizations invest an average of $1,252 in training activities and learning programs for every employee, and workers each receive an average of 33.5 hours of training. Figure 8-1 shows that companies are investing more now than in years past, with a recent increase being the highest since 2010. Surprisingly, companies with fewer than 500 employees invest more per employee than do larger companies. This is likely because the significant fixed costs of developing training programs are spread across fewer employees. Training investments also vary by industry, with the information and software sector spending an average of $1,586 per employee; the finance, insurance, and real estate sector spending an average of $890 per employee; the public administration industry spending an average of $691 per employee; and the manufacturing industry spending an average of $503 per employee.[12]

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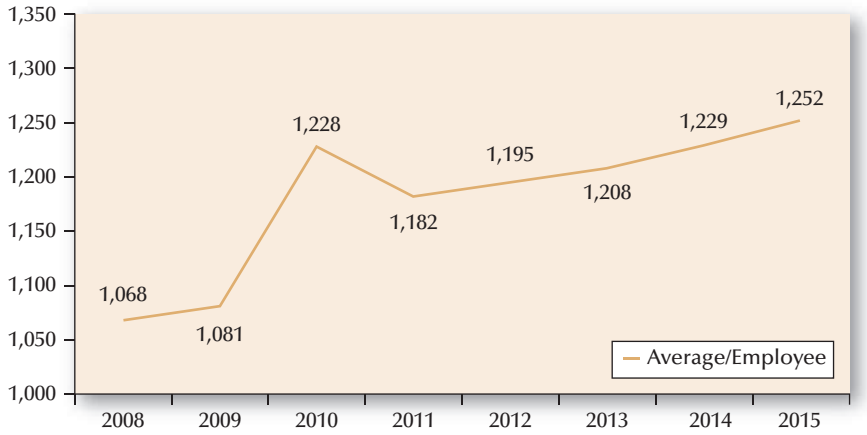
FIGURE 8-1 Annual Training Expenditure per Employee, 2008–2015



Source: Adapted from Association for Talent Development (ATD), 2016 State of the Industry Report; Maria Ho, "Investment in Learning Increases for Fourth Straight Year," *TD*, November 2016, pp. 30–35.

8-1c Organizational Competitiveness and Training

Companies invest in training with the expectation that competitiveness will increase through improved results. For instance, training focused on individual performance and capability should lead to enhanced skills, greater ability to adapt and innovate, better self-management, and performance improvement. Organization-wide improvements should be seen in lower employee turnover, improvements in effectiveness and productivity, more profitability and reduced costs, improved quality and customer service, and increased human capital.[13] Further, the nature of technological innovation/change and the ongoing importance of satisfying certification requirements are such that if employees are not continually trained, they may fall behind, and the company could become less competitive and legally compliant. Without ongoing training in the workplace, organizations may not have staff members with the knowledge, skills, and abilities (KSAs) needed to compete effectively.[14]

Training can also affect organizational competitiveness by boosting the attractiveness of employers and increasing the engagement and retention of workers. Many individuals may choose to apply to, stay with, or leave certain organizations based on the availability of training and development opportunities. Companies that make these investments may develop stronger connections with their employees and enhance retention.[15]

STRATEGY

But many organizations use training as a process for continually improving how they accomplish their strategies and increase performance. Figure 8-2 shows how training may help accomplish certain organizational strategies. AT&T, General Mills, Accenture, McDonald's, IBM, and Procter & Gamble all emphasize the importance of training employees and managers in this capacity. These companies and others recognize that training efforts can be integral to business success because it is similar to the continuous improvement process utilized in many manufacturing firms. The assumption is that training allows an organization to improve over time by incrementally increasing employees' knowledge and skills, enabling them to reach their strategies.

A *learning strategy* can be created that outlines a company's training approach for continuous learning, which supports the development of a *learning organization*. Such a strategy often highlights key areas such as a program mission, learning strategies and plans, governance issues, financial resources, technologies used, instructional design and delivery, outsourcing and vendor information, and needs assessment and evaluation.[16] Merck, one of the biggest global pharmaceutical firms, worked

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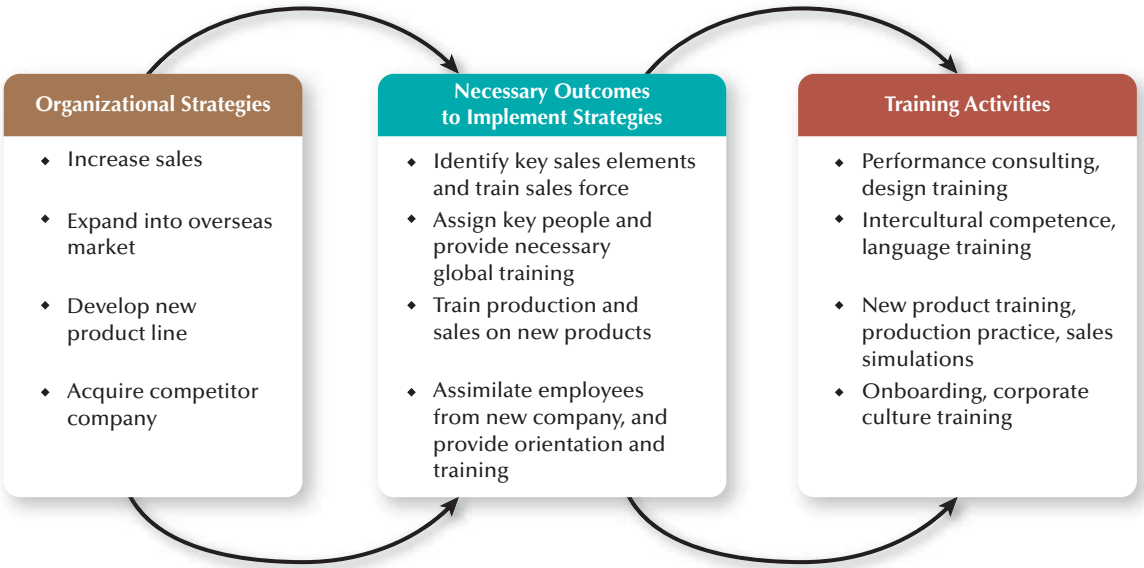
FIGURE 8-2 Linking Strategies and Training



with a corporate partner to revise its learning organization model. Cross-functional teams were used to more efficiently delivery learning opportunities in the company, which ultimately cut costs.[17]

Knowledge Management Competitive advantage among organizations was traditionally measured in terms of physical capital. However, as the information age has evolved, knowledge and information have become the raw material that many organizations make and sell through their workers. **Knowledge management** is the way an organization identifies and leverages knowledge to be competitive.[18] It is the art of creating value by using intellectual capital, which is what the organization (or more precisely, the people in the organization) knows. Knowledge management is a conscious effort to capture the explicit and tacit knowledge of the workers in the organization so that it can be shared and enhanced.

Knowledge management
The way an organization identifies and leverages knowledge to be competitive

GLOBAL

Gathering, storing, and using the collective knowledge of employees is especially important in global companies. Sharing the nuances of intercultural business practices can save money and improve customer relationships.[19] For instance, Hewlett-Packard developed a "learning ecosystem" called "Brain Candy," which enabled employee to connect with a variety of instructional content that enhanced their work skills.[20] The following "HR Perspective: '3 . . . 2 . . . 1 . . . Lift Off!' NASA's Knowledge Management Approach Aims for the Stars" highlights another example of knowledge management.

A significant part of knowledge management involves developing a *learning culture* in organizations. A **learning culture** is a work environment that encourages employees to share their individual knowledge, skills, and experiences with their coworkers.[21] Such an environment emphasizes continuous learning throughout a company so that employees are adaptable and engaged.[22] A learning culture can be created through the following efforts:

Learning culture
A work environment that encourages employees to share their individual knowledge, skills, and experiences with their coworkers

- Get top leadership support for a learning culture.
- Involve middle managers with development and implementation.
- Focus on how KSAs can be improved.
- Emphasize the importance of learning to all members of the organization.
- Develop and utilize learning programs to crystalize culture.
- Rely on measurement and assessment to determine how learning might be improved moving forward.[23]

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HR PERSPECTIVE

"3 . . . 2 . . . 1 . . . Lift Off!" NASA's Knowledge Management Approach Aims for the Stars

According to Edward Hoffman and Jon Boyle, both senior knowledge officers for NASA, knowledge management "focuses on the policies, processes, and practices that allow organizations to identify and manage knowledge gained by people in its varied forms." This definition frames how NASA developed its approach for managing ideas and knowledge for its employees—it highlights how technical workers are expected to search for information so that they can make good decisions. Knowledge is first developed, and then it is disseminated throughout the organization to assist employees with their work responsibilities, ensuring that they make valuable contributions that lead to what NASA calls "mission success."

But managing knowledge is not an easy task. For instance, NASA's work environment is highly complex and everchanging, with many levels and types of stakeholder influence. This means that different areas of the organization must be willing to share knowledge in an effort to improve decision making. There are also different kinds of knowledge that must be shared such as technical information, procedural knowledge, and social cues, which makes the process more complex. Finally, NASA has faced a number of organizational setbacks that have highlighted the need for better knowledge management, including the *Challenger* disaster, Mars mission failures, and problems with the *Columbia* space shuttle. After evaluation of these setbacks, the NASA Engineering Safety Center was developed and policy changes were made to prevent "organizational silence" when employees confronted problems.

But NASA didn't stop there. In 2011, an advisory group suggested that the organization needed to employ multiple chief knowledge officers to facilitate knowledge management, something it did in 2012. NASA also revised its policy for knowledge management so that there could be greater information sharing through networking and collaboration. The organization's Agency Knowledge Map included online information, an information search engine, published materials, specification of best practices, information sharing networks, and social exchange efforts.[24] Based on NASA's knowledge management processes, consider the following questions:

1. How do you think NASA managed to enhance its knowledge management policy? Do you think it was effective? If so, how?
2. What other types of programs would you recommend that NASA (and other organizations) develop to share information?

Integration of Performance with Training Job performance, training, and employee learning must be integrated to be effective. Organizations find that training experiences that use real business problems to advance employee learning are better than approaches that do not. Rather than separating the training experience from the context of actual job performance, trainers can incorporate everyday business issues as learning examples, thus increasing the realism of training exercises and scenarios. For example, as part of management training at General Electric, managers are given actual business problems to solve, and they must present their solutions to business leaders. Using real situations for practice is yet another way of merging the lines between training, learning, and job performance.

Sales Training Organizational competitiveness in many industries hinges on the success of the sales function. Innovative products or services do not magically find customers—they require well-trained professional salespeople to inform the appropriate audience. A key element in sales force

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FIGURE 8-3 Sales Managers' Perceptions of Recently Hired Sales Professionals' Preparedness Based on Topics Highlighted in Sales Training

AMOUNT OF ATTENTION FOCUSED ON...	EFFECT ON OVERALL PREPAREDNESS	
	Perception that new hires are prepared after training	Confidence that training program meets needs of newly-hired salespeople
Selling Methods and Concepts	Positive	Positive
Product and Industry Knowledge	None	Negative

Source: Willy Bolander, Riley Dugan, and Cinthia B. Satornino, "Sales Training & Development Reboot," *TD,* March 2017, pp. 48–53.

success is often the training opportunities available. While over $5 billion is spent each year on sales training, the average learner retains only 20 percent of the content one month after training.[25] Sales training is often more expensive than other training provided to employees, and many individuals believe that sales training may not facilitate the accomplishment of sales goals; salespersons not applying their learned skills on the job is a key problem.[26]

Organizations frequently conduct their primary sales training efforts as large annual or biannual events. However, this is an expensive method of training because of travel and instruction costs and reduced sales hours during training. Salespeople are often social individuals, and, while costly, an event that provides for sharing experiences with peers is usually well-received.

A mix of other approaches can cut expenses and be effective. Mobile technologies, simulations, podcasts, e-learning, self-paced learning, and virtual coaching can be used to leverage sales training. Using such technologies presents some challenges to trainers who must develop them but offers flexibility and opportunity if done well.[27] Besides relying on onboarding, sales summits, and other events, Amdocs developed an academy that uses flipped and blended learning experiences to train sales professionals.[28] Maersk Line, the Danish container shipping firm, also developed a sales college that focused on improving sales managers' effectiveness on the job.[29]

Salespeople also need also a mix of product training and interpersonal sales training to be successful, but product knowledge may be emphasized too much in sales training. Figure 8-3 shows sales managers' perceptions of the preparedness of recently-hired sales professionals based on the topics highlighted in their sales training, and covering "product and industry knowledge" is not viewed as positively as covering "methods and concepts;" using role playing, scenarios, and case studies to teach selling techniques can be useful.[30]

LO2 Explain the major categories of training and describe instructional systems design.

8-2 Training and Human Resources

There are several driving forces behind training initiatives. For instance, some training is done to comply with legal mandates. Other training is not required by law but is necessary for the efficient operation of an organization. A particular type of training, orientation and onboarding, is critical for getting new employees integrated into the organization and working productively as quickly as possible.

8-2a Legal Issues and Training

Some legal issues must be considered when designing and delivering training. One concern centers on the criteria and practices used to select individuals for inclusion in training programs. Since training can be an opportunity to advance in the organization, considering only job-related factors that do not result in disparate impact is important. Also, failure to accommodate individuals with

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disabilities in training can expose organizations to equal employment opportunity (EEO) lawsuits. Using psychological assessments to identify soft skills like emotional intelligence falls under the Uniform Guidelines and must be validated.[31]

Another legal issue involves requiring employees to sign *training contracts* to protect the costs and time invested in specialized employee training. Health care organizations, IT firms, and other training-oriented employers often rely on these contracts, particularly when the instruction and experiences provided are costly. For instance, an employee of Wells Fargo filed suit when the company tried to recoup more than $50,000 in training costs after she resigned. She had not completed the five-year program when she left. To encourage retention, it is common practice for large brokerage firms to include "clawback" provisions in their adviser training programs. In this case, the employee was earning less than the demanded amount, which she claims is a violation of wage laws.[32]

The Department of Labor has ruled that nonexempt employees who are training outside normal working hours (e.g., at home by completing web-based classes) must be compensated for their time. This is particularly challenging if employees access online training courses during off-duty hours. In addition, several federal laws either explicitly or implicitly require companies to train their employees. The Occupational Safety and Health Administration (OSHA) has extensive mandates for employee safety training. EEO laws strongly urge employers to provide training regarding harassment prevention, diversity, and inclusion. Supervisory staff should receive training to ensure that their decisions and actions comply with the complex array of employment laws. Accurate recordkeeping related to required training is important to demonstrate that the company is meeting its obligations.

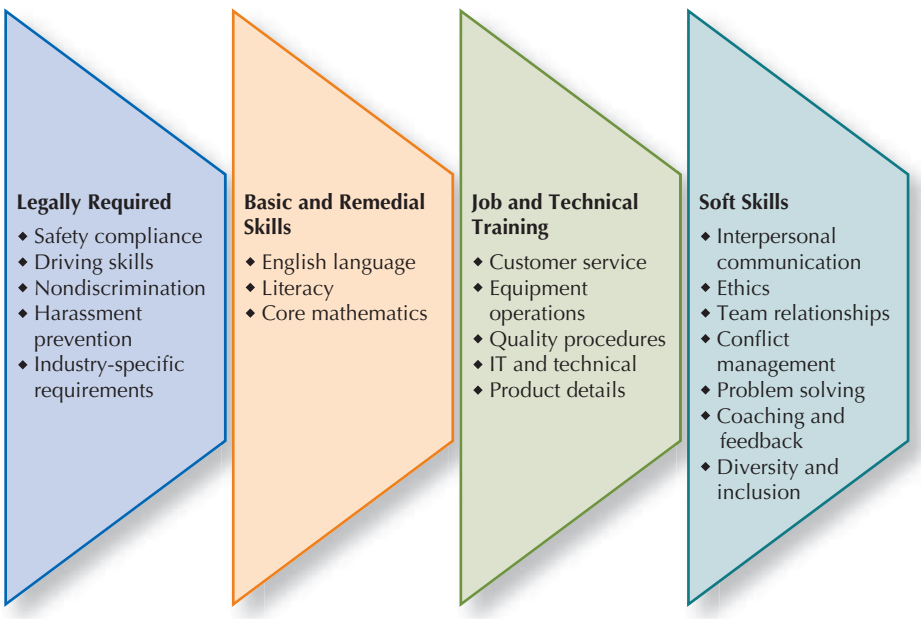
Finally, a number of industries mandate extensive and ongoing training for employees. For example, the health care industry must train employees in confidentiality practices, in addition to other legislation.[33] The insurance and financial services sectors also require employers to provide training specific to industry regulations.

8-2b Training Categories

Training can be designed to meet many objectives and can be classified in various ways. As Figure 8-4 shows, some common groupings of training include the following:

- *Legally required training*: Complies with various mandated legal requirements (e.g., OSHA and EEO) and is given to all employees upon hire along with periodic refreshers

FIGURE 8-4 Types of Training



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- *Basic and remedial skills training*: Provides foundation skills that new employees may lack (e.g., literacy, English language proficiency)
- *Job and technical training*: Enables employees to perform their jobs better (e.g., product knowledge, technical processes and procedures, customer relations)
- *Soft skills training*: Improves organizational working relationships (e.g., interpersonal communication, conflict resolution) and the organization's culture (e.g., ethics)

Companies typically provide training in each of these categories. Training dollars are allocated based on what each organization determines are its greatest needs. For companies with many low-skill, low-wage jobs, fluency in English and basic literacy may be primary needs; however, due to the global workplace, it is becoming more important for all employees to speak multiple languages to enhance communication with clients, customers, and coworkers.[34] Basic job skills are frequently a high priority to ensure that employees are competent in critical thinking, listening, financial literacy, time management, and decision-making skills.[35] The future workplace will also demand greater proficiency with soft skills such as adaptability, innovation, creativity, emotional intelligence, hospitality/customer service, and empathy. Some employers seeking to remain competitive are now providing training in these vital skills, or they should consider doing so if they are not.[36] Finally, organizations provide training that covers key issues such as workplace harassment and leadership, and employers should get leaders involved (such as attending sessions and/or articulating values), provide behavioral examples, and develop policies and coaching opportunities (among other practices) that support the lessons learned and make training successful.[37]

8-2c New Employee Orientation/Onboarding

Orienting new employees is essential for preparing them to perform on the job as quickly as possible. Also called *onboarding,* particularly when the process lasts longer than a few days (as it should in some cases, like at IBM and L'Oréal), orientation is the most important and widely conducted type of regular training provided for new employees to prepare them to work effectively in an organization.[38] When employees are successfully oriented and onboarded, this preparedness can enhance work attitudes, retention, engagement, authenticity, and job proficiency/performance.[39]

Orientation
Planned introduction of new employees to their jobs, coworkers, and the organization

Orientation, which is the planned introduction of new employees to their jobs, coworkers, and the organization, is offered by most employers. It requires cooperation and an established "partnership" among the HR unit, senior leaders, and operating managers/supervisors.[40] In a small organization without an HR department, the new employee's supervisor or manager usually assumes most of the responsibility for orientation.[41] In large organizations, managers and supervisors, as well as the HR department, often work as a team to orient new employees. There is also growing interest in using orientation and onboarding to prepare current employees for new roles in companies.[42]

Coordinators should realize that orientation and onboarding sessions can come across as boring, irrelevant, and a waste of time when there has not been proper planning or execution. However, well-designed and effectively-delivered orientation can be very positive. Among the decisions to be made when planning for new employee orientation are *what* to present and *when* to present it. Too much information on the first day leads to perceptions of ineffective onboarding. Offering several shorter sessions over a longer period of time and bringing in information as it is needed is often a more effective strategy. Effective orientation also achieves several key purposes:

- Establishes a favorable employee impression of the organization and the job (i.e., organized materials, gifts, etc.)
- Provides organization and job information
- Enhances interpersonal acceptance by coworkers and builds the new employee's network of resources (i.e., mentors, buddies, etc.)
- Accelerates socialization and assimilation of the new employee into the organization's values and culture
- Ensures that employee performance and productivity begin more quickly[43]

Since employers and employees both benefit from a successful onboarding process, it is important to get it right. Figure 8-5 shows key principles related to creating an effective onboarding process.

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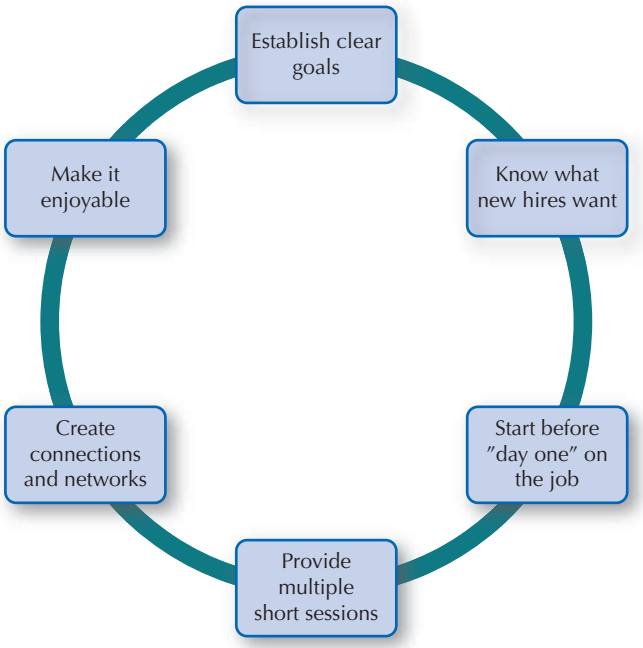
FIGURE 8-5 Elements of Effective Onboarding



Source: Adapted from Dan Steer, "Onboard with It All," *T+D*, November 2013, pp. 26–29; Carmen Nobel, "First Minutes Are Critical in New-Employee Orientation," *HBS Working Knowledge*, April 1, 2013, http://hbswk.hbs.edu/item/7193.html.

Electronic Orientation Resources One way to improve the efficiency of orientation is to use electronic resources. Many employers have implemented some kind of electronic onboarding activities to improve their employee orientation efforts, including video interactions, digital mentoring, and the use of mobile applications, onboarding portals, and games.[44] Employers can place general employee orientation information on company intranets or corporate websites. New employees log on and review much of the general material on organizational history, structure, products and services, mission, and other background information, instead of sitting in a classroom where the information is delivered in person or by video. Questions and concerns can be addressed by HR staff and others after employees have reviewed the web-based information.

Other organizations may use electronic resources a bit differently. At one company, when candidates accept an offer, they get an e-mail with a link to a password-protected website that welcomes them. From home, they fill out their I-9, W-2, and other forms on that website. Before reporting to work, they get daily e-mails explaining where to park and where to get uniforms. Assigning a desk, getting a computer and security clearance, and many other orientation tasks are all done before the first day on the job by electronic onboarding. Using the interactive features of digital onboarding can make the process more engaging and informative. It can also create excitement for new employees.

MEASURE

8-2d Orientation: Evaluation and Metrics

To determine the effectiveness of an orientation training program, evaluation using specific metrics is appropriate. Measurement should address the success of both the orientation program *and* the new hires themselves. Suggested metrics include the following:[45]

- *Tenure turnover rate*: What percentage of new hires left the organization in six months or less?
- *New hires failure factor*: What percentage of the total annual turnover was new hires?

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- *Employee upgrade rate*: What percentage of new employees received a positive performance rating?
- *Development program participation rate*: What percentage of new employees has moved on to training for or promotion to higher jobs?

Successfully integrating new hires is important, and measuring the degree of success allows the orientation program to be managed well. The way in which a company plans, organizes, and structures its training affects the way employees experience the training, which in turn influences the effectiveness of the training. After good planning, effective training requires the use of a systematic training process. Using such a process reduces the likelihood that unplanned, uncoordinated, and haphazard training efforts will occur without wasting valuable resources.

8-3 Instructional Systems Design

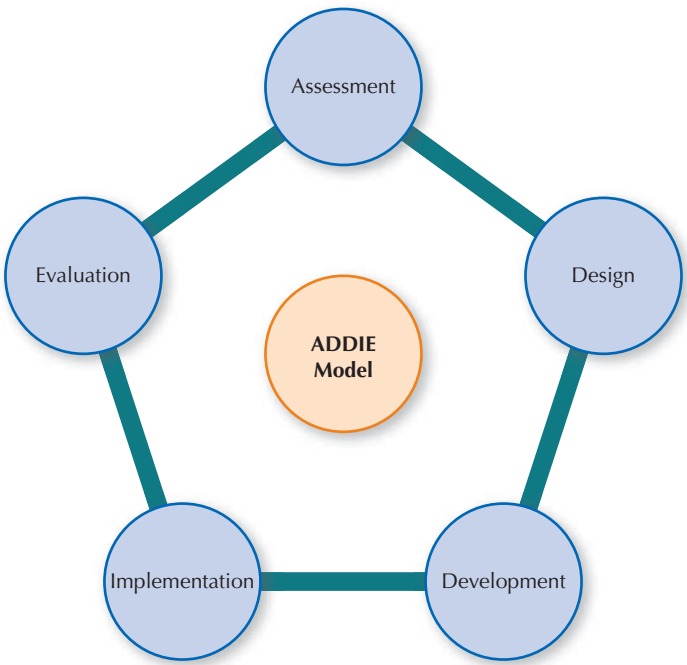
The overall goal of training and other learning efforts is to change and/or continuously improve employee behavior, leading to increased value, success, and the accomplishment of business strategies/goals.[46] Employees may participate in training because of a knowledge or skill gap, changes in company processes, or performance problems. In all cases, the hope is that after completing the training, employees will perform their jobs better than they did before the training. To ensure that training delivers positive behavioral changes, it is critical to systematically create and deliver training.[47]

Effective training does not begin the minute trainees walk into the training center and take their seats. Good training includes focused activities before, during, and after the actual training session. The better the upfront planning is, the better the actual training is likely to be. This planning helps the organization identify what is needed for employee performance *before* training begins so that there is better alignment between training and strategic needs. Then the follow-up after training brings the process full circle to determine how performance has been impacted.[48]

An orderly approach to training follows a purposeful process called instructional systems design. **Instructional systems design (ISD)** is a step-by-step process to ensure that the right learning materials are provided to the right people at the right time.[49] A popular model called the ADDIE framework (see Figure 8-6) is often used to explain this process. The ADDIE model includes five key phases:[50]

Instructional systems design (ISD)
A step-by-step process to ensure that the right learning materials are provided to the right people at the right time

FIGURE 8-6 ADDIE Model of Systematic Instructional Design Process



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- *Assessment*: The performance problem or issue is clarified, resource budgets are determined, and the learning environment and learner's existing knowledge and skills are identified.
- *Design*: Macro-level phase where learning objectives and media selection are determined.
- *Development*: Micro-level phase where content is solidified, instructional materials are created, and pilot tested.
- *Implementation/Delivery*: Training is delivered to target audience.
- *Evaluation*: Assessments and measures are taken to determine the effectiveness of the training.

Each of the important phases of the model is presented in the following sections. While there are five distinct phases to the ISD process, in most cases the phases overlap. Although the process appears to be linear, it is actually iterative. It is common to recycle back to an earlier phase when information is uncovered at later stages. For example, during the implementation phase, a trainer may discover that the needs assessment did not properly identify the specific content learners need to know. Then a brief reassessment might occur to get the training back on track.[51]

LO3 Identify three types of analyses used to determine training needs.

8-4 Training Needs Assessment

Assessing organizational training needs is the diagnostic phase of a training plan. This assessment includes issues related to employee and organizational performance to determine if training can help. Needs assessment measures the competencies of a company, a group, or an individual as they relate to what is required. It is necessary to find out what is happening and what should be happening before deciding if training will help, and if so, what kind of training is needed. Identifying gaps in performance is key to the assessment process. For instance, suppose the frequency of accidents in a manufacturing plant has increased from previous levels. Managers might review a wide range of possible causes such as changes in procedures, equipment malfunctions, increased production requirements, and worker capabilities. A thorough needs assessment will help managers zero in on the specific reasons for the increase in accidents. Training may be identified as one of the possible solutions to the problem. Since the organization has historical records of accident frequency, it will be fairly straightforward to determine the impact of the training.

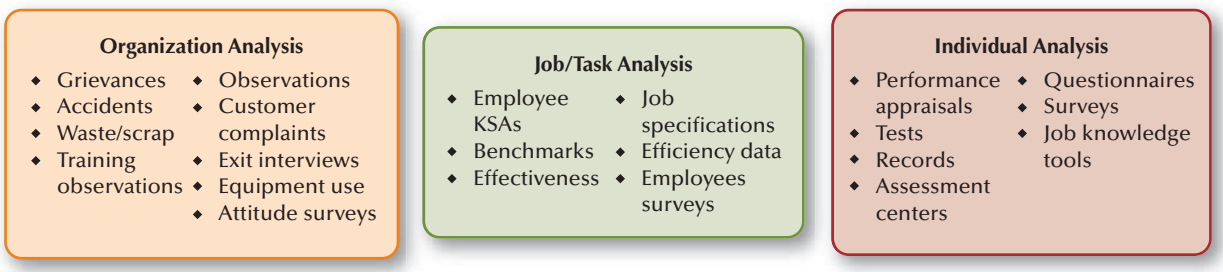
Effective training planning efforts consider the following questions:

- Is there really a need for the training?
- Who needs to be trained?
- Who will do the training?
- What form will the training take?
- How will knowledge be transferred to the job?
- How will the training be evaluated?

8-4a Analysis of Training Needs

The first step in assessing training needs is analyzing what training might be necessary. Figure 8-7 shows the three sources used to analyze training needs.

FIGURE 8-7 Sources of Information for Needs Assessment



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Organizational Analysis Training needs can be diagnosed by analyzing organizational outcomes and looking at future needs. A part of planning for training is identifying the KSAs that will be needed now and in the future as both jobs and the organization change. Both internal and external forces will influence training and should be considered when doing organizational analysis. For instance, the problems posed by the technical obsolescence of current employees and an insufficiently educated labor pool from which to draw new workers should be considered and incorporated into the training design.

Organizational analysis comes from various measures of organizational performance. Departments or areas with high turnover, customer complaints, high grievance rates, high absenteeism, low performance, and other deficiencies can be pinpointed. Following the identification of problems, objectives can be developed if training is a solution. During organizational analysis, managerial focus groups can be conducted to evaluate changes and performance that might require training.

Job/Task Analysis A second level of analyzing training needs involves reviewing the jobs and tasks performed. Comparing worker skills in a job category to the skills needed for successful job performance can identify gaps that can be filled by training. For example, at a manufacturing firm, analysis identified the tasks performed by engineers who served as technical instructors for other employees. By listing the tasks required of a technical instructor, HR established a program to teach specific instructional skills, and the engineers were able to become more successful instructors.

Another way to pinpoint training gaps in the job or task being performed is to survey employees and have them anonymously evaluate the current skill levels of themselves and their peers. This not only identifies job needs but also heightens employees' awareness of their own learning needs. A training needs survey can take the form of questionnaires or interviews with supervisors and employees individually or in groups. Web-based surveys, requests, and other inputs from managers and employees can be used to identify training needs for jobs.

A good example of needs assessment for a particular job occurred in the construction industry where there was a rash of accidents among Spanish-speaking construction workers. Construction companies recognized the need for training in English as a second language for many people. Restaurants, hospitals, and hotels have faced the same issue for jobs that are staffed by individuals with diverse backgrounds.

Individual Analysis The third means of diagnosing training needs focuses on individuals and how they perform their jobs. The most common approach for conducting individual analysis involves using performance appraisal data. In some instances, a good HR information system can be used to identify individuals who require training in specific areas to be eligible for promotion. To assess training needs through the performance appraisal process, a supervisor first determines an employee's performance strengths and inadequacies in a formal review. Then the supervisor can design training to help the employee overcome the weaknesses and enhance the strengths. Tests can be a good means of individual-level analysis. For example, a police officer might take a qualification test with his or her service pistol every six months to indicate his or her current skill level. If an officer cannot qualify, training would certainly be necessary.

Another way of assessing individual training needs is to use both managerial and nonmanagerial (or peer) input about the kind of training that is needed; individuals can also identify their own training needs.[52] Obtaining this kind of input can be useful in building support for the training from those who will attend, particularly because they are well-positioned to help identify training needs.

8-4b Establishing Training Objectives and Priorities

Once training requirements have been identified using needs analyses, training objectives and priorities can be established by a "gap analysis," which indicates the distance between where an organization is with its employee capabilities and where it needs to be. To close the gap, training

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objectives and priorities are then determined.[53] Three possible focuses for training objectives can be as follows:

- *Knowledge*: Imparting cognitive information and details to trainees (e.g., understanding how a new product works)
- *Skill*: Developing behavioral changes in how jobs and various task requirements are performed (e.g., improving speed on an installation)
- *Attitude*: Creating interest in and awareness of the importance of something (e.g., sexual harassment training)

The success of training should be measured in terms of the objectives that were set before it took place. When creating learning objectives, it is helpful to start at the end by specifying what a learner should be able to do after completing the training. This type of thinking guides the design and development of the training. Another key consideration is that useful objectives are measurable. For example, an objective for a new sales clerk might be to *demonstrate the ability to explain the function of each product in the department within two weeks.* This objective is specific and can be evaluated by the trainer or the employee's supervisor.

Most organizations do not have unlimited valuable resources such as time and money. Training competes with other HR and non-HR programs to secure financial and time support from the organization's leaders.[54] Since training is seldom an unlimited budget item, and because organizations have multiple training needs, prioritization is necessary. Ideally, management looks at training needs in relation to strategic plans and as part of the organizational change process. Then training needs can be prioritized on the basis of objectives. Conducting the training most needed to improve organizational performance will produce visible results more quickly.

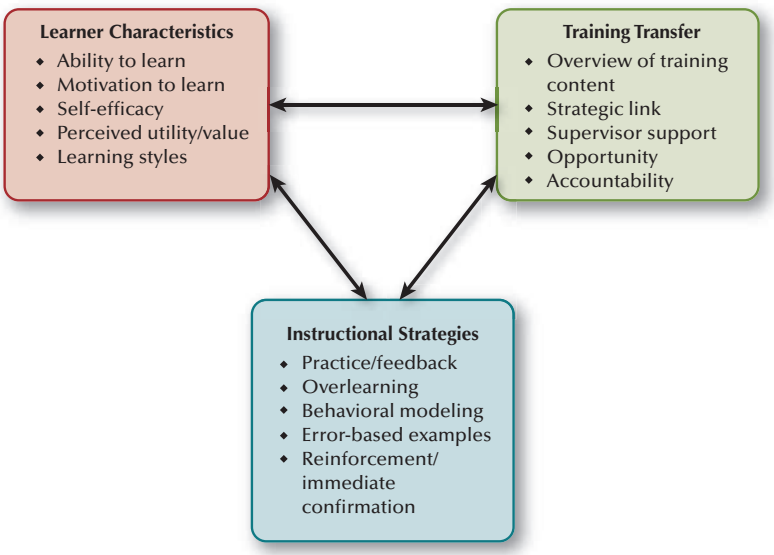
LO4 Specify how to design a training program for adult learners.

8-5 Training Design

Once training objectives have been established, the design of training can begin. Whether job-specific or broader in nature, training must be established to address the specific objectives. Effective training design considers the learners and instructional strategies, as well as how to maximize the transfer of training from class to the job site.

Working in organizations should be a continual learning process. Different approaches are possible because learning is a complex psychological process. For the training design to be effective and produce learning, each of the elements shown in Figure 8-8 must be considered.

FIGURE 8-8 Training Design Elements



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8-5a Learner Characteristics

For training to be successful, learners must be ready and able to learn. Learner readiness means that individuals have the ability to learn. However, individuals also must have the motivation to learn, have high confidence, see value in learning, and have a learning style that fits the training.

Ability to Learn Learners must possess basic skills, such as fundamental reading or math proficiency, and sufficient cognitive abilities. Companies may discover that some workers lack the cognitive ability to comprehend their training. Some have found that a significant number of job applicants and current employees lack the reading, writing, and math skills needed to learn the jobs. Employers might deal with the lack of basic employee skills in several ways:

- Offer remedial training to existing employees who need it.
- Test and hire workers who already have the necessary skills.
- Work with local schools to help better educate potential hires for jobs.

When designing training, it is important to identify the foundation skills needed for learners to grasp the material. Learners who lack the basic skills will be frustrated during training and are likely to retain little, if any, of the content. Therefore, it is critical to specify the entry level KSAs for success in the training program. Instructors may also focus on building metacognition in learners, which involves helping them understand how they best learn information and processes.[55]

Motivation A person's desire to learn training content, referred to as *motivation to learn*, is influenced by multiple factors. For example, differences in gender and ethnicity, and the resulting experiences, may affect the motivation of adult learners. Some learners approach learning from an achievement perspective. Their primary goal is to "pass the test" or earn a certificate of completion. Their outlook is short term and is focused on completing the training and moving on. Other learners adopt a learning perspective. Their primary objective is to master the training content. They may not earn the highest grade in a course, but they are likely to retain more of the content. They will practice, seek feedback, and take other steps to truly learn the material.[56] Other leaners may be skeptical of the amount of time training takes, preferring to take shortcuts in the curriculum.[57] Regardless of their motivations, without some drive to learn, those in a training program will not put forth the effort to succeed in training. Such disinterest can negatively affect their ability to continuously learn and remain a viable member of an organization.[58]

Some companies offer incentives to workers who complete training. Hudson Trail Outfitters, an outdoor gear retailer, discovered that employees are more motivated to complete training when they receive gear or clothing instead of monetary rewards. Dunkin' Donuts awards its employees points that can be traded in for merchandise. JetBlue and Deloitte use digital "badges" similar to Girl Scout and Boy Scout badges to designate employees who have mastered specific training content. The success of these programs is due to their alignment with each organization's culture and philosophy. Finding rewards or incentives that fit an organization's way of doing business can be the secret to motivating employees to learn.[59] Employers may also focus on helping employees crystalize their career goals to motivate them to learn.[60]

Self-efficacy
People's belief that they can successfully learn the training program content

Self-Efficacy Learners must possess **self-efficacy**, which refers to people's belief that they can successfully learn the training program content. For learners to be ready for and receptive to the training content, they must believe that it is possible for them to learn the material. As an example, many college students have varying levels of self-efficacy depending on the domain being studied. Self-efficacy is a perception that may have nothing to do with one's actual ability to learn; rather, it reflects the way we see ourselves and our abilities.[61] Since people who believe strongly that they can learn tend to perform better and are more satisfied with the training they receive. Instructors and trainers must find appropriate ways to boost the confidence of trainees who are unsure of their learning abilities.

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Perceived Utility/Value Training that is viewed as useful is more likely to be used on the job. Perceived utility or value of training is affected by a need to improve, the likelihood that training will lead to improvement, and the practicality of the training for use on the job. For training to be used on the job, learners must perceive a close relationship between the training and things they want in their work performance.

Learning Styles People learn in different ways. For example, *auditory* learners learn best by listening to someone else tell them about the training content. *Visual* learners think in pictures and figures, and they need to see the purpose and process of the training. *Tactile* learners must get their hands on the training resources and use them. Focusing on individual learning styles to develop *adaptive* learning opportunities can lead to training that is both *personalized* and useful.[62] However, focusing too much on learning styles when developing training can be limiting. Trainers who using multiple instructional methods can provide more effective training because trainees can learn to adapt.[63]

Adult learning (also known as andragogy) Ways in which adults learn differently than do younger people

In addition, training design must sometimes address special issues presented by **adult learning**, which involves the ways in which adults learn differently than do younger people. Certainly, the training design considers that all the trainees are adults, but adults come with widely varying learning styles, experiences, and personal goals. For example, training older adults in technology may require greater attention to explaining the need for changes and enhancing the older trainees' confidence and abilities when learning new technologies. In contrast, younger adults are more likely to be familiar with new technology because of their earlier exposure to computers and technology, but they may be less able to work alone to learn skills.

Malcolm Knowles's classic work on adult learning suggests five principles for designing training for adults.[64] According to that work and subsequent research by others, adults

- should know why they are learning something;
- prefer to be self-directed;
- bring more work-related experiences into the learning process;
- enter into a learning experience with a problem-centered approach; and
- are motivated to learn by *both* extrinsic and intrinsic factors.

The multigenerational workforce poses particular challenges in the design and delivery of training. While it is not advisable to simply lump everyone born within a generation into a box and assume that they will all respond in the same way, some understanding of the different generations is helpful when working to create useful training. The following "HR Competencies & Applications: Training a Multigenerational Workforce" feature identifies strategies that can help all learners get the most from training.

8-5b Instructional Strategies

An important part of training design is to select the right mix of teaching strategies to fit learner needs and styles. Practice/feedback, overlearning, behavioral modeling, error-based examples, and reinforcement/immediate confirmation are strategies that are frequently used when designing a training experience.

Practice/Feedback For some training, it is important that learners practice what they have learned and get feedback on how they have done so that they can improve. **Active practice** occurs when trainees perform job-related tasks and duties during training. This is more effective than simply reading or passively listening. For instance, assume a person is being trained as a customer service representative. After being given some basic selling instructions and product details, the trainee calls a customer and uses the skills mastered during training.

Active practice Trainees perform job-related tasks and duties during training

Feedback is crucial to help learners establish their competence level and adjust their effort. There are numerous sources of performance feedback during training. Trainers, fellow trainees, gauges on equipment or tools (like a speedometer), and the trainees themselves are all possible ways to provide information to the trainee. Feedback after training is also necessary to reinforce the

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HR COMPETENCIES & APPLICATIONS

Training a Multigenerational Workforce

There is more generational diversity in today's workplace than at any time in the past. Making sure that all employees are capable and ready to handle ever-changing tasks means that training is often an ongoing part of life in companies. Recognizing and embracing the differences brought by workers from each generation can lead to more engaging and effective training.

Each generation spans approximately a 20-year time period. Frequently, individuals in each generational cohort have similar values and behaviors based on shared experiences during their lifetime. While two people in the same generation are not carbon copies of each other, they often approach work in a similar way. Knowing a little about how each generation's workers view training helps trainers do a better job of connecting with each learner.

Baby Boomers (1946–1964) see the trainer as a knowledgeable partner in the learning process. They value qualifications and reputation, and they will seek to validate the trainer's credibility. Experience-based learning is highly effective for this group, and using audio methods tends to improve retention. Continual feedback can annoy them, but asking for their opinions during training keeps them engaged.

Generation X (1965–1980) learners view the trainer as a subject matter expert who can demonstrate proficiency on the spot. They value frequent feedback to help them gauge their performance level. Using multimedia delivery methods and letting them get their "hands dirty" by doing rather than watching enhances their learning retention and engagement.

Millennials (1981–2000) look for trainers who are knowledgeable mentors with deep real-world experience to share. They value practical training that can be used immediately. Many are visual learners who prefer image-dense material to solidify the learning moment. Teamwork, collaboration, and diversity in the training environment are crucial elements for optimal learning. The use of online content, videos, games, mentoring/coaching, and informal learning opportunities can also be beneficial when encouraging Millennials to learn.

These differences are complemented by some similarities. Workers from all generations need to see how the training is relevant to their jobs. To gain trust and acceptance, trainers need to highlight what is in it for the learners. All learners appreciate knowing what is expected of them during the training and what they can expect to get from the training. Address differences in communication and work styles at the beginning of a training session to help everyone understand and appreciate how they are alike and different. Use a variety of learning methods to present content and provide a hands-on experience to satisfy diverse learning styles and preferences. Fostering a setting in which all participants learn from and teach each other creates a rich learning environment for everyone.[65] Consider how the mix of employees from different generations impacts the workplace and answer the following questions:

1. What are the rewards and challenges of managing a workforce composed of workers from different generations?
2. How can HR professionals assist line managers in dealing with workers from different generations? What HR programs should be customized to meet the diverse needs of workers from each generation?

KEY COMPETENCIES: Consultation, Global & Cultural Effectiveness; HR Expertise: Workplace/Diversity & Inclusion, Organization/Workforce Management, People/Employee Engagement

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training content. On the job, the trainee's supervisor or coworkers can observe the trainee and provide feedback to help the trainee improve performance.[66] Variations to active practice include *action learning*, *experiential learning*, and *project-based learning*, which all require participation in various activities and exercises to enhance individual and group learning.[67]

Overlearning Repeated practice even after a learner has mastered the training content is referred to as *overlearning*. It may be best used to increase "muscle memory" for a physical activity to reduce the amount of thinking necessary and make responses automatic. Consider how most adults who drive perform many functions without consciously thinking about them as a result of constant repetition and practice. Overlearning produces improvement in learner retention. Even with overlearning, refreshers are still sometimes necessary to maintain proficiency.

Microlearning Breaking up the lessons to be learned in training into smaller pieces is called *microlearning*. The primary reason for using this approach is the idea that learners will be able to understand and retain more information when it's provided in smaller doses. Microlearning also enables employers to provide smaller pieces of instructional content to a dispersed workforce. This content can be learned quickly during a busy workday.[68]

Behavioral modeling
Copying someone else's behavior

Behavioral Modeling One of the most basic and best ways that people learn is through **behavioral modeling**, which involves copying someone else's behavior. The use of behavioral modeling in demonstrations is particularly appropriate for technical skills training in which the trainees must use both knowledge and practice.[69] It can aid in the transfer of skills and the use of those skills by those who are trained. For example, a new supervisor can receive training and mentoring on how to handle disciplinary discussions with employees by observing as the HR director or department manager deals with such problems. Behavioral modeling is particularly effective for training supervisors and managers in interpersonal skills.[70] Fortunately or unfortunately, many supervisors and managers model behaviors they see their bosses exhibit. For that reason, supervisor training should include good role models to show learners how to properly handle interpersonal interactions with employees.

Error-Based Examples The error-based examples method involves sharing with learners what can go wrong when they do not use the training properly. A good example is discussing with pilots what can happen when they are not aware of a harmful situation that occurs while in flight. Training that includes relevant error-based examples improves air crew situational awareness. Error-based examples have been incorporated in medical, military, firefighting, police, and aviation training and have wide potential uses in other situations. The *after-action review* process is a powerful method of identifying decisions and actions taken during an event and evaluating their effectiveness. This type of training uses real cases to emphasize the importance of appropriate decision making.[71]

Reinforcement
Based on the idea that people tend to repeat responses that give them some type of positive reward and to avoid actions associated with negative consequences

Immediate confirmation
Based on the idea that people learn best if they receive reinforcement and feedback as soon as possible after training

Reinforcement and Immediate Confirmation The concept of **reinforcement** is based on the *law of effect*, which states that people tend to repeat responses that give them a positive reward and to avoid actions associated with negative consequences. Using classic operant conditioning such as positive reinforcement for correct learned responses and negative consequences for incorrect responses can change learner behavior. Closely related is an instructional strategy called **immediate confirmation**, which is based on the idea that people learn best if they receive reinforcement and feedback as soon as possible after exhibiting a response. Immediate confirmation corrects errors that, if made and not corrected throughout the training, might establish an undesirable pattern that would need to be unlearned. It also aids with the transfer of training to the job.

8-5c Training Transfer

The best training in the world is of little use if trainees are not able to utilize the new knowledge and skills on the job. Training should be designed for maximum transfer from the classroom to the job. Transfer occurs when trainees actually use knowledge and information they learned in training once

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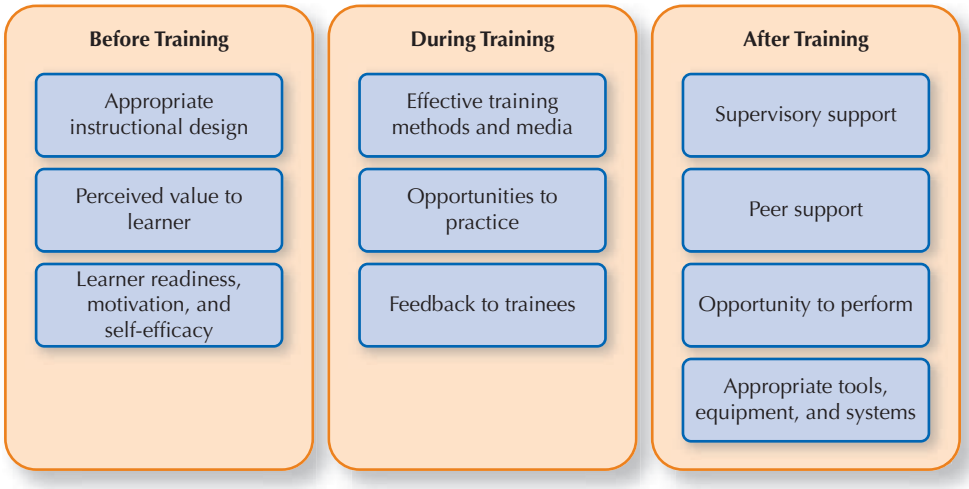
FIGURE 8-9 Transfer of Training Factors



Source: Adapted from Muhammad Bhatti, Sharrifah Ali, Mohd Isa, and Mohamed Battour, "Training Transfer and Transfer Motivation: The Influence of Individual, Environmental, Situational, Training Design and Affective Reaction Factors," *Performance Improvement Quarterly* 27, no. 1 (2014): 51–82.

they are back on the job. The amount of training that effectively gets transferred to the job is estimated to be relatively low, especially given all the time and money spent on training.[72] Figure 8-9 shows important considerations before, during, and after training that lead to successful transfer of training.

Effective transfer of training meets two conditions. First, the trainees can take the material learned in training and apply it to the job context in which they work. Second, employees maintain their use of the learned material over time. Transfer of training is influenced by many things done before, during, and after training.[73] Offering trainees an *overview of the training content* and *how it links to the strategy* of the organization seems to help with both short-term and longer-term training transfer. Another helpful approach is to ensure that the *training mirrors the job* context as much as possible. For example, training managers to be better selection interviewers could include role-playing with "applicants" who respond in the same way that real applicants would.

One of the most consistent factors in training transfer is the *support* new trainees receive *from their supervisors and peers* to use their new skills when they return to the job.[74] Supervisor support of the training, feedback from the supervisor, and supervisor involvement in training are powerful influences in transfer. *Opportunity to use the training* is also important. Transfer is obviously limited when someone is trained on something but then does not have the opportunity to use it. Learners need the opportunity to use new skills on the job if they are to retain those skills. Transfer of training is higher when, implementing a *just-in-time* philosophy, the trainee uses the new skills immediately after training.[75]

Finally, *accountability* helps transfer training from class to job. Accountability is the extent to which someone expects the learner to use the new skills on the job and holds them responsible for doing so.[76] It may require supervisory praise for doing the task correctly and sanctions for not showing proper trained behavior, but making people accountable for their own trained behavior is effective.

8-6 Training Delivery

Once training has been designed, the actual delivery of training can begin. Regardless of the type of training, many approaches and methods can be used to deliver it. The growth of training technology continues to expand the available choices, as shown in Figure 8-10.

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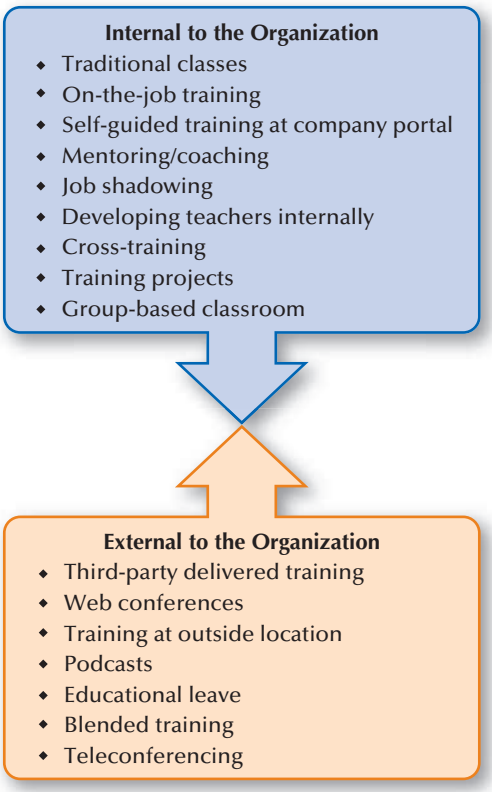
FIGURE 8-10 Training Delivery Options



Whatever the approach used, a variety of factors must be balanced when selecting training delivery methods. Some common variables considered include the following:

- Nature of training
- Subject matter
- Number of trainees
- Individual versus team
- Self-paced versus guided
- Training resources/costs
- E-learning versus traditional learning
- Geographic locations involved
- Time allotted
- Completion timeline

To illustrate, a large firm with many new hires may be able to use the Internet, videos, and specific HR staff members to conduct employee orientation, while a small firm with few new hires may have an HR staff member meet individually with the new hires for several hours. A medium-sized company with three locations in the same geographic area may bring supervisors together for a two-day training workshop once a quarter. However, a large global firm may use web-based courses to reach supervisors throughout the world, with content available in several languages. Frequently, training is conducted internally to the organization, but some types of training use external resources.

Training occurs on both a planned (formal) and unplanned (informal) basis. Formal training is a deliberate planned process of learning activities. Informal training takes place when learning may not even be the primary focus, but it occurs anyway. Informal learning may be the result of self-initiated effort or serendipity, but it often occurs "in the moment" as needed.[77]

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LO5 Explain different means of internal and external training delivery.

8-6a Internal Training

Internal training generally addresses topics specific to the organization and its jobs. Such training is popular because it saves the cost of sending employees away or paying outside instructors. Skills-based technical training is frequently conducted within organizations, and training materials are often created internally. Because of rapid changes in technology, building and updating technical skills may become crucial internal training needs. Basic training that focuses on technical skills is also being mandated by federal regulations in areas where the Occupational Safety and Health Administration (OSHA), the Environmental Protection Agency (EPA), and other agencies have jurisdiction. Three specific types of internal delivery options will be discussed here: informal training, on-the-job training, and cross-training.

Informal training
Training that occurs through interactions and feedback among employees

Informal Training One source of instruction is **informal training**, which occurs through interactions and feedback among employees. Much of what employees know about their jobs they learn informally from asking questions and getting advice from other employees and their supervisors, rather than from formal training programs.

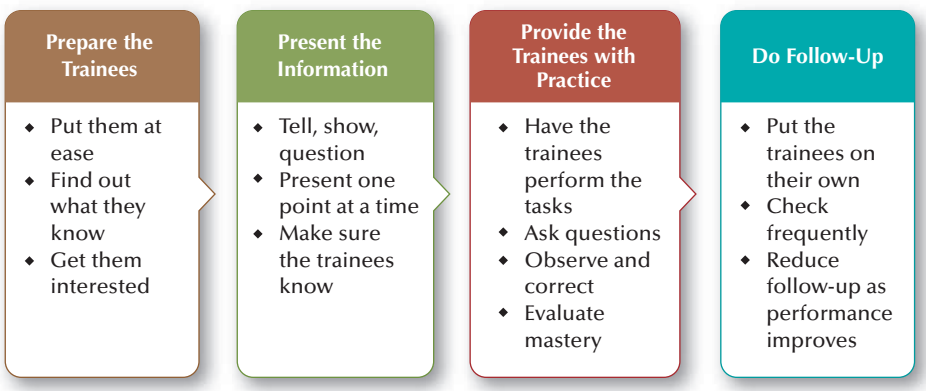
Informal learning often occurs spontaneously when an employee identifies a need for knowledge or skills and seeks out training on the spot from an internal "expert." It may involve group problem solving, job shadowing, coaching, or mentoring, or it may evolve from employees seeking out other people who have the necessary knowledge. Although "informal training" may seem to be a misnomer, a great deal of learning occurs informally in work organizations, and some of it happens by design. Some organizations create learning communities, expert panels, social networks, fun work environments, and other ways for employees to connect with expert resources on an as-needed basis.[78]

On-the-job training
The most common training because it is flexible and relevant

On-the-Job Training The most common type of training at all levels in an organization is **on-the-job training**, (OJT) because it is flexible and relevant to what employees do. Well-planned and well-executed OJT can be very effective. OJT, which is based on a guided form of training known as job instruction training (JIT), is most effective if a logical progression of steps is used, as shown in Figure 8-11. In contrast with informal training, which often occurs spontaneously, OJT should be planned. The trainer must be able to both teach and show the employees what to do.

However, effective OJT is not easy to achieve. Those doing the training may have no experience in training, no time to do it, or no desire to participate in it. Under such conditions, learners are essentially on their own, and training likely will not be successful. Another problem is that OJT can disrupt regular work. Unfortunately, OJT can sometimes amount to no training at all, especially if the trainers simply allow the trainees to learn the job on their own. Bad habits or incorrect information from the supervisor or manager can also be transferred to the trainees. These challenges point to why a *structured* OJT program that is highly organized and kept up-to-date is recommended.[79]

FIGURE 8-11 Steps for On-the-Job Training



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Cross-training
Training people to do more than one job

Cross-Training When people are trained to do more than one job—theirs and someone else's—**cross-training** is occurring. Cross-training offers the company more flexibility in assigning workers to tasks and can ensure uninterrupted production. Even though cross-training is attractive to the employer, it is not always appreciated by employees, who may feel that once they are cross-trained, they are required to do more work for the same pay. To counteract such responses and to make it more appealing to employees, learning "bonuses" can be awarded for successfully completing cross-training. Further, organizations can highlight how cross-training can help employees prepare for a future job transfer or promotion. Cross-training can also provide employees with a greater variety of tasks to perform on the job, keeping them more interested and engaged. Cross-training can even be used to better prepare HR professionals to work in their complex jobs.[80]

Unions typically are not in favor of cross-training because it threatens job jurisdiction and broadens jobs. Cross-training may require scheduling work differently during training, and temporary decreases in productivity may result as people learn. Overall, an effective cross-training program can overcome the concerns mentioned and has the potential to be good for both employer and employee.

8-6b External Training

External training, or training that takes place outside the organization, is used extensively by organizations of all sizes. Organizations use external training if they lack the capability to train workers internally or when many people need to be trained quickly. External training may be the best option in smaller firms because of limitations in the size of training staffs and in the number of employees who need various types of specialized training. Whatever the size of the organization, external training provides several key advantages:

- It may be less expensive for an employer to have an outside trainer conduct training in areas where internal training resources are limited.
- The organization may have insufficient time to develop internal training materials.
- The staff may not have the necessary level of expertise for the subject matter in which training is needed.
- Employees can learn from participants from other companies.

Outsourcing of Training Many employers of all sizes outsource training to external training firms, consultants, and other entities. The need for outside expertise, a company's limited time and resources, a preference for new ideas and thinking, and the development of a competitive advantage are some of the reasons why employer's choose to outsource training.[81] Perhaps one-third of training expenditures go to outside training sources. The reasons more outside training is not used may be related to cost concerns and a greater desire to link training to the specific organization's strategies.

When a company buys equipment or software, the purchase often includes training for its employees. Several computer software vendors offer technical certifications on their software. For example, being a Microsoft Certified Product Specialist gives employees credentials that show their level of technical expertise. Employees can include these certifications on their résumés, which may help if they decide to change jobs. These certifications also benefit employers, who can use them as job specifications for hiring and promotion.

Many suppliers host users' conferences, at which employees from different firms receive detailed training on using products, services, and features that are new to the employees. Some vendors conduct the training inside an organization as well if sufficient numbers of employees need training.

Government-Supported Job Training Funds for job training are often provided by federal, state, and local governments. The Trade Adjustment Assistance Community College and Career Training (TAACCCT) competitive grant program is a joint effort by the U.S. Departments of Labor and Education to target adult education. Educational institutions partner with employers to expand and improve their ability to deliver education and career training programs that will help

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job seekers get the skills they need for in-demand jobs. This federal program seeks to close the skills gap and enhance opportunities for workers and companies.[82]

At state and local levels, employers who add to their workforces can take advantage of programs that provide funding assistance to offset training costs. As an example, many states offer workforce training assistance for employers. Skilled Trades Training Fund (Michigan) and NCWorks Incumbent Worker Training Grant (North Carolina) are two such training support efforts. Receiving these training grants is often linked to employers creating or retaining jobs.

Educational Assistance Programs Some employers pay for additional education for their employees. Typically, the employee pays for a course that is part of attainment of a college degree and is reimbursed upon successful completion of the course. The funds paid by the employer are considered nontaxable income for the employee up to amounts set by federal laws.

One concern about traditional forms of employee educational programs is that they may pose risks for the employer. Upon completion of the degree, the employee may choose to take the new skills and go elsewhere. But these programs can help retain employees and be more cost-effective than dealing with turnover, making them a positive return on the financial resources invested.[83] To improve retention, employers must plan to help the employee use the new skills immediately following graduation. This concern has led to a common feature in these programs, the *clawback* provision. Companies frequently require that employees remain with the company for some period of time after receiving tuition assistance.

Policies regarding educational assistance should match the organization's objectives and employee relations philosophy. Some organizations select preferred colleges or universities where employees are encouraged to study, and some restrict courses to those that are relevant to the job or business. In any case, good follow-up and evaluation are important to verify that the program is building talent for the company.[84]

8-6c Combination Training Approaches

Whether training is delivered internally or externally, appropriate training must be chosen. The following section identifies two common training approaches that often integrate internal and external means. Both types of combination training programs rely on a partnership between a school and a company.

Cooperative/Apprentice Training Cooperative training approaches mix classroom training and on-the-job experiences. This training can take several forms. One form, generally referred to as *school-to-work transition,* helps individuals move into jobs while still in school or upon completion of formal schooling. Such efforts may be arranged with high schools, community colleges, or universities.[85]

Another form of cooperative training used by employers, trade unions, and government agencies is *apprentice training.* An apprenticeship program provides an employee with on-the-job experience under the guidance of a skilled and/or certified worker/professional, sometimes partnering with local colleges. Certain requirements for training, equipment, duration, and proficiency levels may be monitored by a unit of the U.S. Department of Labor. Apprenticeships usually last two to five years, depending on the occupation. During this time, the apprentice usually receives lower wages than do certified individuals.[86] The following "HR Perspective: Building Talent" feature describes several apprenticeship initiatives that are helping manufacturing firms fill critical skill needs.

Internships usually combine job training with classroom instruction from high schools, technical schools, colleges, and universities.[87] Internships benefit both employers and interns. Interns get real-world exposure, a line on their résumés, and a chance to closely examine a possible employer. Employers get a cost-effective source of labor and a chance to see the intern work before making a final hiring decision. Recent court rulings and guidelines from the Department of Labor indicate that, in many cases, interns must be paid. Companies should carefully assess the work duties assigned to interns and decide who is the "primary beneficiary" of the employment situation (the intern or the employer) to determine if pay is compulsory.[88]

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HR PERSPECTIVE

Building Talent

Vocational training programs have been a mainstay in Germany for decades. German youths enjoy the lowest unemployment rate in the world thanks to training programs that closely fit employers' skill needs. Many of these workers are hired for jobs in high-tech manufacturing. Conversely, in the United States, many parents and educators hold a low opinion of jobs in manufacturing and push young people into traditional college degree programs. This has made it difficult for manufacturers to find needed talent.

With a little financial help from Uncle Sam, apprenticeship programs are beginning to take root in American workplaces. While in office, President Obama pledged over $100 million for apprenticeship training. Although most of the companies that have signed on are German transplant operations, U.S. firms like Timken, ArcelorMittal, and Swagelok have started programs. The changing nature of jobs in manufacturing has forced these companies to "build" their own workforces.

The increased use of robotics and other technologies in these firms means that routine manual labor is often performed by machines. But jobs that are still done by people are much more technical than in the past. Through collaboration with vocational high schools and community colleges, these companies are helping to design courses specific to their industry needs. Some labor unions—such as those involved with construction trades like electrical or plumbing work—also provide vocational training related to their specific craft.

Apprenticeships are "real" jobs, and students spend time in the classroom learning theory and underlying foundational content. Then on the job site, they are guided by highly qualified experienced workers. An apprenticeship typically takes three years. High school students who enter apprenticeship programs can earn well above average pay and begin careers immediately after graduation. In addition to manufacturing, apprenticeships are becoming more popular in fields such as health care, child care, supply chain management, and information technology.

Rather than waiting for talent to come to them, Timken, ArcelorMittal, and Swagelock build their own talent. This long-term perspective on talent development can provide these employers with a dedicated and capable workforce for today and into the future.[89] After reading this explanation of apprenticeship programs, answer the following questions:

1. Why do you think many U.S. companies are reluctant to implement apprenticeship programs? What arguments would you make to overcome their hesitance?
2. What types of jobs would be most appropriate for apprenticeship programs?

8-7 Technology in Training Delivery

The availability of tablet computers, mobile devices, virtual reality gear, and other technologies offers a tantalizing opportunity for trainers. However, hoping to connect with trainees through high-tech methods, companies sometimes don't plan properly to effectively deliver training. Using the proper technology for the proper content is key to making technology-based training pay off. Good training design and understanding learner preferences are important steps in capitalizing on using technology in training.[90]

8-7a E-Learning: Online Training

E-learning
Use of web-based technology to conduct training online

E-learning is the use of web-based technology to conduct training online. E-learning is popular with employers because it offers cost savings, better access to more employees, enables the delivery of brief sessions, and facilitates goal accomplishment. Therefore, training conducted with some kind

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of learning technology is likely to continue to increase.[91] Almost 30 percent of learning hours today are totally technology-based, according to an Association for Talent Development (ATD) report, and e-learning is preferred by workers under the age of 30.[92]

Online training should be designed to overcome common problems such as low usage rates and high attrition. In general, if learners believe that the training will be useful and easy to use, they are more likely to take and complete online courses.[93] Making a virtual classroom more engaging with dialogue, collaboration, and live interaction can improve students' experiences.[94]

Online training is particularly useful in a model called the *flipped classroom*. Before meeting for a face-to-face session, trainees complete an online learning module. The classroom session is then devoted to hands-on activities, questions and answers about content, and project work. Companies as diverse as nuclear power plant operators and hair styling salons are using flipped classrooms to better utilize instructor and trainee time. The trainer's role shifts from teacher to facilitator, and trainees are accountable to the trainer and fellow learners for a productive training session.[95]

MOOCs
Massive open online courses

MOOCs Massive open online courses (**MOOCs**) are the latest version of online learning platforms. Some prestigious universities offer courses free of charge as MOOCs. Completion of the course does not earn the student a degree, but individuals seeking specific content may find them sufficient.[96] Other universities have developed full MOOC degree programs. For example, AT&T partnered with Georgia Tech University to offer an online master's program in computer science. Over 200 AT&T employees have enrolled. The tuition is substantially lower than if the employees attended classes on the campus. Further, employees from across the country can participate in this program.[97]

MOOCs are an evolving training solution and are likely to morph in the coming years. Websites like Khan Academy and TED Talks provide free, on-the-spot lectures and demonstrations on a wide range of topics. Trainers are looking for ways to validate MOOC training programs to determine if participants have mastered important content. Some companies welcome MOOC study, while others dismiss its value. As with all emerging technologies, careful assessment based on learning objectives is key to making MOOCs succeed.[98]

Distance Training/Learning Many college and university classes use some form of Internet-based course support. Hundreds of college professors use various packages and technologies to make their lecture content interactively available to students.[99] These packages enable virtual chat and electronic file exchange among course participants and enhance instructor–student contact.

Similarly, many large employers similarly use interactive two-way television to present classes. The medium allows an instructor in one place to see and respond to a "class" in any number of other locations. With a fully configured system, employees can take courses from anywhere in the world. Webinars are becoming a popular type of web-based training.

8-7b Simulations and Games

Training that incorporates simulations and games can engage learners while presenting a realistic portrayal of work-related tasks or challenges. Simulations and games are not the same, although the distinction gets fuzzy at times. **Simulations** seek to reproduce parts of the real world so that they can be experienced and manipulated, and learning can occur. **Games** are exercises that entertain and engage. They may or may not resemble the real world of work but can sometimes be used to illustrate points in training.

Simulations
Reproduce parts of the real world so that they can be experienced and manipulated, and learning can occur

Games
Exercises that entertain and engage

From highly complicated systems that replicate difficult landing scenarios for pilots to programs that help medical trainees learn to interact with and assist patients, simulations allow for safe training when the risks associated with failure are high. Certain industries are on the cutting edge of simulation for training, for example, aviation, military, and transportation. Flight simulators allow a fledgling pilot to practice without crashing an expensive plane. Military simulations allow use of large weapons systems without killing anyone. A 3-D virtual marine port emulates a real container terminal environment and helps operators safely train for the complex activities involved in moving cargo containers. These and other simulators reduce risk to trainees and others who might be injured or killed if training were to take place in the real world rather than virtually. Simulations

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can also be used to address a variety of organizational issues.[100] Virtual reality training, a kind of simulation that involves the use of special glasses and cameras to introduce a digital environment to participants, can also be used to enhance learning.[101]

The future for workplace games is bright, with Gartner predicting that over 70 percent of companies will have at least one gamified application in the near future.[102] Games are used to motivate and engage learners and improve their knowledge, and they often use achievement badges, levels that must be cleared, and other rewards.[103] At Evault, new hire onboarding is a "game." New employees are sent on five "missions" that have learning objectives related to mastering some company-relevant content. The game is tablet based, and employees complete it at their own pace. New hires are now better informed and networked than in the past, thanks to the onboarding game.[104]

8-7c Mobile Learning

STRATEGY

M-learning
Use of mobile technology to conduct training

Incorporating mobile devices such as smartphones, tablets, or netbooks into training holds seemingly endless potential. Evidence indicates that 67 percent of individuals use mobile devices to learn, but only 12 percent of the training and education offered by companies can be accessed this way.[105] Consequently, **m-learning**, the use of mobile technology to conduct training, requires more attention and a sound strategy. Three key strategic decisions are as follows:

1. *Target market*: Who are the learners you hope to reach with m-learning? Determine the learners' goals, work environment (e.g., remote, lots of travel), and technology competence level.
2. *Learning content*: What material or information do learners need to have on mobile devices? Are videos or are audio lessons better? What metrics will you use to measure mobile learning success?
3. *System architecture*: What operating system will be used? Will employees be permitted to use their own devices? Consider security issues related to access.[106]

Employees can use mobile devices to access instruction manuals for hardware and software. For instance, repair personnel can retrieve product manuals and instructional videos when they are out in the field and need help completing a repair job. In classroom training, attendees can use text messaging and other mobile apps to complete short quizzes or surveys, pose questions to the instructor or other trainees, and take notes.[107]

Learning content should be designed specifically for m-learning applications. Short text messages, videos, and reminders are best for mobile phones. Tablets provide for a more immersive and richer user experience. Brief amounts of information through microlearning that can be easily digested are most appropriate for mobile device users who are typically learning on the go. The learning content can be built by users who can snap photos of what they are doing or working on and share them in a learning platform. M-learning can be an interactive, learner-based process when it is well designed; games can even be used.[108]

Blended Learning Generally, technology that was once center stage is becoming embedded in the learning and training processes. As learning and work merge ever closer in the future, technology is likely to integrate seamlessly into the work environment of more employees.

Blended learning
Learning approach that combines short, fast-paced, interactive computer-based lessons and teleconferencing with traditional classroom instruction and simulation

However, e-learning does not work well as the sole method of training, according to employers. One popular solution is **blended learning**, which is a learning approach that combines short, fast-paced, interactive computer-based lessons and/or teleconferencing with traditional classroom instruction and simulation. A blended learning approach can use e-learning for building knowledge of certain basics and traditional instructor-facilitated, in-person training sessions for deeper understanding and practice. Blended learning seeks to capitalize on using the most appropriate delivery mode for specific content.[109]

Blended learning provides greater flexibility with multiple training methods and can deliver superior training outcomes. For example, DHL Express combined an intensive 1.5-day customer service training with stand-alone, interactive online training modules. The training was translated into 42 languages, and participant feedback scores were positive, averaging 5.8 out of 6.0.[110]

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FIGURE 8-12 Pros and Cons of Technology-Supported Training

Pros	Cons
• Self-paced—trainees can proceed at their own speed • Interactive—taps multiple trainee senses • Automated scoring of exercises and assessments • Quick, appropriate feedback to learners • Incorporates built-in guidance and help for trainees to use when needed • Updating content is relatively easy • Allows for training "on the go" and "just-in-time" • Learners can contribute content to learning platform	• May cause trainee anxiety • Trainees must have easy, reliable access to technology • Relies on user self-direction and motivation to complete training • Is not appropriate for some training content (leadership, cultural change, etc.) • Significant up-front investment of both time and money • Significant support from top management necessary for success • Security and access concerns

8-7d Pros and Cons of Technology-Supported E-Learning

There are both advantages and disadvantages that must be considered when utilizing technology to provide training experiences. The rapid growth of technology can result in adoption before an organization has planned for appropriate training design and delivery. Technology-supported training seems like a quick and easy way to keep employees' skills current. Some employers think that they can "set it and forget it." However, that is not the case, and many dollars can be wasted through inappropriate use of technology for training.

In addition to being concerned about employee access to technology and the desire to use it, some employers worry that trainees will complete courses quickly but will neither retain nor use much of what they have learned to help them carry out their work. Taking existing training materials, putting them on the Internet or mobile devices, and cutting the training budget does not usually deliver the desired results.[111] Figure 8-12 presents the most commonly cited pros and cons of using technology to support workforce learning.

LO6 Provide an example for each of the four levels of training evaluation.

8-8 Training Evaluation

Training evaluation compares post-training results to the pre-training objectives of managers, trainers, and trainees. Too often, training is conducted with little thought toward measuring outcomes and evaluating its effectiveness. When training is evaluated, evidence indicates that it is ineffective at times.[112] Given these findings, coupled with the reality that training is both time-consuming and costly, evaluations should be conducted on an ongoing basis; in particular, talent development specialists should develop the skillsets needed to successfully conduct evaluations.[113] Some of the primary concerns of these efforts should be on the impact, value, and consequences of training so that effectiveness can be increased.[114] For instance, Allstate developed a standardized set of measurement and reporting procedures to determine the impact of its training and development initiatives.[115]

8-8a Levels of Evaluation

It is best to consider—before it begins—how training is to be evaluated. Donald L. Kirkpatrick identified four levels at which training can be evaluated.[116] They are reaction, learning, behaviors, and results.

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Reaction Organizations evaluate trainees' reaction levels by conducting interviews with or administering questionnaires to the trainees. Assume that 30 managers attend a two-day workshop on effective interviewing skills. A reaction-level measure could be gathered by having the managers complete a survey asking them to rate the value of the training, the style of the instructors, and their perceived usefulness of the training.

Learning Evaluating learning can be conducted by measuring how well trainees have learned facts, ideas, concepts, theories, and attitudes. Tests on the training material are commonly used for evaluating learning, and they can be given both before and after training to provide scores that can be compared. If test scores indicate learning problems, then instructors get feedback and courses can be redesigned so that the content can be delivered more effectively. Of course, learning enough to pass a test does not guarantee that trainees will remember the training content months later or that it will change job behaviors.

Behaviors Evaluating training at the behavioral level means measuring the effect of training on job performance through observing workers on the job. For instance, the managers who participated in an interviewing workshop might be observed conducting actual interviews of applicants for jobs in their departments. If the managers asked questions as they were trained to and used appropriate follow-up questions, then behavioral indicators of the effectiveness of the interviewing training exist.

Results Employers evaluate results by measuring the effect of training on the achievement of organizational objectives. Since results such as productivity, turnover, quality, time, sales, and costs are relatively concrete, this type of evaluation can be done by comparing records before and after training. For the managers who attended interviewing training, evaluators could gather records of the number of individuals hired compared with the number of employment offers made before and after the training.

MEASURE

The difficulty with measuring results is pinpointing whether changes were actually the result of training or of other major factors. For example, the managers who completed the interviewing training program can be measured on employee turnover before and after the training, but turnover also depends on the current economic situation, the demand for workers, and many other variables. Parsing out the role that training played in improving results can be a challenge.

8-8b Training Evaluation Metrics

Training is expensive, and it is an HR function that requires measuring and monitoring. Cost–benefit analysis and return-on-investment (ROI) analysis are commonly used to measure training results, as are various benchmarking approaches.

Cost–benefit analysis Comparison of costs and benefits associated with training

Cost–Benefit Analysis Training results can be examined through **cost–benefit analysis**, which compares costs and benefits associated with training. There are four stages in calculating training costs and benefits:

1. *Determine training costs*. Consider direct costs such as design, trainer fees, materials, facilities, and other administrative activities and indirect costs such as trainee time away from work.
2. *Identify potential savings results*. Consider employee retention, better customer service, fewer work errors, quicker equipment changeovers, and other productivity factors.
3. *Compute potential savings*. Gather data on the performance results and assign dollar costs to each of them.
4. *Conduct costs and savings benefits comparisons*. Evaluate the costs per participant, the savings per participant, and how the costs and benefits relate to business performance numbers.

Figure 8-13 shows some typical costs and benefits that may result from training. Even though some benefits (such as attitude changes) are hard to quantify, comparing costs and benefits associated with training remains a way to determine whether training is cost effective. All training should

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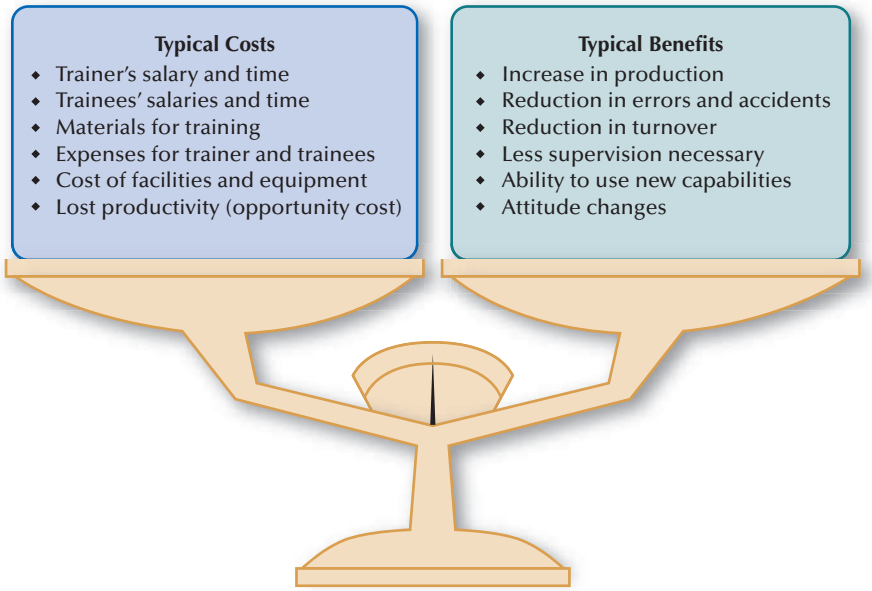
FIGURE 8-13 Possible Costs and Benefits Related to Training



be evaluated regardless of delivery method. For example, one firm evaluated a traditional safety training program and found that the program did not lead to fewer accidents. Therefore, the safety training was redesigned, and better safety practices resulted.

Return-on-Investment Analysis and Benchmarking Training is often expected to produce a return on investment (ROI). Unfortunately, training is often justified because someone liked it rather than on the basis of business outcomes or resource accountability.[117] ROI simply divides the return produced because of the training by the cost (or investment) of the training.[118]

In addition to evaluating training internally, some organizations use benchmark measures to compare it with training done in other organizations. To conduct benchmarking, HR professionals gather data on training in their organization and compare them with data on training at other organizations in the same industry and in companies of a similar size. Comparison data are available through the Association for Talent Development and its Benchmarking Service. This service has training-related data from more than 1,000 participating employers who complete detailed questionnaires annually. Training can also be benchmarked against data from the American Productivity & Quality Center and the Saratoga Institute.

8-8c Training Evaluation Designs

With or without benchmarking data, internal evaluations of training programs can be designed in many ways. The rigor of the three designs discussed next increases with each level.

Post-Measure The most obvious way to evaluate training effectiveness is to determine whether the employees can perform according to standard after attending the training. Assume that a customer service manager has 20 representatives who need to improve their data-entry speed. After a one-day training session, they take a test to measure this speed. If the representatives can all type the required speed after training, was the training beneficial? It is difficult to say—perhaps most of them could have done as well before training. Tests after training do not always clearly indicate whether a performance is a result of the training or could have been achieved without the training. Post-measure results reflect the level of trainee competence at only one point in time—right after the training is finished.

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Pre-/Post-Measure By designing the evaluation just discussed differently, the issue of pre-test skill levels can be considered. If the data-entry speed is measured before and after training, the results will indicate whether the training made any difference. However, a question would remain: Was any increase in speed a response to the training, or did these employees simply work faster because they knew they were being tested? People often perform better when they know their efforts are being evaluated.

Pre-/Post-Measure with a Control Group Another evaluation design can address the preceding problem. In addition to testing the 20 representatives who will be trained, the manager can test another group of representatives who will not be trained to see if they do as well as those who are to be trained. This second group is called a control group. If the trained representatives work significantly faster after training than those who were not trained, the manager can be reasonably sure that the training was effective.

Organizations invest many dollars and countless hours into the development of effective training for employees. These investments should support the goals of the organization and result in benefits to both the employees and the company. Thoughtful design, delivery, and evaluation of training offer the greatest probability of achieving success.

SUMMARY

- Training is a process that provides people with the capabilities they need to do their jobs.
- A strategic approach to training links organizational strategies and HR planning to various training efforts.
- Training affects factors such as organizational competitiveness, knowledge management, revenue, and performance.
- Global strategies must consider training as a key component, including intercultural competence training to prepare employees to respond more appropriately to situations encountered during global assignments.
- Four types of training are regular, basic/remedial skills, job/technical, and soft skills.
- The instructional systems design process consists of five phases: assessment, design, development, implementation, and evaluation.
- Training needs can be assessed using organizational, job/task, and individual analyses, and then training objectives can be set to help the organization meet those needs.
- Training design must consider learner readiness, learning styles, and learning transfer.
- Training can be delivered internally, through external means, or via a combination of both.
- Use of technology in training is increasing, and organizations should assess the pros and cons before adopting new technologies.
- Various organizations are taking advantage of training that uses technology such as web-based multimedia, mobile devices, MOOCs, simulation, and games.
- Training can be evaluated at four levels: reaction, learning, behavior, and results.
- Training evaluation metrics may include cost–benefit analysis, ROI analysis, and benchmarking.

CRITICAL THINKING CHALLENGES

1. Identify training needs for a group of entry-level workers in a fast food restaurant.
2. Why is evaluating training an important part of strategic training?
3. Develop an orientation checklist on the basis of one first-day session and a second session of four hours 30 days later.
4. Create a briefing for division managers showing the advantages and disadvantages of using MOOCs. Use websites, including www.td.org, www.coursera.org, and www.mooc-list.com.
5. Because of the rapid growth of your technology company, the executive team has asked HR to develop an internal training program. The purpose of the program is to help employees recently promoted to supervisory positions develop the leadership skill sets they need to be successful as supervisors. This will be the first formal training program for your small company. As part of the process, you want to consider the learning styles of the new supervisors. To help you develop a successful, results-oriented program, review various training websites, including www.agelesslearner.com.
   A. What training techniques should be implemented to meet the needs of the varied learning styles and maximize the learning potential of the participants.
   B. Identify the content topics that you will recommend be included in the program to ensure the development of successful leaders.

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CASE Bloomingdale's Uses Interactive Platform to Improve Safety Knowledge

For some time, Bloomingdale's relied on standard types of training to enhance employees' awareness of topics such as workplace safety and loss prevention. Such training typically included classroom sessions, store huddles, pre-shift meetings, and instructional posters. But these efforts were not always effective despite the good intentions. For instance, the training did not really inspire employees to focus on the key issues covered, and it was often difficult to measure the impact of the instruction provided. The firm recognized that something different must be done to enhance its safety record—this involved increasing associate's knowledge of safety, rather than focusing exclusively on traditional training as a "quick fix."

The company started using Axonify, a training platform that incorporates active gamification and other entertaining activities to increase employee knowledge. Learning can also be customized based on the personal needs of employees. This enables individuals to build confidence by working on their knowledge areas that need improvement. Much of these activities could also be integrated real time into the work environment.

Bloomingdale's developed a four-stage process to make the transition from traditional training to ongoing learning. First, learning activities were included in shift work to spark daily awareness of safety and customer service issues. The Employee Knowledge Platform enabled employees to learn during short periods of downtime, using mobile devices or point-of-sale instruments. Associates were able to learn while they did their jobs, instead of receiving training at one time. Next, the training was delivered in small modules, with gamified elements that appealed to associates. When individuals mastered one set of information, the platform would move on to other topics—when remedial work was needed, it was provided until associates mastered the information.

Bloomingdale's also allowed for some customization in the learning system because different stores and departments often dealt with very different challenges and opportunities. This customization led to greater engagement across the various areas of the organization. Finally, the effectiveness of the learning was measured with the Employee Knowledge Platform, which helped Bloomingdale's determine its impact on important outcomes (i.e., individual behaviors and results). This allowed managers to get a gauge of how well associates, teams, and stores were learning and applying the information on the job.

Not only does Bloomingdale's have an engaging training program that motivates a tech-oriented workforce, but the company also has a way of measuring its impact on the business as a whole. The approach has been very effective. The company has saved millions of dollars by decreasing the number of safety claims it addresses.[119]

QUESTIONS

1. What is your opinion of Bloomingdale's learning approach? What elements do you think motivated employees to learn more about safety on the job?
2. Do you agree with the various stages employed to implement the system? Could this approach be improved? If so, what improvements would you recommend?
3. What kind of incentives might be used to encourage further learning?

SUPPLEMENTAL CASES

Saving Lives through Effective Training

This case highlights the use of live instructor-led classroom sessions at G4S, an integrated security solutions provider. (For the case, visit MindTap® at www.cengage.com/login.)

Using Performance Support to Improve Learning

This case illustrates the process of performance support that employees use to improve their job performance. (For the case, visit MindTap® at www.cengage.com/login.)

Training Crucial for Hotels

This case illustrates the increased role training is playing in large U.S. hotel chains. (For the case, visit MindTap® at www.cengage.com/login.)

New Payroll Clerk

This case shows the frustration that often accompanies the first day at work and why orientation is important in reducing turnover. (For the case, visit MindTap® at www.cengage.com/login.)

Onboarding in the Twenty-First Century

This case outlines orientation efforts of Sun Microsystems, El Paso Corporation, and Zimmerman Advertising. (For the case, visit MindTap® at www.cengage.com/login.)

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END NOTES

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CHAPTER 9

Talent, Careers, and Development

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Identify the importance of talent management and discuss two reasons it may be difficult.

LO2 Explain the importance of succession planning and the steps involved in the process.

LO3 Differentiate between organization-centered and individual-centered career planning.

LO4 List options for development needs analyses.

LO5 Discuss three career issues that organizations and employees must address.

LO6 Identify several management development methods.

WHAT'S TRENDING IN TALENT MANAGEMENT

Talent management practices are an important element of human resource management. The strategic impact of having the right employees is even more critical today as the economy becomes more technology-driven and competitive. The need for high-quality employees is paramount, and talent management enables employers to develop the proper knowledge, skills, and abilities in workers so that everyone is successful. The current trends in talent management include the following:

1. Technology is a significant component of talent development efforts in companies. HR professionals must determine how to appropriately use the technology to deliver instruction that is both engaging and effective.
2. Varying demographics in the workplace will continue to change the way talent development is managed. For instance, the globalization of business and growing numbers of Millennials in the workforce means that employers have to develop workers who have unique needs and preferences.
3. Providing employees innovative development opportunities is critical for improving individual engagement and organizational success. Experience-based learning, face-to-face development, microlearning, on-demand/interactive training, and customized programs are all innovative methods that can enhance talent development.
4. Employers are making large investments in talent development, but they also need to determine the benefit of these investments. The use of data analytics and metrics to determine which workers and jobs require more resources, as well as the impact of these investments, provides a clearer picture.[1]

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HEADLINE

Talent Development Leads to Success at Hilton Worldwide

The hospitality industry has seen consistent growth for almost a decade, with the tourism and travel sector providing trillions of dollars to the world economy. A significant portion of the industry's expansion is occurring in areas that represent desirable destination locations, which currently include regions such as Asia, Africa, and India. These realities have affected the talent development strategies used by Hilton Worldwide—the company must adequately prepare its workforce for employment in properties located around the globe. With facilities in over 100 nations, leaders at Hilton have figured out that employees need innovative developmental opportunities to keep them engaged.

One source of talent development at Hilton is a GED Assistance Benefit, a program that was developed jointly with the Council for Adult and Experiential Learning. This benefit provides individuals who have been employed at Hilton for a minimum of six months the opportunity to earn their high school equivalency diploma free of charge. The rationale for providing such assistance is that individuals will enjoy greater employability and earning potential over the span of their careers. Individual learning and success in the program is enhanced by providing participants extensive advising and testing guidance.

Hilton also manages its talent development functions effectively. For instance, the company organizes its talent efforts by focusing on "talent and leadership," "learning consulting," and "learning delivery." Talent development is also viewed broadly to include succession planning, leader preparation, and individual learning. All of these strategies have positioned Hilton as a company that cares deeply about the development of its managers and employees.

In addition to organizing its talent and learning efforts, Hilton is innovative in the face of technological changes that shape customer expectations and industry standards. Hilton recently offered a service called *Digital Check-in* that allows customers to manage their own reservation, room assignment, and check-in procedures.

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This move required thousands of front desk personnel to adjust to the program—they had to adapt to new procedures...and quickly! The company used periodic meetings with staff members to identify the procedural and policy changes needed to make the program work. Hilton then worked with Digitec Interactive to develop blended learning opportunities for employees. Interactive games and other digital materials were created so that e-learning could be offered through computers and mobile devices. Participants must get a perfect score to pass the training, which shows how much the training is emphasized at Hilton Worldwide.[2]

Talent management is quickly becoming a major concern to executives, boards of directors, investors, and employees. Organization sustainability rests on the skills and knowledge of workers. Instituting effective practices to ensure that workers are capable of fulfilling job requirements is a key strategic move for organizations. This is why leaders and HR professionals focus so much on developing the talent of employees.

Workforce planning is based on having the right talent in place as needed by the organization and its managers. Workforce planning works with talent management, which focuses on having the right individuals ready for jobs when needed. A significant part of talent management involves developing a pipeline of talented people. Additionally, talent management focuses on key positions and job families that will be required, skills that will be needed, and competency models, talent pools, and assessments of employees.

This chapter focuses on talent management as a strategy to enhance company performance. Much of this approach involves having a plan that effectively deals with employees' careers and provides for their developmental needs. In addition, talent management includes programs that cultivate important capabilities and competencies.

9-1 Talent Management as Strategy

LO 1 Identify the importance of talent management and discuss two reasons it may be difficult.

STRATEGY

Strategic talent management
The process of identifying the most important jobs in a company that provide a long-term competitive advantage and then creating appropriate HR policies to develop employees so that they can effectively work in these jobs

Successful talent management is strategic because employee development should be linked to the organization's objectives. Organizations must respond quickly to changes in environmental demands, and having the right talent helps them respond appropriately. **Strategic talent management** is the process of identifying the most important jobs in a company that provide a long-term advantage and then developing employees so that they can effectively work in these jobs.[3] Both talent and strategy are among the most important drivers of success in many organizations, which means that both issues are of primary concern to executive leaders. This suggests that companies should consider talent management when developing their business strategies.

Integrated talent management (ITM) is a holistic approach to leveraging and building human capital. Connecting multiple processes such as performance management, training and development, succession planning, and career management helps organizations to maximize HR practices.[4] Companies that adopt an ITM perspective create processes that reinforce and support each other, and they utilize analytics and metrics to determine the impact of these practices on organization outcomes. This evolving perspective highlights the importance of talent for an organization's success and sustainability.[5] Using ITM scorecards helps companies align talent management practices with critical business outcomes. By measuring the impact of these human capital processes on performance indicators such as revenue, operating costs, customer satisfaction, product/service quality, and employee turnover, the organization's leaders can determine how to invest organizational

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FIGURE 9-1 Integrated Talent Management

Integrated talent management (ITM)
A holistic approach to leveraging and building human capital

resources for maximum success. The major phases of the employment life cycle (training/development, performance and succession management, etc.) should be integrated as one unit.[6]

One way to think of talent management is as a process that goes beyond simply recruitment and selection. Such a process uses talent to meet the needs of the organization. Along the way, all the elements of talent management are encountered: training, succession planning, career planning, development, and performance management. Figure 9-1 shows the process. Training and performance management are covered in other chapters, while succession planning, career planning, and development are covered in this chapter.

Talent management practices related to growing talent within the organization are an investment in human capital rather than a short-term cost. Competitive advantage for the firm comes from deploying workers with high levels of competency and capability. For instance, Verizon requires each employee to create an individual development plan upon being hired. Through onboarding and subsequent assignments and feedback, the employee hones in on development activities to enhance the achievement of the individual plan.[7] The asset management company BlackRock uses its Human Capital Committee to direct how the company's values function strategically to shape talent management throughout the organization. Efforts have included developing an employer brand, advancing a performance-oriented culture, assessing managers based on corporate values, focusing on employee development, and creating a system of talent reviews.[8] Finally, Aerospace Corporation, the research and development organization that is funded by the federal government to support space programs in the United States, relies on its Aerospace Institute to train employees to apply important work standards to space missions, thus supporting the firm's overall strategy.[9]

9-2 Talent Management in Perspective

The idea that human capital can be a source of competitive advantage for organizations is gaining ground, with many companies reporting that more resources are being dedicated to talent development; however, some firms do not successfully integrate these processes with their business strategies, and others are not designed or managed to optimize talent performance.[10] The nature of the business and the environment in which it operates to some extent define appropriate strategies for talent management. The following "HR Competencies & Applications: Managing Talent for Success" feature details six key steps that companies can take to optimize investments in human capital. Research shows that proper talent development can enhance workers' levels of commitment and competency and increase a company's financial performance.[11] Talent development can also enhance a company's ability to manage change processes.[12]

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HR

COMPETENCIES & APPLICATIONS

Managing Talent for Success

Organization leaders can follow many paths to achieve the objectives established during the strategic planning process. Some leadership teams focus on products and services, while others emphasize financial management techniques. Progressive organizations are beginning to see that human capital practices focused on talent management can go a long way toward delivering success toward goals. The following six pathways can be adopted in whole or in part to achieve success through managing talent:

1. *Embrace a decision science perspective*. Data about employees—including their knowledge, skills, and abilities (KSAs); interests; performance histories; and the like—can inform decisions about human capital practices that work or don't work. The evidence-based approach to managing people leverages what an organization knows about how to capitalize on this valued resource.
2. *Encourage informal learning*. Recognize the myriad ways in which employees obtain required knowledge and skills. Don't expect all training to occur in formal settings. Rather, establish networking and collaborative tools that foster peer-to-peer learning.
3. *Revolutionize stale processes*. Assess the effectiveness of current processes such as performance management. If they are not keeping pace with what employees need, don't apply band-aids. Instead, start from scratch to create systems that will be useful for managers and employees.
4. *Relinquish some control*. Allow employees autonomy and flexibility to determine work schedules and procedures. Hold employees accountable for results but don't dictate methods. Engagement increases when employees are offered the chance to make important decisions affecting their work environment.
5. *Align strategy, structure, and talent*. Determine which roles and individuals are critical to the organization's success. Invest more in those key components and address gaps in the rest of the workforce to bring them along.
6. *Establish a meaningful, enduring culture*. Identify and clearly articulate the organization's values and culture, and line up talent that supports these attributes. Hire, train, develop, and promote employees who embrace the culture and will perpetuate the organization's values.

Tackling all six of these paths can overwhelm leaders and employees. It's better to choose the particular pathways that can deliver the greatest impact in the quickest time frame. Taking a careful, measured approach should lead to more effective talent management without draining all of the organization's resources.[13] Consider how managing talent can address an organization's long-term objectives and answer the following questions:

1. What evidence would you use to convince top leaders that investing in talent can reap great rewards for the organization?
2. How would you prioritize among the six strategies offered in the text previously? Which would you implement first, second, and so on?

KEY COMPETENCIES: Leadership & Navigation, Critical Evaluation, Consultation, Business Acumen; HR Expertise: Organization/Technology & Data, Organization/Workforce Management

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Talent management can be challenging because of the nature of *talent* itself. Using a supply chain philosophy, one can think of a "deep bench" of talent as inventory. But unlike boxes full of empty bottles, talent does not necessarily remain available until needed—people may leave the company. The shelf life of promising managers and specialists is short if they do not have opportunities to grow with their current employer. Good inventory management, therefore, requires paying attention to employees' needs and goals. It also requires that managers develop satisfying work contexts and cultures that are supportive of employees.[14]

But opportunities to learn and grow are attractive to job candidates as well. This reality highlights the importance of having a talent management program that successfully targets *prospective* employees. Employers need to initially attract talent by offering a positive workplace (a desirable culture and brand, opportunities to learn and advance, etc.), and then retain employees long term by keeping them engaged with extensive developmental programs.[15]

9-2a Talent Management Information Systems and Technology

Talent management seems to lend itself to the use of various software-based systems that purport to integrate all the pieces of talent management into one manageable whole. For example, one company used a talent management system to

- Document new employee orientation and training;
- Automate registration of participants for training and development activities;
- Track classroom training and certifications completed by all store employees;
- Report on completions of training certifications for employees; and
- Compile and report the training and development history of individuals for use with career planning and development.

Artificial intelligence also has the ability to help with talent development activities in companies, including the management of training functions and evaluations, while data analytics and "big data" can facilitate the evaluation of talent development efforts.[16]

However, research shows that while many companies recognize the value of using talent management technology, many still use a manual rather than automated approach.[17] The drive to automate talent management comes in part from the desire to pull together HR, finance, and operations data to get insights on talent that are otherwise difficult to obtain. Using a manual process makes it nearly impossible to accumulate all the information necessary to effectively manage the talent pool. Regardless of the current state of the art, there is great potential for automated talent management systems to aid decision making in the future, but these systems are certainly not the entire solution to talent management challenges.

9-2b Scope of Talent Management

As talent management has evolved, a variety of approaches and tools have also developed. The following sections describe the approaches that define talent management.

Target Jobs and Individuals The first issue is to identify the types of jobs that will be the focus of talent management efforts. In some organizations, talent management focuses on the CEO and other executive jobs, rather than more broadly. Other organizations target senior managers, mid-level managers, and other key employees. However, those groups represent only about one-third of the total workforce, which raises the question of whether talent management efforts would be more useful if they were more widely implemented within the workforce.

Some individual employees are considered critical to the organization's success. These critical employees do not necessarily occupy executive-level roles, but their KSAs and performance make them essential to the operation. For example, an IT employee who is responsible for maintaining the company's servers and other hardware may be mission-critical even though the job is not in the

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top echelon of the structure. Critical employees are frequently not told by their employers of their importance to the firm. Managers shy away from telling them out of fear that it might give them too much leverage and create expectations that cannot be met. However, not telling these employees how important they are puts the organization at risk for losing them to competitors.[18]

Individual Traits, Skills, and Competencies What characteristics does a person who is ready to be promoted possess? What traits, skills, and/or competencies should the person have? Evidence suggest that characteristics such as grit, empathy, self-confidence, self-/organizational awareness, social intelligence/mindfulness, and possession of technology-based, problem-solving, mathematical, and soft skills are important in many work situations, as are the ability to collaborate, converse, listen, foster change, take criticism, and be a team player.[19] Undesirable characteristics can include fixating on the negatives at work, being uninformed and/or self-centered, displaying narcissistic/passive-aggression tendencies, and having frequent mood swings.[20] Research indicates that focusing on the strengths and positive qualities of employees increases their engagement and performance.[21]

Competency models show KSAs for various jobs. An employer must ask, "What talent do we need to achieve this task?" The answer can be found in a competency model. Competency models help identify talent and gaps. As explained in Chapter 1, the Society for Human Resource Management (SHRM) has developed a comprehensive competency model for the HR profession that identifies nine major categories.

Some companies maintain libraries of competency models. These libraries create a clear path for talent planning. Competency models might be created for executives, managers, supervisors, salespeople, technical professionals, and other key positions. One example of a competency is problem solving, which involves addressing complex organizational problems and developing solutions. Another example is multitasking, which involves effectively coordinating various work processes at the same time to get more work done. It is common for organizations to identify a small number of core competencies that apply to all job categories, along with job-specific competencies. Embedding the same competency framework during employee selection and subsequent performance management is the most powerful way to assess and develop talent.[22]

Managing Development Risks When managing talent development, it is important for companies to identify the talent areas that need improvement and provide the right opportunities that help employees improve.[23] In addition, an organization always runs a risk that an employee who has been developed will choose to leave with the valuable skills gained. A way to reduce this risk is to have promising employees volunteer for development on their own time. Executive MBA programs that can be attended on evenings or weekends, extra projects outside of a person's current assignment, volunteer projects with nonprofit organizations, and other paths can be used. The employer might contribute through tuition reimbursement or some selected time away from the job, but the risk is at least partly shared by the employee because he or she has invested time in the process.

The risk of losing employees in whom the company has invested should be weighed against the loss of talent if the company neglects development. The ability of employees to freely move in the labor market makes it important for firms to remain attractive to employees. Career growth opportunities are highly valued and can increase employee commitment and reduce turnover intentions; the flow of talent throughout firms can also be increased, regardless of whether employees decide to stay with an employer or find work elsewhere.[24] Therefore, decisions about investing in talent should assess multiple risks.

Make-or-buy
Develop competitive human resources or hire individuals who are already developed from somewhere else

"Make-or-Buy" Talent? Employers face a **make-or-buy** choice: develop ("make") competitive human resources or hire ("buy") individuals who are already developed from somewhere else. In fact, some business acquisitions are made with the express purpose of acquiring rare talent. For example, PayPal bought StackMob to obtain engineering talent that would facilitate its entry into the mobile pay field.[25]

There are advantages and disadvantages to each approach.[26] If business conditions are relatively stable and predictable, an organization may do well to develop its own leaders through a make strategy. Doing so provides for continuity within the leadership ranks and creates leaders who are

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well-versed in the specific drivers of the organization's success. Kraft Heinz Co., Chevron, Kohl's, and Home Depot are examples of companies that have developed and promoted insiders for top leadership positions, and Enterprise Holdings relies exclusively on internal candidates to staff its management jobs, requiring individuals to attend development programs that prepare them for leadership in the firm.[27] However, developing leaders internally takes time and may result in tunnel vision from an overemphasis on organization-based intelligence.

A buy strategy shortens the development cycle and produces leaders quickly by hiring from the outside. In rapidly changing organizations or those that are growing quickly, this may be the better course of action. Buying talent can also provide the organization with fresh ideas and new approaches to business. For instance, Kellogg Co. hired an outsider to be CEO so that he could help spearhead the company's introduction of healthier food products.[28] However, buying talent can be costly, and there is greater risk when hiring externally. In addition, if an organization's culture is strong, an outside leader may have difficulty being effective.

LEADERSHIP

Like any financial decision, the make-or-buy decision can be quantified and calculated when assumptions are made about time, costs, availability, quality, and risk. Evidence suggests that certain situational characteristics should dictate whether to hire internal or external candidates. For instance, a recent study showed that when a company's culture is critical to its success, an internal candidate is better. Conversely, when the organization needs a new direction or particular skill set, hiring from outside is recommended. Consider that Microsoft tapped longtime insider Satya Nadella to serve as just its third CEO since the company's founding. On the other hand, Yahoo! drafted Marissa Mayer, a well-regarded technology expert from Google.[29] Every organization faces unique challenges, and whether to make or buy talent depends on many factors.

9-2c High-Potential Individuals

HiPos
Individuals who show high promise for advancement in the organization

Some organizations focus talent management efforts primarily on "high-potential" individuals, often referred to as **HiPos**, which are individuals who show high promise for advancement in the organization. For example, Life & Specialty Adventures developed a program called *Pathway to Leadership* that provides high-potential employees the proper skills needed for promotion opportunities in the firm.[30] Similarly, the Indian company JK Lakshmi Cement created a program that uses coaching, assessment exercises, training sessions, and other developmental approaches to prepare HiPos for its management positions.[31] Research even indicates that being identified as a high-potential employee can improve individuals' perceptions of organizational justice.[32] Attracting, retaining, and developing HiPos have, therefore, become major emphases for some talent management efforts.

However, managing the development efforts directed at high-potential employees can be challenging. HiPos may not want to be promoted into managerial roles, and they may not perform well once they are promoted.[33] Targeting primarily HiPos may also lead to many other employees seeing their career opportunities as being limited. The following "HR Ethics: HiPo or Non-HiPo?" feature poses some ethical challenges related to the identification and notification of employees with respect to organization high-potential development programs.

Determining *potential* is not a simple process and may lead some to believe that preferential treatment has occurred, so identifying high-potential talent based on acceptable standards and assessment approaches is important.[34] Figure 9-2 offers six attributes that constitute potential for growth and development. Clearly defining how the organization assesses potential helps demystify the selection process for HiPo programs. Identifying top performers may not be as difficult as trying to keep them satisfied and engaged. Assuming that all HiPos crave challenge and opportunity can lead to inferior results. A critical element is to discuss the future with these key players and discover their career aspirations. Offering high-profile assignments and face time with senior leaders are important aspects of HiPo development. Many prominent companies such as General Electric, Unilever North America, and IBM have established programs that effectively identify and cultivate talent in HiPos by linking corporate strategy to the development of leaders and providing learning opportunities that grow the business and the individual.[35] However, organizations should also be careful not to overwhelm these "stars" with intensive workloads that push them beyond reasonable limits.[36]

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HR

ETHICS

HiPo or Non-HiPo?

Identifying employees who have high potential and creating development programs tailored to meet their needs is not without controversy. The processes used to identify HiPo employees, along with the processes used to notify employees about their status, can pose ethical dilemmas for an organization.

The assessment of potential is part science and part art. Using methods such as manager nomination or evaluation is highly subjective. It is likely to result in some biased decisions about which employees will be enrolled into HiPo programs. In addition, relying on past performance evaluation ratings can lead to unfair choices. Unless the performance assessment process is valid and well-grounded, too much personal discretion can influence ratings and render them ineffective for accurately measuring employee potential. To combat problems with assessing potential, organizations are wise to adopt objective assessments that are administered by qualified professionals.

There is no clear best practice regarding notification and public identification of HiPo employees. In an era in which transparency is a key watchword, only a small percentage of executives describe their companies as open about how employees are selected for admission to HiPo and leadership programs. This secrecy seems to be driven by two factors—lack of management courage and concerns about managing HiPo employee expectations. Some executives worry about the fallout from broadcasting the criteria for selection around the organization. Further, they are concerned that once an employee is told that he or she is a HiPo, expectations for promotion or special treatment will exceed what the organization can fulfill.

Managing expectations of both HiPo and non-HiPo employees can best be accomplished by explaining and disseminating the selection standards. If employees understand how the decisions about entry into HiPo programs are made, they can better reconcile their own status. Mystery surrounding the process leads employees to question the fairness of decisions and suspect that the organization chooses these individuals arbitrarily.

Disclosing the names of those in HiPo programs can cut both ways. However, it is naïve to believe that employees will not figure out who is in the program and who isn't. Special training and networking opportunities, job assignments, and other development practices are often offered to HiPo employees. It doesn't take others long to determine which list they are on. However, publicly acknowledging and identifying HiPos may lead to work-group dysfunction, envy, and other negative employee conduct.[37]

Establishing valid selection criteria, assessing potential using appropriate tools, and managing employee expectations all contribute to a HiPo program that effectively navigates the ethical issues inherent in these development opportunities. After reading the section on HiPo programs, consider the following questions:

1. How would you suggest communicating the names of those selected for HiPo programs? Should it be widely known in the organization, or should the list be kept "under wraps"?
2. How can managers deal with expectations HiPos might have regarding their career trajectory? What can be done to keep those expectations in check?

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FIGURE 9-2 HiPo Potential Assessment

Source: Adapted from Claudio Fernández-Aráoz, "21st Century Talent Spotting," *Harvard Business Review* 92, no. 6 (June 2014): 46–56.

An important consideration of developing HiPos is recognizing that these programs typically involve about 10 percent of the organization's workforce. The organization still needs the full engagement and commitment of the remaining 90 percent of the workers. Investing in HiPos, while not undercutting universal growth opportunities for all, requires careful planning and execution.[38] For example, Fluor Corporation expects all employees to create and work on a career development plan, and all supervisors are held accountable for supporting employee growth. Promotions to higher levels in management are based in part on success at developing one's team.[39]

The public identification of HiPos is a delicate matter that rests on the level of trust employees have in the organization's commitment to overall worker growth and learning. Employees not identified as HiPos still seek advancement opportunities and assignments that will enhance their knowledge and skills. An organization is shortsighted if all development is focused on HiPos. Providing development initiatives to non-HiPos can foster engagement and job satisfaction in this vital core segment of the workforce.[40]

LO2 Explain the importance of succession planning and the steps involved in the process.

9-3 Succession Planning

Succession planning is the basis for a company dealing successfully with staffing changes such as retirements, transfers, promotions, and turnover. **Succession planning** is the process of preparing for inevitable vacancies in the organization hierarchy. It involves more than simply replacement planning. Replacement planning usually involves creating a list of temporary replacements for important jobs, especially during crisis situations.[41] Succession planning should include a well-designed development system for employees since it takes an average of two to three years to develop a qualified successor.[42] It also requires support from a company's HR professionals, who can help facilitate the transition of leadership.[43]

STRATEGY

Succession planning
Preparing for inevitable vacancies in the organization hierarchy

Despite the essential need for succession planning, it is all too often an afterthought. Many firms are negatively affected by a lack of succession planning. For example, the sudden departure of top executives at American Apparel, Pepsi, Sanofi, Target, and JCPenney left those companies flat-footed and without an obvious leader.[44] Stumbling through an unexpected leadership vacancy can make employees and investors feel uneasy or even anxious. Yet, many organizations fail to adequately plan for the loss of a key leader.

Companies should adopt a long-range strategic mind-set for proper succession planning, one that utilizes extensive leadership development opportunities and work experiences; PepsiCo is an example of a company that relies on promotions to incrementally prepare leaders for high-level

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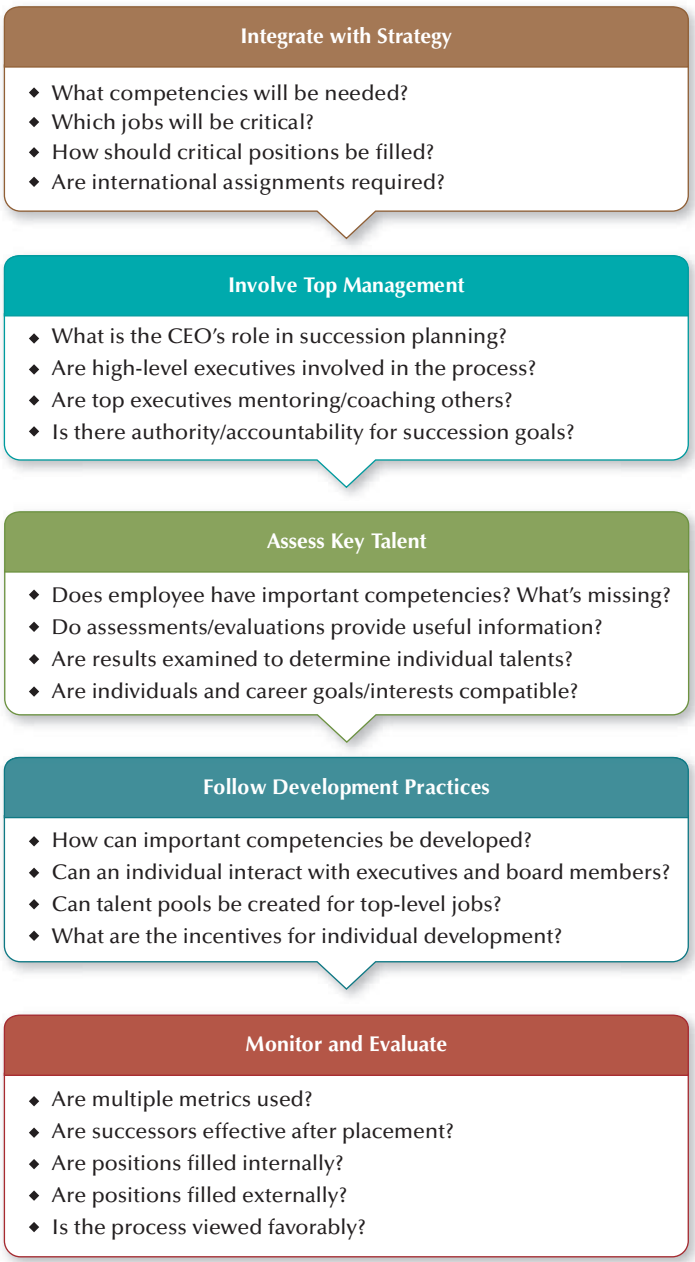
assignments.[45] The classic model of succession planning is the farm system in major league baseball. Talented young players are groomed through play in the minor leagues where they gain valuable experience and hone their skills. Those with superior results advance to the major league where their talents are utilized to help the team succeed.

9-3a Succession Planning Process

Succession planning follows logical steps, as shown in Figure 9-3. The process begins with defining key positions critical to the organization's strategy and then making certain that top managers are personally involved in talent identification, mentoring, and coaching.[46] Some companies pay a bonus to encourage top executives to address succession planning.[47] The next step is to assess

FIGURE 9-3 Succession Planning Process



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the talent available in the organization and determine who has the potential, who is ready now for promotion, and who needs additional development. Development practices can vary but should be aimed at each individual's specific needs. Finally, evaluating the success of the process is important, and appropriate measures are necessary to do so.[48]

All the work involved in the succession planning process should result in two outcomes: (1) identification of potential emergency replacements for critical positions and (2) other successors who will be ready with some additional development. The individuals identified as possible successors should be told what specific development they need and possible action steps to build their competencies.[49]

9-3b Succession Planning Decisions

Several decisions are required as part of succession planning. These decisions require the following analysis: How can you identify and classify current talent? Should you make or buy talent? How can you measure systemic success?

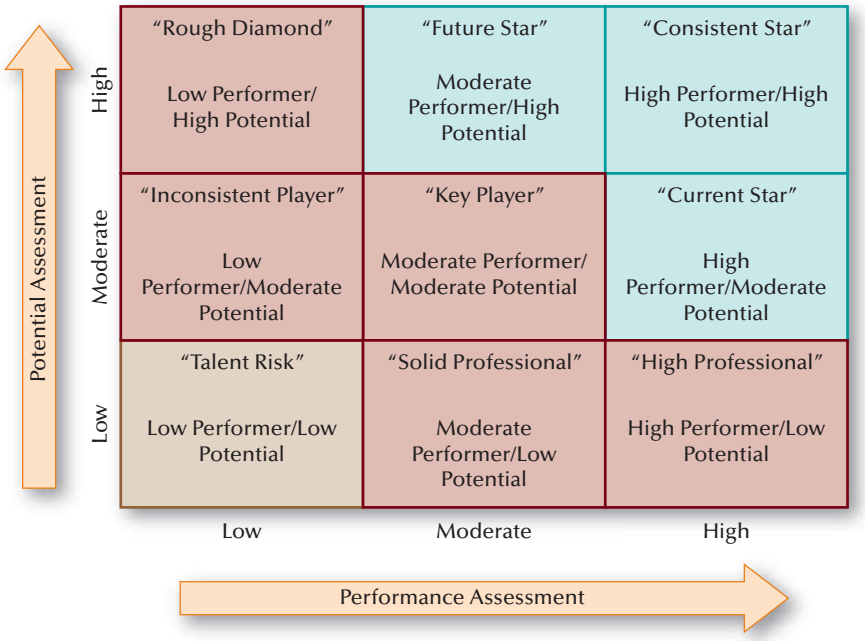
Identifying Current Talent Companies can be proactive in identifying the right managers and employees needed for successful succession planning. Managers determine if individuals are ready, willing, and able to perform duties at a higher level in the organization. Leaders should also take a current inventory of the talent that is already employed in the organization. A common framework is the Nine-Box Talent Grid, as shown in Figure 9-4. The **Nine-Box Talent Grid**[50] is a matrix showing past performance and future potential of all employees. Since focusing only on potential or performance may provide too narrow a view when developing succession plans for jobs and identifying candidates, a two-dimensional grid can outline individuals' potential to be promoted on one axis and current job performance on the other axis.

Nine-Box Talent Grid
A matrix showing past performance and future potential of all employees

MEASURE

Such a talent inventory grid is particularly helpful in jobs that tend to be more complex. For example, assume that an Engineering Manager in a manufacturing company is creating a succession plan. The position requires individuals with extensive experience, industry contacts, technical

FIGURE 9-4 Nine-Box Talent Grid



Source: http://www.smartmovescoach.com.

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expertise, project management skills, and other important competencies that suggest high potential. It is important to recognize that job demands for the Engineering Manager job differ substantially from those required of engineering professionals. Individuals who are outstanding engineers may excel at the technical aspects of the job but lack the abilities needed to manage others. The Nine-Box Talent Grid is, therefore, useful for assessing potential candidates on both important measures.

Metrics and Succession Planning Some organizations measure the impact of succession planning. A wide range of metrics are used depending on the company's priorities. The appropriate metric(s) should be selected early in the succession planning process. Key measures a company might consider are the reduced costs of turnover, higher performance, and organizational profitability. Organizations might also track how job vacancies are filled, the availability and readiness of candidates, and success rates of individuals who are promoted.

Computerized Succession Planning Models The expansion of information technology capabilities has resulted in employers being able to make succession planning data available electronically to staff members. Skills-tracking systems, performance appraisals, and other databases can be linked to succession plans. As employees complete training and development activities, their data can be updated and viewed as career openings become available in the company. Via intranet systems, employees can access and update their data, review job and career opportunities, and complete skill and career interest self-surveys. Software programs can facilitate ITM practices.

9-3c Benefits of Succession Planning

Succession planning is a business imperative that provides for the organization's sustainability and success. The process can be conducted formally and informally. As companies become larger, the benefits of formal succession planning become greater, and for these larger companies, formal planning is recommended. Key benefits include the following:

- Having a supply of highly qualified individuals ready for future job openings
- Providing career opportunities and plans for individuals, which helps retention and performance motivation
- Providing a basis for the continual review of staffing requirements as organizational changes occur over time
- Enhancing the "brand" of the company and establishing the organization as a desirable place to work
- Generating confidence for investors and other stakeholders

Common Succession Planning Mistakes CEO succession should be primarily the responsibility of governing boards and top-level executives. One reason boards have increased the priority of CEO succession is that it is required by the Sarbanes-Oxley Act.

But focusing only on CEO and top management succession is one of the most common mistakes made. Other mistakes include the following:

- Starting too late, when openings are already occurring
- Not effectively linking succession plans to strategic plans
- Allowing the CEO to direct the planning and make all succession decisions
- Looking only internally for succession candidates

Longer-term succession planning should include mid-level and lower-level managers, as well as other key nonmanagerial employees. Some firms target key technical, professional, and sales employees as part of succession planning. Others include customer service representatives, warehouse specialists, and other hourly employees who may be able to move up into other jobs or departments.

Actions such as planning careers and development follow from succession planning efforts. The following "HR Competencies & Applications: Do's and Don'ts of Succession Planning" feature describes how one organization conducts succession planning.

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HR

COMPETENCIES & APPLICATIONS

Do's and Don'ts of Succession Planning

Many leaders readily acknowledge the importance of succession planning in companies. However, they often don't follow that philosophy with action. Research shows that less than half of executives believe that their organizations do an adequate job of grooming successors. Unplanned vacancies take about three months to fill, leaving a significant gap in the organization's leadership team. The following do's and don'ts represent best practices for effective succession planning:

- *Do be forward focused.* Look to the future and determine what competencies will be needed in 5 to 10 years. Simply duplicating the leadership skills and style of current leaders is not likely to move the organization forward as times and demands change.
- *Do align compensation with succession planning.* Incentivize key leaders to create a working succession plan and mentor individuals identified as possible successors. Paying bonuses or other rewards to executives who attend to this important task will motivate them to get it right. It is also advisable to offer deferred compensation (e.g., stock options) to those on the succession path. This keeps them invested in the organization and cuts down on turnover.
- *Do consider soft skills.* Development efforts should key in on interpersonal skills, emotional intelligence, problem-solving, creativity, and other vital leadership competencies. Investing too much time in functional, technical training will produce successors who are not effective at leading their teams or the organization.
- *Don't wait until a vacancy occurs to begin succession planning.* At that point, it is a race to the finish, not an orderly, thoughtful development process. Every manager's number one priority should be identifying and preparing potential successors.
- *Don't identify one individual for each role.* Putting all of your eggs in one basket is a risky proposition. The successor may leave the organization prematurely or may not develop successfully. Leading firms bring along multiple candidates with the understanding that choosing from among a pool is superior to having only one choice.
- *Don't keep succession plans a secret.* Stakeholders have a vested interest in knowing that executives are planning for the future. Share the overall strategy with important parties. While specifically naming successors may not be necessary, assuring stakeholders that there is a living, working process calms their concerns.[51]

Considering the importance of succession planning, it is disappointing that so few organizations have implemented robust programs. Answer the following questions relative to succession planning best practices:

1. What are some possible reasons top leaders fail to create succession plans?
2. What role should the board of directors, HR, and executives each play to ensure effective succession planning?

KEY COMPETENCIES: Leadership & Navigation, Consultation; HR Expertise: People/Talent Acquisition & Retention, Strategy/Business & HR Strategy, Organization/Workforce Management

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LO3 Differentiate between organization-centered and individual-centered career planning.

9-4 Careers and Career Planning

Career
Series of work-related positions a person occupies throughout his or her life

A **career** is a series of work-related positions a person occupies throughout life. Employers and employees have different views of careers. Individuals pursue careers to satisfy their individual needs. Organizations see careers as an important part of talent management. Changes in employer approaches to career planning based on a less predictable business environment have put much of the responsibility for career management on the shoulders of individual employees.[52] However, companies need to take some responsibility in the career planning process by helping employees make good decisions and by providing positive work opportunities. Career management is, therefore, ideally a shared responsibility of employers and employees.

9-4a Changing Nature of Careers

The old model of a career in which a person worked up the ladder in one organization is becoming rarer. In a few industries, changing jobs and companies every few years is becoming more common. Many U.S. workers in high-demand jobs, such as information technologists and pharmacists, can dictate their own circumstances to some extent. The average 30- to 35-year-old in the United States may have already worked for up to seven different firms. The new career model involves more frequent job changes as well as changes in major vocational field. People rarely spend their entire working lives with the same firm doing the same type of work.[53]

Different Views of Careers The patterns of individuals' work lives are changing in many areas: more freelancing, more working at home, more frequent job changes, and more job opportunities but less security. Rather than letting jobs define their lives, more people set goals for the type of lives they want and then use jobs to meet those goals. Careers are transitioning from a traditional approach to a more contemporary one.[54] These changes are highlighted below.

- *Traditional career perspective*: Career success is represented by tangible things like title, money, power, and status. Individuals expect the employer to lead the way in terms of developing them and looking out for their career progression. Traditional career paths focus on upward moves to gain status and financial rewards.
- *Contemporary career perspective*: Career success is measured in terms of intrinsic satisfaction that comes from doing challenging work that increases the individual's skills and competencies. Intangibles like work–life balance, making an impact, working on projects you are passionate about, and long-term professional growth are highly valued. Individuals are more likely to be proactive about planning their careers rather than relying on their employer to take charge.

Protean career
A process whereby an individual makes conscious career plans to achieve self-fulfillment

A particular framework, called the *Protean career*, defines the contemporary version of careers. The **Protean career** is a process whereby an individual makes conscious career plans to achieve self-fulfillment. Figure 9-5 shows elements of the Protean career. Protean workers embrace responsibility for managing their careers and seek life fulfillment through their work. They thoughtfully and proactively seek information to understand their own identity and plan career moves to gain skills and make an impact. Organizational support is still necessary, but Protean workers will take the steps necessary to achieve psychological success.[55]

STRATEGY

9-4b Organization-Centered Career Planning

Organization-centered career planning
Career planning that focuses on identifying career paths that provide the logical progression of people between jobs in an organization

Since careers are evolving, managing them puts a premium on career development by both employers and employees. Effective career planning considers both organization-centered and individual-centered perspectives. Figure 9-6 summarizes these perspectives to career planning.

Organization-centered career planning focuses on identifying career paths that provide for the logical progression of people between jobs in an organization. Individuals follow these paths as they advance in organizations. For example, the right person might enter the sales department as a sales representative and then be promoted to Account Director, to District Sales Manager, and

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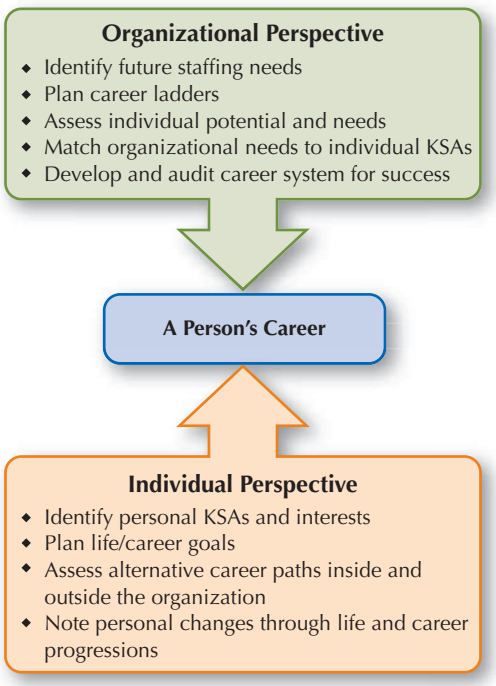
FIGURE 9-5 Elements of the Protean Career

Source: Adapted from Martin Gubler, John Arnold, and Crispin Coombs, "Reassessing the Protean Career Concept: Empirical Findings, Conceptual Components, and Measurement," *Journal of Organizational Behavior* 35 (February 2014): S23–S40.

FIGURE 9-6 Organizational and Individual Career Planning Perspectives



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finally to Vice President of sales. The process also focuses on providing individuals opportunities that contribute to their development and career advancement. Career-advancing programs can be used to attract and motivate nonexempt employees, working mothers, and Millennials, and they can be used to increase employee retention.[56]

A good career planning program includes elements of talent management, performance appraisals, development activities, transfer and promotion opportunities, and succession planning. Microlearning (i.e., short talent development activities), lateral transfers, and on-the-job experiences are examples of other recommended approaches.[57] To communicate with employees about opportunities and help with planning, employers frequently use career workshops, a career "center," and career counseling. Individual managers often play the role of coach and counselor in their direct contact with individual employees and within an HR-designed career management system.[58]

The approach an organization uses to enhance careers should provide opportunities for individual growth and development. For example, companies now favor using career lattices comprised of multidirectional job changes and lateral moves as mechanisms for providing employees important career experiences.[59] Another system for managing individual careers is the career path, or "map," which is created and shared with employees. MassMutual's career center includes four tools: career resource center, competency model and development guide, mentoring tool, and job exploration tool. This toolkit helps employees find the information and resources needed to lay out a career path and helps the company retain valued talent.[60]

Career Paths Employees need to know their strengths and weakness, which they often discover through company-sponsored assessments. Then career paths to develop the weak areas and fine-tune the strengths are developed. **Career paths** represent employees' movements through opportunities over time. Although most career paths are thought of as leading upward, good opportunities also exist in cross-functional or horizontal directions.

Career paths
Represent employees' movements through opportunities over time

Working with employees to develop career paths has helped employers retain key employees. For example, Hyatt Hotels Corp. actively promotes lattice career paths. Traditionally, General Managers were recruited only through two operational functions. The HR group questioned this limited recruiting approach and pushed for more cross-functional recruiting for these important roles. The philosophy has caught on, and recently an IT professional was internally recruited to join the HR department. The creativity in career paths is one reason Hyatt was named as a company most admired for HR on Fortune's annual "Most Admired Companies" list.[61]

Unfortunately, less than half of the respondents to a recent survey said that their employers outline career paths for them. An organization's career path tends to follow the hierarchical structure of the organization chart and not evolve to include more innovative ways for employees to move through jobs. Employees are too often left on their own, which can result in frustration and disappointment. Showing employees possible routes to fulfillment can lead to better retention and more satisfied workers.[62]

Employer Websites and Career Planning Many employers have careers sections on their websites to list open jobs. An employer's website is a link to the external world but should also be seen as a link to existing employee development. Sites can also be used for career assessment, information, and instruction. When designing websites, firms should consider the usefulness of the careers section for development as well as recruitment. For example, Spotify and Pepsi have engaging profiles of employees on their websites. Anyone inside or outside the company can review the profiles and learn about how the profiled employee's career path led to his or her current job.[63]

Individual-centered career planning
Career planning that focuses on an individual's responsibility for a career rather than on organizational involvement in the process or consideration of a company's needs

9-4c Individual-Centered Career Planning

Organizational changes have altered career plans for many people. Individuals have often faced "career transitions" that required them to find new jobs.[64] These transitions have emphasized the importance of **individual-centered career planning**, which focuses on an individual's responsibility for a career rather than on organizational involvement in the process or consideration of a

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company's needs. Individuals behave more like "free agents" who move between opportunities they view as helping to further their own goals.[65]

Individual-centered career planning relies on the development of a personal strategy for career movement and success (i.e., the plan itself).[66] Once planning is done, individuals can seek out a variety of assignments and experiences to self-develop such as memberships on nonprofit boards, volunteering for extra work duties, and participating in professional associations. It is important for individuals to be open to a variety of experiences and focus steadily on improving the human capital characteristics that are valued in a particular career.[67]

Individual Career Planning Career planning involves several steps that provide an individual with the information needed to create a logical career path. Figure 9-7 shows the steps in the process. The planning process is not always linear. Individuals may complete one or two steps and discover that they need to cycle back to an earlier step and then move forward again. The primary steps in the career planning process are as follows:

- *Determine who you are*. Individuals need to think about what interests them, what they do well, their work style, and what is important to them. Career advisors use many tools to help people understand themselves. Common professional tests include the Holland Interest Inventory to determine preferences among vocational occupations and the Myers-Briggs Type Indicator of personality. Whether professionally administered or taken on their own, the essential first step is to understand the characteristics and attributes that an individual possesses.
- *Find out how you are viewed*. Employees need feedback on how well they are doing, how their bosses see their capabilities, and where they fit in organizational plans for the future. One source of this information is performance appraisal feedback and career development discussions. Consulting with trusted colleagues on and off the job can shed light on how others view the individual's capabilities, strengths, and weaknesses.
- *Investigate your options*. Learning about the industry, the organization, and the specific vocation are important so that career plans can be made within the context of possibilities. The Bureau of Labor Statistics updates the *Occupational Outlook Handbook* and makes it available online. This is a helpful resource that projects demand for particular skills and careers in the future.
- *Set a goal and create an overall plan*. After compiling all of the information in the preceding steps, establish a long-term goal with interim short-term milestones. Take into account current

FIGURE 9-7 Steps in Individual Career Planning

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levels of competence and performance along with interests and values. An important consideration is the demands that a desired job may place on one's personal life, for example, relocation or a hardship work schedule. Realistic goals are more practical than attractive but unreachable goals. Determine what steps will be necessary to obtain the experiences and skills needed to advance.

- *Take action to advance the plan*. Taking action is the critical final step. Setting up a career discussion with one's supervisor; enrolling in seminars, continuing education, or other types of programmed learning; or requesting to be assigned special projects or tasks are all proactive steps that get the career plan underway.[68]

Over time, as experience is gained and skills are mastered, the career plan should be revisited. A periodic evaluation of progress against goals along with a reassessment of the practicality of the plan help the individual stay on track and continuously focused on finding fulfillment through vocational and nonvocational activities.

Individual Career Profile A useful starting point in career planning is to assess interests, personality, skills, and values. The individual compiles a profile that reflects his or her unique constellation of characteristics. This profile will help determine what types of career options are most likely to lead to success and satisfaction. The following section provides brief explanations of each element of the profile.

- *Interests*: People tend to pursue careers that match their interests. Interests tend to be fairly stable over time, and they are reasonably valid as a predictor of job success and satisfaction. Interest assessments operate on the premise that individuals with similar interests are drawn to similar career fields. Identifying one's interests informs career decisions and focuses individuals on the types of jobs that would be most rewarding.[69]
- *Skills*: Skills represent the ability to do some task well. Individuals have distinct capabilities that make them especially well-suited to particular jobs. A common categorization of skills includes basic skills, complex problem-solving skills, resource management skills, social skills, systems skills, and technical skills. Skills can be developed and improved over time with focus and practice.[70]
- *Personality*: An employee's personality includes that individual's personal orientation (e.g., extraversion, openness to experience, and conscientiousness) and personal needs (e.g., affiliation, power, and achievement needs). Individuals with certain personality attributes find greater success in clusters of occupations that match their personality profile.[71]
- *Values*: Work values are an often underappreciated aspect of good career choices. Values act as an individual's "compass"; they guide behavior and focus effort. If an individual's values are poorly matched to the employer, then job dissatisfaction is likely to occur. Identifying beliefs and ideas that are personally important allows people to live and work authentically and in harmony with their true selves.[72]

Creating a career profile that includes interests, personality, skills, and values brings into focus the core of an individual's temperament and work style. Like assembling a jigsaw puzzle, the creation of the profile answers questions about what type of career will match the person's strengths, weaknesses, and natural tendencies. People are most productive and happy when their work lines up well with their overall makeup.

9-4d Career Progression Considerations

The typical career for individuals today includes more positions, transitions, and organizations than in the past, when employees were less mobile and organizations were more stable as long-term employers. But there remain general patterns in people's lives that affect their careers.

The first half of life is typically devoted to the quest for competence and for a way to make a mark in the world. Happiness during this time comes primarily from achievement and the acquisition of capabilities. The second half of life is different. The previous focus on skill mastery changes

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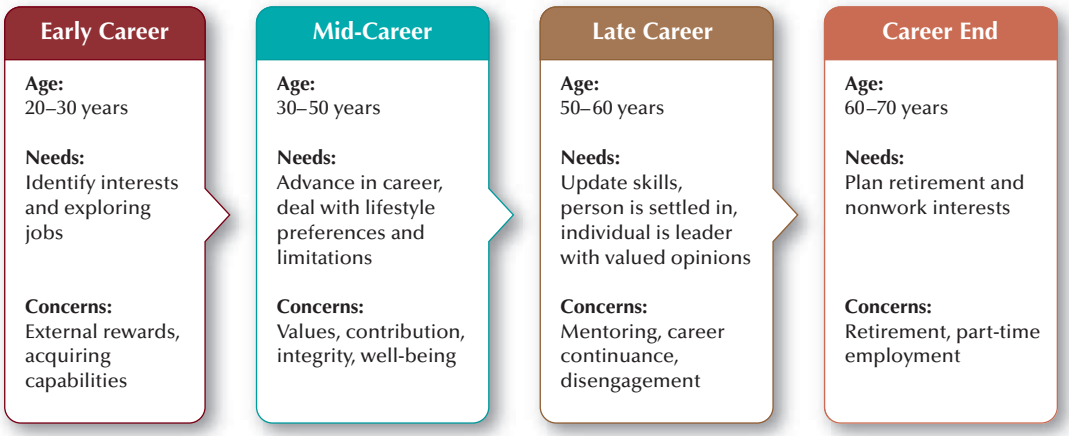
FIGURE 9-8 General Career Phases



to the pursuit of integrity, values, and well-being. For many people, internal values take precedence over external scorecards or accomplishments such as wealth and job title status. In addition, mature adults already possess certain skills, so their focus may shift to interests other than skills acquisition. Career-ending concerns, such as life after retirement, reflect additional shifts. Figure 9-8 shows a model that identifies general career and life periods.

Representative of this life pattern is the idea that careers and lives are not predictably linear; rather, they are cyclical. Individuals experience periods of high stability followed by transition periods of lower stability that include inevitable discoveries, disappointments, and triumphs. These cycles of structure and transition occur throughout individuals' lives and careers. This cyclical view may be an especially useful perspective for individuals affected by downsizing or early career plateaus in large organizations. Such a perspective underscores the importance of flexibility in an individual's career. It also emphasizes the importance of individuals' continuing to acquire more and diverse KSAs.

Early Career Issues Early career needs include finding interests, developing capabilities, and exploring jobs. Some organizations do a better job than others of providing those opportunities. Offering programs that satisfy the needs of individuals who are just starting their careers such as flexible work situations, alternative workplace arrangements, development activities, and opportunities to earn additional income are some approaches employers use to make jobs more attractive.

However, individuals in the early stages of their work in a profession need to take greater responsibility for their career planning. Such effort establishes greater ownership over individual development and facilitates empowerment. Being proactive about career planning also decreases the likelihood of sitting back and letting someone (or something) else manage the process.

Career Plateaus Individuals who do not change jobs may face another problem—career plateaus. Many workers define career success in terms of upward mobility. As opportunities to move up decrease, some employers try to encourage employees to make lateral moves. These sideways moves can be beneficial if employees learn new skills that increase individual marketability and recharge their enthusiasm for their careers.

Plateaued employees are more likely to quit or retire early, possibly taking valuable knowledge with them. Further, employees who believe that they are "stuck in a rut" are less satisfied with their jobs and organizations.[73] Plateaued employees present a particular challenge for employers. They can affect morale if they become negative, but they may also represent valuable resources that are not being used appropriately.

One strategy for individuals to move beyond career plateaus is for them to participate in continuing education or take on special projects outside their normal field of expertise. Rotating workers to other departments is another way to deal with career plateaus. Tapping into the expertise and experience of longer-term employees who may be plateaued and engaging them as mentors for less experienced workers can improve their self-image and confirm their value to the organization.[74]

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9-4e Career Transitions

Career transitions can be stressful for individuals who change employers and jobs. Of particular interest to organizations are three specific times of career transitions: organizational entry, job loss, and retirement.

Organizational Entry Starting as a new employee can be overwhelming. "Entry shock" is especially difficult for younger new hires who find the work world very different from school.[75] Entry shock includes the following concerns:

- *Supervisors*: The boss–employee relationship is different from the student–teacher relationship.
- *Feedback*: In school, feedback is frequent and measurable, but that is not true of most jobs.
- *Time*: School has short (quarter/semester) time cycles, whereas time horizons are longer at work.
- *The work*: Problems are more tightly defined at school; at work, the logistical and political aspects of solving work problems are often less certain.

Job Loss Job loss as a career transition has been most associated with downsizing, mergers, and acquisitions. Losing a job is a stressful event in one's career, frequently causing depression, anxiety, and nervousness. The financial implications and the effects on family can be extreme as well. Yet, many individuals do face the potential of job loss, and effectively addressing their concerns should be considered in career transition decision making. Unplanned job loss is one reason individuals should adopt a perspective of lifelong learning and maintain their skills.

Retirement Issues Whether retirement comes at age 50 or age 70, it requires a major adjustment for many people. Some areas of adjustment faced by retirees include self-direction, a need to belong, satisfying achievement needs, personal space, and goals. To help address concerns about these issues, as well as anxieties about finances, some employers offer preretirement planning seminars for employees.[76]

Career development for people at the end of their careers can be managed in many ways. Phased retirement, consulting arrangements, and callback of some retirees as needed all act as means for gradual disengagement between the organization and the individual. However, phased retirement is complicated by pension laws, which often restrict the number of hours employees who are receiving a pension can work.[77]

Early retirement often occurs as a result of downsizings and organizational restructurings. These events have required many managers and professionals to determine what is important to them while still active and healthy, with some deciding to remain employed in extended or second careers, and others electing to leave the workforce to enjoy leisure time and the pursuit of personal interests. To successfully encourage early retirement, management must avoid several legal issues, such as forced early retirement and pressuring older workers to resign.

9-5 Common Individual Career Challenges

Several challenges are common across a variety of organizations and professions, many of which deal with leadership issues. These challenges affect technical and professional workers, women, and dual-career couples.

LEADERSHIP

9-5a Technical and Professional Workers

Technical and professional workers, such as engineers, scientists, and IT systems experts, present a special challenge for organizations. Many of these individuals want to stay in their technical areas rather than enter management, yet advancement in many organizations requires a move into

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management. Most of these people like the idea of the responsibility and opportunity associated with advancement, but they do not want to leave the professional and technical activities at which they excel. Further, the skills required in management roles are very different than those needed in technical jobs.

Dual-career ladder
System that allows a person to advance through either a management or a technical/professional ladder

An attempt to solve this problem is the **dual-career ladder**, a system that allows a person to advance through either a management or a technical/professional ladder. Dual-career ladders are now used at many firms, most commonly in technology-driven industries such as pharmaceuticals, chemicals, computers, and electronics. For instance, a telecommunications firm created a dual-career ladder in its IT department to reward talented technical people who do not want to move into management. Different tracks, each with attractive job titles and pay opportunities, are provided.

9-5b Women and Careers

The percentage of working women has increased over the past several decades, with women today making up about half the workforce. Women are employed in all occupations and jobs, but their careers may have a different element than those of men. Since many women bear children and are often the primary caregiver, their career planning and advancement may be disrupted. They may also face different gender-based stereotypes and workplace assumptions that can limit their career progression. The following "HR Highlight: Talent Management Strategies That Support Women's Careers" feature discusses various approaches that can be used to mitigate these concerns. IBM developed a program called *Building Relationships and Influence* that prompts women leaders in the company to take greater stock of their career goals, which has led to increased advancement.[78]

Work, Family, and Careers A common career approach for women is to work hard before children arrive, plateau or step off the career track when children are younger, and return to career-focused jobs that allow flexibility when the children are older. This approach is referred to as sequencing. But some women who sequence are concerned that the job market will not welcome them when they return or that the time away will hurt their advancement chances.

The interaction and conflicts among home, family, and career often affect women differently than they do men.[79] By the time men and women have been out of school for six years, on average, women have worked much less time than men. These and other career differences provide challenges for many women. Employers can tap into the female labor market by offering child care assistance, flexible work policies, and a general willingness to be accommodating.

Other approaches have been developed in companies to better utilize women's talents in the workplace. In particular, partnering women with senior executives, rather than less influential managers, can be useful because these individuals can function as strong advocates for competent female leaders.[80] Connecting women with the proper mentors who are willing to act as sponsors in getting them better, more high-profile positions is the key.[81] Some women are working well past the age of 60 due to financial needs created by divorce or caring for aging parents. Others continue to work to obtain intrinsic rewards and professional pride. Organizations benefit from utilizing this well-educated, highly skilled, dedicated workforce.[82]

Glass ceiling
Situation in which women fail to progress into top and senior management positions

Glass Ceiling Another concern specifically affecting women is the **glass ceiling**, the situation in which women fail to progress into top and senior management positions. Nationally, women hold about half of managerial/professional positions but only 10 to 15 percent of corporate officer positions.[83] Inflexible beliefs about women's roles and placement in the workplace are some of the possible causes of this gap.[84]

Some organizations provide leaves of absence but proactively keep women involved in the company during time off. Working Mother has named several companies as especially welcoming to working mothers. For example, CA Technologies pays 10 weeks of maternity leave and provides for job shadowing, mentoring, and leadership programs through its women's network. Management consulting firm Oliver Wyman pairs female high performers with senior sponsors to enhance their career progress.[85] Consequently, women are gradually making inroads into upper-level management positions.

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HR HIGHLIGHT

Talent Management Strategies That Support Women's Careers

Women face a number of career challenges in today's workplace. While women have made inroads into entry-level positions and middle management jobs, they have not been promoted extensively into top-level leadership positions across organizations that operate in a wide spectrum of industries. According to Department of Labor figures, women represent 57 percent of the U.S. workforce and are employed in 52 percent of professional/management positions. However, only a small percentage of women are CEOs at Fortune 500 companies, and less than 20 percent of board seats and executive officer positions are filled by women.

Several talent development factors may contribute to these numbers. For instance, in some ways men and women may score differently on assessments of emotional intelligence, which are sometimes used by HR professionals to evaluate leadership talent and potential. These scoring differences can lead to perceptual biases directed at both women and men and may affect how people perceive leadership effectiveness. It is common for women to be viewed as empathetic, while men are viewed as being task-oriented and assertive—these perceptions can also affect promotions into corporate leadership positions. Another factor that may limit women's placement in the top jobs involves traditional gender stereotypes and gender biases. Both men and women can have these beliefs, which tend to prescribe assertiveness and competitiveness to men and supportiveness and nurturing to women.

Given these challenges, what can talent development efforts do to enhance women's careers in organizations, particularly when they work long and hard enough to get promoted into top leadership jobs? The following strategies could be considered by management and HR professionals:

1. If women are not being promoted into high-ranking jobs in a company, leaders should identify why this is happening and take steps to mitigate any concerns.
2. Employers can implement coaching and mentoring programs that help develop women's leadership abilities.
3. Organizations can develop family-friendly policies that provide alternative and/or flexible work opportunities for a diverse workforce.
4. HR professionals can create leadership training programs that prepare all employees for high-level job assignments.
5. A culture of diversity appreciation can be cultivated in companies so that negative stereotypes and biases do not persist.[86]

Based on these ideas and suggestions, consider the following discussion questions:

1. What career challenges do you think women face? What challenges are the most common?
2. What should companies do to improve women's long-term work experiences? What strategies can be used to enhance women's careers, while not adversely affecting the careers of men?

9-5c Dual-Career Couples

As the number of women in the workforce continues to increase, particularly in professional careers, so does the number of dual-career couples. The U.S. Bureau of Labor Statistics estimates that more than 80 percent of all couples are dual-career couples. Many members of dual-career couples are both employed in management, professional, and technical jobs. Problem areas for dual-career couples include family issues and job transfers that require relocation.

For dual-career couples with children, family issues may conflict with career progression. It is important that such career development problems be recognized as early as possible. Whenever

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possible, involving both partners in planning, even when one is not employed by the company, may enhance the success of such efforts.

Traditionally, employees accepted transfers as part of upward mobility in organizations. However, both employees and companies often find relocation undesirable because of personal hardships such as leaving a support system and finding suitable work for a "trailing" spouse.

LO4 List options for development needs analyses.

Development
Efforts to improve employees' abilities to handle a variety of assignments and to cultivate their capabilities beyond those required by the current job

9-6 Developing Human Resources

Development involves efforts to improve employees' abilities to handle a variety of assignments and to cultivate their capabilities beyond those required by the current job. Development can benefit both organizations and employees. Employees and managers with appropriate experiences and abilities may enhance organizational competitiveness and the ability to adapt to a changing environment. In the development process, individuals' careers may also evolve and shift to new or different focuses. Both Merck and Boeing implemented leadership development programs that empower leaders to teach others about their work experiences, which encourages participants to continuously learning.[87]

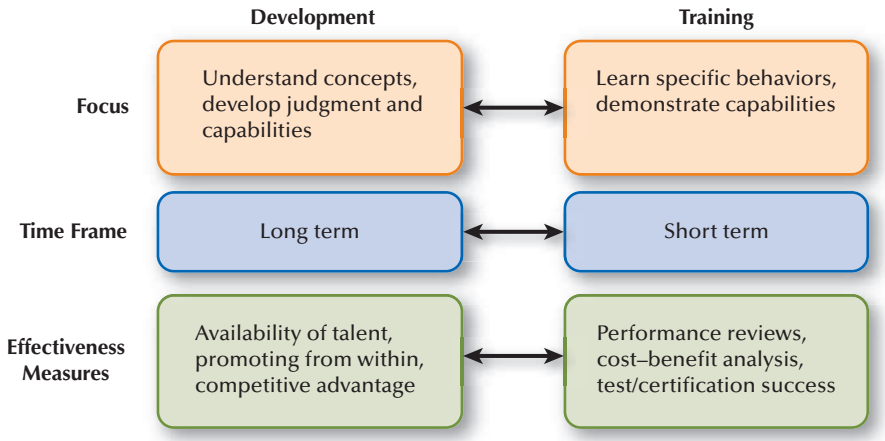
Development differs from training. It is possible to train people to answer customer service questions, drive a truck, enter data in a computer system, set up a drill press, or assemble a television. However, development in areas such as judgment, responsibility, decision making, and communication presents a bigger challenge. These areas may or may not develop through individuals' ordinary life experiences. A planned system of development experiences for all employees, not just managers, can help expand the overall level of capabilities in an organization. Figure 9-9 profiles development and compares it with training.

9-6a Possible Development Focuses

Some important and common management capabilities that may require development include emotional intelligence, critical thinking, strategic planning, learning agility, and ethical values.[88] For some technical specialists (tech support, database administration, network design, etc.), certain nontechnical abilities must be developed as well, such as the ability to work under pressure, work independently, solve problems quickly, and communicate clearly.

One point about development is completely clear. In numerous studies that asked employees what they want out of their jobs, training and development ranked at or near the top. The primary assets that individuals have are their KSAs, and many people view the development of their KSAs as an important part of their jobs.

FIGURE 9-9 Development versus Training



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Lifelong Learning and Learning Organizations There is a close link between learning and development, and learning often enhances an individual's confidence, ideas, and enthusiasm. For most people, lifelong learning and development are necessary and desirable. For many professionals, lifelong learning may mean meeting continuing education requirements to retain certifications. In order to keep their licenses to practice in most states, lawyers, CPAs, teachers, dentists, and nurses must complete continuing education requirements. For other employees, learning and development may involve training to expand existing skills and to prepare for different jobs, promotions, or even new jobs after retirement. Further, lifelong learning is often voluntary, self-directed, and informal, sometimes taking place outside of work hours; examples include reading literature that enhances individual understanding, finding knowledge resources on social media and the Internet, and seeking additional certifications and degrees.[89]

Assistance needed from employers for lifelong development can also be provided through programs at work, such as through tuition reimbursement benefits. Companies also staff learning organizations within their structures to guide the development of leaders and employees. These learning organizations create formal and informal learning opportunities for human resources that ultimately support corporate strategies.[90]

Reinvention Whether due to a desire for career change or because the employer needs different capabilities, people *reinvent* their careers in midlife or mid-career. These "job-shifters" need to develop capabilities in a new field that holds promise for a productive future. Commonly referred to as second acts, employees who make major changes from one career field to another often need some assistance from an employer to close the gap in their skills.[91] Upon discharge from active duty, military personnel frequently need to adapt their skills to civilian career opportunities. Safelite AutoGlass, Walmart, Capital One, and others have implemented programs targeting former military members who are transitioning to civilian careers. They offer assistance and development to bridge the skills learned in the military to those needed in their operations.[92]

9-6b Development Needs Analyses

Like employee training, employee development begins with an analysis of the needs of both the organization and the individuals within that organization. The goal, of course, is to identify strengths and weaknesses to determine the focus of development.[93] Methods that organizations use to assess development needs include assessment centers, psychological testing, and performance appraisals. Determining the best approach to individual development depends in part on the individual's level of development. The following "HR Competencies & Applications: Leveling Development Focus" feature describes four approaches managers can use.

Assessment Centers Collections of test instruments and exercises designed to diagnose an individual's development needs are referred to as **assessment centers**. Companies can use assessment centers for both developing and selecting managers. Employers use assessment centers for a wide variety of jobs.

Assessment centers
Collections of test instruments and exercises designed to diagnose an individual's development needs

In a typical assessment center experience, an individual spends two or three days away from the job performing many assessment activities. These activities might include role-plays, tests, cases, leaderless group discussions, computer-based simulations, and peer evaluations. Frequently, they also include in-basket exercises in which the individual handles typical work and management problems. For the most part, the exercises represent situations that require the use of individual skills and behaviors. During the exercises, several specially trained judges observe the participants and later share their observations with the candidates.

Assessment centers provide an excellent means for determining individual potential in an unbiased manner.[94] Experience shows that key variables such as leadership, initiative, and supervisory skills cannot be measured with tests alone. Assessment centers also offer the advantage of helping identify employees with potential in large organizations. Supervisors may nominate people for the assessment center or employees may volunteer to participate.

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HR COMPETENCIES & APPLICATIONS

Leveling Development Focus

The classic book *Leadership and the One Minute Manager* by Ken Blanchard contains sage advice about how to work with employees who need development. Since most employees vary in the level of expertise they have on diverse job tasks, the author recommends that development needs analysis be conducted at the task level. For example, an entry-level accountant may be highly competent at posting journal entries but might need to learn how to create accurate, timely financial statements. The four development levels explained below help managers provide appropriate support to each employee on each task.

Level 1, *Enthusiastic beginner*: The employee is new to this task and has little to no working knowledge or expertise. Development should involve specific, detailed directions along with close monitoring and frequent feedback.

Level 2, *Disillusioned learner*: The employee may have tried and not succeeded at mastering the task at hand and has become discouraged. Self-efficacy starts to fall, and the individual is afraid to try again. Development should involve coaching and encouragement. Find novel ways to explain the task and provide plenty of positive reinforcement for even small successes.

Level 3, *Capable but cautious performer*: The individual has developed the necessary expertise and competence but is timid and lacks self-confidence. Offering support and publicly praising the employee can shore up motivation and self-image. Treat the employee as an expert and refer other employees to him or her as the "guru" of the task.

Level 4, *Self-reliant achiever*: The employee is now fully competent and confident when completing the task. He or she knows what to do, how to do it, and how to determine the quality of the work output. It's time to get out of the way and let the individual perform. Development should shift to skills that are at the level 1 stage.

Assessing each employee on a task-by-task basis can produce a rich development environment where energy is invested at the proper level. The employee will appreciate the personalized approach, and the manager will find that this type of development makes the most of time with the employee.[95] After considering these four development levels, answer the following questions:

1. How would you assess an individual's capabilities at the task level? What methods would be most appropriate to determine skill levels?
2. How would you prioritize the development of skills for a particular individual? Why would you work on some skills before others?

KEY COMPETENCIES: Consultation; HR Expertise: People/Learning & Development

Psychological Testing Psychological tests have been used for years to determine employees' developmental potential and needs. Intelligence tests, verbal and mathematical reasoning tests, and personality tests are often given. Psychological testing can provide useful information about individuals, motivation, reasoning abilities, leadership style, interpersonal response traits, and job preferences.

The biggest problem with psychological testing lies in interpretation because untrained managers, supervisors, and workers usually cannot accurately interpret test results. After a professional scores the tests and reports the values to others in the organization, untrained managers may attach their own meanings to the findings. Also, some psychological tests are of limited validity, and test takers may fake desirable responses. Thus, psychological testing is appropriate only when the testing and feedback processes are administered by a qualified professional.

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Performance Appraisals Well-done performance appraisals can be a source of development information. Performance data on productivity, employee relations, job knowledge, and other relevant dimensions can be gathered in such assessments. In this context, appraisals designed for development purposes (discussed in more detail in Chapter 10) may be different and more useful in aiding individual employee development than appraisals designed strictly for administrative purposes.

LO5 Discuss three career issues that organizations and employees must address.

9-7 Talent Development Approaches

Common development approaches can occur on or off the job. Figure 9-10 details these approaches. Employee development takes on added importance as knowledge work such as research skills and specialized technology expertise increases for almost all companies. Careful analysis of development needs results in selecting suitable methods.

9-7a Job-Site Development Approaches

All too often, unplanned and perhaps useless activities pass as development on the job. To ensure that the desired development actually occurs, managers must plan and coordinate their development efforts. Managers can choose from various job-site development methods.[96]

Coaching
A collaborative process focused on improving individual performance

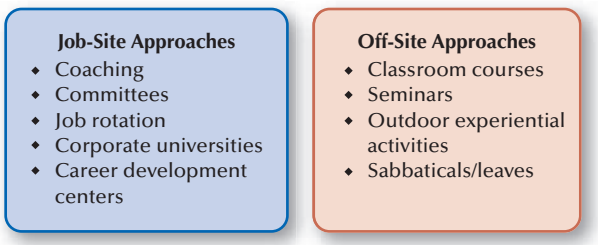
Coaching The oldest on-the-job development technique is **coaching**, a collaborative process focused on improving individual performance. The coach and the person being coached create shared success through a series of ongoing conversations. The process relies on the coach serving as a facilitator rather than an evaluator. Questions that encourage the employee to self-reflect and assess his or her own performance are the basis for coaching interactions. Trust, listening, and setting goals are some of the underlying foundations of coaching. A coach who demonstrates genuine interest in and commitment to employees and interacts with them in a regular basis creates an environment in which success can occur.[97]

Coaching is not done exclusively by managers. Junior employees are being paired with more senior workers to address gaps in technology and other skills, a process sometimes called *reverse mentoring*. For instance, social media–savvy younger employees help older workers improve their digital competence. Peer coaches have helped Iron Mountain Sentinels reduce errors by 25 percent and reduce turnover by 60 percent. Front-line employees learn from certified "peer coaches" who are experts in the job they are doing every day.[98]

Unfortunately, organizations may be tempted to implement coaching without sufficient planning. Even someone who is good at a job will not necessarily be able to coach someone else to do it well. Coaches should receive training, feedback, and recognition to ensure that they effectively work with employees for mutual success.

Committee Assignments Assigning promising employees to important committees may broaden their experiences and help them understand the personalities, issues, and processes governing the organization. For instance, employees on a safety committee can gain a

FIGURE 9-10 HR Development Approaches



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greater understanding of safety problems and management, which would help them become supervisors. They may also experience the problems involved in maintaining employee safety awareness. However, managers need to guard against committee assignments that turn into time-wasting activities.

Job rotation
Process of moving a person from job to job

Job Rotation The process of moving a person from job to job is called **job rotation**, and it is widely used as a development technique. For example, Johnson Controls rotates aspiring plant managers through a two-year program during which they take on learning assignments in manufacturing, logistics, quality control, and manufacturing engineering. They are exposed to operational challenges along with business and leadership essentials.[99] Variations of job rotation include programs that allow executives to temporarily exchange jobs to facilitate development or job shadowing experiences that allow managers to work with different employees in a company for short periods of time.[100]

When properly handled, such job rotation fosters a greater understanding of the organization and improves employee retention by making individuals more versatile, strengthening their skills, and reducing boredom. When opportunities for promotion within a smaller or medium-sized organization are scarce, job rotation through lateral transfers may help rekindle enthusiasm and develop employees' talents. Job rotation also prepares workers to perform well in multiple jobs, which provides managers with some scheduling flexibility. A disadvantage of job rotation is that it can be expensive because a substantial amount of time is required to acquaint trainees with the different people and techniques in each new work assignment.

Corporate Universities and Career Development Centers Large organizations may use corporate universities to develop managers and other employees. For instance, for over 50 years, McDonald's has used Hamburger University to deliver courses that prepare its managers for the challenges and opportunities associated with managing the company.[101] Underwriters Laboratory also created a corporate university to improve employees' skills and emphasize continuous process improvement through Lean Six Sigma.[102] Courses are designed to address company-specific knowledge and skills, and they can provide a competitive edge for the firm.[103] Participation does not usually result in a degree, accreditation, or graduation. A related alternative, partnerships between companies and traditional universities, can occur where the universities design and teach specific courses for employers. For example, Ben and Jerry's worked with Champlain College and the Story of Stuff Project to create the company's Core Academy.[104]

Career development centers can also be set up to coordinate in-house programs and programs provided by third parties. They may include assessment data for individuals, career goals and strategies, coaching, seminars, and online approaches.

9-7b Off-Site Development Approaches

Off-site development approaches give individuals opportunities to get away from their jobs and concentrate solely on what is to be learned. Contact with others who are concerned with slightly different problems and come from different organizations may provide employees with new and different perspectives. Various off-site methods can be used.

Classroom Courses and Seminars Most off-the-job development programs include some classroom instruction. People are familiar with classroom training, which gives it the advantage of being widely accepted. But the lecture system sometimes used in classroom instruction encourages passive listening and reduced learner participation, which is a distinct disadvantage. Sometimes trainees have little opportunity to question, clarify, and discuss the lecture material. The effectiveness of classroom instruction depends on multiple factors: group size, trainees' abilities, instructors' capabilities and styles, and subject matter.

Organizations often send employees to externally sponsored seminars or professional courses, such as those offered by numerous professional and consulting groups. Organizations also

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encourage continuing education by reimbursing employees for the costs of college courses. Tuition reimbursement programs provide incentives for employees to study for advanced degrees through evening and weekend classes they attend outside of their regular workdays and hours.

Outdoor Experiential Activities Some organizations send executives and managers to experiences held outdoors, called *outdoor training* or *outdoor experiential activities*. The rationale for using these wilderness excursions, which can last for several days, is that such experiences can increase self-confidence and help individuals reevaluate personal goals and efforts. For individuals in work groups or teams, shared risks and challenges outside the office environment can create a sense of teamwork. The challenges may include rock climbing in the California desert, whitewater rafting on a river, backpacking in the Rocky Mountains, or handling a longboat off the coast of Maine. Outfitters like Outward Bound offer programs tailored to corporate groups and custom design events to fit the organization's development goals.[105]

Survival-type management development courses may have more impact than many other management seminars. But companies must consider the inherent perils. Some participants have been unable to handle the physical and emotional challenges associated with rappelling down a cliff or climbing a 40-foot tower. The decision to sponsor such programs should depend on the capabilities of the employees involved and the learning objectives.

Sabbatical
Time off the job to develop and rejuvenate

Sabbaticals and Leaves of Absence A **sabbatical** is an opportunity that some companies provide for employees to take time off the job to develop and rejuvenate, as well as to participate in activities that help others. Some employers provide paid sabbaticals, while others allow employees to take unpaid sabbaticals. The length of time away from work varies greatly.

Companies that offer sabbaticals speak well of the results. Positive reasons for sabbaticals are to help prevent employee burnout, offer advantages in recruiting and retention, and boost individual employee morale. Female employees have made use of sabbaticals or other types of leaves for family care reasons. The value of this time off to employees is seen in better retention of key female workers, who also often return more energized and enthusiastic about their work–life balancing act. The nature of the learning experience generally falls outside the control of the organization, leaving it somewhat to chance.

LO6 Identify several management development methods.

9-8 Management and Leader Development

Although development is important for all employees, it is essential for managers. Without appropriate development, managers may lack the capabilities to best deploy and manage resources (including employees) throughout the organization. While classroom training can be helpful, experience often leads to greater development of senior managers because much of it occurs in real-life, on-the-job situations.

Numerous approaches are used to provide the characteristics and experiences needed for managers to be effective, including experiential and action learning, microlearning, stretch assignments, and individual assessments and feedback.[106] The most widely used methods are supervisor development, leadership development, management modeling, management coaching, management mentoring, and executive education. Figure 9-11 shows experience-based sources of managers' learning and lists some important lessons for supervisors, middle managers, and senior-level executives that should be provided by development activities.

9-8a Problems with Management Development Efforts

Management development efforts are subject to certain common mistakes and problems. Some evidence even indicates that a number of employers don't believe their leadership development programs represent "best in class" efforts.[107] Many of the problems have resulted from inadequate HR

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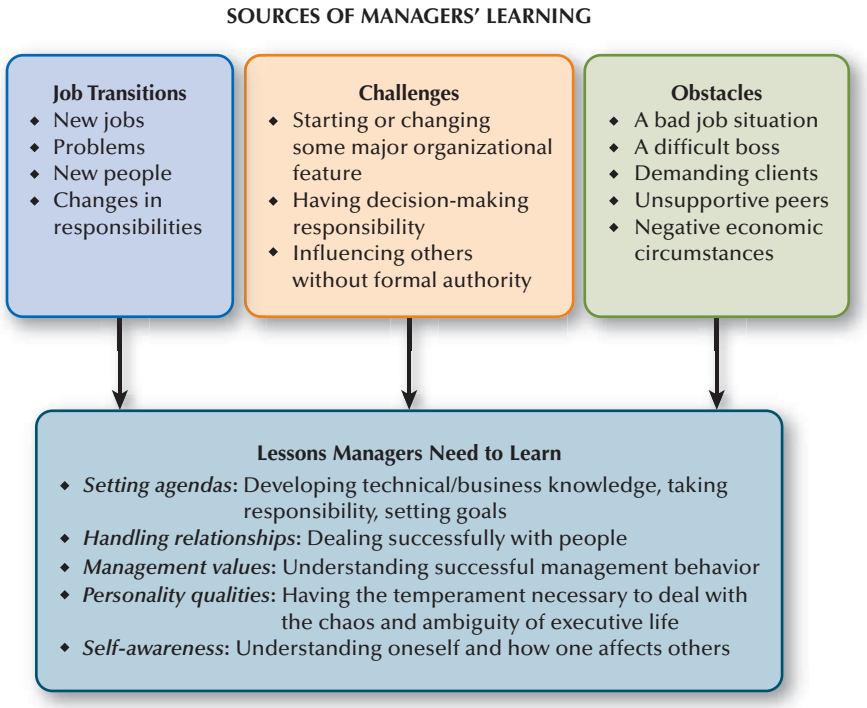
FIGURE 9-11 Management Lessons Learned from Job Experience



planning and a lack of coordination of HR development efforts. Common problems include the following:

- Failing to conduct adequate needs analysis
- Trying out fad programs or training methods
- Substituting training for selecting qualified individuals

Another common management development problem is *encapsulated development*, which occurs when an individual learns new methods and ideas but returns to a work unit that is still bound by old attitudes and methods. The development was "encapsulated" in the classroom and is essentially not used on the job. Consequently, individuals who participate in development programs paid for by their employers may become discouraged and move to new employers who allow them to use their newly developed capabilities more effectively. Despite these concerns, findings indicate that many leadership development programs lead to a variety of positive outcomes at work.[108]

9-8b Supervisor Development

The beginning level for managerial development is the first-line supervisory job. It is often difficult to move from being a member of the work group to being the boss. Therefore, new supervisors who are promoted from individual contributor roles often require new skills and mind-sets to be successful supervisors.

Employers may conduct *pre-supervisor training*. This is done to provide a realistic job preview of what supervisors will face and to convey to individuals that they cannot just rely on their current job skills and experience in their new positions. Development for supervisors may vary but usually includes some common elements such as basic management responsibilities, time management, and employee relations.

Employee relations training helps prepare supervisors to deal with "people problems" associated with overseeing employees. The training focuses on the development of the employee relations skills a person needs to work well with others. Most employee relations programs are aimed at

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new or relatively inexperienced first-line supervisors and middle managers. They cover motivation, leadership, employee communication, conflict resolution, performance management, team building, and other interpersonal topics.

9-8c Leadership Development

LEADERSHIP

Executives are aware that effective leaders create positive change and are important for organizational success. *Leadership development* is expanding a person's capacity to be effective in leadership roles. Organizations such as Johnson & Johnson, General Electric, and 3M Company are among the top firms in leadership development. This development occurs in many ways: classroom programs, assessments, modeling, coaching, job assignments, mentoring, and executive education.

While universities may produce smart, ambitious graduates with good technical skills, many face a very steep learning curve when making the change from school into leadership positions.[109] Common ways to help individuals transition successfully into leadership roles include modeling, coaching, mentoring, and executive education. The following "HR Perspective: Playing the Leadership Game" feature describes a cutting-edge leadership program that teaches future leaders valuable skills.

Modeling
Copying someone else's behavior

Modeling A common adage in management development says that managers tend to manage as they were managed. In other words, managers learn by behavior **modeling**, or copying someone else's behavior. Management development efforts can take advantage of natural human behavior by matching young or developing managers with positive models and then reinforcing the desirable behaviors exhibited by the learners.[110] The modeling process involves more than straightforward

HR PERSPECTIVE

Playing the Leadership Game

Financial services holding company BB&T has a passion for leadership. The company's leadership model is based on the idea that people act according to their beliefs and values. Leaders are successful when they can embed desirable beliefs and behaviors in their followers. A strong desire to spread the message about leadership led the company to develop outreach efforts to engage future leaders.

Reaching out to a target audience of 14- to 24-year-olds required a creative solution. BB&T found just the solution with a game that is accessed as a mobile app. LEGACY: A BB&T Leadership Challenge is an innovative, free gaming app that teaches users valuable leadership lessons. The game is a suite of 10 mini-games with 25 "quests" to save the village of Failburg. The medieval-themed role-play challenges the player to help King Alpheus make the village successful. The king provides feedback and guidance to the player. The player must manage several village characters who are having difficulty handling their area of village operations. Using praise, coaching, or scolding techniques, the player redirects each character. The village benefits when the player uses the proper strategy. A leadership meter tracks points earned during the game.

BB&T estimated that 3,000 to 4,000 users would download the app in the first two weeks. They were delighted when the number of downloads far exceeded that number, and over 15,000 people have accessed the app. While there is no direct tracking of users, the goal of spreading the leadership philosophy seems to be taking hold.[111] Based on these ideas, consider the following key questions for discussion:

1. Download the app from Google Play or the Apple Store and try it yourself. What is your evaluation of the usefulness of the LEGACY game to test leadership competence?
2. How can a game like LEGACY be used within a company to develop leaders? What type of competition and debriefing might be used in leadership development to promote use of the game?

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imitation or copying. For example, one can learn what not to do by observing a model who does something wrong. Thus, exposure to both positive and negative models can benefit a new manager as part of leadership development efforts.

Coaching Whether done alone, with an insider, or with an outsider, effective leadership coaching requires patience, discipline, self-awareness, and good communication/conversation skills; it also requires a supportive culture and participation from top leaders.[112] Like modeling, it complements the natural way humans learn. An outline of good coaching pointers will often include the following:

- Explain appropriate behaviors.
- Make clear why actions were taken.
- State observations accurately.
- Provide possible alternatives/suggestions.
- Follow up and reinforce positive behaviors used.

Leadership coaching is a specific application of coaching. Companies may use outside experts as executive coaches to help managers improve leadership skills. Sometimes these experts help deal with problematic management styles. Consultants serving as executive coaches predominantly come from a psychology or counseling background and can serve many roles for a client by providing key questions and general directions. Sometimes they meet with employees in person, but many do their coaching by phone or electronically. Research on the effectiveness of leadership coaching suggests that coaching can be beneficial in dealing with chronic stress, psychological difficulties, and even physiological problems faced by executives and managers.[113]

Management mentoring
A relationship in which experienced managers aid individuals in the earlier stages of their careers

Management Mentoring A method called **management mentoring** employs a relationship in which experienced managers aid individuals in the earlier stages of their careers. Such a relationship provides an environment for conveying technical, interpersonal, and organizational skills from a more experienced person to a designated less experienced person. Not only does the inexperienced employee benefit, but the mentor also may enjoy having the opportunity and challenge of sharing wisdom; mentor programs are shown to be exceptionally beneficial for all parties involved.[114]

Many individuals have a series of advisors or mentors during their careers and may find advantages in learning from the different mentors. Additionally, those being mentored may find previous mentors to be useful sources for networking. Figure 9-12 describes the four stages in most successful mentoring relationships.

GLOBAL

In many countries around the world, the proportion of women holding management jobs is lower than the proportion of men holding such jobs. Similarly, the number of racial and ethnic minorities who fill senior management positions is low. Company mentoring programs that focus specifically on women and individuals of minority racial/ethnic backgrounds have been successful in some larger firms. On the basis of various narratives of successful female executives, breaking the glass ceiling requires developing political sophistication, building credibility, and refining management styles aided by mentoring.

Executive Education Executives in an organization often face difficult jobs because of changing and unknown circumstances. Churning at the top of organizations and the stresses of executive jobs contribute to increased turnover in these positions. In an effort to decrease turnover and increase management development capabilities, organizations are using specialized education for executives. This type of training includes executive education traditionally offered by university business schools and adds strategy formulation, financial models, logistics, alliances, and global issues. Enrollment in Executive Masters of Business Administration (EMBA) degree programs is also popular.

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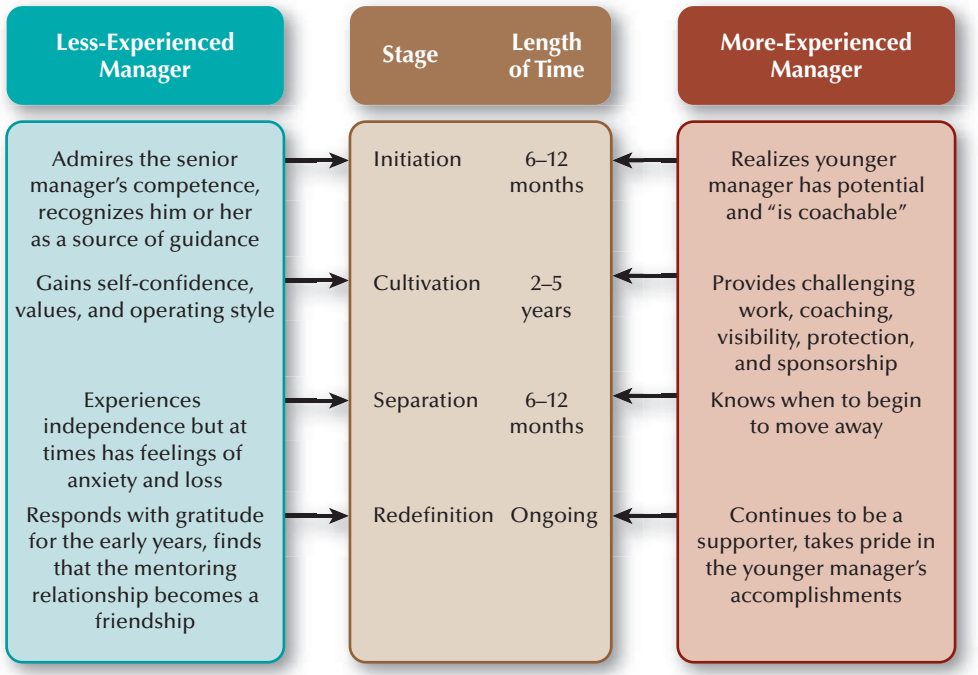
FIGURE 9-12 Stages in Management Mentoring Relationships



SUMMARY

- Talent management is important because it is concerned with the attraction, development, and retention of human resources.
- Training, succession planning, career planning, and performance management are crucial parts of talent management.
- Succession planning is the process that identifies how key employees are to be replaced, including deciding whether to make-or-buy talent and how to use electronic and web-based succession planning programs.
- Mistakes can occur in succession planning, including focusing only on CEO and senior management succession.
- The nature of careers is changing because retention of employees and work–life balance have become more important.
- Career planning may focus on organizational needs, individual needs, or both, and career paths and employer websites are part of career planning.
- A person chooses a career according to interests, personality, skills, values, and other factors.
- Several special individual career issues must be addressed, including those related to technical and professional workers.
- Career issues for women may include work–family balance and glass ceiling concerns, as well as being part of dual-career couples.
- Development differs from training because it focuses on less tangible aspects of performance, such as attitudes and values.
- Developing specific competencies may require lifelong learning and redevelopment of employees.
- Needs analyses for development may include assessment centers, psychological testing, and performance appraisals.
- HR development approaches can involve job-site and off-site learning activities.
- On-the-job development methods include coaching, committee assignments, job rotation, and corporate universities and career centers.
- Off-site development means often include classroom courses, seminars, and degrees; outdoor experiences; and sabbaticals and other leaves of absence.
- Management development is a special focus in many organizations, including supervisor development and leadership development.
- Management modeling, coaching, and mentoring are valuable parts of management development efforts.

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CRITICAL THINKING CHALLENGES

1. Discuss what talent management is and why it is a consideration addressed by a growing number of employers.
2. Visit the O*net website (http://onetonline.org) and, using the My Next Move Interest Profiler, complete your "Interest Profile." Follow the steps through determining which Job Zone you prefer to receive a list of careers that fit your interests and preparation level. Discuss what you learned about your interest profile and then evaluate the attractiveness of the jobs presented and determine what developmental steps you would take to prepare for a career in one of the occupations.
3. How have the evolving business environment and the emergence of free agent workers affected make-or-buy talent decisions?
4. Design a management development program for first-level supervisors in a mass-market retail company. What courses and experiences do they need?
5. You are the HR Director of a large manufacturing company that is approximately 50 years old. The company has reaped the benefits of a mostly tenured workforce, and many of the key workers are now approaching retirement age. It is anticipated that approximately 20 percent of the company's workforce will retire in the next three to five years. To assist the company with the retirement transition process, you want to present a business case to the President for a succession plan for several key positions, including the Chief Financial Officer and Director of Operations.
   A. Which internal and external company advisors should be included in the succession planning process?
   B. The successor employee for the replacement of the Chief Financial Officer and Director of Operations positions should have an advanced level of work experience in what key essential functions? How can the company help candidates get these experiences?

CASE Western Union Program Guides Team Development

The money transfer provider Western Union has adjusted to many market changes throughout its 160-plus year lifespan, which has allowed the company to increase its base of operations to almost 60 nations with a total workforce of over 11,000 workers. With recent trends pointing to a greater need to satisfy tech-savvy customers, Western Union hired a new CEO who spearheaded an innovative movement to improve customer service—this included the advancement of more digital and mobile interactions with customers, as well as an expectation that employees would "go the extra mile for customers." These initiatives required a broad cultural change in the organization, prompting the collective development of managers and employees in teams.

The first step of this process involved getting the learning organization at Western Union to evaluate the usefulness of the company's performance management system (including the use of performance reviews and rankings). It was determined that these efforts were both expensive and unpopular, which meant that improvements were needed. A new program called *GPS* (short for Guide.Performance.Succeed) was crafted to help leaders improve their teams. Establishing workable development goals for teams and providing continual feedback were key elements of this process. Leaders and team members were also held accountable for goals that improved talent development.

In order to successfully implement GPS, the learning and development group at Western Union designed a training plan called *Leadership in Action*. This program used "leadership circles," which required groups of managers to be mentored by a senior leader who taught them the basics of GPS and provided opportunities for practice. The program was particularly effective because high-profile leaders such as the Chief Financial Officer and Chief Information Officer were involved in the actual sessions—participants paid more attention.

Overall, GPS required participants to meet once a month to discuss various talent management issues, and key materials were sent ahead of time to enhance the discussions. Given that individuals are spread across the company's large global footprint, meetings were conducted through teleconferencing. Discussion sessions focused on important themes such as establishing goals, effective communication, and coaching at work. All of these topics increased the level of talent development among team members.

Initial evaluations of these programs showed that employee engagement increased as a result of the discussion

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sessions. In addition, the learning organization at Western Union plans to use leadership circles in the future to facilitate new training and development opportunities.[115]

QUESTIONS

1. What are the pros and cons of focusing on groups in talent development? What support would be needed in leadership to ensure that the participants get the most out of their interactions with others?
2. How would you evaluate the effectiveness of GPS? What about Leadership in Action? How could these programs be improved?
3. How might you use leadership circles to facilitate other forms of talent development in organizations? Would this approach work well in certain companies over others?

SUPPLEMENTAL CASES

Walmart's Boot Camp for Top Leaders

This case highlights how a large retail organization prepared its top leaders to work effectively during a time of high growth and store expansion. (For the case, visit MindTap® at www.cengage.com/login.)

Leadership Leverage

This case demonstrates how a health care company utilized talent to better manage the development of employees. (For the case, visit MindTap® at www.cengage.com/login.)

Equipping for the Future

This case shows how one company in the oil industry started a succession planning program. (For the case, visit MindTap® at www.cengage.com/login.)

Developed Today, Gone Tomorrow

This case illustrates a serious concern some employers have about developing employees only to have them leave. (For the case, visit MindTap® at www.cengage.com/login.)

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CHAPTER 10

Performance Management and Appraisal

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Identify why performance management is necessary.

LO2 Distinguish among three types of performance information.

LO3 Explain the differences between strategic, administrative, and developmental uses of performance appraisal.

LO4 Describe the advantages and disadvantages of using various sources of performance rating.

LO5 Discuss the differences between rating, ranking, and goal-setting methods of appraisal.

LO6 Identify several errors often committed by raters.

WHAT'S TRENDING IN PERFORMANCE MANAGEMENT AND APPRAISAL

Since organizational outcomes rely on individuals making quality contributions and fulfilling their roles effectively, HR professionals and managers must work together to bring out the best in employees. More specifically, they must create evaluation and feedback processes that enable managers to provide workers quality information so that they can improve their job performance. Managing employee performance through these ongoing appraisals presents a number of challenges and opportunities, so organizational leaders must think strategically about how to best provide this feedback. Given these issues, here's what's currently trending in the area of performance management and appraisal:

1. The concept and administration of performance management processes is undergoing a major shift as HR professionals, line managers, and organization leaders seek to create a more effective approach. Some prominent companies have transitioned to "ratingless" systems that focus on ongoing feedback rather than a once-a-year scoring system.
2. The development of engaging performance appraisal policies is an opportunity to build excellence in companies. Gamification and multisource ratings are approaches that can be used to make performance evaluations more fun and accurate.
3. Ratings, rankings, and other approaches used to assess employees' job performance are always subject to discussion and debate. Managers need to understand the current applications associated with any one (or more) of these approaches.
4. Goal setting is an important part of managing employee performance. Organizations are using new paradigms to more effectively link corporate goals and employee objectives and to motivate employees to develop better goals.

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HEADLINE

Improving the Health of Performance Management at JBS United

Livestock nutrition and health products producer JBS United prides itself on getting to know its customers and finding ways to help them become more successful. In fact, that guiding principle has been the source of incredible growth in its 60-year history, and now the company has operations in over 22 countries. JBS United relied on a traditional paper-and-pencil performance appraisal process with various forms and content areas for operations around the world. The process was time-consuming and did not provide company leadership with good information on the quality of its talent pool.

Inconsistencies in the process were making it difficult for the company to leverage its human capital and identify potential in its employees. JBS United decided to revamp its system to better support performance management. Some of the objectives for updating included streamlining the process, creating a consistent approach across all operations, reducing the time needed to complete it, and identifying and tracking high-potential employees in real time. That is a pretty tall order, but the company found a number of software vendors that specialize in performance management products.

The company conducted an extensive review and narrowed their choices to a few vendors who could meet their needs. The new software program provided a platform for the organization's HR staff to develop a centralized library of competencies that could be used for various HR functions, including evaluating employee performance. This gives managers and employees a common language when discussing past performance and future development. It also led to consistency when evaluating talent across various operations, simplifying the process of identifying key talent within the organization.

Time needed to complete performance management dropped by 50 percent—a major time-savings that allowed managers to address business challenges more effectively. Tracking of high-potential employees is better and succession planning is more

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effective than in the past. Utilizing performance management software has helped JBS United pursue its organizational strategy of serving customers with greater confidence in its employees.[1]

Performance management is a process that supports individuals as they work to contribute to the mission and objectives of an organization. The process should encourage, monitor, measure, and evaluate individual job performance so that the organization can succeed. Managers need to provide appropriate and useful feedback because employees don't always know how to improve their performance. Properly designing and implementing the performance management and appraisal systems are key methods for increasing organizational outcomes.

LO1 Identify why performance management is necessary.

10-1 The Nature of Performance Management

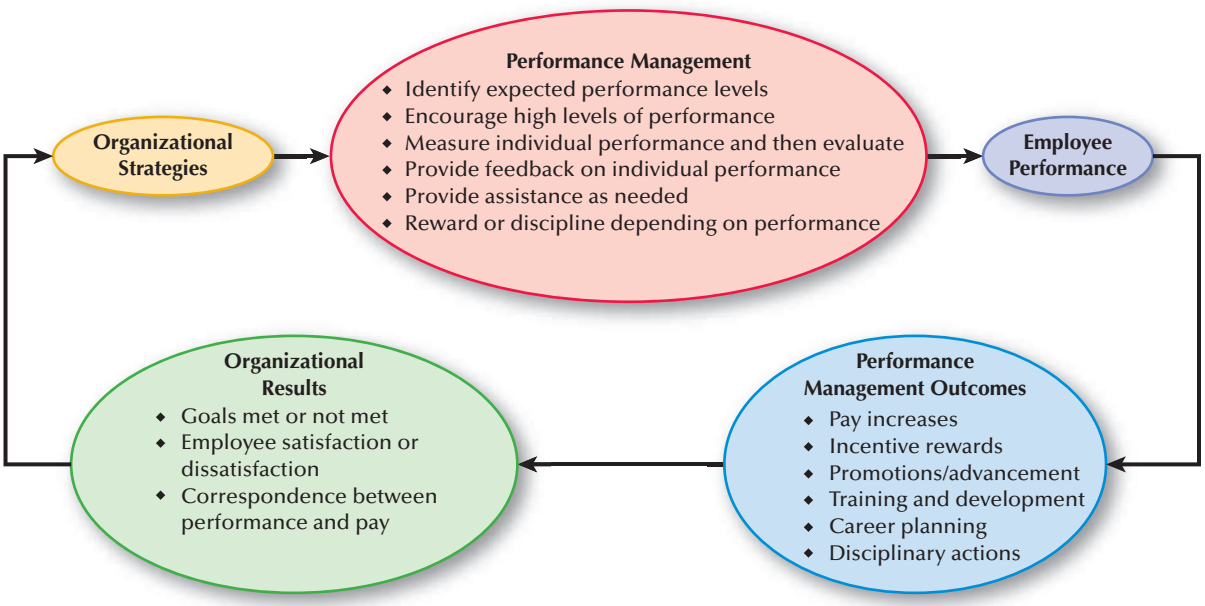
The performance management process begins by identifying the goals an organization must achieve to remain competitive and profitable. Managers then identify how they and their employees can support these objectives by successfully completing work. Of course, the sum of the work completed in all jobs should advance the strategic plan.

As Figure 10-1 shows, performance management links strategy to results. However, just having a strategic plan does not guarantee that results will be achieved. Strategies must be translated into department- or unit-level actions. Then these actions must be assigned to individuals who are held accountable for their accomplishment.

Performance management
Ongoing series of activities designed to align and improve individual performance to drive organizational results

Performance management is more than an annual appraisal event. Effective **performance management** is an ongoing series of activities designed to align and improve individual performance to drive organizational results. At a minimum, it should do the following:

FIGURE 10-1 Performance Management Linkage



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- Clarify organizational expectations.
- Document performance for personnel records.
- Identify areas of success and needed development.
- Provide performance feedback to employees.

Performance appraisal
Process of determining how well employees do their jobs relative to a standard and communicating that information to them

Performance appraisal is the process of determining how well employees do their jobs relative to a standard and communicating that information to them. This tool is a key part of performance management because it helps employees improve their job performance.

Successful performance management helps managers to prepare employees for work by focusing on the most important components of their jobs. This is often done by using evaluations to identify the level of performance and then providing feedback about how work can be improved. Performance discussions connect employee actions to corporate goals and ensure that managers and employees understand important performance issues. Based on information provided by a large group of business professionals and academics, the Society for Human Resource Management (SHRM) developed a new standard for performance management that can be used in a variety of organizations to better manage employees.[2] The following "HR Competencies & Applications: SHRM Develops Recommended Performance Management Standard" feature details elements of effective performance management processes that can be adopted by organizations.

In recent years, the process has come under fire. Later in this chapter, there is a more extensive discussion of the ways in which performance management processes are being reinvented. Some research studies have shown that although most firms actively use performance management, many managers and employees find it is a negative experience. Companies are looking for ways to improve performance management so that it can add value to their talent management approach rather than being seen as destructive or counterproductive.[3]

GLOBAL

10-1a Global Cultural Differences in Performance Management

Performance management and appraisals are very common in the United States and some other countries. However, it can be challenging to institute U.S. practices in countries that have dissimilar cultures. It can also be challenging when these practices are used to manage employees with diverse cultural backgrounds who are working in the United States.

In some countries and cultures, it is uncommon for managers to rate employees or to give direct feedback, particularly if some of the information is negative. For instance, in several countries, including China and Japan, there is great respect for authority and age. Consequently, it is uncommon for younger subordinates to collaborate with their managers in discussing performance appraisals. Use of programs such as multisource/360-degree feedback (discussed later in this chapter) might also be considered culturally inappropriate.

In some other cultures, employees may view criticism from superiors as negative rather than as useful feedback that highlights their training and development needs. Therefore, managers may not provide much feedback, and employees don't expect it. Performance management approaches might need to be modified in various global settings to accommodate different preferences.

10-1b Performance-Focused Organizational Cultures

Organizational cultures can vary on many dimensions, one of which involves the degree to which performance is emphasized. Some cultures are based on an *entitlement* approach, meaning that *adequate* performance and stability dominate the organization. Employee rewards vary little from person to person and have little to do with differences in individual performance. As a result, performance management is not valued by managers or employees and might be viewed as a "bureaucratic exercise."

At the other end of the spectrum is a *performance-driven* organizational culture, which focuses on the results and contributions made by employees. In this context, performance evaluations link results to employee compensation and development. There are benefits to developing a performance-focused culture throughout the organization. Setting goals for employees and holding them accountable emphasize the importance of achievement and the connection to rewards. Feedback

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HR

COMPETENCIES & APPLICATIONS

SHRM Develops Recommended Performance Management Standard

SHRM worked with industry and academic experts to develop a performance management standard that can be adopted by organizations across sizes, sectors, and industries. The purpose of this standard is to outline minimum elements to create an effective performance management process. The idea behind establishing a standard is to provide guidance rather than a universal process.

The standard includes three key sections: (1) goal setting, (2) performance review, and (3) individual performance improvement planning.

Goal setting can be done at various levels of employee performance. Among those levels are the following:

- *Job description goals*—Associated with specific job responsibilities, these goals reflect continuous accomplishment at specified levels of quality and quantity.
- *Project goals*—These are "event-focused" goals that are associated with a discrete project or task, often reviewed at the start and conclusion of a project.
- *Behavioral goals*—These goals define "how" performance tasks are to be completed and are often continuously accomplished.
- *Stretch goals*—Challenging objectives that involve attainment of new knowledge, skills, or abilities and ask the employee to move beyond the day-to-day tasks.

Performance review standards address the evaluation of worker performance, feedback, rater training, and internal controls. Performance evaluation should include both objective and subjective measures of performance and should consider many factors associated with employee performance success. Both formal and informal observation of employee performance should be conducted to provide a comprehensive assessment. Feedback should be continuous and timely throughout the review period and ideally will be documented. Performance discussions should be two-way dialogues involving both employee and manager input.

Training for everyone involved in the process is strongly encouraged. Employees should understand how their performance is measured and how results are used in important HR decisions. Managers should learn the specific process as well as possible errors and concerns about evaluating their employees. Finally, the organization should evaluate the effectiveness of its performance management process and ensure that it is not conducted in a discriminatory or unfair manner. Adjustments should be made to the process if it fails to meet the objectives of the organization.[4]

Based on these guidelines, answer the following questions:

1. How can line managers and employees establish effective goals at the various levels for employees to achieve? What types of goals are most appropriate for entry-level workers? What about for senior executives?
2. How can HR staff assist line managers in carrying out effective evaluations of employee performance? What training and consultation should line managers receive in order to conduct performance management successfully?

KEY COMPETENCIES: Consultation (Behavioral Competency), People (HR Expertise), and Organization (HR Expertise)

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FIGURE 10-2 Components of a Performance-Focused Culture

and recognition are important aspects of a performance-driven culture as they give employees information and encouragement for their accomplishments.[5] A performance-driven approach can be particularly useful when assessing top leaders because their goal is to improve the financial and operational performance of their organizations. This results orientation can then spread through the organization with all employees working to improve organizational results. Figure 10-2 shows the components of a successful performance-focused culture where pay depends on performance.

However, a pay-for-performance approach can present several challenges to organizations. For example, pay-for-performance plans used in organizations with an entitlement philosophy can be seen as creating inequity, particularly if some employees get bonuses and others receive no extra compensation. Tying bonuses to criteria such as employee performance may also be met with harsh criticism because some claim that the process prevents teamwork in the workplace.

Despite these issues, it appears that a performance-based-pay culture is desirable. It is sometimes argued that companies are not doing enough about low performers and that failure to deal with poor performance is unfair to those who work hard. Employees who are not taking care of their work responsibilities can become combative over their poor performance.[6] Kimberly Clark's progressive performance management system is discussed in the following "HR Perspective: Exposing Dead Wood" feature.

10-2 Identifying and Measuring Employee Performance

Performance criteria vary from job to job, but common employee performance measures include the following:

- Quantity of output/productivity
- Quality of output
- Timeliness of output/meeting deadlines
- Punctuality and attendance
- Efficiency of work completed
- Effectiveness of work completed

Job duties
Important elements in a given job

Specific **job duties** from a job description should identify the important elements in a given job. For example, a front desk clerk must welcome guests to a hotel, understand the hotel's reservation system, and check guests in and out of their rooms. In other words, job duties define what the organization pays employees to do. Individuals' performance of their job duties should, therefore, be measured and compared against appropriate standards, and the results should be communicated to employees on a regular basis so that performance can be improved.

Given that most jobs have several elements and inherent complexities, multiple job duties are the rule rather than the exception. Some duties are likely to be more important than others, and employees might demonstrate better performance on some duties than others. For example, retail store managers typically must monitor inventory, schedule employees, ensure customer satisfaction, and produce profits. Some store managers may excel at balancing inventory while others may be great with customers. Further, not all retail establishments would weight those job duties the same. A big box retail store where inventory is ordered by a central purchasing function might put greater emphasis on customer service and satisfaction. Therefore, it is important to understand the importance of particular job duties when setting performance expectations.

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Weights can be used to show the relative importance of different duties in a job. For example, in the retail store manager job at a company that emphasizes customer relations, operating costs, and fully stocked shelves, weights might be assigned as follows:

Weighting of Management Duties at Sample Firm	Weight
Establish and maintain customer relations	50%
Control operating costs	30%
Ensure goods are available for purchase	20%
Total Management Performance	**100%**

A different retail chain might include different performance elements or might weigh them in a different way.

HR PERSPECTIVE

Exposing Dead Wood

A culture change at Kimberly-Clark, the century-old paper goods producer, gave low performers nowhere to hide. In the past, long service was so highly prized that at company meetings, employee name plates included their years of service. Paying above-market salaries, avoiding layoffs, and honoring time with the company were all part of a culture that did not address issues with low performers very effectively.

A major transition to a performance-based approach has changed all of that. Today, one of the company's goals is to manage "dead wood"—low performers who are a drag on productivity and morale. No longer can employees coast by simply because they have decades of service at Kimberly-Clark. The company implemented performance management software that tracks and evaluates salaried employees' progress and identifies those who are not meeting expectations. Each employee now has personalized goals to guide their actions.

Turnover has increased since the company changed its performance management system and now weeds out those not working at required levels. It has been a difficult adjustment for a company whose paternalistic, benevolent former culture inspired loyalty from its workers. In the highly competitive world of household goods, however, the company needed to sharpen its focus on building a high-performance workforce.

The CEO set the company on its new course several years ago when the company's stock price was stagnant, and there were few product innovations in the pipeline. He invited the HR executives to participate in strategic planning for the first time in the company's history. Shifting its emphasis from keeping employees through good times and bad contributed to changes in its talent programs. Kimberly-Clark has laid off nearly 3,000 employees, and remaining employees are expected to work smarter and keep up with ever-increasing performance targets.

While not an easy or pain-free process, the results have been significant. The company's share price has more than doubled since 2008, and 98 percent of top performers have been retained. Low performers whose work was rated as unacceptable or inconsistent have left the company. Rather than boasting about low turnover, Kimberly-Clark now brags about a culture of accountability, honest feedback, and high performance.[7]

After reading about Kimberly-Clark's culture change, respond to the following questions:

1. How can HR initiate a discussion about performance issues in an organization where long service and loyalty have been the primary culture?
2. What can a line manager do to address a long-service employee whose performance has declined? What resources might the manager use to assist the employee in improving his or her performance?

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LO2 Distinguish among three types of performance information.

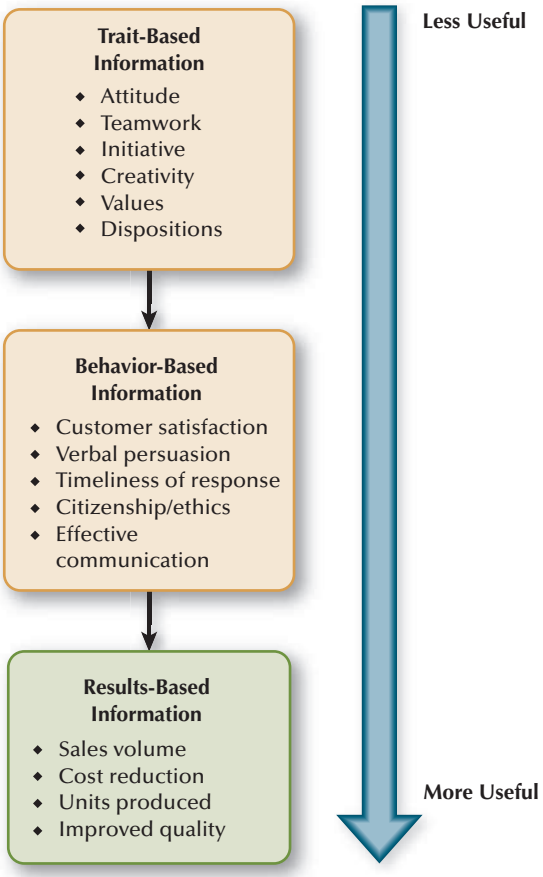
10-2a Types of Performance Information

Managers can use three different types of information about employee performance, as Figure 10-3 shows. *Trait-based information* identifies a character trait of the employee, such as attitude, initiative, or creativity, and may or may not be job related. For example, conscientiousness is often found to be a trait that is an important determinant of job performance. However, many traits tend to be ambiguous, and rater bias can affect how traits are viewed, so courts have generally held that trait-based performance appraisals are too vague to use when making HR decisions such as promotions or terminations. Further, since traits are relatively stable and enduring over time, it is unrealistic to focus on changing these individual attributes of employees.[8] Therefore, assessing employee performance by measuring traits is not recommended.

Behavior-based information focuses on specific behaviors that lead to job success. For a bartender, the behavior "drink up-selling" can be observed and used as performance information because a customer is encouraged to purchase a higher-priced beverage. Another example is an operations director who visits all the key work areas in a manufacturing plant during a morning walk-through. These behaviors increase visibility and communication with employees.

Behavioral information can specify the behaviors management expects employees to exhibit. A potential problem arises when any of several behaviors can lead to successful performance, and employees rely on different behaviors to complete work. For example, because there is likely not one approach will make all salespersons effective at their jobs, one salesperson might successfully use one selling strategy with customers, while another might successfully use a different approach. The advantage of using behavioral information is that it can be observed, and managers can coach employees to exhibit specific behaviors in order to improve their work performance.

FIGURE 10-3 Types of Performance Information



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Results-based information considers employee accomplishments. For jobs in which measurement is easy and obvious, a results-based approach works well. For example, commission-based sales people are paid only when they complete a sale, the very definition of results-based evaluation. Most jobs are not so easily quantifiable, making results-based information part of the evaluation criteria but typically not the only criteria. In addition, employers should recognize that the results that are measured are the ones that employees tend to emphasize, sometimes neglecting other important job activities. For example, a selling professional who works for an auto dealership and gets paid *only* for sales may be uninterested and/or unwilling to do paperwork and other activities not directly related to selling cars. Further, ethical or legal issues may arise when results alone are emphasized rather than *how* results are achieved, so care should be taken to balance the different types of information.

In recent years, some companies adopted a *results only work environment* (ROWE) that was intended to give employees freedom to do their jobs and be measured only on their results. Best Buy was an early adopter of this practice for employees at its headquarters office who were granted complete autonomy in how and when they did their work as long as they delivered acceptable results. The Best Buy program was ended after a new CEO took charge and insisted that employees report to the office and connect with each other and their managers more frequently. While ROWE seems enticing, it is more difficult to manage and administer than its proponents recognized.[9]

Performance measures can be viewed as objective or subjective. The *objective measures* can be observed. For example, the number of dinner specials sold or the number of tables serviced can be counted, which make them objective performance metrics. *Subjective measures* require judgment on the part of the evaluator and are more difficult to determine. One example of a subjective measure is a supervisor's ratings of an employee's "attitude," which can be difficult to evaluate based on varying ideas and preferences. Consequently, subjective measures should be used carefully and only when adequate support and/or documentation can be presented to support such evaluations.

To appropriately evaluate employee performance, some combination of objective and subjective measures is recommended. Also, including behavior-based and results-based information may lead to a more comprehensive assessment of performance that accounts for differences in job tasks and priorities.

10-2b Performance Standards

Performance standards
Define the expected levels of employee performance

Performance standards define the expected levels of employee performance. Sometimes they are labeled *benchmarks*, *goals*, or *targets*—depending on the approach taken. Realistic, measurable, clearly understood performance standards benefit both organizations and employees. Performance standards should be established *before* work is performed because they define the level of satisfactory job performance. Well-defined standards ensure that everyone involved knows the performance expectations.

Both quantitative and qualitative standards can be established. Sales quotas and production output are familiar quantitative performance standards. A standard of performance can also be based on qualitative criteria. Determining whether an employee has met a performance standard, especially a qualitative, can be difficult, but it can be done. For example, how would you measure a waitperson's ability to service a table? Figure 10-4 lists performance standards that facilitate such measurement and make assessment much more accurate, even though performance is qualitative. When combined with quantitative measures such as the number of tables served or dessert items ordered, the restaurant manager can assess waitstaff performance quite effectively.

MEASURE

To make sure performance standards are applied uniformly, many organizations "calibrate" performances. Calibrating is often a group review conducted by managers to discuss the reasons behind each employee's rating. Ratings can be adjusted up or down by the group to ensure that they reflect similar performance standards.[10] This process can increase inter-rater reliability. Regardless of the approaches used, employers should remember that measuring performance in some way enables them to better manage performance.

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FIGURE 10-4 Example Performance Standards for Table Service of Waitperson

Performance Level	Demonstrated Ability
Superior	• Visits table quickly after guests are seated • Takes order exactly when guests are ready • Serves drinks and food immediately after items are prepared • Clears table and presents check immediately after meal is complete
Acceptable	• Visits table in a reasonable time after guest are seated • Takes order in a timely manner • Serves drinks and food after items are prepared • Clears table and presents check after meal is complete
Needs Improvement	• Visits table when there is time to do so • Takes order when ready • Serves drinks and food after other duties are completed • Clears tables and presents checks after servicing other tables

10-3 Performance Appraisals

Performance appraisals are used to assess an employee's performance and create a mechanism for providing feedback about past, current, and future performance expectations. They are often viewed as a critical element of any performance management approach. Several terms can be used when referring to performance appraisals. These include *employee rating, employee evaluation, performance review, performance evaluation*, and *results appraisal.*

Most U.S. employers use performance appraisals for workers at all levels in the organization. When designed well, performance appraisals can highlight and address many work-related issues, and by communicating a positive roadmap to employees, poor performance can often be successfully improved. Employees benefit from feedback because the information helps them realign their efforts and determine how to improve their job performance. In addition, appraisals may provide justification for many personnel actions such as promotions, pay raises, or terminations. It is, therefore, important for managers to be honest and objective in their appraisals of performance and to ensure that employees understand that the process is intended to help them. Managers should also praise employees when they do well at work and take into consideration their explanations for why their performance is not where it should be.[11]

But there are several challenges associated with performance appraisals. For instance, ratings might not adequately reflect the actual job performance exhibited by employees because of a rater's bias, misperceptions, or failure to observe employees perform. Poorly done performance appraisals can also deflate motivation and harm workplace relationships, and some business professionals even think that performance evaluations are too subjective, political, and ultimately unnecessary because of these issues. Recent research found that 95 percent of managers are dissatisfied with their organization's performance management system, 59 percent of employees do not feel their performance reviews are worth the time invested, and 56 percent of employees say they do not receive feedback on what to improve.[12] These discouraging results are not uncommon, which is why many companies are rethinking the process of assessing employee performance.[13]

Despite these challenges, having no formal method of evaluating employee performance can weaken discipline in a company and reduce an employee's ability to improve. There are several ways

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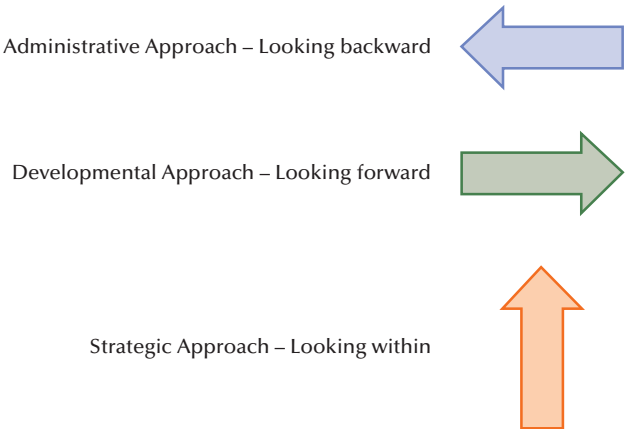
FIGURE 10-5 Uses for Performance Appraisals



employers can better manage performance appraisals. For instance, providing timely feedback that is tied to individual goals along with nominal monetary rewards has worked for Colorcon, a pharmaceutical supply company. Since traditionally, performance appraisals have focused on past performance, they have left little time for what employees truly care about—how to improve going forward. Therefore, changing the emphasis to one of future performance and development can shift the employee's perception of the value of the process.[14]

As described in the HR Headline at the start of this chapter, companies are adopting online applications to better manage the administration of performance evaluations and provide timely, useful feedback to employees. For example, consulting firm PwC adopted a Professional Snapshot tool that is web and mobile enabled. The tool allows employees to do a five-minute assessment of a coworker, manager, or subordinate. This "instant feedback" focuses on the employee's skills and works in conjunction with in-person conversations. Managers can access the assessments any time and have a sit-down conversation with the employee being assessed.[15] A SHRM survey also shows that HR professionals rate employers' management of appraisals higher when companies emphasize performance management.[16] Consequently, effective appraisals are entirely possible if the right issues are addressed and the proper approaches are used.

LO3 Explain the differences between strategic, administrative, and developmental uses of performance appraisal.

10-3a Uses of Performance Appraisals

While the performance management process in many companies is being dramatically updated, the importance of periodic feedback to employees is still a high priority. As shown in Figure 10-5, organizations use performance appraisals for several main purposes. A strategic use connects employees to the organization, administrative uses connect HR decisions to employees' past performance, and developmental use connects employee future aspirations to growth and skill attainment.

Strategic Use of Appraisals Organizational performance outcomes are really the sum total of each individual employee's performance. A *strategic use* of performance appraisal looks within the organization (dashboard perspective) to provide consistency between individual and organization performance.[17] Companies can use performance appraisals to enhance their strategies and to align individual performance objectives with organizational priorities. Establishing employee goals or performance standards in line with those of the organization creates the line of sight that helps employees to see how their own performance impacts bottom line results.

Administrative Uses of Appraisals *Administrative uses* are often based on a backward-looking (rearview mirror) perspective. Employee's past performance is used to (1) determine

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pay adjustments; (2) make job placement decisions on promotions, transfers, layoffs, and demotions; and (3) choose employee disciplinary actions up to and including termination of employment.

A performance appraisal system is often the link between employee job performance and the additional pay and rewards they can receive. Performance-based compensation reinforces the idea that pay raises are based on performance accomplishments rather than length of service (seniority) or as part of automatic raises granted to all employees. In pay-for-performance compensation systems, managers evaluate the performance of individuals and make compensation recommendations. If any part of the appraisal process fails, better-performing employees may not receive larger pay increases, and the result is perceived inequity in compensation.

Many workers perceive little connection between their performance and the size of their pay increases due to flaws in the performance appraisal process. Consequently, people argue that performance appraisals and pay discussions should be done separately.[18] Two realities support this view. One is that employees often focus more on the pay received than on the developmental appraisal feedback. The other is that managers sometimes manipulate ratings to justify the pay they wish to give individuals. As a result, many employees view the appraisal process as a game because compensation increases have been predetermined before the appraisal is completed.

To address these issues, managers can discuss performance appraisals and provide feedback to employees; then several weeks later, hold a shorter meeting to discuss pay issues. For example, one company created different performance appraisal and compensation forms that are considered separately at different times. By adopting such an approach, the results of the performance appraisal can be considered before the amount of the pay adjustment is determined. Also, the performance appraisal discussions between managers and employees can focus on issues for improvement—not just pay raises.

Employers are generally interested in the administrative uses of performance appraisals because the assessments and decisions made in these evaluations can affect promotions, terminations, layoffs, and transfer assignments. When basing personnel actions on performance appraisal results, it is critical that a fair, accurate evaluation process is used to build credibility with employees, provide transparency, and reduce the possibility of legal issues.[19]

Developmental Uses of Appraisals *Developmental uses* are often based on a forward-looking (windshield) perspective. For employees, appraisals can be a primary source of information and feedback to help them improve their performance and determine future career aspirations. The *developmental uses* of appraisals allow supervisors to identify employees' strengths, weaknesses, needs, and potential and to create appropriate plans. Providing employees with feedback about their progress at work, discussing areas in which additional training may be beneficial, and outlining future developmental plans are ways in which performance appraisal feedback can be developmental.

Employees don't always know where and how to perform better, and managers cannot expect significant improvements if they do not provide useful developmental feedback. Performance feedback can be used to reinforce satisfactory contributions and to address work deficiencies. The developmental function of performance appraisals can also identify areas in which the employee might wish to grow. For example, in a performance appraisal interview focused exclusively on development, an employee learned that the only factor keeping her from being considered for a management job in her firm was inadequate working knowledge of cost accounting. Her supervisor suggested that she consider taking some night courses at the local college to help her develop these skills.

Organizations work to find the right balance between helping employees to plot their future career course and notifying those individuals who are designated as *high potential* employees. A recent study showed that the majority of companies are not transparent about individual employee's advancement potential because they are concerned that it may negatively impact engagement, motivation, and turnover.[20] Therefore, line managers and HR should agree on how much career assessment is provided during appraisal meetings.

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ETHICS

10-3b Performance Appraisals and Ethics

Performance appraisals may or may not focus on the ethics associated with how employees perform their jobs. Many companies do not have a program to develop awareness of ethics, and some have no policies at all regarding ethical behavior. Discussing ethics in performance appraisals is one way to emphasize it to employees. This is one reason to use both behavior and results information when assessing employee performance. Further, when employees feel that their appraisal was conducted in a fair, respectful manner, their own future behavior is more ethical.[21]

Codes of conduct can provide useful company guidelines on ethical behavior, training can teach important workplace ethical values, and communication of ethical approaches to recurring workplace problems can help promote an ethical culture. Rewarding ethical behavior and punishing undesirable behavior are also beneficial for improving ethical organizational practices. Doing so requires managers to include ethics metrics in performance measurement.

10-3c Decisions about the Performance Appraisal Process

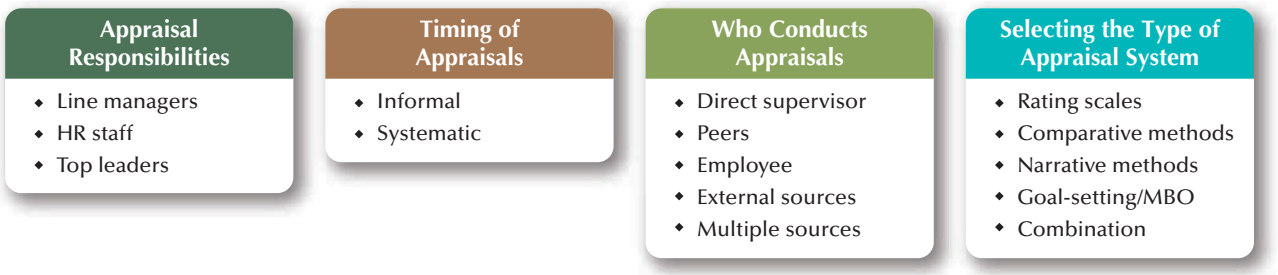
A number of decisions must be made when designing performance appraisal systems. Key decisions that need to be made when designing an appraisal process (as shown in Figure 10-6) include identifying the appraisal responsibilities of the HR unit and of the operating managers, establishing the timing of appraisals, determining who will provide evaluation input, and selecting the type of appraisal system to use.

Appraisal Responsibilities If done properly, the appraisal process can benefit both the organization and its employees. The HR unit typically designs an organization's performance appraisal system. HR may also collect and analyze all ratings to ensure that the process does not result in adverse impact.[22] Managers then use the appraisal system to evaluate employees. During development of the formal appraisal system, managers usually offer input about how the final system should work.

It is important for managers to understand that performance management is *their* responsibility. Through the appraisal process, good employee performance can be made even better, poor employee performance can be improved, and poor performers can be removed from the organization. Performance appraisal must not simply be an HR requirement but should also be an important management process because guiding employees' performance is among the most important responsibilities of being a manager.

Type of Appraisals: Informal versus Systematic Performance appraisals can occur in two ways: informally and/or systematically. A supervisor conducts an *informal appraisal* whenever necessary. The day-to-day working relationship between a manager and an employee offers an opportunity for the evaluation of individual performance. A manager communicates this evaluation through various conversations on the job or by on-the-spot discussion of specific occurrences. Although such informal feedback is useful and necessary, it should not replace formal appraisal. Frequent informal feedback to employees can prevent surprises during a formal performance review.

FIGURE 10-6 Designing an Appraisal System



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A *systematic appraisal* occurs when the communication between manager and employee is more formal, and a system is in place to report managerial observations and assessment of employee performance. This approach to appraisals is quite common. Systematic appraisals feature a regular time interval, which distinguishes them from informal appraisals. Both employees and managers know that performance will be reviewed on a regular basis, and they can plan for performance discussions.

Timing of Appraisals Most companies require managers to conduct appraisals once or twice a year, most often annually. Employees commonly receive an appraisal 60 to 90 days after hiring, again at six months, and annually thereafter. *Introductory employees*, who are new and are working in a trial period, should be informally evaluated often, perhaps weekly for the first month and monthly thereafter until the end of the introductory period. After that, annual reviews are typical. For employees in high demand, some employers use accelerated appraisals—every six months instead of every year. This is done to retain those employees since more feedback can be given and pay raises may occur more often. Meeting more frequently with employees may enhance individual performance.

10-3d Legal Concerns and Performance Appraisals

Since appraisals are intended to measure how well employees are doing their jobs, it may seem unnecessary to emphasize that performance appraisals must be job related. However, it is important for evaluations to adequately reflect the nature of work performed. Companies need to have appraisal systems that satisfy the courts and address corporate needs.

HR

COMPETENCIES & APPLICATIONS

Elements of a Legal Performance Appraisal System

The elements of a performance appraisal system that can survive court tests can be determined from existing case law. It is generally agreed that a legally defensible performance appraisal should include the following:

- Performance appraisal criteria based on job analysis
- Absence of disparate impact or disparate treatment
- Formal evaluation criteria that limit managerial discretion
- A rating instrument linked to job duties and responsibilities
- Documentation of the appraisal activities
- Personal knowledge of and contact with each appraised individual
- Training of supervisors in conducting appraisals
- A review process that prevents one manager, acting alone, from controlling an employee's career
- Counseling to help poor performers improve

Of course, having all these components is no guarantee against lawsuits. However, including them does improve the chance of winning lawsuits that might be filed. Based on these points, consider the following questions about the relevant legal aspects of a performance management system:

1. Based on the legal criteria outlined, which points do you think are the most important? Which ones would you focus on first as a practicing HR professional? Which legal criteria do you think might be the most challenging to implement?
2. Do you think there are other approaches (not listed) that could be used to enhance the legal defensibility of a performance appraisal system?

KEY COMPETENCIES: Business Acumen (Behavioral Competency) and Workplace (Technical Competency)

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While there is no specific federal legal requirement to conduct appraisals, the law of common sense prevails. Without some documented evaluation of employee performance and feedback provided to employees, an organization might have difficulties in carrying out discipline when required.[23] The preceding "HR Competencies & Applications: Elements of a Legal Performance Appraisal System" feature shows the elements to consider.

LO4 Describe the advantages and disadvantages of using various sources of performance rating.

10-4 Who Conducts Appraisals?

Performance appraisals can be conducted by anyone familiar with the performance of individual employees. Possible rating situations include the following:

- Supervisors rating their employees
- Employees rating their superiors
- Team members rating each other
- Employees rating themselves
- Outside sources rating employees
- Combining multiple sources

10-4a Supervisory Ratings of Subordinates

The most widely used means of rating employees is based on the assumption that the immediate supervisor is the person most qualified to evaluate an employee's performance realistically and fairly. To help provide accurate evaluations, some supervisors keep records of employees' performance so that they can referto these notes when rating performance. For instance, a Sales Manager might periodically observe a salesperson's interactions with clients and make notes so that constructive performance feedback can be provided.

However, relying on supervisor ratings can be problematic because of rating mistakes and biases. For instance, one study found that supervisors' ratings of employees can be affected by the typical times that employees start their workdays, with employees who start work later being viewed as less conscientious and lower performers compared to those who start work earlier. Supervisors' own preferences for evenings or mornings also affected their stereotypes of workers.[24]

10-4b Employee Ratings of Managers

A number of organizations ask employees to rate the performance of their immediate managers. A recent study at Kronos showed that employee ratings of their supervisors identified employees who were likely to quit their jobs when those ratings identified problems with the supervisor's behavior. The company was able to use employee feedback to coach and counsel supervisors so that their behavior was more supportive of what employees needed.[25]

Asking employees to rate managers provides three primary advantages. First, in critical manager–employee relationships, employee ratings can be quite useful for identifying competent managers. The rating of leaders by combat soldiers is one example of such a use. Second, this type of rating program can help make a manager more responsive to employees. This advantage can quickly become a disadvantage if the manager focuses on being "nice" rather than on managing; people who are pleasant but have few other relevant qualifications may not be good managers in many situations. Finally, employee appraisals can contribute to career development efforts for managers by identifying areas for growth.

A major disadvantage of asking employees to rate managers is the negative reaction some may have to being evaluated by their subordinates. Also, the fear of reprisals may be too great for employees to give realistic ratings. This may prompt workers to rate their managers based solely on the way they are treated rather than on critical job requirements. Consequently, using these ratings for developmental purposes may be beneficial, but using them for administrative purposes may not be advisable.

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10-4c Team/Peer Ratings

Having employees and team members rate each other is another type of appraisal. Peer and team ratings are especially useful when supervisors don't have the opportunity to observe each employee working, but work group members do.[26] This may be especially relevant when dealing with virtual teams. Employees may be hesitant to provide critical feedback to workers they see every day, but they are much more likely to distinguish between good and poor performers when their peers are not working in the same place. Since working virtually relies on each individual to produce quality output on a timely basis, coworkers can more easily identify when someone is under-performing and reflect that assessment in their performance evaluation feedback.[27]

Peer evaluations are also used in the nursing profession to ensure safe, high-quality patient care. This increases accountability within the health care team and can improve patient outcomes.[28] Use of peer evaluations has even been applied to workers in manufacturing. Team members rate their coworkers on various aspects of their performance including companywide issues, team issues, work style and conduct, and production issues. Feedback is provided from the group's supervisor and ratings remain anonymous.[29]

Training team members to observe and accurately assess one another's performance is important. Most individuals do not have a natural ability to perform this vital task; therefore, teaching team members how to both give and receive feedback may improve the quality of the feedback and the team's cohesion and results.[30]

10-4d Self-Ratings

A self-appraisal can be effective in certain situations. As a self-development tool, it requires employees to think about their strengths and weaknesses and set goals for improvement.[31] Employees working in isolation or possessing unique skills may be particularly suited for self-ratings because they are the only ones qualified to rate themselves.

However, employees may use different standards when rating themselves, so there may be differences between their ratings and those provided by their supervisors. Employees may be too lenient in self-evaluations by accentuating their positive contributions and minimizing the areas that need improvement. This may occur more frequently when companies use evaluations strictly for administrative purposes.

Despite these issues, the use of self-appraisals in organizations is not uncommon. Both employees and managers should receive training and guidance in how to conduct these self-appraisals to ensure that both individuals compare performance against the same standard. Managers should independently evaluate the employee's performance and not rely solely on what the employee reports as a "shortcut" in the process.[32]

10-4e Outsider/Customer Ratings

People outside the immediate work group may be asked to participate in performance reviews. This "field review" approach can include someone from a related department as a reviewer or completely independent reviewers from outside the organization. Examples include a review team evaluating a college president or a panel of division managers evaluating a supervisor's potential for advancement in the company. A disadvantage of this approach is that outsiders may not know the important demands within the work group or organization. Therefore, when seeking feedback from individuals outside the direct work unit, it is important to provide a list of key performance standards for reference.

The customers or clients of an organization are good sources for outside appraisals. For sales and service jobs, customers may provide useful input on the performance behaviors of employees. For instance, many hospitality organizations such as restaurants and hotels use customer comment cards/surveys and secret shoppers to gather feedback about the service provided by customer contact personnel, and this information is commonly used for job development purposes. One study determined that the use of secret shoppers to facilitate coaching in several restaurants that were members of the same chain helped improve employee and organizational performance.[33]

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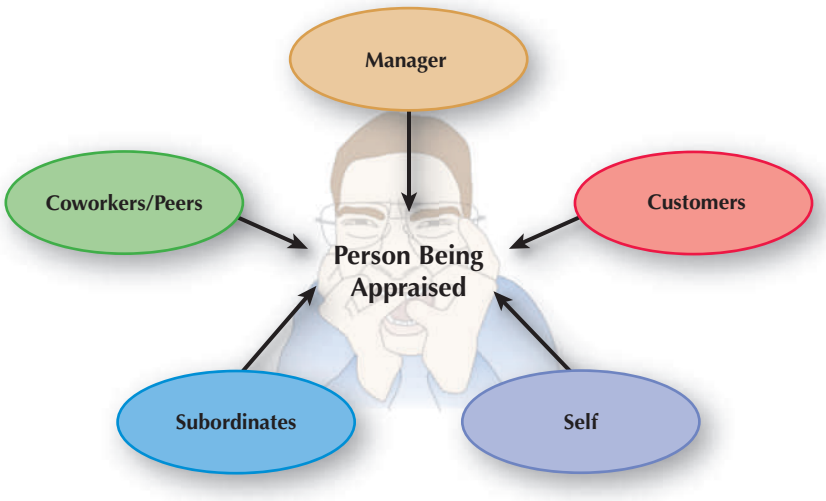
FIGURE 10-7 360-Degree Appraisal



10-4f Multisource/360-Degree Rating

Multisource rating, or 360-degree feedback, has grown in popularity. Multisource feedback recognizes that for many jobs, employee performance is multidimensional and crosses departmental, organizational, and even national boundaries. Therefore, information is needed from many sources to adequately and fairly evaluate an incumbent's performance in one of these jobs.

The major purpose of 360-degree feedback is *not* to increase uniformity by soliciting like-minded views. Instead, it is designed to capture evaluations of the employee's different roles to provide richer feedback during an evaluation. Figure 10-7 shows some of the parties who can be involved in 360-degree feedback. For example, a Project Manager for a construction firm deals with material suppliers, government agencies, customers, architects, laborers, and various internal corporate colleagues in purchasing, accounting, and sales. The Vice President of operations uses 360-degree feedback to gather data on all facets of the Project Manager's job before completing a performance appraisal on the individual. Similar examples can be cited in numerous managerial, professional, technical, operational, and administrative jobs.

Significant administrative time and paperwork are required to request, obtain, and summarize feedback from multiple raters. Using electronic systems for the information can greatly reduce the administrative demands of multisource ratings and increase the effectiveness (i.e., privacy and expediency) of the process.

Developmental Use of 360-Degree Feedback As originally designed and used, multisource feedback focuses on the use of appraisals for the development of individuals. Conflict resolution skills, decision-making abilities, team effectiveness, communication skills, managerial styles, and technical capabilities are just some of the performance areas that can be evaluated. The manager remains the focal point in multisource feedback approaches, both to receive the feedback initially and to follow up with employees to provide an overview of the information provided. The following "HR Ethics: Building Ethics with Multisource Appraisals and Coaching" feature explores how sound performance management and 360-degree feedback can be used to develop leaders and reduce the chances for unethical behavior. Accountability is important in making 360-degree feedback effective. Individuals who have been assessed and provided feedback should create an action plan with specific improvement goals that is shared with those who have participated in the process.[34]

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HR ETHICS

Building Ethics with Multisource Appraisals and Coaching

There are many successful business leaders who have stumbled due to ethical lapses. Some of these cases have involved violations of company policies and/or business laws, while others have been linked to poor decision making and improper behaviors. What's particularly troubling about many of the higher-profile ethical scandals is that the leaders were considered by many to be at the top of their game. Steve Wynn's sexual misconduct while he was CEO of Wynn Resorts, the previous CEO of Volkswagen who oversaw the misrepresentation of fuel efficiency of diesel automobiles, and Nike President Trevor Edwards who resigned due to inappropriate workplace behavior are all examples of individuals who ignored their ethical compasses.

But why do these ethical failures occur? Evidence suggests that there are more opportunities for ethical transgressions as leaders get promoted up through the ranks of business. For instance, leaders often have more autonomy and more access to information, which can encourage them to do the wrong thing. Work–life imbalance can also be an issue for some executives, which can increase their stress levels. Greed, arrogance, and an entitlement mentality can be concerns. Finally, the culture of an organization, assuming it is unethical, can prompt leaders to behave in a risky manner.

So what can companies do to prevent the ethical lapses of business leaders? It should come as no surprise that many of the steps involve solid performance management. Here are some key considerations:

- Develop and promote an organizational culture that is ethical and stress this culture during onboarding so that leaders understand the importance of ethics at work.
- Use 360-degree evaluations to provide leaders a multitude of feedback from different raters who can identify performance issues.
- Apply coaching when necessary to help individuals negotiate job challenges and opportunities in a positive and productive way.
- Discuss the importance of ethical leadership when managing/affecting the careers of leaders (e.g., promoting individuals and changing their work roles).[35]

Ethical problems occur frequently in business, and HR professionals need to help prepare leaders for these challenges. Consider the following questions:

1. What kinds of approaches might you use to help leaders be more ethical? How could performance management processes be used to facilitate this aim?
2. Besides some of the ideas already discussed, what do you think companies can do to reduce the likelihood of leaders acting unethically?

ETHICS

Administrative Use of 360-Degree Feedback The popularity of 360-degree feedback systems has led to the results being used for compensation, promotion, termination, and other administrative decisions. When using 360-degree feedback for administrative purposes, managers must anticipate several potential problems. Differences among raters can present a challenge, especially when using 360-degree ratings for discipline or pay decisions. Bias can just as easily be rooted in customers, subordinates, and peers as in a boss, and the lack of accountability of those sources can affect the ratings. "Inflation" of ratings is common when the sources know that their input will affect someone's pay or career. Also, issues of confidentiality and anonymity have led to lawsuits. Even though multisource approaches offer possible solutions to some of the well-documented dissatisfaction associated with performance appraisals, a number of other questions have arisen as multisource appraisals have become more common.

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Evaluating 360-Degree Feedback Research on 360-degree feedback has revealed both positives and negatives.[36] More variability than expected may be seen in the ratings given by the different sources. Thus, supervisor ratings may need to carry more weight than peer or subordinate input to resolve the differences. One concern is that peers who rate poor-performing coworkers tend to inflate the ratings so that the peers themselves can get higher overall evaluation results in return.

Another concern is whether 360-degree appraisals improve evaluations or simply multiply the number of problems that occur by including more raters in the process. Also, some wonder whether multisource appraisals really create sufficiently better decisions to offset the additional time and investment required. These issues appear to be less threatening when the 360-degree feedback is used *only for development*. Companies should consider using multisource feedback primarily as a developmental tool to enhance future job performance, rather than using these appraisals for administrative decisions.

LO5 Discuss the differences between rating, ranking, and goal-setting methods of appraisal.

10-5 Methods for Appraising Performance

A number of methods can be used to appraise performance. Some employers use one method for all jobs and employees, some use different methods for different groups of employees, and others use a combination of methods.[37] Some methods are *absolute formats* that compare individual performance to a set standard. Other methods are *relative formats* that compare individual performance against other employees in the organization. Figure 10-8 compares the two formats of evaluation. The following discussion highlights different methods that can be used, as well as some of the advantages and disadvantages of each approach.

10-5a Graphic Rating Scales

Graphic rating scale Scale that allows the rater to mark an employee's performance on a continuum indicating low to high levels of a particular characteristic

The **graphic rating scale** allows the rater to mark an employee's performance on a continuum indicating low to high levels of a particular characteristic. Because of the straightforwardness of the process, graphic rating scales are common in performance evaluations. Figure 10-9 shows a sample graphic rating scale. Three aspects of performance can be appraised using graphic rating scales: *descriptive categories* (e.g., quantity of work, attendance, and dependability), *job duties* (taken from the job description), and *behavioral dimensions* (e.g., decision making, employee development, and communication effectiveness).

Each of these types can be used for different jobs. How well employees meet established standards is often expressed either numerically (e.g., 5, 4, 3, 2, and 1) or verbally (e.g., outstanding,

FIGURE 10-8 Absolute versus Relative Performance Appraisal Methods

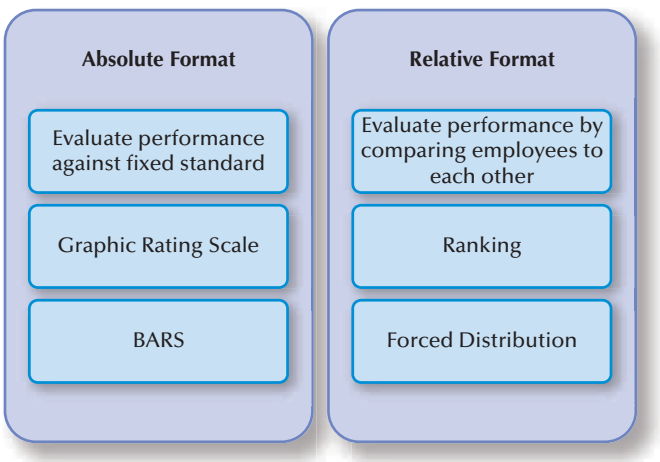

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FIGURE 10-9 Sample Graphic Rating Scale

Performance Level / Performance Dimension	Unacceptable 1	Below standards 2	Meets standards 3	Above standards 4	Outstanding 5
Attendance					
Quality of work output					
Quantity of work output					

meets standards, and below standards). As Figure 10-10 shows, scale points, also called *anchors*, can be defined carefully to minimize misinterpretation. If two or more people are involved in the rating, they should discuss their interpretations of each level of performance before conducting their evaluations to decrease inconsistent ratings.

Concerns with Graphic Rating Scales Graphic rating scales in many forms are widely used because they are easy to develop and provide a uniform set of criteria to evaluate the job performance of different employees. However, different jobs have different performance objectives, so evaluation criteria may not be universal. These scales can work well if they accurately define relevant, properly weighted performance dimensions. However, if they fit poorly, managers and employees who must use them might struggle to find them useful and informative. Further, if the criteria are not representative of job performance elements, employees will have less confidence in evaluation fairness and the organization may face more legal issues.

An additional drawback to graphic rating scales is that traits or factors are often grouped, and the rater is given only one box to check. For example, *dependability* could refer to meeting deadlines for reports, or it could refer to attendance and tardiness. If a supervisor gives an employee a rating of 3, which aspect of dependability is being rated? One supervisor might rate employees on meeting deadlines, while another rates employees on attendance.

Behavioral Rating Scales To address the shortcomings of graphic rating scales, employers may use behavioral rating scales designed to assess individual actions instead of personal attributes and characteristics. Different approaches are used, but all describe specific examples of employee

FIGURE 10-10 Sample Terms for Defining Standards

5 **Outstanding:** The person is so successful at this job criterion that special note should be made, and performance ranks in the top 10%.

4 **Exceeds Expectations:** Performance is better than average for the unit, given the common standards and unit results.

3 **Meets Expectations:** Performance is at or above the minimum standards. This level is what one would expect from most experienced, competent employees.

2 **Below Expectations:** Performance is slightly below the minimum standards. However, potential to improve within a reasonable time frame is evident.

1 **Unsatisfactory:** Performance is well below standard. Whether the person can improve to meet the minimum standards is questionable.

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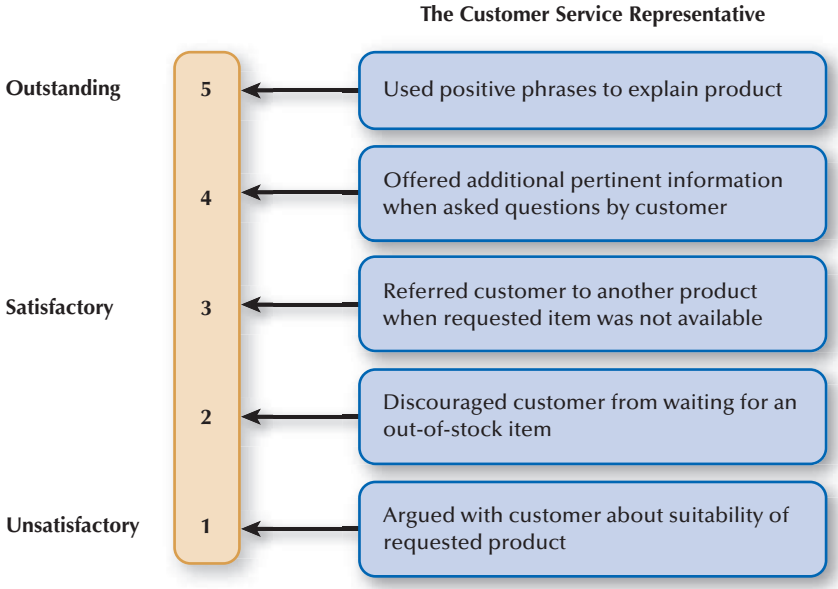
FIGURE 10-11 Behaviorally Anchored Rating Scale for Customer Service Skills



Behaviorally anchored rating scale
Scale that describes specific examples of job behavior, which are then "anchored" or measured against a scale of performance levels

job behaviors. In a **behaviorally anchored rating scale** (BARS), these examples are "anchored" or measured against a scale of performance levels.

When creating a BARS system, identifying important *job dimensions*, which are the most important performance factors in a job description, is done first. Short statements describe both desirable and undesirable behaviors (anchors). These are then "translated," or assigned, to one of the job dimensions. Anchor statements are usually developed by a group of people familiar with the job. The group then assigns each anchor a number that represents the effectiveness of the behavior, and the anchors are fitted to a scale. Figure 10-11 shows an example scale to rate customer service skills for individuals taking orders for an online retailer. Spelling out the behaviors associated with each level of performance helps minimize some of the problems related to graphic rating scales and enhances feedback since the desired behavior is clearly defined.

However, several problems are associated with the behavioral approach. First, creating and maintaining BARSs requires extensive time and effort. In addition, many appraisal forms are needed to accommodate different types of jobs in an organization. For instance, because nurses, dietitians, and admissions clerks in a hospital all have distinct job descriptions, a separate BARS form needs to be developed for each position.

10-5b Comparative Methods

In contract to rating systems that compare employee performance to a fixed standard, comparative methods are relative formats that require managers to compare the performance levels of their employees against one another. An example would be an information systems supervisor who compares the performance of one programmer with that of other programmers. Comparative techniques include ranking and forced distribution.

Ranking
Performance appraisal method in which employees are listed from highest to lowest based on their performance levels and relative contributions

Ranking The **ranking** method lists the employees being rated from highest to lowest based on their performance levels and relative contributions. Using a ranking system is practical only when employees are all working in the same job and their performance measures are quantifiable. One disadvantage of this process is that the magnitude of the performance differences between employees is often not clearly indicated. For example, the job performance of

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individuals ranked second and third may differ little, while the performance of those ranked third and fourth might differ a great deal. Ranking means that someone must be last, which ignores the possibility that the last-ranked individual in one group might be equal to the top-ranked employee in a different group. Further, the ranking task becomes unwieldy if the group of employees to be ranked is large.

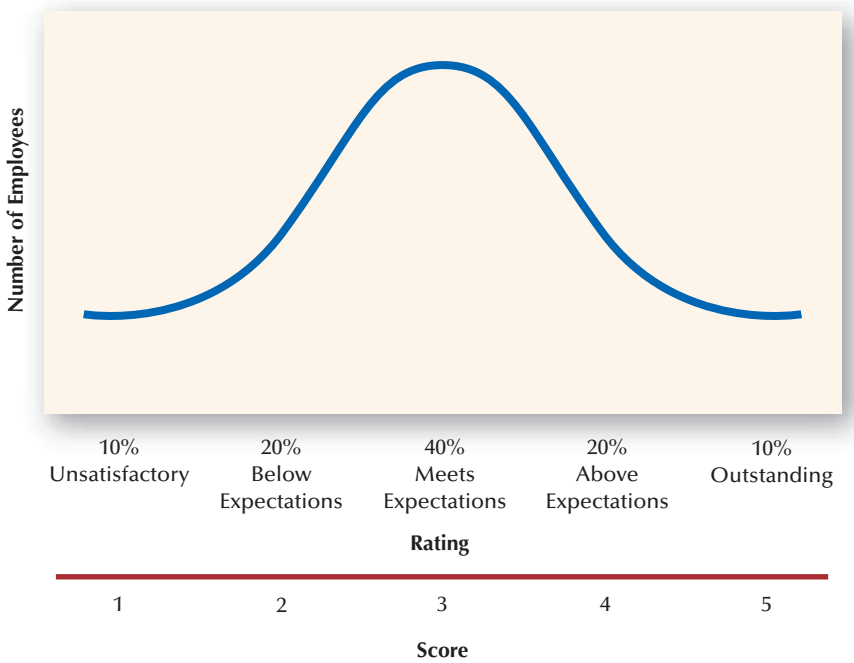
Forced Distribution Forced distribution is a technique for distributing ratings that are determined with any of the other appraisal methods and comparing the ratings of people in a work group. With the **forced distribution** method, the ratings of employees' performance levels are distributed along a bell-shaped ("normal") curve similar to grading on a curve in school settings as shown in Figure 10-12.[38] The use of a forced distribution system forces managers to identify high, average, and low performers, with a limited percentage permitted to earn each ranking level. For example, a medical clinic administrator ranking employees on a five-point scale would have to rate 10 percent of the employees as a 1 ("unsatisfactory"), 20 percent as a 2 ("below expectations"), 40 percent as a 3 ("meets expectations"), 20 percent as a 4 ("above expectations"), and 10 percent as a 5 ("outstanding").

Forced distribution
Performance appraisal method in which ratings of employees' performance levels are distributed along a bell-shaped curve

Forced distribution, or stack ranking, became popular in the 1980s when a number of firms adopted the practice.[39] The primary selling point was that it would limit ratings inflation problems. High performers would be identified and could be rewarded and developed, while low performers would be encouraged to improve or leave. Advocates of forced ranking argued that forced distribution ensured that compensation increases truly reflected performance rather than being spread equally among all employees.

But the forced distribution method suffers from several drawbacks. The practice became notoriously called *rank and yank* to reflect the severe nature of the ranking. Adverse impact issues arose from its adoption in several companies, leading to discrimination lawsuits at firms such as Yahoo! and Microsoft.[40] In addition to the potential legal issues, forced ranking creates difficulties for managers when they must explain to an employee why he or she was placed in a particular ranking level.

FIGURE 10-12 Forced Distribution on a Bell-Shaped Curve



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While use of these systems might motivate workers to strive harder and improve their on-task performance, they reduce the level of cooperation and citizenship within the organization. The disadvantages tend to outweigh the benefits over time.[41] This has led to many companies, most notably the company where it was invented, General Electric, to abandon the practice. The practice might be useful in pruning deadwood from the organization for a year or two, but ongoing use of forced rankings tends to destroy employee retention and commitment.[42]

10-5c Narrative Methods

Managers may be required to provide written appraisal narratives. Some appraisal methods are entirely written, rather than using predetermined rating scales or ranking structures. Documentation and descriptive text are the basic components of the critical incident and essay methods. Narrative methods may be rich with details and information that can improve feedback, but they can take a long time to prepare and rely on the writing skills of managers to be effective.

Critical Incident In the critical incident method, the manager keeps a written record of both favorable and unfavorable actions performed by an employee during the entire rating period. When a critical incident involving an employee occurs, the manager writes it down. For instance, when a sales clerk at a clothing store spends considerable time with a customer helping him purchase a new suit, a manager might document this exceptional service for later review during an annual evaluation. The critical incident method can be used with other approaches to document the reasons an employee was given a certain rating.

Essay The essay method requires a manager to write a short essay describing each employee's performance during the rating period. Some free-form essays are written without guidelines; others are more structured, with prepared questions that must be answered. The rater usually categorizes comments under a few general headings. The essay method allows the rater more flexibility than other methods do, sometimes too much. As a result, appraisers often combine the essay with other methods.

10-5d Goal Setting and Management by Objectives

Goal setting is often viewed as one of the best approaches for enhancing performance management in general and the performance appraisal process in particular. Positive goal setting allows employees to be more directed in their work efforts, which can lead to higher job performance. A study of call center workers found that different internalized goals were associated with stronger achievement needs and job performance among individuals.[43] Managers can also give employees and work teams the responsibility to develop their own goals by helping them understand how their objectives are linked to company goals, overseeing the goal-setting process, and making sure that all objectives are adequately connected.[44] The following "HR Competencies & Applications: Mentorships Require Dynamic Goal Setting" feature investigates how organizations can use mentoring as a mechanism for driving the goal-setting process among employees.

Management by objectives (MBO) A specific performance appraisal method that highlights the performance goals that an individual and manager identify together

Management by objectives (MBO) is a specific performance appraisal method that highlights the performance goals that an individual and manager identify together. Each manager sets objectives derived from the overall goals and objectives of the organization. Other names for MBO include *appraisal by results, target coaching, work planning and review, performance objective setting*, and *mutual goal setting*. The goal setting that occurs as part of this process can be helpful in a variety of managerial functions.

MBO Process Implementing a guided self-appraisal system using MBO is a four-stage process. The stages are as follows:

1. *Job review and agreement:* The employee and the superior review the job description and key activities that constitute the employee's job. The idea is to agree on the important performance deliverables for the job.

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HR

COMPETENCIES & APPLICATIONS

Mentorships Require Dynamic Goal Setting

What makes goal setting such a perplexing process for mentors and mentees? First of all, goals must be SMART, meaning that they must be specific, measurable, action-based, realistic, and time-bound. If this isn't difficult enough, trying to figure out the roles that mentors and mentees should play in goal setting can be challenging as well. Mentors should help the process along, but mentees should be the ones who manage goal setting, particularly because the goals affect their job efforts. The overall objective in sound goal setting is to develop a learning partnership between both parties so that mentees can better set and work toward their professional objectives.

How can mentors help mentees take more responsibility for their goal setting? As a mentor, there are several things you can do to achieve these results:

- *Be a good listener.* Try to understand the mentee's current work situation to determine the contextual factors that may affect the goal-setting process. Also, try to determine an individual's strengths, weaknesses, opportunities, and threats (kind of like a personal SWOT analysis) so that goals can be developed based on the proper match between the work environment and the mentee's situation analysis.
- *Provide good examples.* Talk about your own positive work experiences to give mentees a model for success. You can also discuss other examples of successful people who were driven by positive goals.
- *Match all the important pieces together.* Be careful to help mentees connect their goals with the objectives of the organization. Also make sure that the goals established help mentees work effectively given their own work situations.
- *Brainstorm over different viewpoints.* Encourage mentees to view their characteristics and work situations in different ways to make sure that reasonable goals have been set.
- *Emphasize the importance of time.* Discuss which goals should be given priority and determine how well goals can be accomplished given the time lines established.

Evidence suggests that adopting these approaches will help build positive mentor–mentee relationships. At a minimum, this process can help encourage more communication among mentors and mentees, which is always productive when it comes to goal setting.[45]

As an HR professional or line manager, you will likely have to consider how to enhance mentorship arrangements. Consequently, consider the following questions:

1. How can mentorships be used to improve job performance?
2. How would you encourage mentors and mentees to be more engaged in the goal-setting process? How could you better prepare individuals for the challenges associated with mentorships?

KEY COMPETENCIES: Relationship Management (Behavioral Competency) and People (Technical Competency)

2. *Development of performance standards:* Together, the employee and his or her superior develop specific standards of performance and determine a specific, measurable level of satisfactory performance. For example, a quota of selling five houses a month may be an appropriate performance standard for a realtor.
3. *Setting of objectives:* Together, the employee and the superior establish objectives that are realistically attainable.
4. *Frequent performance discussions:* Key milestone achievements with progress checks may be established that fosters frequent discussions about the employee's performance. Objectives can be mutually modified as warranted.

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The MBO process seems to be most useful with managerial personnel and employees who have adequate flexibility and control over their jobs. When imposed on a rigid and autocratic management system, MBO will often fail. Emphasizing penalties for not meeting objectives defeats the development and participative nature of MBO. Based on the results of one study, a strong MBO system can also help organizations generate a positive climate for goal setting.[46]

10-5e Combinations of Methods

No single appraisal method is best for all situations, so a performance measurement system that uses a combination of methods may be sensible. Using combinations may offset some of the advantages and disadvantages of individual methods. Rating scale methods are easy to develop, but they usually do little to measure strategic accomplishments. Further, they may make inter-rater reliability problems worse. Comparative approaches help reduce leniency and other errors, which makes them useful for administrative decisions such as determining pay raises. But comparative approaches do a poor job of linking performance to organizational goals and by themselves do not provide feedback for improvement as well as other methods do.

Narrative methods work well for development because they potentially generate more feedback information. However, without good definitions of performance criteria or standards, they can be so unstructured as to be of little value for administrative uses. The MBO approach works well to link performance to organizational goals, but it can require much effort and time for defining objectives and explaining the process to employees. Narrative and MBO approaches may not work as well for lower-level jobs as for positions with more varied duties and responsibilities.

When managers can articulate what they want a performance appraisal system to accomplish, they can work with HR staff to choose and mix methods to realize advantages of each approach. For example, one combination might include a graphic rating scale of performance on major job criteria along with a narrative for developmental needs. Different categories of employees (e.g., salaried exempt, salaried nonexempt, and hourly production workers) might require different combinations of methods.

10-6 Training Managers and Employees in Performance Appraisal

Court decisions on the legality of performance appraisals and research on appraisal effectiveness both stress the importance of training employees and managers. For employees, performance appraisal training focuses on the purposes of appraisal, the appraisal process and timing, how performance criteria and standards are linked to job duties and responsibilities, and how their performance connects to organizational outcomes.

Most systems can be improved by training supervisors in how to conduct performance appraisals. Since conducting the appraisals is important, training should center around minimizing rater errors and providing raters with details on documenting performance information. When raters are held accountable to the person being rated rather than to higher levels of management, their ratings tend to be more accurate and meaningful.[47] Training is essential for those who have recently been promoted to managerial jobs and for whom conducting performance appraisals is a new experience. Managers with informed positive views of the performance appraisal system are more likely to use the system effectively. Unfortunately, such training occurs only sporadically or not at all in many organizations.

Without training, managers and supervisors often "repeat the past," meaning that they appraise others much as they have been appraised in the past. The following list is not comprehensive, but it does identify some topics to be covered in appraisal training for managers:

- Appraisal process and timing
- Performance criteria and job standards that should be considered

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- How to avoid common rating errors
- How to communicate positive and negative feedback
- When and how to discuss training and development goals
- Conducting and discussing the compensation review

LO6 Identify several errors often committed by raters.

Recency effect
Occurs when a rater gives greater weight to recent events when appraising an individual's performance

Primacy effect
Occurs when a rater gives greater weight to information received first when appraising an individual's performance

Central tendency error
Occurs when a rater gives all employees a score within a narrow range in the middle of the scale

Leniency error
Occurs when ratings of all employees fall at the high end of the scale

Strictness error
Occurs when a manager uses only the lower end of the scale to rate employees

Rater bias
Occurs when a rater's values or prejudices distort the rating

Halo effect
Occurs when a rater scores an employee high on all job criteria because of performance in one area of the assigned work responsibilities

Horns effect
Occurs when a low rating on one characteristic leads to an overall low rating

Contrast error
Tendency to rate people relative to others rather than against performance standards

10-6a Rater Errors

There are many possible sources of error in the performance appraisal process. One of the major sources is the rater. Although completely eliminating errors is impossible, making raters aware of potential errors and biases helps to reduce them.

Varying Standards When appraising employees, a manager should avoid applying different standards and expectations to employees performing the same or similar jobs. Such problems often result from the use of ambiguous criteria and subjective weightings by supervisors.

Recency and Primacy Effects The **recency effect** occurs when a rater gives greater weight to recent events when appraising an individual's performance. Examples include giving a customer service representative a rating based on phone calls taken during the week before the appraisal or giving a drill press operator a high rating even though the operator made the assigned quota only in the last two weeks of the rating period. Another time-related issue is the **primary effect**, which occurs when a rater gives greater weight to information received first when appraising an individual's performance.

Central Tendency, Leniency, and Strictness Errors Ask students, and they will tell you about professors who tend to grade easier or harder. A manager may develop a similar *rating pattern.* A rater who gives all employees a score within a narrow range in the middle of the scale (i.e., rate everyone as "average") commits a **central tendency error**, giving even outstanding and poor performers an "average" rating.

Rating patterns also may exhibit leniency or strictness. The **leniency error** occurs when ratings of all employees fall at the high end of the scale. To avoid conflict, managers often rate employees higher than they should. This "ratings boost" is especially likely when no manager or HR representative reviews the completed appraisals. The **strictness error** occurs when a manager uses only the lower end of the scale to rate employees.

Rater Bias When a rater's values or prejudices distort the rating, **rater bias** occurs. Such bias may be unconscious or quite intentional. For example, a manager's dislike of certain ethnic groups may cause distortion in appraisal information for some people. Use of age, religion, seniority, sex, appearance, or other "classification" may also skew appraisal ratings if the appraisal process is not properly designed. A review of appraisal ratings by higher-level managers may help correct this problem.

Halo and Horns Effects The **halo effect** occurs when a rater scores an employee high on all job criteria because of performance in one area of the assigned work responsibilities. For example, if a worker has few absences, the supervisor might give the worker a high rating in all other areas of work, including quantity and quality of output, without really thinking about the employee's other characteristics separately. The opposite is the **horns effect**, which occurs when a low rating on one characteristic leads to an overall low rating.

Contrast Error Rating should be done using established standards. One problem is the **contrast error**, which is the tendency to rate people relative to others rather than against performance standards. For example, if everyone else performs at a mediocre level, then a person performing only slightly better may be rated as "excellent" because of the contrast effect. But in a group where many employees are performing well, the same person might receive a lower rating.

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Similar-to-Me/Different-from-Me Errors Sometimes, raters are influenced by whether people possess characteristics that are the same as or different from their own qualities. For example, a manager with an MBA degree might give subordinates with MBAs higher appraisals than those who have only earned bachelor's degrees. The error reflects measuring an individual against another person (the rater) rather than measuring how well the individual fulfills the expectations of the job.

Sampling Error If the rater has seen only a small sample of the person's work, an appraisal may be subject to sampling error. For example, assume that 95 percent of the reports prepared by an employee have been satisfactory, but a manager has seen only the five percent that had errors. If the supervisor rates the person's performance as "poor," then a sampling error has occurred. Ideally, the work being rated should be a broad and representative sample of all the work completed by the employee.

10-7 Appraisal Feedback

After completing appraisals, managers need to communicate the results to employees to provide them with a clear understanding of how their performance compares to company standards and expectations. Organizations commonly require that managers discuss appraisals with employees. The appraisal feedback discussion provides an opportunity to clear up any misunderstandings on both sides. In this discussion, the manager should also focus on coaching and development.

10-7a The Appraisal Discussion

The appraisal discussion presents both an opportunity and a challenge. It can be an emotional experience for the manager and the employee, because the manager frequently must communicate both praise and constructive criticism. A major concern for managers is how to emphasize the positive aspects of the employee's performance while still discussing ways to make needed improvements. If the conversation is handled poorly, the employee may feel resentment, which could lead to future performance problems. Consequently, a manager should clearly communicate how an employee's positive contributions have helped the organization perform well. When poor performance must be discussed, managers could use a series of questions and discussion points that enable employees to identify their own performance deficiencies and develop useful plans for performance improvement.[48]

Employees often approach an appraisal discussion with some anxiety. They may feel that discussions about performance are both personal and important to their continued job success. At the same time, they want to know how their managers view their performance. Figure 10-13 summarizes hints for an effective appraisal discussion for supervisors and managers.

When delivered effectively, feedback can inspire employees to improve their performance. Most employees want to know how they are doing and they need feedback to understand. Four elements of feedback that can inspire employees are as follows:

- Clarity—Be very clear on specific behaviors that the employee must change to be successful
- Conflicts—Listen as the employee explains what is getting in the way of his or her success on the job
- Confidence—Emphasize that you have faith in the employee's ability to turn the situation around and improve performance
- Conviction—Obtain the employee's commitment to the organization and to their future successful job performance

10-7b Reactions of Managers and Employees

Managers may feel some reluctance about appraisals because they often have negative perceptions about the process. Many feel that their role requires them to assist, encourage, coach, and counsel employees to improve their performance. However, being a judge on one hand and a coach and a counselor on the other may cause some internal conflict.

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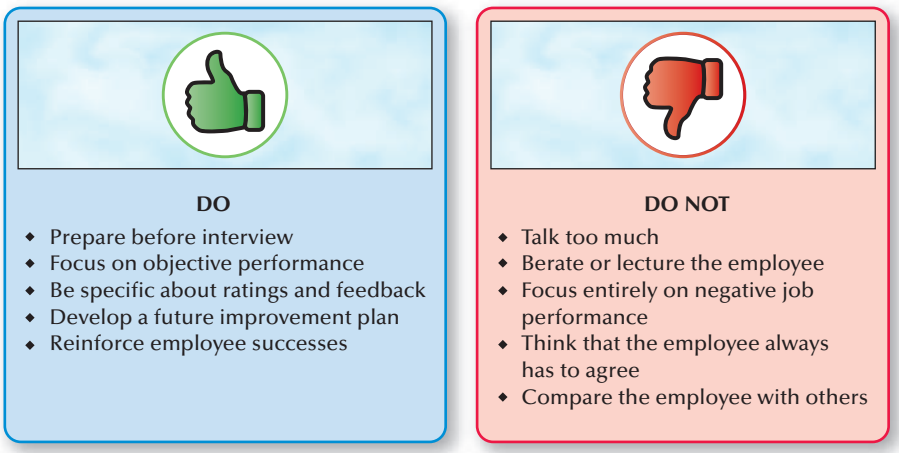
FIGURE 10-13 Appraisal Discussion Hints for Appraisers



Knowing that appraisals may affect employees' future careers may also cause altered or biased ratings. Some employees cry, yell, or become defensive when given feedback that includes criticism.[49] Managers can be, therefore, tempted to make the employee's ratings positive and avoid unpleasantness. But avoidance helps no one. A manager owes an employee a well-done appraisal, no matter how difficult an employee is or how difficult the conversation about performance might be. Providing timely, accurate feedback is not only the right thing to do ethically but may also protect the organization from employee relations or legal problems.[50]

Employees may well see the appraisal process as a threat and feel that the only way for them to get a higher rating is for someone else to receive a low rating. This win–lose perception is encouraged when comparative rating methods are used. Emphasis on the self-improvement and developmental aspects of appraisals may mitigate this reaction.

10-7c Effective Performance Management

Regardless of the approach used, managers should understand that performance management is important for companies to reach their strategic goals by working effectively with and through employees. When the process is used to truly develop employees as resources, it usually works. When the performance appraisal is used to help employees perform better at work, performance management is even more effective. In its simplest form, performance appraisal is the observation: "Here are your strengths and weaknesses, and here is a way to develop for the future."

Done well, performance management, working through the performance appraisal, can lead to higher employee motivation and satisfaction. To be effective, a system should be

- Beneficial as a development tool,
- Useful as an administrative tool,
- Legal and job related,
- Viewed as generally fair by employees,
- Effective in documenting employee performance, and
- Clear about who are high, average, and low performers.

10-7d Performance Management 2.0

The "revolution" underway in performance management is an attempt to take a necessary, but often ineffective, process and make it useful and helpful. Several years ago, Adobe Systems Inc. abolished its traditional annual performance review system and replaced it with frequent, informal conversations between managers and employees. At the time, the concept of eliminating such a revered process was a radical idea.[51]

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Since that first pioneering step, countless Fortune 500 companies and other smaller firms have followed Adobe's path. Accenture, Goldman Sachs, and Netflix are among those that have gone "ratingless" in their quest to improve their performance management practices.[52] While it sounds like a tempting alternative to the traditional approach, these companies did not simply stop rating employees and leave everything else the same. In order to actually improve performance management, organizations need to replace rather than simply eliminate current systems.

Ongoing feedback with frequent "check-ins" is now at the heart of these revolutionary performance systems. Some companies maintain ratings but give them less weight in the overall process. They may gather input from multiple sources (*crowd-sourced feedback*) and continue to calibrate ratings among the management team.[53] By having informal but continual conversations about performance, managers are better able to build trusting relationships with their employees. They can more easily identify and deal with performance issues before they become serious problems. The "open door" approach gives employees the freedom to request feedback, suggest their own development needs, and take personal responsibility for their performance.

Ratingless performance management is not a panacea for all of the complaints about the traditional process. However, this progressive approach is a work in progress that is likely to undergo modifications as organizations try to improve their own performance regarding this important HR practice.[54]

SUMMARY

- Performance management systems attempt to identify, measure, communicate, develop, and reward employee performance.
- Performance management has a broad organizational focus, whereas performance appraisals are used to evaluate how individual employees perform their jobs and then communicate that information to employees.
- Performance management is a continuous process, focused on driving superior organizational results.
- Effective performance management has a number of elements, beginning with a performance-focused organizational culture.
- Job criteria identify important elements of a job and determine the performance standards.
- Appraising employee performance serves strategic, administrative, and developmental purposes.
- Performance appraisals can be done either informally or systematically.
- Appraisals can be conducted by superiors, employees (rating superiors or themselves), teams, outsiders, or other sources.
- Appraisal methods include category scaling, graphic rating scales, comparative, narrative, and management by objectives.
- Comparative methods include ranking and forced distribution, both of which raise methodological and legal concerns.
- Narrative methods include the critical incident technique and the essay approach.
- Training managers and employees on how to conduct performance appraisals can contribute to the effectiveness of a performance management system.
- Many performance appraisal problems are caused by various rater errors.
- The appraisal feedback interview is a vital part of any appraisal system, and the reactions of both managers and employees must be considered when evaluating the system.
- The current trend in organizations is to eliminate the annual review in favor of ongoing feedback with frequent "check-ins" between managers and employees.

CRITICAL THINKING CHALLENGES

1. Describe how organizational culture and the use of performance criteria and standards affect the remaining components of a performance management system.
2. Suppose you are a supervisor. What errors might you make when preparing the performance appraisal on a clerical employee? How might you avoid those errors?
3. Based on your experiences, as well as the chapter information, what are some good "rules of thumb" for conducting successful performance appraisal interviews?
4. Review the performance appraisal process and appraisal form used by a current or former employer and compare it with those provided by other students.

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Also review other appraisal issues by going to www.workforce.com and searching for articles on *performance appraisals.* Develop a report suggesting changes to make the performance appraisal form and process you reviewed more effective.

5. As the new HR Director of a company in the fast food industry, you have the responsibility to develop a performance management system. You need to present a business case to senior executives that the performance management system does not stand alone and must be integrated into the company's strategic plan, business needs, and measurements. Review various publications and websites in the HR field.
   A. Given several key practices for a successful performance management system, which ones should be implemented first?
   B. Identify key performance criteria for the jobs of food preparer, cashier/order taker, and store/restaurant manager. Suggest some ways to measure these criteria that will be meaningful for the employee and organization.

CASE Deloitte Revolutionizes Performance Management

Consulting firm Deloitte works with many organizations to improve their business practices. Recently, the firm looked at its own internal processes and determined that its performance management system needed some new life. With over 65,000 employees to rate, the goal was to make the process faster, continuous, and simpler. After gathering information on its current practice and investigating the science behind performance evaluation, Deloitte came up with a revolutionary way forward.

The current practice was a traditional method of cascading objectives from the organizational strategic level down to the individual contributor level. Managers would rate each employee at the end of a rating period based on how well he or she met those objectives. However, annual goal-setting did not coincide with business operations schedules, and the process consumed nearly 2 million hours a year. Since Deloitte is in the business of improving efficiencies and productivities for clients, it only made sense to radically change its own performance management system.

The science behind evaluations shows that ratings are often affected by unconscious rater biases and perceptions rather than factual performance outcomes. Deloitte's employees often work in teams, and individuals believe that they are able to use their skills and strengths effectively at work. The firm's new approach asks team leaders to specify what future actions they plan to take regarding each member of the team. This shift in thinking recognizes that raters' assessments of performance may be inaccurate, but the way they plan to work with someone in the future says more about that individual's actual performance.

Team leaders now report their future-oriented intentions, from endorsing that they would like to keep the individual on their team to recommending that the individual poses a performance risk that might endanger client relationships or team performance. Since an essential component of performance management is to facilitate improvements in performance, team leaders now check in with each team member once a week to review project status and priorities, provide feedback on recently completed work, and provide any needed course corrections. This frequent communication is initiated by the team member rather than the leader. In this way, each individual takes ownership of their performance and seeks out feedback and input on their performance. Deloitte has moved away from assigning each employee a single performance rating score in favor of ongoing feedback.[55]

QUESTIONS

1. What is your overall opinion of Deloitte's new approach to performance management? What type of training would you recommend for managers, team leaders, and team members before switching to a system like this?
2. What actions should be taken if an employee is ranked as a potential performance risk? How would compensation decisions be made without a performance score for each employee?

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SUPPLEMENTAL CASES

Microsoft Jettisons Stack Rankings

This case describes how a leading technology company faced difficulties with its performance management program. Adopting a stack ranking system created more problems than it solved, so the company opted to eliminate the controversial process. (For the case, visit MindTap® at www.cengage.com/login.)

Performance Management at Netflix

This case provides an example of how a performance-oriented culture can be established to facilitate the performance management process. (For the case, visit MindTap® at www.cengage.com/login.)

Performance Management Improvements for Bristol-Myers Squibb

This case identifies how performance management systems might be redesigned. (For the case, visit MindTap® at www.cengage.com/login.)

Building Performance through Employee Participation

The case outlines what was done at Jewelers Mutual Insurance in allowing employees to have a say in performance management. (For the case, visit MindTap® at www.cengage.com/login.)

Unequal/Equal Supervisors

This case identifies the consequences of giving appraisal ratings that may not be accurate. (For the case, visit MindTap® at www.cengage.com/login.)

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SECTION 4

CHAPTER 11
Total Rewards and Compensation

CHAPTER 12
Managing Employee Benefits

Compensation

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CHAPTER 11

Total Rewards and Compensation

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Identify the three general components of total rewards and give examples of each.

LO2 Explain the major laws governing employee compensation.

LO3 Outline the steps in developing a base pay system.

LO4 Define variable pay and identify three aspects of effective pay-for-performance plans.

LO5 Explain three levels of incentives and give one example at each level.

LO6 Identify four measures used to determine the effectiveness of compensation systems.

WHAT'S TRENDING IN TOTAL REWARDS AND COMPENSATION

Employers should offer the types of compensation that recognize and motivate employees who work hard and contribute to the company's success. Organizations should offer competitive base pay and attractive incentives that enable them to attract and retain good workers. Here's what's currently trending in the area of total rewards and compensation:

1. When pay decisions are viewed as inappropriate or unfair, lawsuits can occur. There is growing concern about litigation targeting the misclassification of employees, overtime pay, and other wage violations.
2. A higher portion of pay is being tied to performance in more U.S. organizations. Companies are moving away from an entitlement mentality in response to workers looking for rewards tied to their contributions rather than their loyalty and tenure.
3. The legal landscape regarding pay issues continues to shift. Companies must pay careful attention to overtime laws and restrictions when inquiring about job applicants' past pay history. In addition to federal pay laws, many states and cities are introducing minimum wage levels and other pay requirements that employers must follow.
4. Setting reasonable pay to get competent employees is an important component of compensation management. To remain fair and competitive, employers have to use different sources of internal and external salary information to determine how much employees should be making. Widespread availability of comparative data, along with employees looking for more transparency, is leading companies to disclose more information about their compensation practices.
5. Since budgets for salary increases have been in the low single digits for several years, employers are using variable pay options to a greater extent.

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HEADLINE

GoDaddy Go!

Employees like to believe that their employers have developed a carefully-crafted system for determining individual employee pay. The reality is quite different, with only about 38 percent of companies stating that they have a formal compensation structure or philosophy. This casual approach to setting compensation levels can easily lead to gender bias since much is based on hiring managers' gut instincts. The improving labor market, coupled with an onslaught of state and municipal pay laws being enacted, led one company to take a better look at how it was deciding to pay its employees.

GoDaddy, a web-services firm headquartered in Arizona, tackled its pay structure and overhauled the entire process for its 5,000 employees. In the past, starting pay decisions relied on the history of pay for the job (what did the previous employee earn?) when hiring a new employee. Over time, this led to substantial inequities within the workforce, as some employees were overpaid while others were underpaid. In general, most employers use competitive pay data from salary surveys and try to pay at the median or 50th percentile of the range that other companies pay for similar jobs. However, GoDaddy's managers were not using outside pay data to help them establish appropriate pay.

Enter Matt Toeller, a HR professional who recently joined the company. Upon his arrival, he set about updating the compensation system. He obtained external pay data and set the company's goal at paying at the 70th percentile—above the average pay level in the industry. He worked with his team to write job descriptions and map out the skills and responsibilities for each job. They established pay grades with wide salary ranges that allow managers to set pay based on an employee's performance and competencies. When the new system was rolled out, 6 percent of the employees received automatic pay increases to bring them into pay range.

While GoDaddy's new compensation system is a huge improvement over the former approach, company leaders are still undecided about how transparent they wish to make the pay practices. Employee opinions on the topic ranged from complete disclosure to complete secrecy. So the company found a middle ground, whereby they include each individual employee's pay grade and pay range on their annual pay statement. This has taken

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much of the mystery out of the process and simplified the conversations between employees and their managers. Further, it created a more equitable system that everyone can understand.[1]

Total rewards
Monetary and nonmonetary rewards provided by companies to attract, motivate, and retain employees

To attract and retain high-quality talent, companies design reward packages that appeal to many different people. Companies do this by addressing pay and benefits with a **total rewards** approach. Such a philosophy includes all forms of compensation, that is, the monetary and nonmonetary rewards provided by a company to attract, motivate, and retain employees. The effectiveness of the reward system depends on how well compensation is linked to organizational strategies so that employees are encouraged to work in a manner that benefits the company.

An effective total rewards approach balances the company's interests and costs with the needs and expectations of employees. Costs related to compensation represent one of the largest portions of total operating expenses in most companies. However, employees want to be compensated fairly and have their individual needs met. The challenge then is for employers to achieve an optimal relationship between costs and employee impact while considering many financial and operational factors.[2]

The concept of total rewards requires a much broader understanding of pay or compensation than has traditionally been the case in organizations. A total rewards philosophy emphasizes how a company can use *both* direct and indirect rewards to strengthen employee motivation and commitment. Economic conditions also require employers to adjust total rewards to reflect changing business environments. Broadly defining compensation should also help companies develop creative and competitive policies that keep employees motivated. Offering generous vacation leave, reimbursement of commuting costs, tuition assistance, and flexible work arrangements are examples of how companies can creatively reward their employees.[3]

LO1 Identify the three general components of total rewards and give examples of each.

11-1 Nature of Total Rewards and Compensation

Compensating employees is often a major cost item for employers, so top management and HR executives must work together to align rewards with the strategic goals of the organization. This allows companies to offer compensation that results in overall improvements to employee satisfaction and the bottom line. Several strategic issues should be considered when designing compensation practices:

- Compliance with all applicable laws and regulations
- Cost-effectiveness for the organization
- Internal and external equity for employees
- Performance enhancement for the organization
- Performance recognition and talent management for employees
- Enhanced recruitment, involvement, and retention of employees

Employers strive to maintain their costs at a level that rewards employees fairly while allowing the firm to remain competitive and successful. With average pay increase budgets hovering around three percent in recent years, organizations strive to create an overall compensation package that will satisfy and motivate workers.[4]

WorldatWork, a leading professional association that focuses on compensation, has developed a well-respected model of total rewards that includes tangible direct, tangible indirect, and intangible rewards.[5] Figure 11-1 identifies elements of three primary components of the total rewards package. It shows that total rewards can be broadly defined and also indicates that intangible rewards are an important aspect of the package.

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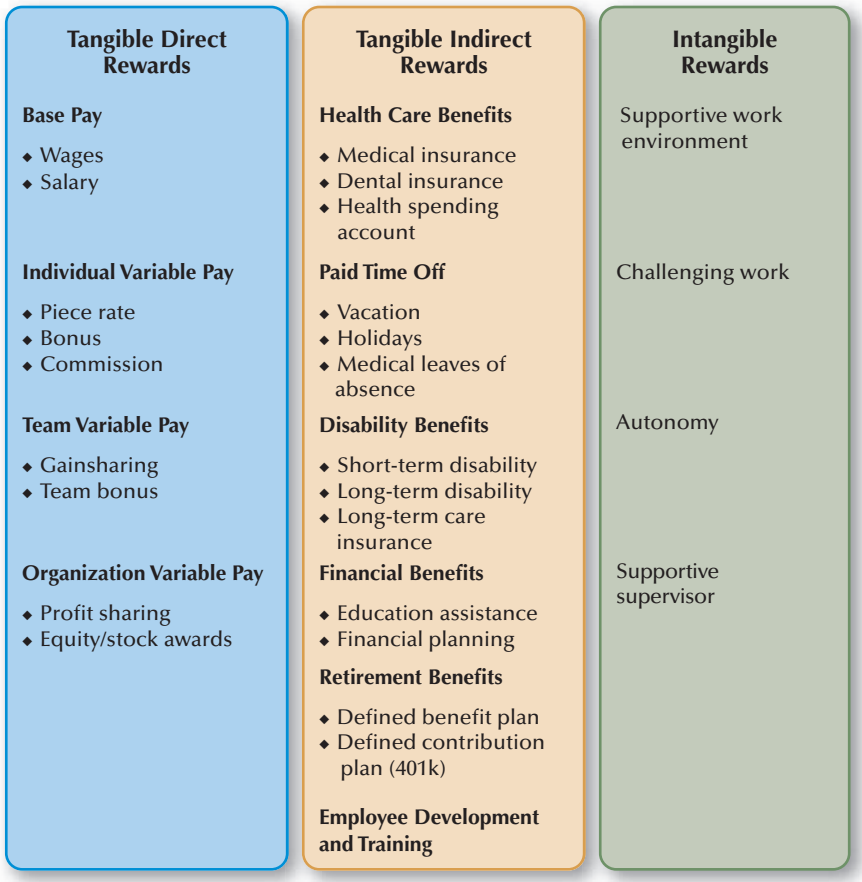
FIGURE 11-1 Elements of Total Rewards



Source: Adapted from *WorldatWork* (http://www.worldatwork.org).

Determining which rewards are valued by employees and applicants and finding affordable ways to provide those rewards can be challenging. Total reward programs should be evaluated on an ongoing basis to ensure that they satisfy employees and that they are cost-effective and sustainable for the organization.[6]

11-1a Components of Compensation

Tangible rewards
Elements of compensation that can be quantitatively measured and compared between different organizations

Intangible rewards
Elements of compensation that cannot be as easily measured or quantified

Tangible rewards are elements of compensation that can be quantitatively measured, so it is possible to calculate the monetary value of each reward. Consequently, employees can easily compare the tangible rewards offered by different organizations to determine relative compensation levels. Alternatively, **intangible rewards** are elements of compensation that cannot be as easily measured or quantified. How would an employee put a dollar value on having decision-making authority? How much is working in a positive and supportive office environment worth to an individual? The perceived value of these intangible rewards can differ among employees, making the development and management of total rewards much more complex. This means that total rewards can vary greatly from company to company. Organizations should customize their approach to suit the needs and preferences of their workers and to fit the culture and environment of the company.

One tangible component of a compensation program is *direct compensation*, the monetary rewards for work done and performance results achieved. *Base pay* and *variable pay* are the most common forms of direct compensation. The most common types of indirect compensation provided to employees are *benefits*.

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Base pay
Basic compensation that an employee receives, often as an hourly wage or salary

Wages
Payments calculated directly on the basis of time worked by employees

Salary
Consistent payments made each period regardless of the number of hours worked

Variable pay
Compensation linked directly to individual, team, or organizational performance

Benefit
Indirect reward given to an employee or group of employees as part of membership in the organization, regardless of performance

Base Pay The basic compensation that an employee receives is called **base pay**. Organizations often provide basic compensation as either an hourly wage or as a salary.

Hourly pay is most common and is based on the amount of time spent at work. Employees paid by the hour receive **wages** or payments calculated directly on the basis of time worked. Nearly 59 percent of the U.S. workforce is paid on an hourly basis.[7]

In contrast, employees paid a **salary** receive the same consistent payments each period regardless of the number of hours worked. Salaried workers, therefore, have a steady paycheck that does not fluctuate from one pay period to the next. As discussed later in this chapter, some salaried workers are still eligible for overtime pay, while others are not.

Variable Pay Another type of direct compensation is **variable pay**, which is compensation linked directly to individual, team, or organizational performance. The most common types of variable pay are bonuses, incentive program payments, equity awards, and commissions. A recent survey indicated that 91 percent of firms provide variable pay to their employees and plan to dedicate almost 13 percent of pay for salaried individuals to variable compensation.[8] Employers also use various bonuses and performance-based pay strategies to reward and retain their top performers.[9] Variable pay is discussed later in this chapter.

Benefits Many organizations provide tangible, indirect rewards in the form of employee benefits. With indirect compensation, employees receive financial rewards without receiving actual cash or other direct monetary payments. A **benefit** is an indirect reward given to an employee or group of employees as part of membership in the organization, regardless of performance. Examples of benefits are health care insurance, paid time off, and retirement plans. The administration of benefits is discussed in Chapter 12.

LO2 Explain the major laws governing employee compensation.

11-2 Laws Governing Compensation

Pay practices are regulated by several federal laws that address issues such as overtime pay, minimum wage standards, hours of work, and pay equity. The following discussion examines the laws and regulations affecting base compensation and incentives.

Several legal issues related to properly classifying workers are discussed. In general, it is critical that companies appropriately determine the employment status of anyone who provides labor to the firm (e.g., direct employees or independent contractors). Further, properly classifying workers based on their eligibility to receive overtime pay (e.g., exempt or nonexempt employees) is a second important issue for all employers.

11-2a Fair Labor Standards Act

The primary federal law affecting compensation is the Fair Labor Standards Act (FLSA), which was passed in 1938. Compliance with FLSA provisions is enforced by the Wage and Hour Division of the U.S. Department of Labor (DOL). Penalties for wage and hour violations often include awards of up to two years of back pay for affected current and former employees, along with a monetary penalty. Willful violations may be penalized by up to three years of back pay. For example, TGI Friday's was assessed over $19 million in back wages and penalties for violations resulting from failing to pay tipped hourly workers the proper minimum wage, overtime pay, and allowing some workers to perform "off-the-clock" work for which they were never paid.[10] The provisions of both the original act and subsequent revisions focus on the following major areas:

- Minimum wage
- Limits on the use of child labor
- Overtime provision (exempt and nonexempt status)

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Minimum Wage The FLSA sets a minimum wage to be paid to a broad spectrum of covered employees. The current minimum wage of $7.25 an hour was set as part of the Fair Minimum Wage Act of 2007. A lower minimum wage of $2.13 an hour is set for "tipped" employees, such as restaurant servers, but their compensation must equal or exceed the minimum wage when average tips are included. However, many states and cities have established minimum wage levels for both regular and tipped employees that are higher than the federal minimum wage, and employers must pay this higher wage. In fact, the majority of states have minimum wage levels that exceed the federal level. The state of Washington leads with a $11.50 wage, and California follows closely at $11.00 per hour. Washington, DC, is the highest in the nation with a minimum wage of $12.50 per hour.[11] Given these variations in pay, employers that operate in multiple states should monitor minimum wage legislation that affects their operations.

Congressional action is needed to make any changes to the federal minimum wage. There is ongoing discussion in Washington, but the two opposing sides have not reached an agreement on raising the minimum wage level. The debate on minimum wage is complex as research shows that when employers are required to pay higher wages for entry-level workers, they hire fewer or reduce the hours of those already employed. Therefore, it is not a simple decision to increase minimum wage levels.[12] Many retail companies raised their minimum starting wages due to difficulties finding workers and because a recent tax overhaul provided extra funds. For example, Walmart now pays hourly workers a minimum of $11 per hour, Target increased to $11 with a step-up to $15 within three years, and Costco now pays $14 per hour for store workers.[13]

Violations of the minimum wage provision can be costly. Walt Disney Company was recently required to pay over 16,000 workers back pay because their wages fell below the minimum wage threshold after the company deducted the cost of their costumes.[14]

Child Labor Provisions The child labor provisions of the FLSA set the minimum age for employment with unlimited hours at 16 years. For hazardous occupations, the minimum is 18 years of age. Individuals who are 14 to 15 years old may work outside school hours with certain limitations. Many employers require age certificates (supplied by high schools) for employees because the FLSA makes the employer responsible for verifying an individual's age.

Overtime Provisions The overtime requirements of the FLSA have been subject to controversial revisions in recent years. Major changes in terms of which employees are entitled to earn overtime pay were scheduled to go into effect in 2016. But, a number of lawsuits regarding DOL guidelines led to those changes being rolled back. These issues related to overtime are still making their way through the courts and administrative agency rulemaking process.[15] The revisions proposed in 2016 focused on the classification of jobs and expanded the number of employees who would be entitled to overtime pay. Many employers moved forward and increased base pay for some employees to keep the jobs classified as exempt status. Since those proposed changes have been reversed, some companies rescinded the pay increases while others took no action to revert the pay of affected employees.[16] This section of the FLSA may be revised in the future, but the following explanations are in effect at the time of this writing.

Under the FLSA, jobs and employees are classified relative to their eligibility for overtime pay. When the FLSA was enacted, the goal was to provide overtime pay for as many workers as possible. Therefore, limited *exemptions* were included that permitted employers to restrict executives and others from receiving overtime pay. **Exempt employees** hold positions for which they are not paid overtime. **Nonexempt employees** must be paid overtime. The current FLSA regulations used to establish whether a job qualifies for exempt status classify jobs into five categories, as shown in Figure 11-2. The regulations identify several factors to be considered when determining exempt status. To review the details for each exemption, go to the DOL's website at www.dol.gov.

Exempt employees Employees who hold positions for which they are not paid overtime

Nonexempt employees Employees who must be paid overtime

Employers are required to pay overtime for *hourly* jobs. Employees in positions classified as *salaried nonexempt* are also entitled to overtime pay. Salaried nonexempt positions sometimes include secretarial, clerical, and salaried blue-collar positions (like shift supervisor).

A common mistake employers make is not paying overtime to any salaried employees, even though some may qualify for nonexempt status. Exempt status is not necessarily granted to all salaried jobs; each job must be evaluated on a case-by-case basis. The FLSA does not require employers to pay overtime for *salaried exempt* jobs.

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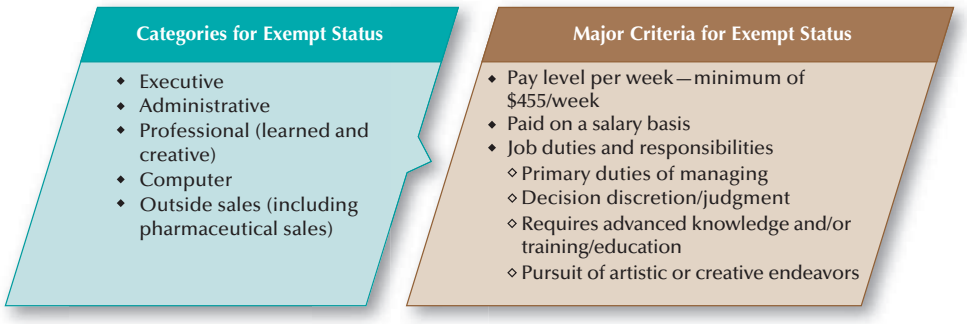
FIGURE 11-2 Determining Exempt Status under the FLSA



Source: Adapted from the DOL.gov.

Classifying employees can be a challenge for organizations because the criteria used are outdated, confusing, and not always easily applied to the types of jobs currently found in modern companies. Employers need to be proactive to avoid misclassifying employees since lawsuits and penalties can be costly. Organizations should also keep job descriptions current and use performance appraisals to help justify how jobs have been classified.[17]

Overtime The FLSA established overtime pay requirements for nonexempt employees at 1.5 times the regular pay rate for all hours worked over 40 in a week. There are other exceptions to the overtime requirements, such as farm workers, but these exceptions are rare. The robust economy and corresponding shortage of workers have resulted in manufacturing firms scheduling record-high levels of overtime in recent years leading to substantial additional pay for workers.[18]

The workweek is defined as a consecutive period of 168 hours (24 hours × 7 days), and it does not have to be a calendar week. Hospitals and nursing homes are allowed a special definition of the workweek to accommodate their 24/7 scheduling demands. No daily number of hours requiring overtime is set, except for special provisions relating to hospitals and other specially designated organizations. Thus, if a manufacturing firm operates on a 4-day/10-hour schedule, no overtime pay is required by the act until the worker exceeds 40 hours worked in a week.

Companies need to be careful about paying proper overtime to employees. For instance, employees' work schedules cannot be changed by an employer to avoid paying overtime, even when individuals are willing to go along with it.[19]

Special Pay/Overtime Issues For individuals who are nonexempt, employers must consider many issues. These include the following:

- *Compensatory time off*: "Comp" hours are earned by public-sector nonexempt employees in lieu of payment for extra time worked at the rate of 1.5 times the number of hours over 40 that are worked in a week. Comp time is prohibited in the private sector and cannot be legally offered to employees working for private organizations.
- *Incentives for nonexempt employees*: Employers must add the amount of direct work-related incentives to an employee's base pay and then calculate overtime pay as 1.5 times the higher (adjusted) rate of pay.
- *Training time*: Time spent in training must be counted as time worked by nonexempt employees unless it is voluntary or not directly related to the job.
- *Security inspection time*: Some companies may have to count the time that employees spend going through security inspections after work as compensable.
- *After-hours e-mail time*: The increased use of e-mail in organizations raises questions about whether employees can claim that responding to company e-mails after hours should count toward overtime. Organizations should consider adopting e-mail curfew policies that discourage employees from reading and answering work-related e-mails off the clock.[20]
- *Travel time*: Travel time must be counted as work time if it occurs during normal work hours for the benefit of the employer. Travel to and from work is not considered compensable travel time.

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- *Donning and doffing time*: Some jobs require employees to spend a significant amount of time donning protective equipment before they report for duty. This can also include clothing that is used for purposes of protection in a particular job.[21] Regulations regarding putting on and taking off such clothing and gear are complex. Questions regarding specific cases should be researched with the DOL.

The FLSA does not require employers to provide breaks or lunch periods or to pay double-time for any hours worked. However, the FLSA does provide guidance when companies offer their employees breaks.[22] State laws also vary on many of these topics, and employers should research compliance requirements in all states in which they operate. The complexity of overtime determination and related matters can be confusing for managers, employees, and HR professionals. The DOL has many informative publications on its website that clarify these issues.

11-2b Pay Equity Laws

Title VII of the Civil Rights Act of 1964 prohibits all forms of employment discrimination based on race, color, sex, religion, or national origin. However, prior to its passage, pay discrimination on the basis of sex was outlawed under the Equal Pay Act of 1963. Since then, additional laws have been proposed or enacted to counter wage discrimination on the basis of sex.

Legislation has been proposed in several states and at the federal level to restrict employers' ability to inquire about job applicants' past earnings history. Since knowing previous earnings can perpetuate a gender disparity in starting pay, if employers do not know what an applicant has earned in the past, pay can be based on a more objective assessment of the job being filled. HR and compensation specialists should monitor this possible regulation and ensure that their organization practices are in compliance.[23]

Equal Pay Act of 1963 The act prohibits companies from using different wage scales for men and women performing substantially the same jobs. Pay differences can be justified on the basis of merit, seniority, quantity or quality of work, experience, or factors other than gender. Similar pay must be given for jobs requiring equal skills, equal responsibilities, or equal efforts or for jobs done under similar working conditions.

Lilly Ledbetter Fair Pay Act The Fair Pay Act (2009) extended the statute of limitations for equal pay claims and essentially treats each paycheck as a new act of discrimination. Pay discrimination need not be intentional to be unlawful. Pay practices resulting in disparate impact are also actionable. Steps to reduce liability include conducting a periodic disparate impact analysis of compensation plans, properly documenting all compensation decisions, retaining complete pay records for an appropriate duration, and limiting discretion in pay decisions to higher levels in the organization.[24]

11-2c Independent Contractor Regulations

The growing use of contingent workers by many organizations raises questions about how to properly classify workers. For an employer, classifying someone as an independent contractor offers some significant advantages. The employer does not have to pay Social Security, unemployment, or workers' compensation costs. These additional payroll levies may add 10 percent or more to the costs of hiring the individual as an employee.

Most federal and state entities rely on the criteria for independent contractor status established by the Internal Revenue Service (IRS). The general principle is that a company may control only the result of the work being contracted but not "what" will be done or "how" it will be done. Factors considered by the IRS include the amount of behavioral and financial control a company exercises over the contracted worker. Additional relationship factors such as whether a written contract exists and the duration of the relationship are also considered.[25]

Companies must very carefully assess and determine the appropriate classification of workers and independent contractors. FedEx Corporation paid $227 million when it lost a lawsuit over the

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employment status of its delivery drivers. And, NFI Industries, a trucking and transportation firm, is facing legal action by the city of Los Angeles regarding its classification of truck drivers as independent contractors. Since there has been a trend to increase the percentage of workers in the contingent (or "gig") workforce, employers should proceed with caution to avoid running afoul of the law.[26]

11-2d Pay for Internships

The issue of pay for interns has been changing over the past several years. In April, 2010, the DOL issued a "six-factor" test that narrowly permitted for-profit enterprises to utilize unpaid interns. Prior to that time, many employers in the private sector did not pay their interns. After the six-factor test was instituted, many organizations began to pay interns. Several lawsuits were filed by employers that resulted in court decisions contrary to the DOL's interpretation of the FLSA. In December, 2017, the DOL issued new guidance reversing the six-factor criteria and adopting a "primary beneficiary" test. It is interesting to note that in the fall of 2016, fewer than 30 percent of interns were unpaid compared with 50 percent in 2010.[27] The accompanying "HR Ethics: To Pay or Not to Pay?" feature explains the current guidance regarding payment for interns in for-profit enterprises.

HR ETHICS

To Pay or Not to Pay?

In the past, many companies in the private sector "hired" unpaid interns and utilized them to perform a wide variety of duties. While government and nonprofit employers were permitted to utilize unpaid interns, since 2010 for-profit enterprises were required to pay their interns. The Department of Labor (DOL) changed its interpretation of pay laws in December 2017 to permit for-profit companies to also use unpaid interns *if* the main beneficiary of the assignment is the intern rather than the organization. The DOL adopted a "primary beneficiary" test to determine whether a particular internship could be unpaid. The following factors help in that determination:

- The extent to which the intern and the employer clearly understand that there is no expectation of compensation. Any promise of compensation, express or implied, suggests that the intern is an employee—and vice versa.
- The extent to which the internship provides training that would be similar to that which would be given in an educational environment, including the clinical and other hands-on training provided by educational institutions.
- The extent to which the internship is tied to the intern's formal education program by integrated coursework or the receipt of academic credit.
- The extent to which the internship accommodates the intern's academic commitments by corresponding to the academic calendar.
- The extent to which the internship's duration is limited to the period in which the internship provides the intern with beneficial learning.
- The extent to which the intern's work complements, rather than displaces, the work of paid employees while providing significant educational benefits to the intern.
- The extent to which the intern and the employer understand that the internship is conducted without entitlement to a paid job at the conclusion of the internship.

The DOL adopted these factors from several court decisions regarding payment for interns. Each situation is unique and should be considered with regard to the previously stated guidelines.[28] Considering the change of interpretation by the DOL, as well as the new guidelines being used to determine pay eligibility for an intern, respond to the following questions:

1. Is it ethical for a for-profit enterprise to utilize unpaid interns? Consider both small, start-up companies and large, well-established organizations. Would the same ethical standards apply to firms in both categories?
2. How would you feel if a for-profit company "hired" you as an unpaid intern and you produced usable output for the firm during the internship? At what point would you demand to be paid as an intern?

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11-2e Additional Laws Affecting Compensation

Prevailing wage
An hourly wage determined by a formula that considers the rate paid for a job by a majority of the employers in the appropriate geographic area

Garnishment
A court order that directs an employer to set aside a portion of an employee's wages to pay a debt owed to a creditor

Several compensation-related laws apply to firms that have contracts with the U.S. government. These laws require that federal contractors pay a **prevailing wage**, which is determined by a formula that considers the rate paid for a job by a majority of the employers in the appropriate geographic area. The Davis-Bacon Act of 1931, the Walsh-Healey Public Contracts Act, and the McNamara-O'Hara Service Contract Act include prevailing wage clauses that apply to firms engaged in federal construction projects or that work directly on federal government contracts.

Garnishment occurs when a creditor obtains a court order that directs an employer to set aside a portion of an employee's wages to pay a debt owed to the creditor. Regulations passed as a part of the Consumer Credit Protection Act limit the amount of wages that can be garnished. The act also restricts the right of employers to terminate employees whose pay is subject to a single garnishment order.

11-3 Strategic Compensation Decisions

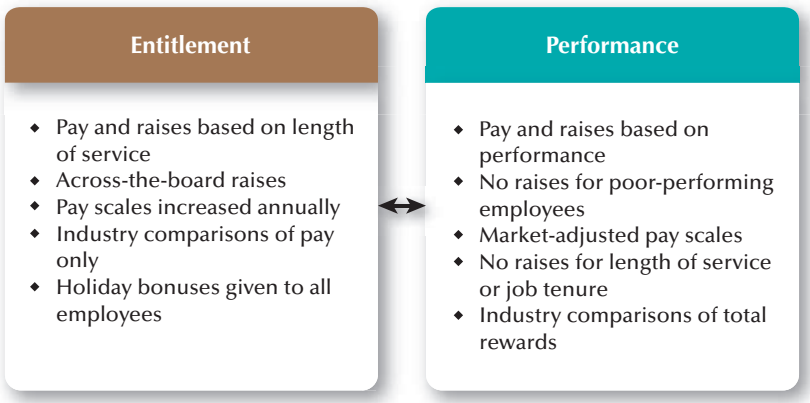
When developing total rewards programs, managers should consider organizational climate and compensation philosophies, communication approaches, and the administrative responsibilities of a company's compensation approach. These decisions are related to how total reward programs are designed and managed. In addition, they affect how compensation information is shared with employees.

11-3a Organizational Climate and Compensation Philosophies

One important strategic objective of pay administration involves enhancing employees' satisfaction with the company's total rewards system, which can improve their overall work attitudes. The goal is to create an organizational climate that reduces employee dissatisfaction with their current compensation.

To motivate employees and direct their efforts toward organizational objectives, managers must also establish a guiding philosophy regarding total rewards and communicate this approach. Ideally, there will be a good fit between the compensation philosophy and the preferences of employees, which should increase their satisfaction with the compensation they receive. Companies also need to properly manage the compensation philosophy to ensure that employees believe they are being treated fairly.[29] There are two basic compensation philosophies that are situated at opposite ends of a continuum, as shown in Figure 11-3. At one end of the continuum is the *entitlement* philosophy and at the other end is the *performance* philosophy. Most compensation systems fall somewhere in between these two extremes.

FIGURE 11-3 Continuum of Compensation Philosophies



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Entitlement philosophy Assumes that individuals who have worked another year with the company are entitled to pay increases with little regard for performance differences

Pay-for-performance philosophy Assumes that compensation decisions reflect performance differences

Entitlement Philosophy The **entitlement philosophy** assumes that individuals who have worked another year with the company are entitled to pay increases with little regard for performance differences. When organizations give automatic increases to their employees every year, they are using the entitlement philosophy. Most employees receive the same or nearly the same percentage increase.

Performance Philosophy A **pay-for-performance philosophy** assumes that compensation decisions reflect performance differences. Pay raises or incentives are structured to reward performance differences (quantity, quality, speed of work, customer satisfaction, etc.) among employees. Outstanding performers are compensated with substantially greater pay increases and higher variable rewards than employees who perform at only a satisfactory level. Employees who perform below standards do not receive pay increases and are often placed on performance-improvement plans.

Few organizations follow an exclusively performance-oriented compensation philosophy, but the overall trend is toward greater use of pay-for-performance systems. Given this increased focus on pay-for-performance philosophies, performance measures should reflect important outcomes to shareholders, customers, and employees.[30]

11-3b Communicating Pay Philosophy

Sharing the organization's pay philosophy with employees helps them understand the total rewards package provided by the employer and enables them to perform in ways that enhance their personal compensation. In particular, such communication shows them how factors such as job tenure, raises, cost-of-living adjustments (COLAs), and work performance can affect their compensation levels. Compensation can be discussed during orientation, training sessions, and performance appraisal meetings.

Transparency of pay information is becoming increasingly important, especially to Millennial employees. Progressive companies realize that openness regarding pay issues can enhance younger workers' satisfaction and retention. Further, in an era where people routinely share their relationship status and other details of their lives, it is wise to assume that compensation practices will be widely shared as well.[31]

11-3c Administrative Responsibilities

HR specialists and line managers work together to administer compensation programs. HR specialists develop and administer the organizational compensation system and ensure that pay practices comply with all legal requirements. Because of the complexity involved, HR specialists typically conduct job evaluations and wage surveys, and they develop base pay programs and salary structures and policies. Managers play an important role in helping employees to see the connections between their individual performance and the expected rewards.[32] They are often the first point of contact for employees with questions about pay fairness. It is advisable to train managers about how the organization develops and administers its compensation program.

Payroll Administration Companies manage payroll administration in different ways. HR professionals may or may not do the actual processing of payroll. If they do, payroll staff may report to the company's HR function or the accounting function. However, this labor-intensive responsibility is often one of the first to be outsourced, so in some companies, HR staff is not directly involved in processing payroll.

Calculating pay and ensuring timely, accurate payroll processing is important for maintaining a positive workplace and complying with various laws. Recordkeeping is particularly critical, which is why many organizations use payroll systems to manage the process. Companies can use a variety of approaches to ensure accurate recordkeeping such as time clocks, time sheets, and automated processes. Managers and employees can work together to record work hours, but managers

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are responsible for the accuracy of payroll. Some companies are providing mobile apps that allow their employees near-instant access to their wages. The apps notify workers the day after they have earned wages and workers can decide if they wish to have a portion of their pay deposited to a debit card that they can use right away. While these apps might limit the amount employees save, some employees work more hours because the reward is instant.[33]

11-4 Compensation System Design Issues

Depending on the compensation philosophies, strategies, and approaches used by an organization, many decisions are made that affect the design of the compensation system. Employee satisfaction with the compensation system can be influenced by how the organization manages these issues.

11-4a Motivation Theories and Compensation Philosophies

Research in the field of worker motivation was especially active during the 1960s, and many well-known theories emerged. Two theories of motivation in particular influence the design of compensation systems. Expectancy theory and equity theory are particularly relevant to the perceptions employees have of the total rewards provided by the organization.[34] The ideas behind these two theories were introduced in Chapter 5.

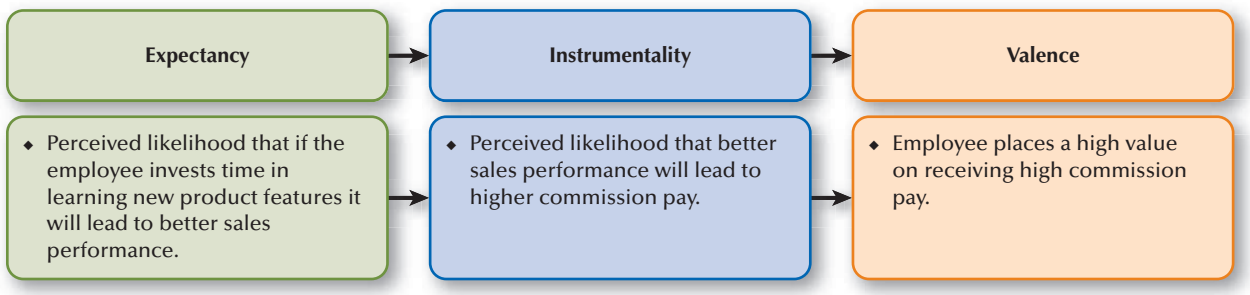
Expectancy theory
States that an employee's motivation is based on the probability that his or her efforts will lead to an expected level of performance that is linked to a valued reward

Expectancy Theory The expectancy theory of motivation was first introduced by Victor Vroom at Yale in 1964 and was later expanded by Porter and Lawler. **Expectancy theory** states that an employee's motivation is based on the probability that his or her efforts will lead to an expected level of performance that is linked to a valued reward. Figure 11-4 shows the important relationships in expectancy theory within the context of pay. In particular, this theory emphasizes the importance of finding valued rewards for the employee. Rewards that are not appreciated by the employee have little power to motivate performance. Additionally, a break between the promise and delivery of the reward will decrease motivation. Managers who understand the key linkages in these expectations can better monitor employee motivation and adjust reward systems accordingly.[35]

Equity theory
States that individuals judge fairness (equity) in compensation by comparing their inputs and outcomes against the inputs and outcomes of referent others

Equity Theory The **equity theory** of motivation was first introduced by John Stacey Adams in 1963. This theory states that individuals judge fairness (equity) in compensation by comparing their inputs and outcomes against the inputs and outcomes of referent others. These *referent others* are workers whom the individual uses as a reference point to make these comparisons. Inputs include time, effort, loyalty, commitment, skill, knowledge, and enthusiasm. Outcomes include pay, job security, benefits, praise, recognition, and thanks. Figure 11-5 shows the important ratios in equity theory.

FIGURE 11-4 Expectancy Theory (example related to compensation)



Source: Adapted from Victor Vroom, *Work and Motivation* (New York: McGraw Hill, 1964).

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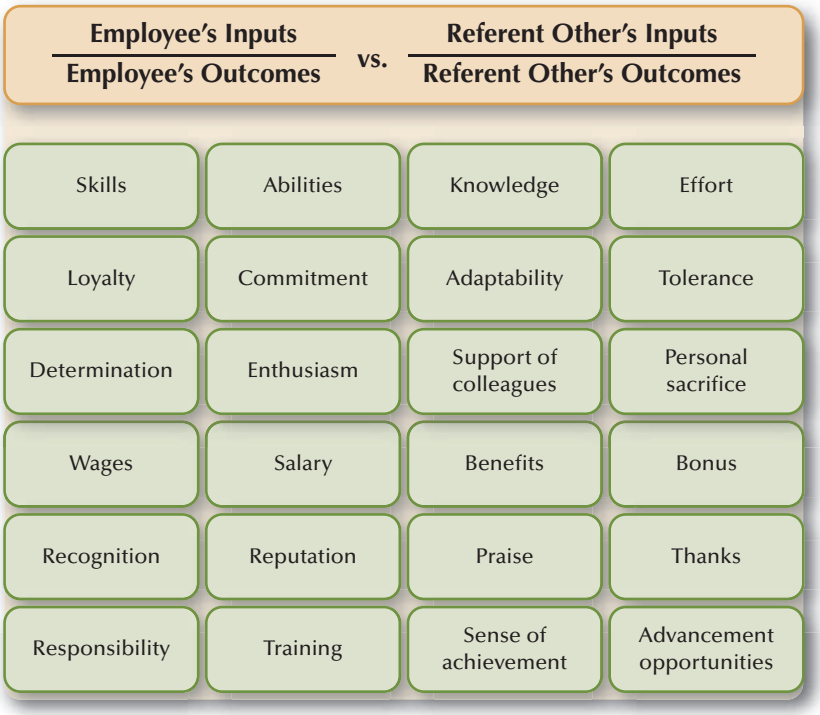
FIGURE 11-5 Equity Theory



Source: Adapted from John Stacey Adams, "Inequity in Social Exchange," *Advances in Experimental Social Psychology* 62 (1965): 335–343.

The comparisons are personal and are based on individual perceptions, not necessarily facts.[36] Individuals who believe that they are not being rewarded fairly (i.e., getting lower outcomes than peers for the same inputs) can restore equity in two ways. They can reduce inputs or seek greater outcomes. Reducing inputs is a simple matter of investing less effort in work, refusing to work extra hours, or decreasing loyalty and commitment to the organization. Seeking additional outcomes is more difficult. The individual must request a pay increase or praise and recognition from a supervisor, who may or may not cooperate. Monitoring changes in employee behavior may help uncover perceptions of inequity. Managers should continually monitor equity relationships to identify areas that may harm employee motivation and retention.

11-4b Compensation Fairness and Equity

Most people work for monetary rewards. Whether they receive base pay or variable pay, the extent to which employees perceive their compensation to be fair often affects their performance and how they view their jobs and their employers. These perceptions can in turn affect other important work outcomes such as job satisfaction, organizational commitment, absenteeism, turnover, and retention. A recent study showed that the performance of professional athletes is impacted negatively when they are paid less than their peers.[37] This is why HR professionals and other business leaders need to be particularly aware of both external and internal equity concerns if they want to effectively manage these outcomes.[38]

External Equity If an employer's rewards are not viewed as equitable compared to other organizations, the employer is likely to experience higher turnover. This also creates greater difficulty in recruiting qualified and high-demand individuals. Depending on external labor markets,

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a lack of pay competitiveness from an external perspective can result in the employment of individuals who lack some of the knowledge, skills, and abilities (KSAs) necessary for them to perform effectively. It can also result in the employment of individuals who are less motivated to make valuable contributions to the organization, which can hurt firm performance. Organizations can track external equity by using pay surveys and looking at the compensation policies of competing employers.

Internal Equity Internal equity means that employees are compensated fairly within the organization with regard to the KSAs they use in their jobs, as well as their responsibilities, accomplishments, and job performance. Given how fairness is emphasized, employees evaluate their ratio of effort to reward in comparison to coworkers on an ongoing basis. These evaluations often affect how willing employees are to make valuable contributions to the organization. This is why the different pay levels of employees should be compared internally to make sure that compensation is fair, particularly when individuals ask for pay increases.[39]

Internal equity can also relate to differences between the pay levels of managers and employees. Recently enacted rules established by the Securities and Exchange Commission require public corporations to disclose the ratio between CEO pay and median worker pay. Companies began reporting this data in 2018. While the average is 100-to-1, there will be significant differences as more firms report this information.[40] Median annual pay varies substantially, with the average American earning $69,200 (but only a small percentage of employers have reported at this time). Amazon reports average worker earnings of $28,000, and Facebook reports average worker earnings of $240,000. The company size and type of operations of each firm, along with a number of other considerations, impact these pay levels and CEO/worker ratios. Large firms and companies in the retail and food, beverage, and tobacco industries are among those with the highest comparative pay ratios.[41]

ETHICS

Pay Secrecy Another equity issue concerns the degree of secrecy organizations have regarding their pay systems. Pay information that may be kept secret in "closed" systems relates to information about individual pay amounts, pay raises, and incentive payouts. Some firms have policies that prohibit employees from discussing their pay with other employees, and violations of these policies can lead to disciplinary action. However, such policies may violate the National Labor Relations Act.[42]

Beyond the legal issues, however, companies should examine the ethics of severely restricting employee discussion of pay. If an organization has implemented competitive pay practices and has a fair and reasonable pay structure, employee concerns about inequity can be reduced by sharing this information. Explaining pay grades and pay decision rules can enhance employee perceptions of fair and ethical treatment, as well as help them understand why different jobs are paid at different rates. Maintaining a cloak of secrecy invites curiosity and suspicion from employees, which may result in less trust about how they are being paid.

Some people argue that complete pay transparency is desirable. They contend that publicizing every individual's pay can motivate employees, reduce the gender pay gap, and attract prospective workers by giving them a very clear picture of what their earning potential would be with the company. The concept of full pay transparency is described in the following "HR Competencies & Applications: Is It Better to Know?" feature.

11-4c Market Competitive Compensation

Whether an organization's total reward practices are competitive has a significant impact on employees' views of compensation fairness.[43] Consequently, providing competitive compensation to employees is a concern for all employers. Organizations face the challenge of whether to adopt practices common in an industry or to differentiate the firm by using novel or distinct compensation practices. They also face the challenge of keeping their compensation levels competitive given what other firms are paying their employees, an issue that comes to the forefront when companies try to hire workers away from their current employers.

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HR

COMPETENCIES & APPLICATIONS

Is It Better to Know?

Some experts on compensation support the idea of full pay transparency, whereby every employee in a company is allowed to know what everyone else is paid. It sounds like a fair way to handle perceptions of fairness about pay, but is it better to know or not know? On the plus side, this might motivate current workers and reduce the differences in pay often related to gender. But the opposing view says that it might actually demoralize workers and drive talent away when the reasons for pay differences are not clear.

Full pay transparency can work in two situations. First, if pay levels are based on rank and tenure (as in many union contracts and government agencies), then pay is not determined by performance or other factors. The pay rates are typically made available to workers in the organization, and even to job applicants. There is no mystery in learning how much any individual would earn in such a system.

The second situation in which this approach may work is when members of the organization can easily see how well everyone else is performing. This is particularly true when performance can be objectively measured, like in sales jobs that post a "leader board" showing the sales generated by each salesperson.

When an organization is not operating in one of those two situations, opening up the payroll manifest for all to see may in fact do more harm than good. If employees cannot accurately assess each other's performance, then perceptions of inequity are almost inevitable when they see their peers' pay levels. Most people are also not very good at judging how their own productivity stacks up to the performance of other employees. Many workers have an inflated sense of their own contributions, while downplaying the contributions of their peers. Consequently, equity theory enters their thinking, and the knowledge of everyone's pay can make the typical worker feel underpaid.

If an organization seeks to foster a truly collaborative work environment, then it may be ill-advised to disclose individual pay levels. The solution might be to simply institute a compensation scheme based on rank or job title with little pay for performance. However, if the organization wants to retain its pay-for-performance philosophy, then full pay transparency might not be the best solution. The company can clearly define and communicate the criteria used to determine pay levels within job grades or bands and train managers to share this information freely with workers.

The organizational culture and work environment must be appropriate for introducing full pay disclosure, while maintaining collaboration and harmony within the work group. HR professionals should work with organization leaders to determine if disclosing pay at the individual level will be in the company's best interest.[44] Based on these issues, consider the following questions:

1. How should companies address the perceptions of inequity when they are not able to or willing to disclose individual worker pay levels within the organization? How would you feel if your employer announced that they plan to open the payroll records for everyone to see?
2. What information should companies share with employees relative to the employee's personal pay determination and general policies regarding pay decisions? How should the needs of employees be addressed in these strategies?

KEY COMPETENCIES: Critical Evaluation (Behavioral Competency) and Organization (Technical Competency)

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FIGURE 11-6 Compensation Quartile Strategies

Larger organizations have historically offered higher compensation levels than smaller organizations because of higher productivity levels and economies of scale. However, the pay gap between large and small firms is narrowing and the premium for working for a large organization is diminishing.[45] The compensation mix is also affected by firm size, with larger organizations spending more on indirect compensation than small firms do.[46] Managers consider compensation mix and competitive position when developing their reward strategies. Many organizations use a *quartile strategy* to establish policies about where they wish to be positioned in the labor market, as illustrated in Figure 11-6. The quartile strategy reflects the overall market position where the organization sets its compensation levels.

Lag-the-Market Strategy An employer using a *first-quartile* strategy chooses to "lag the market" by paying below market levels for several reasons. If the employer is experiencing financial difficulties, it may be unable to pay more. Also, when an abundance of workers are available, particularly those with lower-level skills, a below-market approach can be used to attract sufficient workers at a lower cost. The downside of this strategy is that it increases the likelihood of higher worker turnover and lower employee morale. If the labor market supply tightens, then attracting and retaining workers becomes more difficult. Companies may adopt this strategy during recessionary times only to discover that when the economy gets better, turnover increases.

Lead-the-Market Strategy A *third-quartile* strategy uses an aggressive approach to "lead the market." This strategy generally enables a company to attract and retain sufficient workers with the required capabilities and be more selective when hiring. Since it is a higher-cost approach, organizations often look for ways to increase the productivity of employees who are receiving above-market wages.

Match-the-Market Strategy Most employers position themselves in the *second quartile* (median), the middle of the market, as determined by pay data from surveys of other employers' compensation plans. Choosing this level is an attempt to balance employer cost pressures and the need to attract and retain employees by providing compensation levels that "meet the market" for the company's jobs.

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Selecting a Quartile Pay structures and levels can affect organizational performance and staffing quality. Deciding which quartile position to target is a function of many considerations—financial resources available, competitive pressures, and the market availability of employees with different capabilities. For instance, some employers with extensive benefits programs or broad-based incentive programs may choose a first-quartile strategy so that their overall compensation costs and levels are not excessive. The decisions about compensation mix and competitive position are related and should be addressed as part of a comprehensive total rewards strategy.

11-4d Competency-Based Pay

Most compensation programs are designed to reward employees for fulfilling their tasks, duties, and responsibilities. The job requirements determine which employees have higher base rates. Employees receive more for doing jobs that require a greater variety of tasks, more knowledge and skills, greater physical effort, or more demanding working conditions. However, the design of some compensation programs emphasizes competencies rather than the tasks performed.

Competency-based pay
Rewards individuals for the capabilities they demonstrate and acquire

Competency-based pay rewards individuals for the capabilities they demonstrate and acquire. In knowledge-based pay (KBP) or skill-based pay (SBP) systems, employees start at a base level of pay and receive increases as they learn to do other jobs or gain additional skills and knowledge and thus become more valuable to the employer. For example, a manufacturing firm operates plastic molding presses of various sizes. Operating larger presses requires more skills than smaller presses. Under a KBP or SBP system, press operators increase their pay as they learn how to operate the more complex presses, even though sometimes they may operate only smaller machines. Given the inherent advantages, these plans can lead to greater workforce flexibility and productivity.[47]

GLOBAL

11-4e Global Compensation Issues

All of the issues discussed here can become confusing when dealing with global compensation. The growing world economy has led to an increase in the number of employees working internationally. Therefore, organizations with employees working throughout the world face some special compensation issues.

Variations in laws, living costs, tax policies, and other factors must be considered when designing the compensation for local employees and managers, as well as managers and professionals on international assignment. Fluctuations in the values of various currencies must be tracked and adjustments made as exchange rates rise or fall. With these and numerous other concerns, developing and managing a global compensation system becomes extremely complex. Chapter 16 covers these issues in greater detail.

LO3 Outline the steps in developing a base pay system.

11-5 Developing a Base Pay System

Figure 11-7 shows how a base compensation system is developed based on the organization's compensation philosophy and job analysis. The process incorporates information gathered while valuing jobs and analyzing pay surveys—activities designed to ensure that the pay system is both internally and externally equitable and in line with the organizational philosophy. The data compiled in these two activities are used to design pay structures, including pay grades and pay ranges. After pay structures are established, individual jobs are placed in the appropriate pay grades, and individual employee pay is determined. Finally, the pay system is monitored and updated.

Companies want their employees to perceive that they are being paid fairly in relation to pay for jobs performed by others within the organization, as well as individuals performing similar jobs in other companies. The two general approaches for valuing jobs are *job evaluation* and *market pricing*. Job evaluation focuses primarily on pay levels within the company, and market pricing focuses outside the company. Both methods use relative comparisons to determine the worth of jobs in an organization. To comply with equal pay and nondiscrimination laws, companies should review the relative standing of each job to ensure that jobs held by women and minorities are not consistently

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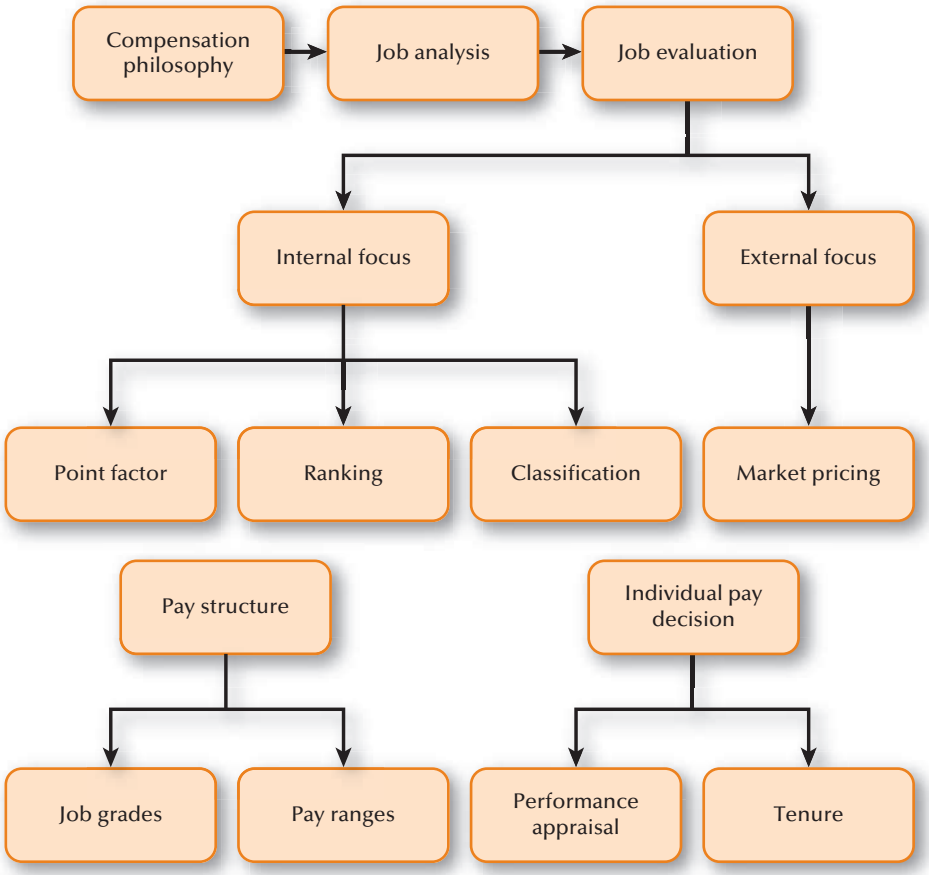
FIGURE 11-7 Compensation Administration Process



ranked the lowest in the organization. Using valid methods and maintaining records regarding how ranking decisions are made can help a company defend its practices.[48]

11-5a Job Evaluation Methods

Job evaluation
Formal, systematic means to determine the relative worth of jobs within an organization

Job evaluation is a formal, systematic process to determine the relative worth of jobs within an organization. Employers can utilize one of several alternate methods.

The *ranking method* is a simple system that places jobs in order, from highest to lowest, by their value to the organization. This is a qualitative method in which the entire job is considered rather than individual components. The ranking method generally is more appropriate in a small organization that has relatively few jobs. For example, the ranking method might be used at a small family-owned dry cleaning shop with only two or three distinct job titles.

The *classification method* is often used in public-sector organizations. Descriptions of job classes are written, and then each job is put into a grade according to the class it best matches. A major difficulty with this method is that subjective judgments are used to develop the class descriptions and to place jobs accurately in them.

Compensable factor
Job dimension commonly present throughout a group of jobs within an organization that can be rated for each job

Point Factor Method The most widely used job evaluation method, the point factor method, looks at compensable factors in a group of similar jobs and assigns weights, or *points*, to them. A **compensable factor** is a job dimension commonly present throughout a group of jobs within an organization that can be rated for each job. For example, all jobs require some level of education and experience for successful performance.

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The point factor method is the most popular job evaluation approach because it is relatively simple to use and considers the components of a job rather than the total job. However, point factor systems have been criticized for reinforcing traditional organizational structures and job rigidity. Although not perfect, the point factor method is generally better than the ranking and classification methods because it quantifies job elements. Compensable factors are derived from job analysis and reflect the nature of different types of work performed in the organization, as explained in the following "HR Competencies & Applications: Point Factor Example" feature.

11-5b Market Pricing

Market pricing
Uses market pay data to identify the relative value of jobs based on what other employers pay for similar jobs

While the point factor method has served employers well for many years, the trend is moving to a more externally focused approach. More companies are moving to **market pricing**, which uses market pay data to identify the relative value of jobs based on what other employers pay for similar jobs. A recent survey showed that 85 percent of companies use market pricing to figure out how to value different jobs, and 78 percent focused specifically on the market median values associated with total cash, which is calculated by adding together base pay and short-term variable compensation.[49]

HR COMPETENCIES & APPLICATIONS

Point Factor Example

Job evaluation involves studying each position on a number of work dimensions and allows a job analyst to assess various aspects of each job to determine the job's relative value. Points are assigned to each compensable factor and then added to provide a total for each job. Jobs with similar point totals are considered to be relatively equal in importance.

A point factor system often uses compensable factors that reflect skills, responsibilities, social interactions, and working conditions. The skill dimension might be assessed on the basis of two compensable factors, the level of education and work experience needed for successful job performance, as illustrated in the following example. Each compensable factor is broken into degrees, and each factor may have a different number of degrees. In the example, there are five degrees for education but only four degrees for experience. Further, the point values are not universal for all compensable factors. The point values indicate the weight of each factor in the evaluation of each job.

The job analyst selects the appropriate levels of education and experience for each job and assigns the point value as the example shows. A similar chart is developed for each compensable factor such as responsibilities, social interactions, and working conditions. The job analyst rates each job on each compensable factor and calculates the total points. This process then leads to the placing of jobs in grades.

Degree	Level of Education	Point Value
1	High school diploma	20
2	Associate degree	25
3	Bachelor's degree	30
4	Master's degree	35
5	Doctoral degree	40

Degree	Years of Experience	Point Value
1	0–1	10
2	2–5	20
3	6–10	30
4	Over 10	40

Consider the following questions:

1. How would you identify a job's compensable factors?
2. How would you determine what are appropriate levels for a job's compensable factors?

KEY COMPETENCIES: Critical Evaluation (Behavioral Competency) and Organization (Technical Competency)

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Key to market pricing is identifying relevant market pay data for jobs that are good matches with the employer's jobs, geographic considerations, and company strategies and philosophies about desired market competitiveness levels. The switch to market pricing as part of strategic compensation decisions can ensure market competitiveness of compensation levels and practices. However, there will not always be a perfect match for each job in the external market. Therefore, companies use **benchmark jobs**—jobs that are found in many other organizations that can be used for the purposes of comparison.

Benchmark jobs
Jobs that are found in many other organizations that can be used for the purposes of comparison

Advantages of Market Pricing The primary advantage cited for the use of market pricing is that it closely ties organizational pay levels to what is actually occurring in the market, without distortion from "internal" job evaluation. An additional advantage of market pricing is that it allows an employer to communicate to employees that the compensation system is truly "market linked." Employees often see a compensation system that was developed using market pricing as being more credible and objective than a compensation system that was developed using traditional job evaluation methods.

Disadvantages of Market Pricing The biggest disadvantage of market pricing is that pay survey data may be limited or may not be gathered in methodologically sound ways. It is also critical to understand the compensation mix that is common in the market. For example, one organization might allocate a much higher percentage of its compensation to variable pay than its competitors do. If so, then a comparison on base pay would result in the organization being out of step with the market when, in fact, its employees might be more richly rewarded if they perform well.

Finally, tying pay levels to market data can lead to wide fluctuations on the basis of market conditions. Skills that are in great demand today can quickly become obsolete. Consider the IT job market during the past decade, when pay levels varied significantly. The "hot skills" of mobile app developers are likely to be replaced as technology evolves to its next version and mobile technology falls by the wayside. This is why it might be more effective to value jobs based on the value of the contribution made by particular jobs to the organization, rather than providing rewards based on what employees earn in other companies.[50] The debate over using job evaluation versus market pricing is likely to continue because there are advantages and disadvantages to both approaches.

11-5c Pay Surveys

A **pay survey** is a collection of data on compensation for workers performing similar jobs in many organizations. Pay surveys are an important element for establishing external pay equity. Both job evaluation and market pricing are tied to surveys of the pay that other organizations provide for similar jobs. It is particularly helpful to use benchmark jobs to "anchor" the survey data since these jobs often have stable content, are common across different employers, and are performed by a large number of employees.

Pay survey
Collection of data on compensation rates for workers performing similar jobs in other organizations

An employer may obtain surveys conducted by other organizations, access Internet data, or conduct its own survey. There are many vendors that provide general as well as custom surveys. National surveys on many jobs and industries are provided by the DOL's Bureau of Labor Statistics, professional and national trade associations, and various management consulting companies. Another common source of pay data is compensation surveys conducted by third parties that obtain data from employers.

HR professionals can access a wide range of pay data online. Employment-related websites such as Salary.com and Glassdoor.com provide data gathered from companies and employees. In fact, Glassdoor Inc. recently launched a tool called Know Your Worth to provide real-time information to workers looking for market competitive pay data.[51]

Using Pay Surveys The proper use of pay surveys involves evaluating many factors to determine if the data are relevant and valid. The following questions should be answered for each survey:

- *Participants*: Does the survey cover a realistic sample of the employers with whom the organization competes for employees?
- *Broad based*: Does the survey include data from employers of different sizes, industries, and locales?

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- *Timeliness*: How current are the data (when was the survey conducted)?
- *Methodology*: How established is the survey, and how qualified are those who conducted it?
- *Job matches*: Does the survey contain job summaries so that appropriate matches to job descriptions can be made?
- *Details provided*: Does the survey report on base pay, incentive pay, and other elements of compensation separately to allow comparison of the reward mix?

Pay Surveys and Legal Issues One reason employers use outside sources for pay surveys is to avoid charges that they are attempting to "price fix" wages. The concern is that employers might collude to set wages and restrict employees from earning a true market wage, a potential violation of antitrust laws. One such case involved the information technology industry that resulted in fines of over $400 million paid by Apple, Google, and several other Silicon Valley employers.[52] In addition to antitrust considerations, companies participating in pay surveys must safeguard employee privacy and provide only de-identified data so that specific employee pay rates and names are not shared. Care must also be taken to avoid violating the National Labor Relations Act provisions that apply to disclosing wage and benefit information.

11-6 Pay Structures

After job evaluations and pay survey data are gathered, pay structures can be developed. Pay structures may be created for various types or categories of jobs such as hourly, salaried, technical, sales, and management. The nature, culture, and structure of the organization are considered when determining how many and which pay structures to have.

Developing sound pay structures also requires HR professionals to focus on several important considerations. Line managers should have some say in developing and revising pay/salary structures because they are familiar with employees' perceptions of pay, as well as their own staffing needs and challenges. Pay and salary structures also need to be linked to an organization's strategic initiatives and overall HR approach. Finally, they should be evaluated periodically using audits to determine whether adjustments are needed.[53]

11-6a Pay Grades

Pay grades
Groupings of individual jobs that have approximately the same value to the organization

When establishing a pay structure, organizations use **pay grades**, which are groupings of individual jobs that have approximately the same value to the organization. Although no set rules govern the establishment of pay grades, 11 to 17 grades are generally used in small- and medium-sized companies. Two methods commonly used to establish pay grades are job evaluation data and job market banding.

Setting Pay Grades Using Job Evaluation Points One approach for determining pay grades uses job evaluation points or other data generated from the traditional job evaluation methods discussed earlier in the chapter. This process ties pay survey information to job evaluation data by plotting a **market line**, which shows the relationship between job value as determined by job evaluation points and job value as determined by pay survey rates. Market lines are developed by using statistical analysis techniques to calculate the regression equation. A market line uses data to place jobs having similar point values into pay grades. Pay ranges can then be computed for each pay grade.

Market line
Graph line that shows the relationship between job value as determined by job evaluation points and job value as determined by pay survey rates

Using Market Banding to Set Pay Grades Closely linked to the use of market pricing to value jobs, **market banding** groups jobs into pay grades based on similar market survey amounts. Figure 11-8 shows three bands for jobs in a manufacturing company. The midpoint of the survey average is used to develop pay range minimums and maximums, the methods for which are discussed later in this chapter.

Market banding
Grouping jobs into pay grades based on similar market survey amounts

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FIGURE 11-8 Market Bands for a Manufacturing Company

Grade	Job Title	Pay Survey Results	Minimum Pay	Midpoint Pay	Maximum Pay
1	Shipping Clerk	21,387	17,400	20,350	24,625
	Machine Operator	19,403			
	Utility Operator	20,723			
2	Quality Inspector	22,697	19,800	24,750	29,700
	Mechanic I	24,934			
	Scheduler	26,568			
3	Mechanic II	31,586	27,000	33,725	40,500
	Electrician I	35,914			
	Engineering Tech	33,685			

11-6b Pay Ranges

Once pay grades are determined, the pay range for each pay grade must be established. Figure 11-9 shows how a point factor job evaluation system can be used to establish job grades and pay range anchors. Jobs within a point range are classified into job grades. Then, market data are used to determine the minimum and maximum pay rates for each job grade. The midpoint is computed by averaging the range of minimum and maximum pay rates.

Once pay grades and ranges have been computed, then the current pay of employees is compared with the proposed ranges. It is common to have broader pay ranges for higher-level job grades because more discretion is needed to reflect capability and performance differences.[54] For example, for entry-level and production jobs, the pay range may be 10 percent to 15 percent above and below the midpoint. For executive-level positions, the range may be 40 percent to 60 percent above and below the midpoint.

Pay rates overlap between job grades. Notice in Figure 11-9 that the minimum for Grade 2 is not at the same pay rate as the maximum for Grade 1. This overlap allows for a smoother transition when an employee is promoted from one grade to the next. Some employers have reduced the number of pay grades and expanded pay ranges by using a practice called *broadbanding*.

Broadbanding
Practice of using fewer pay grades with much broader ranges than in traditional compensation systems

Broadbanding The practice of using fewer pay grades with much broader ranges than in traditional compensation systems is called **broadbanding**. Combining many grades into these broad

FIGURE 11-9 Example of Pay Grades and Pay Ranges

Grade	Point Range	Minimum Pay	Midpoint Pay	Maximum Pay
1	100–150	7.50	9.17	10.87
2	151–200	7.96	9.75	11.54
3	201–250	8.98	11.00	13.02
4	251–300	10.00	12.25	14.50
5	301–350	11.01	13.49	15.97
6	350–400	11.79	14.74	17.69

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bands is designed to encourage horizontal movement and, therefore, more skill acquisition. Broadbanding is more consistent with the flattening of organizational levels, but many employees expect a promotion to be accompanied by a pay raise and movement to a new pay grade. By removing this grade progression, employees may feel that there are fewer promotional opportunities. However, a recent study showed that 63 percent of the 1,200 professionals surveyed would prefer a promotion with no salary increase rather than a salary increase with no promotion.[55]

11-6c Individual Pay

Once pay grades and pay ranges have been established, pay can be set for each individual employee. Setting a range for each pay grade gives flexibility by allowing individuals to progress within a grade instead of having to move to a new grade each time they receive a raise. A pay range also allows managers to reward employees based on performance while maintaining the integrity of the pay system.

The general objective is for all employees to be paid at approximately the pay range midpoint. To determine each individual employee's standing in relationship to the midpoint, many organizations use a value called the **compa-ratio**. The compa-ratio is calculated by dividing the individual's pay level by the midpoint of the pay range. The following example illustrates the compa-ratio calculation for employee Carolyn:

Compa-ratio
Pay level divided by the midpoint of the pay range

Carolyn is an employee in Pay Grade 3. The pay range for Grade 3 is:

Minimum = 8.98; Midpoint = 11.00; Maximum = 13.02.

Carolyn earns $9.90 per hour.

Carolyn's compa-ratio is (9.90/11) = 0.90.

All employees whose compa-ratio is below 1.0 are paid below the pay range midpoint; all employees whose compa-ratio is over 1.0 are paid above the pay range midpoint. To ensure that the pay philosophy is enforced, pay administrators calculate the overall compa-ratio for the entire organization to determine the general pattern of pay rates relative to midpoint levels.

Regardless of how well a pay structure is constructed, there can be occasions when an employee is paid outside of the range because of past pay practices, different levels of experience, or performance. There are risks in allowing these situations to persist, as they are evidence of poor pay administration and might lead to claims of pay inequities.[56]

Red-circled employee
Incumbent who is paid above the range set for a job

Red-Circled Employees A **red-circled employee** is an incumbent who is paid above the range set for the job. For example, assume that an employee in Grade 3 has a current pay rate of $13.50 an hour, but the pay range maximum for Grade 3 is $13.02 an hour. The person would be red-circled, and proper administration of the pay system would make the employee ineligible for a pay increase.

Several approaches can be used to bring a red-circled employee's pay into line. Although the fastest way would be to cut the employee's pay, that approach is not recommended and is seldom used. Instead, the employee's pay may be frozen until the pay range is adjusted upward. Another approach is to give the employee a small lump-sum payment but not adjust the pay rate when others are given raises. Of course, an employee being paid above the maximum range indicates that either the pay ranges are not keeping pace or the employee should be directed to development opportunities that will lead to a promotion to a job in a higher pay grade.

Green-circled employee
Incumbent who is paid below the range set for a job

Green-Circled Employees An incumbent who is paid below the range set for a job is considered to be a **green-circled employee**. Promotion is a major contributor to this situation. Green-circled problems might also result from opportunistic hiring when employees are earning below-market pay at their former employer. Generally, it is recommended that the satisfactory green-circled individual receive fairly rapid pay increases to reach the pay grade minimum. More frequent increases can be used if the minimum is a great deal above the incumbent's current pay.

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Pay compression
Occurs when the pay differences among individuals with different levels of experience and performance become small

Salary inversion
Occurs when the pay given to new hires is higher than the compensation provided to more senior employees

Pay Compression and Salary Inversion One major problem many employers face is **pay compression**, which occurs when pay differences among individuals with different levels of experience and performance become small. Pay compression is frequently a result of labor market pay levels increasing faster than current employees' pay adjustments. Further contributing to the problem are pay freezes put in place during economic downturns. **Salary inversion** occurs when the pay given to new hires is higher than the compensation provided to more senior employees. When salary compression and inversion occur, they often negatively impact employee job satisfaction and morale. Companies can promote from within, hire people who are looking for promotions (rather than higher pay), and provide equity pay adjustments to address these issues.[57]

However, these strategies might not always work. In response to shortages of particular job skills in a highly competitive labor market, companies may have to pay higher amounts to hire people with those scarce skills. For instance, a shortage of truck drivers has led to trucking firms paying higher wages to hire and keep more qualified drivers on the road.[58] Further, U.S. railroads are facing extreme difficulties in staffing remote rail yards and are offering signing bonuses up to $25,000 to hire qualified workers in tight labor markets.[59]

11-7 Determining Pay Increases

Decisions about pay increases are important in the relationships between employees, their managers, and the organization. Managers and HR professionals often work together to communicate pay increases and to help manage perceptions of any changes made to employee compensation.

Pay increases can be determined in several ways, including performance, seniority, COLAs, across-the-board increases, and lump-sum increases. These methods can be used separately or in combination.

11-7a Performance-Based Increases

As mentioned earlier, some employers have shifted to more pay-for-performance philosophies and strategies. Consequently, they have adopted the following means to provide employees with performance-based increases. Research shows that pay-for-performance systems, such as merit and bonus pay, lead to better future performance. The type of job held, the historical pay trend, and employee tenure all impact the employee's performance in the future under a pay-for-performance program.[60]

ETHICS

Targeting High Performers This approach focuses on providing the top-performing employees with significantly higher pay raises, while providing standard increases to the remaining satisfactory performers. Recent reports indicate that raises given to top performers by their employers are higher than those provided to other employees.[61]

The primary reason for having such differentials is to reward and retain critical high-performing individuals. Key to rewarding exceptional performers is identifying how much their performance exceeds normal work expectations. Standard increases for average performers are usually aligned with labor market pay adjustments, which keep those individuals at a competitive level. Lower performers receive less because of their performance issues, which "encourages" them to either improve their deficiencies or leave the organization.

Pay Adjustment Matrix Integrating performance appraisal ratings with pay changes is done through a pay adjustment matrix or merit-based performance matrix. A pay adjustment matrix reflects an employee's eligibility for pay increase.

The matrix considers two factors—the employee's level of performance as rated in an appraisal and the employee's position in the pay range (their current pay level quartile), which is often related to experience and tenure. An employee's placement on the chart determines his or her recommended pay increase. According to the matrix in Figure 11-10, if employee Oscar is rated as exceeding expectations and is currently in the second quartile of the pay range, he is eligible for a raise of 3 percent to 5 percent.

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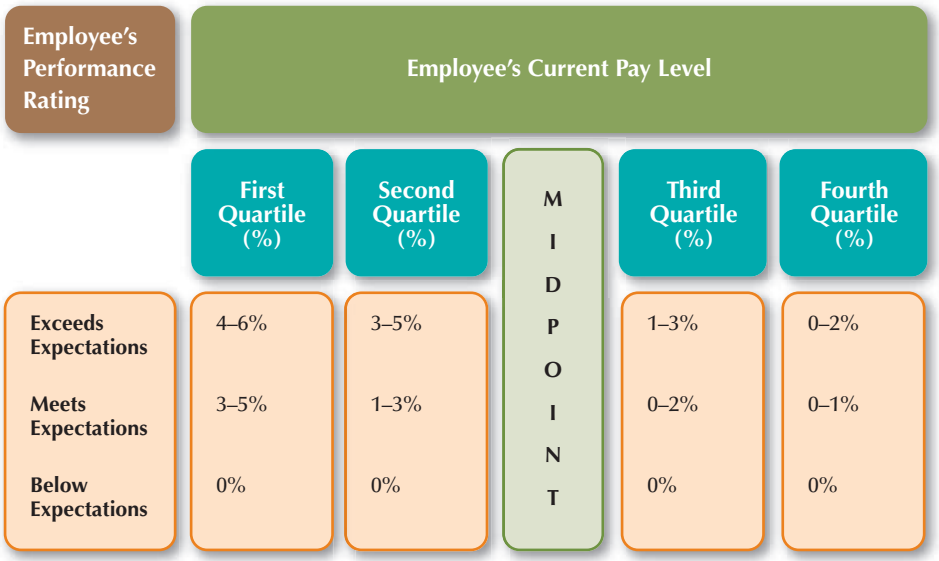
FIGURE 11-10 Pay Adjustment Matrix



Source: Adapted from *Payscale's 2012 Compensation Best Practices Report.*

Two elements of the sample matrix illustrate the emphasis on paying for performance. First, individuals whose performance is below expectations receive small to no raises. This approach sends a strong signal that poor performers will not continue to receive increases just by completing another year of service. In Figure 11-10, employees with "below expectations" ratings are eligible for 0 percent raises regardless of what quartile they are currently paid. Second, as employees move up the pay range, they must exhibit higher performance to earn the same percentage raise as those lower in the range performing at the same level. This approach is taken because the firm is paying above the market midpoint but receiving only satisfactory performance rather than above-market performance. Matrices can be constructed to reflect the specific pay-for-performance policies and philosophy in an organization and are typically revised based on the budgeted increase level.

11-7b Standardized Pay Adjustments

Companies that have an entitlement philosophy rely more on standardized pay increases. Several methods can be used to provide standardized pay increases to employees.

Seniority
Time spent in an organization or working in a particular job

Seniority Time spent in an organization or working in a particular job, called **seniority** or tenure, can be used as the basis for pay increases. Pay adjustments based on seniority are often set as automatic steps depending on satisfactory performance during the required length of time. This is often used early in a person's employment. For example, the company may have automatic step increases at 30, 60, and 90 days to improve retention of new hires and to reward mastery of job skills.

Cost-of-Living Adjustments Another pay-raise practice is the use of a COLA whereby every employee's pay is increased to compensate for inflation and rising prices. Often, these adjustments are tied to changes in the consumer price index (CPI) or some other general economic measure. COLA increases do nothing to recognize employees for their relative contributions to the organization.

Across-the-Board Increases Unfortunately, some employers give across-the-board raises and call them *merit raises*, which they are not. They are usually given as a percentage raise based on standard market or financial budgeting determinations. If all employees get the same percentage pay increase, it is clearly not tied to merit or good performance. For this reason, employers should

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reserve the term *merit* for any amount above the standard raise, and they should state clearly which amount is for performance and which amount is the "automatic" portion.

Lump-Sum Increases Most employees who receive pay increases, either for merit or for seniority, receive an increase in the amount of their regular monthly or weekly paycheck. For example, an employee who makes $12.00 an hour and receives a 3 percent increase will move to $12.36 an hour.

Lump-sum increase (LSI)
One-time payment of all or part of a yearly pay increase

In contrast, a **lump-sum increase (LSI)** is a one-time payment of all or part of a yearly pay increase. The pure LSI approach does not increase the base pay. Therefore, in the example of a person making $12.00 an hour, if a 3 percent LSI is granted, the person receives a lump sum of $748.80 ($0.36 an hour × 2,080 working hours in the year). However, the base rate remains at $12.00 an hour, which slows down the progression of base wages.

The major advantage of an LSI plan is that it heightens employees' awareness of what their performance levels "merited." Another advantage is that the firm can use LSIs to slow down the increase of base pay and thus reduce or avoid the compounding effect on succeeding raises. One disadvantage of LSI plans is that workers who receive a lump-sum payment may become discouraged because their base pay does not change. Unions generally resist LSI programs because of their impact on pensions and benefits. And when calculating the employee's overtime pay, the LSI should be considered as part of the base wage calculation.

11-7c Compensation Challenges

A number of concerns for managers affect compensation planning and administration. Circumstances such as economic recessions and the gender pay gap that occur within and outside the organization can create employee dissatisfaction or turnover.

Economic Recessions During trying economic times, many organizations address shortfalls in revenue by reducing employment-related expenses. This may include reducing the size and frequency of raises given to employees. Pay cuts and eliminating employee benefits may be other strategies used to lower costs. Managers and HR professionals should consider the potential negative impact of these approaches and use them sparingly because employee job dissatisfaction and turnover can occur if such strategies are implemented on a long-term basis.

Gender Pay Gap Despite laws prohibiting pay discrimination on the basis of sex (as discussed in Chapter 3), there is a persistent pay gap between men and women in the workplace. A *Wall Street Journal* research study showed that females in 446 occupations earn less than their male counterparts.[62] The wage gap is wider in some industries than others. However, women in executive roles appear to have gained some ground in recent years with female CEOs outearning male CEOs in six of the last seven years.[63]

Continued monitoring of organizational pay levels and properly managing women's career progress are ways to address these concerns. The proposed legislation regarding inquiring about job applicants' pay history discussed earlier in this chapter is one possible step in addressing this ongoing problem. And, 28 companies signed a White House pledge to conduct annual gender pay analysis in an effort to eliminate pay inequities.[64]

11-8 Variable Pay

LO4 Define variable pay and identify three aspects of effective pay-for-performance plans.

Variable pay
Compensation that is tied to performance

Variable pay is compensation that is tied to performance. Companies are using more variable pay options since salary increase budgets have been in the low single digits for several years. In addition, organization leaders believe that pay for performance more closely aligns employee efforts to organizational objectives.[65] Performance may be evaluated and rewarded at the individual, team, or entire organization level. The term *pay for performance* is often used interchangeably with the term *variable pay* because this type of compensation moves pay from being a fixed cost to one that varies

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Incentives
Tangible rewards that encourage or motivate action

with employee performance. **Incentives** are tangible rewards that encourage or motivate employee performance.

Tying pay to performance can be attractive for both employers and employees. For employers, it can mean more output per employee (productivity), lower fixed costs, and shifting some risk to employees. For employees, it can mean more pay when they do their jobs well. But not everyone likes variable pay. Some employees don't like the risks associated with performance-based pay, and unions traditionally prefer that employees are paid for the amount of time they work rather than for the amount they produce.

A pay-for-performance philosophy differs from a traditional entitlement compensation philosophy in which length of service is often the primary differentiating factor. Variable pay plans are designed to motivate employees to invest discretionary effort—the extra, over and above minimum needed to avoid getting fired. Three basic assumptions underlie the philosophical foundation of variable pay:

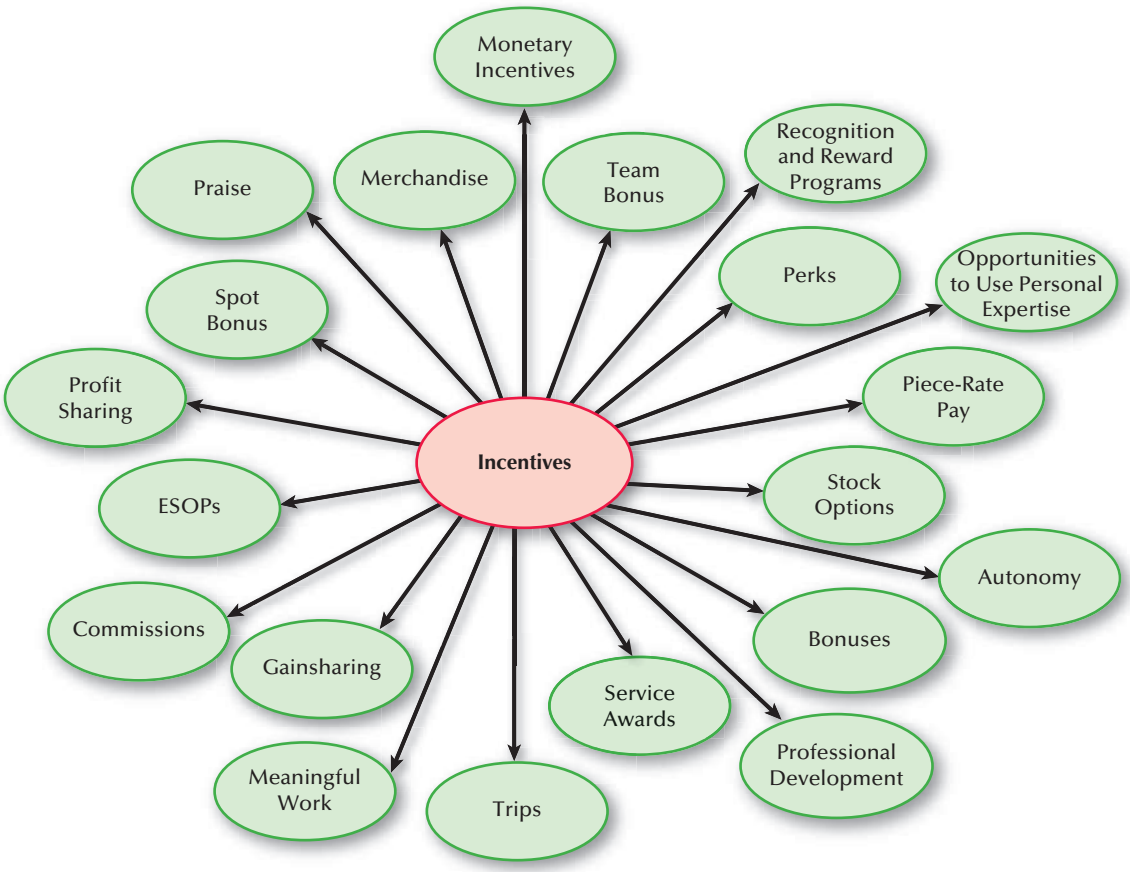
- Some people or groups contribute more to organizational success than do others.
- Some people perform better and are more productive than are others.
- Employees or groups who perform better or contribute more should receive greater compensation.

There is evidence that variable pay broadly available to most employees does improve company performance.[66] However, not everyone wants to have their pay contingent on their performance. There is "self-selection," with incentive plans attracting people with different characteristics such as gender and willingness to take risks.[67] Pay for performance has not been well received in the public sector or labor unions, where a philosophy of entitlement has dominated for many years.

Extrinsic rewards
Rewards that are external to the individual

Figure 11-11 shows a wide variety of possible incentives for employees. Many of the rewards are **extrinsic rewards**, which are rewards that are external to the individual including base pay,

FIGURE 11-11 A Variety of Possible Incentives



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Intrinsic rewards
Rewards that are internal to the individual

monetary incentives, bonuses, and other measurable rewards. However, some research has shown that **Intrinsic rewards**, or rewards that are internal to the individual, such as autonomy and meaningful work, are more powerful in motivating workers to exercise discretionary effort to achieve their own and the organization's goals.

11-8a Effective Variable Pay

Employers adopt variable pay to better link employee efforts to strategic business goals and to recognize different levels of employee performance and contributions. As economic conditions and employee expectations have changed, the use of variable pay incentives has changed as well.[68] Under variable pay programs, employees may not only receive a greater share of the gains or declines in organizational performance results but also take greater risks.

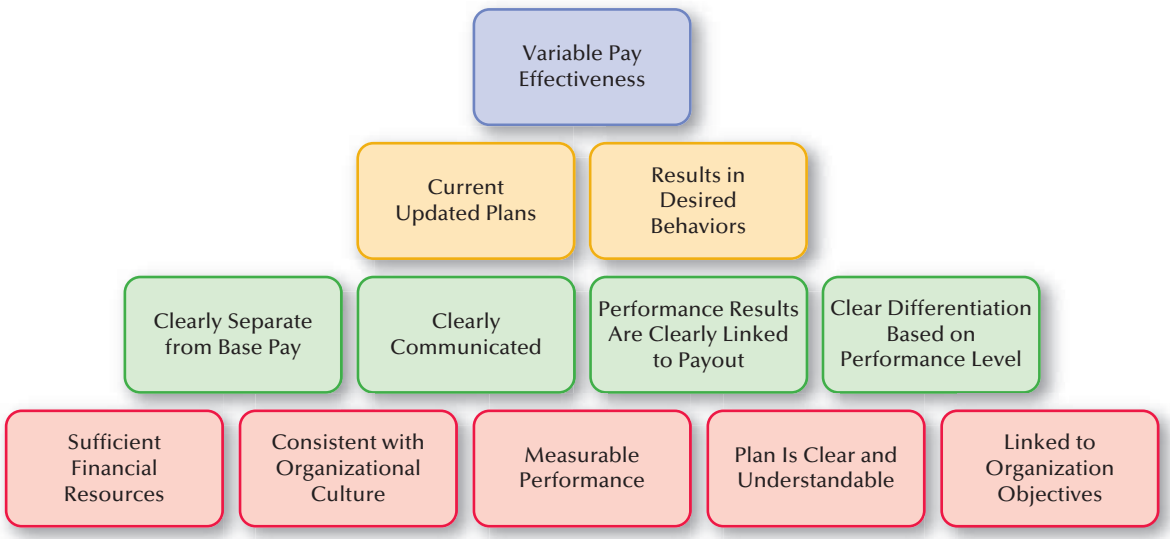
Preferences for certain types of performance-based pay will also vary. Some employees prefer cash over noncash incentives, while noncash incentives can motivate some workers to perform better than cash rewards do. Organizations must make a variety of important compensation decisions to ensure that the variable pay offered will motivate a workforce with diverse needs.

Variable pay plans can be considered successful if they fit the organization's objectives, culture, and financial resources. Both financial and nonfinancial rewards for performance can be useful in pay-for-performance plans. The manner in which targets are set and measured is important.[69] Figure 11-12 shows many elements that can affect the success of a variable pay plan.

Does the Plan Fit the Organization? The effectiveness of any variable pay program relies on its consistency with the organization's culture.[70] As with many HR practices, one size does not fit all situations. A plan that works well for one company will not necessarily work well for another. For instance, in professional service firms, performance measures such as client progress and productivity and new business development revenues are typically linked to pay-for-performance programs. These measures might not work as well in a different industry such as a retail company. Many companies find that variable pay plans make performance results a higher priority for employees. This may contribute to positive organizational results but also means that periodic review and adjustment of the variable pay plan is important to keep it relevant and effective.

Does the Plan Reward Appropriate Actions? Variable pay systems should be tied to desired performance. Employees must see a direct relationship between their efforts and results and

FIGURE 11-12 Factors for Effective Variable Pay Plans



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Line of sight
Idea that employees can clearly see how their actions and decisions lead to desired outcomes

financial and nonfinancial rewards. A key concept for variable pay is **line of sight**—the idea that employees can clearly see how their actions and decisions lead to desired outcomes. For example, front-line workers on the assembly line may have a clear line of sight to production output and product quality but would have difficulty seeing how their daily performance impacts corporate-wide profits. Top executives, on the other hand, have a clear line of sight to organization-wide results. Determining rewards at the appropriate level for each segment of the workforce is necessary to get maximum benefits from the pay plan.[71]

Linking pay to performance may not always be appropriate in all work situations. For instance, if output cannot be measured objectively, management might not be able to correctly reward higher performers with more pay. Managers might not even be able to accurately identify higher performers. For example, in a hospital emergency room, it may be impossible to identify the unique contributions of each team member and to reward each differently. Therefore, a group or work unit reward might be more preferable. A vital element of establishing a variable pay plan is determining appropriate performance measures to evaluate performance and the resulting rewards. Most organizations have a number of important targets to track results related to critical success factors.

Critical success factors
Variables that have a strong influence on the results of the organization

Key performance indicators (KPIs)
Scorecard measures that tell managers how well the organization is performing relative to critical success factors

Critical success factors are variables that have a strong influence on the results of the organization. Examples of critical success factors might include attracting and retaining profitable customers, generating profitable revenues, and leveraging talent for optimum results. Most organizations have a small number (between three and five) of critical success factors that truly drive all resource allocations and energy in the organization. Keeping this to a small number ensures that everyone remains focused on the really important things.[72]

Key performance indicators (KPIs) are the scorecard measures that tell managers how well the organization is performing relative to the critical success factors. KPIs can be determined at various levels of performance, the individual, work unit/group, or overall organization. By selecting the most useful KPIs and tying them to rewards, an organization can best move employees toward performance that will really make a difference in outcomes.[73]

11-8b Three Levels of Variable Pay

LO5 Explain three levels of incentives and give one example at each level.

Variable pay plans can be classified into three levels or categories: individual, team, and organizational. Ideally, including elements of each performance level gets employees thinking about their own performance, their group's performance, and the overall organization's performance.

Individual incentives are given to reward the effort and performance of each employee. Common individual variable pay methods are piece-rate systems, sales commissions, and individual bonuses. Individual incentives may focus employees on what is best for them personally, which may lead to a competitive rather than cooperative environment. The net result might be good for an individual but less than optimal for the organization. For this reason, team incentives may be more appropriate in some situations.

When an organization rewards an entire team for its performance, cooperation among the members may increase. The most common *team incentives* are team bonuses and gainsharing plans. Such programs often focus on quality improvement, cost reduction, safety, and other measurable results.

Organizational incentives reward people based on the performance results of the entire organization. These programs often share some of the financial gains made by the firm with employees through payments calculated as a percentage of the employee's base pay. The most prevalent forms of organization-wide incentives are profit sharing plans and employee stock plans.

These different levels of incentives are discussed individually in the sections that follow.

11-8c Individual Incentives

Individual incentive systems tie personal effort to additional rewards for the individual employee. The following four conditions are important when using individual incentive plans:

- Individual performance must be identifiable.
- Individual competitiveness must be desirable.

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- Individualism must be stressed in the organizational culture.
- Individuals must be in control of the pace of production.

Piece-rate system
Pay system in which wages are determined by multiplying the number of units produced by the piece rate for one unit

Piece-rate systems are the most basic individual incentives, and they determine employee pay based on the level of output produced or work completed. Under a **piece-rate system**, wages are determined by multiplying the number of units produced (e.g., garments sewn or service calls handled) by the piece rate for one unit. When workers are paid with a piece-rate system, inequality in pay naturally occurs. This inequality can lead to dysfunction within a work group, so training managers in the program specifics is helpful.

Despite their incentive value, piece-rate systems can be difficult to apply because determining appropriate standards can be a complex and costly process for some types of jobs. Typically, a time and motion study is conducted to establish the standard work pace and to determine what level of output leads to additional pay. The following "HR Competencies & Applications: Tracking Time and Motion" feature further explains how to conduct such a study.

HR COMPETENCIES & APPLICATIONS

Tracking Time and Motion

One of the most critical decisions managers make when implementing a piece-rate system is determining the base level of production that is required before additional output warrants incentive pay. Managers are inclined to demand a high level of production, while workers might be in favor of a much easier standard. The time and motion study process is a systematic analysis of the work that enables both managers and workers to feel confident when setting performance expectations.

A time and motion study is often conducted by an industrial engineer or job analyst who observes workers performing the job duties. A stopwatch is used to time each task, and detailed notes are taken to describe what the worker is doing. Using video can make the process much easier and faster. The job analyst usually observes a number of employees who perform the same job to get a balanced picture of how the job is done. It is important to note exceptions like machine breakdowns, out-of-stock materials, or other problems that the worker encounters, as this will affect the time on task.

After observing and recording the workers for several work cycles, the job analyst calculates the average time for each task in the operation and the average output produced by each worker. In addition, the analysis typically involves reviewing historical production records to ensure that the time and motion study is accurately measuring expected output. Employees being studied for this purpose might otherwise be tempted to work slower in order to establish an easier standard of production.

A hospital in Michigan used time and motion studies to determine the percentage of time that health care providers spent on revenue-generating activities and those that did not generate revenue. This allowed the organization to determine clinical practice patterns, reassign work duties, and better utilize their skilled staffers for high-value work.[74] Consider the following questions now that you understand more about how time and motion studies are conducted:

1. If you were a worker being observed during a time and motion study, what possible reactions might you have to the process? How might your emotions impact your performance during the study?
2. What concerns would you have as a manager who was undertaking a time and motion study to establish incentive pay rates?

KEY COMPETENCIES: Critical Evaluation, Relationship Management, Business Acumen; HR Expertise: People/Total Rewards, Organization/Technology & Data

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Bonus
One-time payment that does not become part of the employee's base pay

Bonuses are becoming more common, especially as annual pay increases remain relatively low.[75] Individual employees may receive additional compensation in the form of a **bonus**, which is a one-time payment that does not become part of the employee's base pay. Individual bonuses are used at all levels in firms and are a popular short-term incentive.

A bonus can recognize performance by an employee, a team, or the organization as a whole. When performance results are good, bonuses go up. When performance results are not met, bonuses go down or disappear. Many employers base part of an employee's bonus on individual performance and part on company results, as appropriate. Factors leading to success in utilizing bonuses include:

- Establishing clear, metric-based employee reviews;
- Ensuring that employees who have not met performance criteria do not receive a payout; and
- Educating managers and employees about the incentive plan details.

Employees may receive bonuses for almost anything noteworthy, but some common examples are referral bonuses (given for referring someone who is later hired), hiring or sign-on bonuses (given when someone agrees to hire on with a firm), and innovation bonuses (given when an employee develops a creative solution or idea).[76] Spot bonuses are small, often cash awards to recognize an outstanding effort by an employee. Retention bonuses are used to keep a valuable employee with the company, and project completion bonuses are given upon completion of difficult projects.

Nonmonetary incentives
Rewards that are not given in cash

Nonmonetary incentives can be used to reward individuals, from one-time contests for meeting performance targets to awards for performance over time. For instance, safe-driving awards are given to truck drivers with no accidents or violations on their records during a year.

Performance Awards Merchandise, gift certificates, and travel are the most frequently used incentives for performance awards. For instance, travel awards appeal to many U.S. employees, particularly trips to popular destinations such as Walt Disney World, Las Vegas, Hawaii, and international locations. These examples show that many employees appreciate the trophy value of such awards and the variety they provide as much as the actual monetary value.

Recognition Awards Another type of program recognizes individual employees for their work. For instance, many organizations in service industries have established employee of the month or year awards. Hotels often use favorable guest comment cards as the basis for providing recognition awards to front-desk representatives, housekeepers, food and beverage workers, and other hourly employees. When giving recognition awards, organizations should use specific examples to clearly describe how those receiving the awards were selected.

While employees appreciate recognition from their supervisor, it is even more meaningful when the recognition comes from coworkers. These peer-to-peer recognition programs are gaining in popularity since peers often have a better opportunity to observe each other on the job. Social media posts and online rewards (e.g., Zappos "Zollar" awards) allow everyone to celebrate their coworkers' contributions.[77]

Service Awards Another type of reward given to individual employees is the service award, typically given to recognize and reward longevity with the company. Many firms recognize length of service such as 1 year, 5 years, 10 years, and so on. Since average tenure has been decreasing, especially for Millennial workers, companies might consider implementing early milestone awards such as at one or three years.[78]

Individual-level incentives are most effective when each employee's performance or contributions can be identified, isolated, measured, and rewarded. However, in many of today's organizations, teams are the primary work unit, and output is often accomplished through the combined efforts of several employees. Team reward plans are structured to address this issue.

11-8d Team Incentives

The use of teams in organizations has implications for incentive compensation. Although the use of teams has increased substantially in the past few years, the question of how to equitably compensate members remains a challenge. Studies have shown that when employees participate in team-level

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incentives, they share more information among the team members.[79] There are obviously substantial gains possible if team incentives are appropriately designed and administered. The main concerns are how and when to distribute the incentives and who will determine the incentive amounts. The two primary ways for distributing those rewards are as follows:

- Same size reward for each member
- Different size reward for each member

The difference between rewarding team members *equally* and rewarding them *equitably* triggers many of the problems associated with team incentives. Rewards distributed in equal amounts to all members may be perceived as unfair by employees who work harder, have more capabilities, or perform more difficult jobs. This problem is compounded when an individual who is performing poorly prevents the team from meeting the goals needed to trigger the incentive payment.[80] Each organization should adopt a perspective that is consistent with the organization's core compensation philosophy.

Free rider
A member of the group who contributes little

A related challenge is that of "free riders" or "social loafers." A **free rider** is a member of the team who contributes little and rides on the efforts and success of the team. The following "HR Competencies & Applications: Getting Free Riders off the Train" feature offers some recommendations to deal with free riders.

HR COMPETENCIES & APPLICATIONS

Getting Free Riders off the Train

Working in teams can be a great experience when the camaraderie is high, team members are capable and motivated, and everyone pulls their share of the work load. Operating in teams can also be a terrible experience when some members don't give it their all and let others carry the burden.

Free riding, or social loafing, is a common problem in work teams. Since team results are often used to determine rewards for each member, negative feelings can occur when some members of the team don't contribute at the same level as others but still receive the team incentive award. High performers are the members most likely to quit in frustration, so managers can't ignore this toxic force on work teams.

How can managers avoid falling into the trap of allowing free riders on the train? Here are some guidelines for team structure that can reduce the chance that those free riders will receive undeserved rewards:

- Smaller teams are generally better so limit the team to four or five members.
- Divide a complex task into manageable bits and make each team member accountable for specific portions of the overall task.
- Give every member of the team something personal to care about more than themselves. Find out what matters most to each member of the team.
- Be transparent about how each member is doing on the tasks. Share feedback with all team members and provide coaching to those that are not working up to the required level.

Teams can be a powerful source of creativity, productivity, and innovation in organizations. Keeping all members focused and working toward team goals and incentive rewards means that managers have to engage each and every member and not allow free riders to sit idly by while everyone else performs well. Team dynamics will improve and the team will function more effectively if free riders get off the train.[81] Consider how social loafers impact work unit harmony and answer the following questions:

1. Consider a time when you worked on a class project or a project at work and some members of the team didn't pull their weight. How did you deal with it? What were the results?
2. What can work group leaders do to identify and deal with free riders on a work team?

KEY COMPETENCIES: Relationship Management, Ethical Practice; HR Expertise: People/Total Rewards, Organization/Organizational Effectiveness & Development

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Gainsharing
System of sharing with employees greater than expected gains in profits and/or productivity

Gainsharing The system of sharing greater than expected gains in profits and/or productivity with employees is **gainsharing**. To develop and implement a gainsharing plan, management establishes a baseline of expected performance based on historical standards. Then work teams identify ways to improve productivity, quality, and/or financial performance above the baseline. These improvements lead to cost savings that are shared with employees. Managers and employees are trained in process assessment methods, and they share ideas and suggestions to create gains for the organization and the work team.

11-8e Organizational Incentives

An organizational incentive system compensates all employees according to how well the organization as a whole performs during the evaluation period. The basic concept behind organizational incentive plans is that overall results depend on organization-wide efforts and cooperation. Organizational incentives get everyone in the company "rowing in the same direction." Two common organizational variable pay systems are profit sharing and employee stock plans.

Profit sharing
System to distribute a portion of an organization's profits to employees

Profit sharing is a system to distribute a portion of organizational profits to employees. Giving employees a "piece of the action" can help enhance their commitment and increase job-related performance. The primary objective of profit sharing plans is to improve organizational results by focusing employees on organizational goals and objectives.

While profit sharing plans can ensure that all employees pay attention to the organization's bottom line, profits may vary a great deal from year to year, resulting in windfalls or losses beyond the employees' control. Payoffs are generally far removed in time from employees' individual efforts; therefore, higher rewards may not be obviously linked to better performance. Further, not all employees have sufficient line of sight to help them see how their performance links to organizational profit or loss.

Stock Option Plans Another organizational incentive plan is stock ownership in the organization to reward employees. The goal of these plans is to get employees to think and act like owners. A **stock option plan** gives employees the right to purchase a fixed number of shares of company stock at a specified exercise price for a limited period of time. Stock options can be difficult for employees to understand, and they often underestimate the real value of what they receive, which highlights the importance of providing financial education to employees, especially those who are new to stock options.[82] Stock options have become less popular in the past decade, but companies in high-growth industries and start-up companies still use this form of incentive to reward employees who contribute to the firm's ultimate success.[83]

Stock option plan
Gives employees the right to purchase a fixed number of shares of company stock at a specified price for a limited period of time

Employee stock ownership plan (ESOP)
Designed to give employees significant stock ownership in their organizations

Employee Stock Ownership Plans Firms in many industries have an **employee stock ownership plan (ESOP)**, which is a plan that gives employees significant equity ownership in their organizations. ESOPs are not a passing fad as many companies have continuously maintained these plans for over 25 years.[84] They are an important ownership structure in many, especially smaller, U.S. companies. Employees in an ESOP share in the growth and profitability of their firm. Employee ownership may motivate employees to be more productive and focused on organizational performance.

11-9 Special Pay Situations

The preceding discussion on compensation applies to most workers in organizations. However, two groups of employees often receive rewards designed for their unique roles—sales people and executives. The details of reward schemes for sales people and executives are complex and beyond the scope of this chapter. A brief overview of compensation programs for these employees follows.

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11-9a Sales Compensation

Given their boundary spanning roles, close interaction with customers, and work autonomy, the compensation paid to sales employees is frequently partially or entirely tied to individual sales performance. Those who sell more products and services earn greater rewards than those who sell less. Sales incentives are perhaps the most widely used individual incentives and are focused on encouraging salespeople to invest greater effort to sell more, thus benefiting them and their employers.

Sales compensation plans can be of three general types—salary only, straight commission, and salary plus commission or bonuses. The *salary-only approach* is useful when an organization emphasizes serving and retaining existing accounts over generating new sales and accounts. A **commission** is a percentage of the revenue generated by sales that is given to an agent or salesperson. In the *straight commission system*, the total compensation for a sales representative is a percentage of the value of the sales generated. *Salary plus commission or bonuses* is the most frequently used form of sales compensation; it combines the stability of a salary with the performance aspect of a commission.

Commission
A percentage of the revenue generated by sales that is given to an agent or salesperson

The strategic direction of the organization and its compensation philosophy are important considerations when designing a sales compensation program. It is important to establish clear performance criteria and measures and communicate these to the sales staff to drive the desired behaviors, decisions, and performance.

11-9b Executive Compensation

Executive compensation is handled differently from employee pay in most public corporations, privately held companies, and even tax-exempt organizations.[85] Frequently determined by the governing board of directors, executive compensation in public corporations is also subject to shareholder approval via a "say-on-pay" provision in the Dodd-Frank Act.[86] Companies have historically looked at the executive compensation level in similar organizations in their industry, which can lead to each company trying to outdo its competitors by setting ever-higher pay for its executives.[87]

Executive compensation packages can include a wide range of cash and noncash (perquisites) elements. Executives commonly receive generous base pay plus bonuses, long-term incentives, and restricted stock options.[88] Contracts with executives often include a **clawback provision**, which permits the organization to require an employee to return rewards obtained through unethical or negligent actions.[89] For example, following an extensive data breach exposing over 140 million Americans' personal data, the shareholders of Equifax urged the board of directors to demand that several executives return bonuses they had received.[90]

Clawback provision
Provision which permits the organization to require an employee to return rewards obtained through unethical or negligent actions

11-10 Human Resource Metrics and Compensation

LO6 Identify four measures used to determine the effectiveness of compensation systems.

MEASURE

Employers spend a substantial amount of money on employee compensation. Just like any other business cost, compensation expenditures should be evaluated to determine their effectiveness. A number of widely used measures are shown in Figure 11-13.

The raw data needed to calculate various measures may be found in many organizational functions. Wage rates, total payroll costs, and overtime information can be obtained from the payroll staff or vendor. Productivity numbers may be logged by the Operations department. Tenure and pay range information may be recorded in the Human Resource Information System (HRIS). Compiling all the information necessary to make proper assessments is complex and may require HR professionals to coordinate with other organizational functions. Ideally, compensation metrics should be computed each year and compared with historic results to show how the rate of compensation change compares with the rate of other financial change in the organization.

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FIGURE 11-13 HR Metrics for Compensation

Base Pay	Variable Pay
Average Hourly Rate	Organizational Level ◆ Actual vs. Planned Change ◆ Revenue Growth ◆ Return on Investment ◆ Profit Growth ◆ Revenue/FTE
Number of Full-Time Equivalents (FTEs)	Sales Incentives ◆ Increase in Market Share ◆ Customer Acquisition Rate ◆ Customer Satisfaction ◆ Customer Retention
Average Length of Service	
Average Compa-ratio	Bonus Pay %
Productivity	% of Employees Receiving Bonus
Average Annual Increase	
Compensation as a % of Total Expenses Compensation/Revenue Ratio	

SUMMARY

- The concept of *total rewards* has become a crucial part of HR management and includes compensation, benefits, work–life balance practices, and performance and talent management.
- Compensation provided by an organization can come directly through base pay and variable pay and indirectly through benefits.
- The Fair Labor Standards Act (FLSA), as amended, is the major federal law that affects pay systems. It requires most organizations to pay a minimum wage and to comply with overtime provisions, including appropriately classifying employees as exempt or nonexempt and as independent contractors or employees.
- A continuum of compensation philosophies exists, ranging from an entitlement philosophy to a performance philosophy.
- When designing and administering compensation programs, internal and external equity and pay openness must be considered.
- A base pay system is developed using information from valuations of jobs and pay surveys, both of which are designed to ensure that the pay system is internally equitable and externally competitive.
- The valuation of jobs can be determined using either job evaluation or market pricing.
- Problems involving employees paid outside of the pay range can be addressed in many ways.
- Individual pay increases can be based on performance, seniority, COLAs, across-the-board increases, lump-sum increases, or a combination of different approaches.
- Variable pay, also called *incentive pay*, is compensation that can be linked to individual, work unit/team, and/or organizational performance.
- Effective variable pay plans fit both business strategies and organizational cultures, appropriately award actions, and are administered properly.
- Piece-rate and bonus plans are commonly used individual incentives.
- The design of team variable pay plans must consider how the incentives are to be distributed to ensure an appropriate level of fairness.
- Organization-wide rewards include profit sharing and stock ownership plans.
- Sales compensation can be provided as salary only, commission only, or salary plus commission or bonuses.
- Executive compensation must be viewed as a total package composed of salaries, bonuses, benefits, perquisites, and both short- and long-term performance-based incentives.

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CRITICAL THINKING CHALLENGES

1. Think of an organization where you have worked. What were its compensation policies, and how were they communicated to employees?
2. Recently, larger companies have been in the news because of violations of overtime regulations. How should your Human Resources department protect itself from these devastating claims? Brainstorm some ideas on how to prevent these issues from occurring.
3. Discuss why variable pay-for-performance plans have become popular and what elements are needed to make them successful.
4. What are some key performance indicators (KPIs) that are used by organizations in which you have been employed? How did managers explain the importance of these KPIs, and were any rewards tied to them?
5. You are the HR Director for an insurance company with regional offices in several states. For each office, you want to be sure that the administrative assistants reporting to the regional manager are paid appropriately.
   A. Go to www.salary.com to find geographic pay survey data for this job in Hartford, Connecticut; Atlanta, Georgia; Omaha, Nebraska; and Phoenix, Arizona.
   B. Then recommend pay ranges, identifying the low, median, and high rates for each pay range.
   C. To present the data, list each of the offices in order from lowest median pay to highest median pay.

CASE Should Private-Sector Employees Get Compensatory Time?

Employees who work for government agencies or municipalities have long been permitted to take time off, rather than receiving extra pay when they work over 40 hours a week. This compensatory time option allows the employee to receive the equivalent of one and one half hours for each hour of overtime worked in time off. Law enforcement, fire protection, emergency response personnel, and employees engaged in seasonal activities may accrue up to 480 hours of comp time, and all other state and local government employees may accrue up to 240 hours. An employee must be permitted to use compensatory time on the date requested unless doing so would "unduly disrupt" the operations of the agency.

A bill called the Working Families Flexibility Act (H.R. 1180) was recently introduced in Washington that would amend the FLSA to permit private-sector employees the same options as those in the public sector. Employees would be entitled to one and one half hours of time off for each overtime hour worked. They would be able to accrue to up 160 hours per year. The employee would have the right to request payment of any accrued compensatory time at any time. The decision to opt for compensatory time rather than pay would always be the employee's, not the company's. The bill explicitly prohibits employers from intimidating or threatening workers about whether to choose monetary pay or compensatory time off. The protections for workers in this proposed legislation are stronger than those already in effect for public-sector workers.

Proponents of the legislation point out that work has changed considerably since 1938 when the FLSA was first enacted. The 40-hour workweek is less typical of today's workplaces. With many individuals working from home and unusual shifts and alternate schedules, this would provide a way for them to better accommodate their personal and family schedules. Employees could plan ahead for anticipated maternity leaves, family vacations, and other events.

Opponents cite several concerns about extending comp time to private-sector workers. They believe that businesses would coerce their workers into accepting comp time rather than taking monetary compensation for overtime worked. They also dislike the fact that employers can decide when and if comp time can be used by an employee who has banked the hours. Employees must request in advance if they wish to use comp time, and the employer can deny requests if they unduly disrupt operations.[91]

Consider both sides of this issue and answer the following questions.

QUESTIONS

1. What would be the advantages and disadvantages for employers to allow private-sector workers to utilize comp time rather than payment for overtime worked? What would be the advantages and disadvantages for employees if they were allowed to utilize comp time rather than payment for overtime worked?
2. Would you prefer to have the flexibility for comp time or payment rather than only being paid for overtime worked? If you were a line manager, would you prefer this for your direct reports? Why?

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SUPPLEMENTAL CASES

Establishing Pay at United Grinding Technologies Incorporated

This case describes how a company dealt with identifying competitive pay rates for its 140 employees. Since a number of jobs were not standard in the industry, the HR staff tapped BLS and trade association pay surveys to help set appropriate pay levels. (For the case, visit MindTap® at www.cengage.com/login.)

Want to Earn a Bonus? Work for Uncle Sam

This case describes how several federal agencies distributed bonus payments despite serious infractions or ethical violations committed by employees. The inadequacy of congressional oversight in such matters contributes to the inconsistency in rewarding inappropriate behavior. (For the case, visit MindTap® at www.cengage.com/login.)

Is the FLSA a Dinosaur?

This case identifies how the Fair Labor Standards Act might need to be reformed because of restrictions caused by workweek definitions. (For the case, visit MindTap® at www.cengage.com/login.)

Pay for Performance Enhances Employee Management at Scripps Health

This case discusses how a hospital uses pay for performance to improve employee productivity. (For the case, visit MindTap® at www.cengage.com/login.)

Best Buy Pays Big Bucks for CEO

This case deals with CEO pay for a newly hired executive at Best Buy. (For the case, visit MindTap® at www.cengage.com/login.)

Sodexo Incentives

This case shows how a large firm uses recognition and awards. (For the case, visit MindTap® at www.cengage.com/login.)

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CHAPTER 12

Managing Employee Benefits

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Explain how companies use benefits as a competitive advantage.

LO2 Identify four key benefit design considerations.

LO3 Specify three legally required benefits.

LO4 Discuss the trends in retirement plans and compare defined benefit and defined contribution plans.

LO5 Explain the importance of managing the costs of health benefits and identify some methods of doing so.

LO6 Describe the growth of financial, family-oriented, and time-off benefits and their importance to employees.

WHAT'S TRENDING IN MANAGING EMPLOYEE BENEFITS

From a strategic perspective, it is imperative that employers provide the types of benefits that motivate workers and encourage them to stay with a company. This is often difficult when employees have very different needs and desires. Working with managers, HR professionals should identify the most desirable benefits, and then provide them to employees to keep them satisfied. To remain competitive in the long run, employers should also offer competitive benefits relative to other companies so that they can hire and keep competent workers. Given these concerns, here's what's currently trending in the management of employee benefits:

1. Benefits are being used to build a sustained competitive advantage and ultimately satisfy a company's strategic objectives. Employers that offer generous benefit packages are often viewed as "model" or "benchmark" organizations, making them desirable to job candidates when they choose where to work.
2. The costs associated with providing desirable benefits are increasing at a steady rate, led primarily by prescription drug and other health-care costs. This reality challenges companies to offer competitive benefits, while keeping a close eye on the bottom line.
3. The effective communication of benefits is an ongoing concern for HR professionals. Employers are using more technology and social media to spread the good news to employees about the availability of benefits.
4. Providing financial literacy education programs and assisting employees with retirement planning are becoming more common as baby boomers begin to retire and Millennials struggle to plan appropriately for retirement and other important financial milestones.
5. Companies are offering more unique benefits that satisfy the various needs of employees. Repayment of student loans, generous tuition reimbursement, unlimited vacation, and fertility benefits are examples of these programs.

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HEADLINE

Thinking Outside of the Box

Boxed CEO Chieh Huang is an entrepreneur who started his e-tailing business in his garage a few years ago. He did not set out to be an innovator in terms of employee benefits; his main goal was to start and run a successful business selling home products and groceries via an online service website. Boxed was not his first business, but he quickly understood that human capital was at the core of his company's success. Without the right talent, his business would not be able to operate, and its value would be zero.

Boxed competes in online retailing with a unique concept. The Boxed website allows customers to purchase everyday items in bulk, much like they could at a wholesale club. Customers can save money without incurring an annual club membership fee, and they can realize significant savings by buying large quantities of items such as paper products, cleaning products, and other household goods. The company has grown rapidly by serving several demographic groups. Most of its customers are between the ages of 25 and 44, a busy group of people who prefer the convenience of shopping online and having their purchases delivered right to their door.

The company operates a number of warehouses to facilitate its quick shipment of orders. While visiting one of the warehouses, Chieh Huang discovered that most of the employees didn't have their own cars; they used public transportation and walked to work. Rather than buying every employee a car, he decided that a better, long-term solution would be to foster upward mobility by helping employees' children pay for college. The company now pays for any employee whose children want to pursue further education.

But, he didn't stop there. He encountered an employee whose mother was gravely ill. The employee was planning his wedding and working two jobs to pay the medical bills and the wedding expenses. Realizing that the employee, who was a valued member of his team, was experiencing major stress, he stepped up and paid for the wedding. Today, the company has a policy where any full-time employee who is getting married will receive up to $20,000 paid by Boxed. The company also provides unlimited paid paternity and maternity leave.

The company's culture is built around these targeted programs to support employees. Huang sees these

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"life-altering" events as pivotal moments in the employee–employer relationship. Employee turnover is extremely low at Boxed, and the company's board of directors is supportive of these initiatives. Rather than providing free beer, ping pong tables, and other "typical" tech company perks, Boxed is offering benefits that truly make a difference in the lives of its employees and their families.[1]

Benefit
A tangible indirect reward provided to an employee or group of employees for organizational membership

Most companies provide benefits to workers as part of a total rewards package that ideally enhances their satisfaction with work. A **benefit** is a tangible indirect reward provided to an employee or group of employees for organizational membership. Benefits often include retirement plans, paid time off, health insurance, life and disability insurance, and many more. Benefits are not typically based on employee performance; rather, they are provided to all employees who meet certain eligibility requirements.

In the United States, employers often play a key role in providing benefits for workers. In many other nations, citizens and employers are taxed to pay for government-provided benefits, such as health care and retirement programs. Although federal and state regulations require U.S. employers to provide certain benefits, they voluntarily provide many others. A recent major change in how health care benefits are provided means that U.S. employers may be less involved in providing health insurance.

Benefits tend to be costly for the typical U.S. employer, often averaging at least one-third of payroll expenses. In highly unionized manufacturing and utility industries, they may represent well over half of payroll costs. Figure 12-1 shows employers' per-hour costs for typical benefits.

FIGURE 12-1 Employer-Provided Average Compensation and Benefits per Hour, 2017

Compensation Element	Private Industry Employers		State and Local Government Employers	
	Dollar ($)	Percentage (%)	Dollar ($)	Percentage (%)
Total compensation	33.72	100.0	49.19	100.0
Wages and salaries	23.47	69.6	30.81	62.6
Total benefits	10.25	30.4	18.38	37.4
Legally required benefits	2.62	7.8	2.72	5.5
Paid leave	2.36	7.0	3.72	7.6
Supplemental pay	1.28	3.8	0.48	1.0
Insurance	2.70	8.0	5.82	11.8
Health	2.55	7.6	5.68	11.5
Retirement and savings	1.29	3.8	5.65	11.5
Defined benefit	0.52	1.5	5.23	10.6
Defined contribution	0.77	2.3	0.42	0.80

Source: U.S. Bureau of Labor Statistics, 2017.

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The figure shows that there are differences between private- and public-sector employee compensation costs, especially concerning retirement benefits. Health insurance represents the largest percentage of benefit costs, followed by paid time off, legally required benefits, and retirement plans. Notice that of the average total compensation of $35.87 in the private sector, employers are paying $11.38 for benefits, a 32 percent add-on to the base pay.

Benefit program design and offerings are dynamic as employers try to find creative and valuable ways to improve the employee value proposition. A recent survey found that many employers evaluate and change their benefits options annually. Continued focus on reining in escalating medical and pharmacy costs must be balanced against goals for attracting and retaining workers.[2] Benefit costs increased 24 percent between 2001 and 2015, largely due to big increases in health care benefits. Therefore, benefit programs should be continually reviewed for effectiveness and cost-effectiveness.[3]

12-1 Benefits and HR Strategy

STRATEGY

Companies can choose to compete for or retain employees by providing different levels of base compensation, variable pay, and benefits. Similar to strategies targeted at improving pay, using a total rewards philosophy may mean putting greater emphasis on indirect rewards that can differentiate the company from its competitors. Exploring new benefit options that are desirable to employees and adopting a strategic approach to compensation that manages pay and benefits comprehensively can help organizations successfully recruit and retain quality employees. Overall, benefits should be a key consideration in the total rewards package when determining organizational strategies regarding compensation.[4]

The benefit approach adopted as part of total rewards depends on many factors, such as the size of the organization, workforce competition, organizational life cycle, employee demographics, financial circumstances, and corporate strategic approach. A family-owned hotel may focus on providing a generous benefits package that includes flexible working arrangements and an in-house cafeteria because it can't afford to pay employees as much as national lodging chains. Similarly, a high-tech company that employs a diverse workforce that includes many female employees may elect to offer more family-friendly benefits such as on-site daycare and adoption assistance. These examples illustrate how benefit choices are often influenced by many organizational factors that have strategic implications.

LO1 Explain how companies use benefits as a competitive advantage.

12-1a Benefits as a Competitive Advantage

Benefits can be used to create and maintain a competitive advantage for the organization. While they represent a significant cost, benefits are important in attracting and retaining employees. Surveys show that a majority of individuals regard employee benefits as an important factor in their decision to join or remain with an organization.[5] Unfortunately, one Society for Human Resource Management survey found that while roughly 25 percent of employers focus on benefits to recruit workers, only about 20 percent use them to retain current workers.[6] This may represent a missed opportunity that companies are overlooking as part of talent retention efforts.

Employers may offer benefits to aid recruiting and retention, improve organizational performance, and meet legal requirements. Companies may utilize benefits as an effective way to recruit workers, and providing benefits such as health care, retirement support, flexible work arrangements, employee development, and health/wellness initiatives may become increasingly important in the near future.[7] Some employers use benefits to reinforce the company philosophy of social and corporate citizenship. Firms that provide above average benefits are often viewed more positively within a community and the industry by customers, civic leaders, current employees, and individuals working for other firms. Conversely, employers who are seen as skimping on benefits, cutting benefits, or taking advantage of workers may be viewed more negatively.

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Benefits can influence employees' decisions about which employer to work for, whether to stay with or leave an organization, and when to retire. The benefits that are offered and how those benefits are viewed by individuals affect employee attraction and retention efforts. An additional concern is the changing composition of the U.S. workforce and how expectations about benefits by different generations of employees are affecting benefit decisions for employers. For instance, many Millennials are concerned about financial security as they often face education loans and recognize that retirement savings will be their responsibility while Baby Boomers who are approaching retirement age may focus more on retirement benefits and health care.[8] Similarly, increased diversity in the workplace encourages companies to offer more voluntary benefits that satisfy different individual needs. Offering benefit plans that appeal to employees at different stages of life and with different needs and priorities is a way to attract and retain a diverse workforce.

12-1b Tax-Favored Status of Benefits

Providing employees benefits rather than wages can be advantageous for employees. Most benefits (except for paid time off) are not taxed as income to employees. During World War II, wage and price controls were instituted to ensure appropriate use of resources and to keep inflation rates low. Wishing to attract and reward hardworking employees, companies began to offer paid fringe benefits as added incentives. Since benefits were not paid in wages, they were never taxed as income to the employee, yet the company could deduct the cost as a business expense. This explains why the United States differs from many other countries in how benefits (especially health insurance) are provided to workers.

Gross-up
To increase the net amount of what the employee receives to include the taxes owed on the amount

The tax-favored status means that a dollar in employee benefits is actually worth much more to an employee. For example, if Sally is an employee who is in the 25 percent tax bracket and earns an

HR

COMPETENCIES & APPLICATIONS

Gross-Up Pay Calculation

To determine the "true" value of employee benefits, HR professionals can calculate the "gross-up" amount that represents the equivalent pay to the employee. **Gross-up** means to increase the net amount of what the employee receives to include the taxes owed on the amount. Let's say that Harold is our employee and he is in the 38 percent tax bracket. His employer provides pet care insurance worth $200. Harold is given the choice of accepting the pet insurance benefit or taking the cash equivalent. To be fair, Harold should receive the grossed-up value of that benefit, not simply $200 in his paycheck. Remember that if he receives $200 in his pay, he will pay income taxes on that amount and will net $124 ($200 less taxes of $76).

To calculate how much the $200 is really worth to Harold, calculate the gross-up by following these steps:

1. 100% – tax% = net%
   (100% – 38%) = 62%
2. payment/net% = gross amount of earnings
   ($200/62%) = $322.58
3. Check by calculating Harold's gross-to-net pay
   (payment × net%) = net pay
   ($322.58 × 62%) = $200

Now, Harold can make an informed decision about which option to select, knowing that he is receiving the same value no matter which way he chooses. The $200 insurance benefit is really worth $322.58 to an employee in the 38 percent tax bracket (if he or she has a dog).

KEY COMPETENCIES: Critical Evaluation (Behavioral Competency) and People (Technical Competency)

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extra $400 as a special bonus, she will pay $100 in taxes on this amount (disregarding deductions). So, her special bonus increases Sally's total rewards by only $300. But if Sally's employer provides her with pet insurance benefits worth $400, she receives the full value of $400 since it is not reduced by taxes. This feature makes benefits a desirable form of compensation to employees if they understand the value provided by the benefits. See the preceding "HR Competencies & Applications: Gross-Up Pay Calculation" feature to learn how to "gross-up" wages.

12-1c Global Benefits

There are significant differences in benefits across the globe. In many countries, a variety of benefits are provided through programs administered by the government. Employers and employees are taxed heavily to pay into government funds that cover these benefits. Companies that employ people in different countries face a number of challenges. Firms must provide generous benefits to be competitive in local labor markets and to comply with government mandates, but finding equitable and practical solutions to the differences among national requirements is complicated. Multinational companies operating in various countries must determine how to compensate both host-country nationals and expatriates so that all employees will feel that they are being treated fairly. How they handle these decisions impacts global attraction and retention of employees among international employers. Chapter 16 addresses employee benefits in a global environment.

12-1d Public-Sector Benefits

Workers in the public sector have for many years enjoyed more generous benefits than those in the private sector. Many states and cities face serious budget shortfalls because of the funding requirements for employee retirement and health care plans. For example, Minnesota's pension program has only 53 percent of the funds needed to pay promised public employee retirement benefits.[9] Several state governments have deferred payments to pension funds because they are already in debt and do not have enough tax revenue to cover the costs. This has led to proposed and enacted legislation in several states to roll back the power of public-sector unions that have successfully bargained for these benefits.

Public-sector workers (police, firefighters, teachers, and other government workers) belong to labor unions at a much higher rate than do nongovernment workers. Their union contracts often include free health care and traditional defined benefit pension plans. These are costly benefits that many states and cities can no longer afford. However, because the benefits are part of negotiated labor agreements, both the union and the employer must agree on changes. Some states and their union workers are finding ways to modify benefits plans. Others, like Kentucky, Pennsylvania, and Illinois, have experienced strikes by workers who are resisting changes to their benefit plans.[10] Many others will be dealing with this issue in the coming years.

12-1e Types of Benefits

Employers offer a wide range of benefits. Some are mandated by laws and government regulations, while others are offered voluntarily by employers as part of their HR strategy. Figure 12-2 lists the major categories of benefits and highlights those that are legally required and those that are voluntarily provided by employers.

In general, workers in the United States are entitled to fewer employee benefits than workers in many other nations. However, U.S. employers voluntarily offer a broad variety of other benefits to help them compete for and retain employees. By offering additional benefits, organizations provide greater security and support to workers with diverse personal circumstances. In addition, as jobs become more flexible and varied, both workers and employers recognize that choices among benefits are necessary. Further, benefits professionals need to constantly review changes in compliance and mandated benefits as well as shifting employee priorities.[11]

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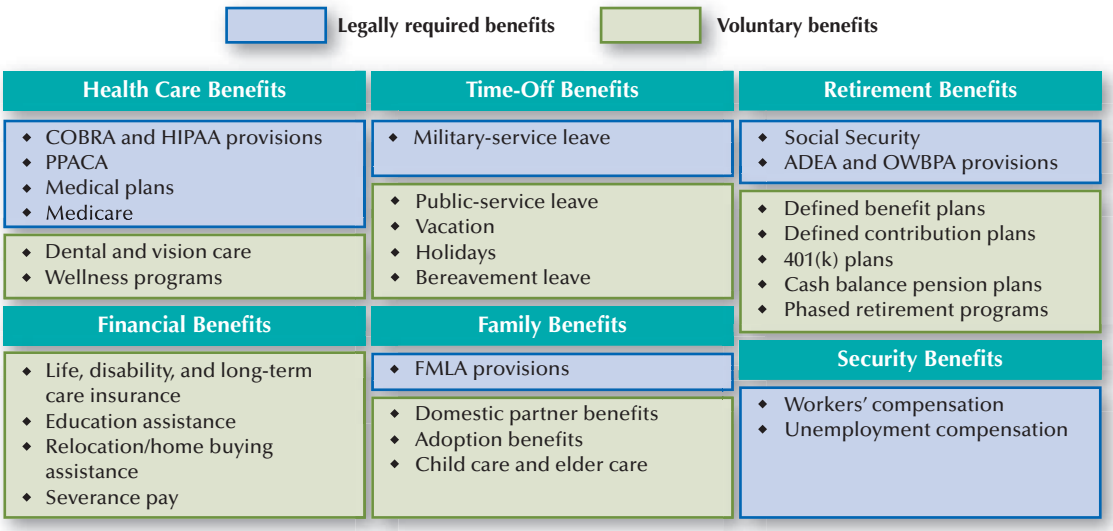
FIGURE 12-2 Types of Benefits



12-2 Managing Benefits

Benefit programs must be designed, administered, communicated, and measured. To maximize the impact that employee benefits have on employee satisfaction and retention, careful consideration must be given to designing benefit programs with the overall organizational philosophy and strategy in mind.

LO2 Identify four key benefit design considerations.

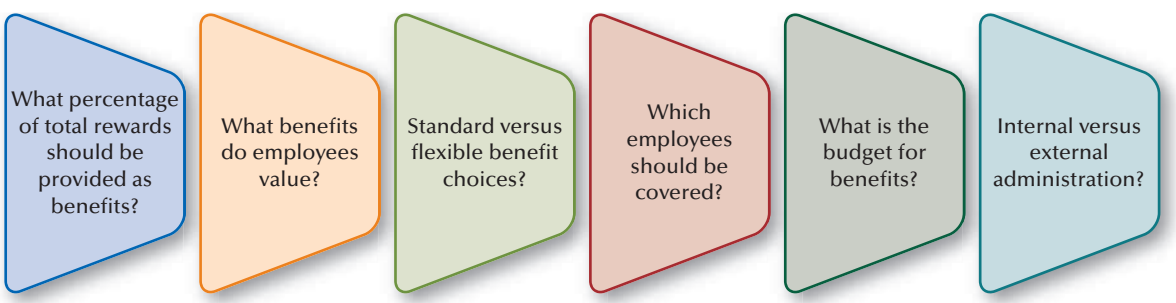
12-2a Benefits Design

Organizations design benefit plans with a goal of providing value for employees while remaining cost-effective for the company. Many key decisions must be made as part of benefits design as highlighted in Figure 12-3.

Flexible benefits plan Program that allows employees to select the benefits they prefer from options established by the employer

Flexible Benefits Employers may offer employees choices in benefits to reflect the diverse needs of their workforce. A **flexible benefits plan** is a program that allows employees to select the benefits they prefer from options established by the employer. These plans have become more popular as a result of the changing composition of the workforce. Flexible benefits systems recognize that individual employee situations differ because of age, family status, and lifestyle. For instance, dual-career couples may not want to duplicate benefits from two different employers. Under a flex plan, one of them can forgo some benefits that are available in the partner's plan and take other benefits instead.

FIGURE 12-3 Benefit Design Decisions



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One problem with flexibility in benefit choice is that employees may choose an inappropriate benefits package. Younger employees may decide not to participate in the retirement plan because they believe retirement is decades away and that there is sufficient time to save in the future. However, this may result in inadequate retirement savings for the employee. Part of this problem can be overcome by requiring employees to select a core set of benefits (life, health, retirement, and disability insurance) and then offering options on other benefits.

Adverse selection
Situation in which only higher-risk employees select and use certain benefits

Another problem can be **adverse selection** by employees, a situation in which only higher-risk employees select and use certain benefits. For example, employees with young children are far more likely to enroll in orthodontia benefit plans that provide braces than are older employees. Since insurance plans are based on a group rate, the premium rates might be higher because too few employees who do not need braces enroll in the plan.

Offering more choices leads to higher administrative costs for the organization. Since many flexible plans have become complex, they require more administrative time and information systems to track the choices made by employees. Despite the disadvantages, flex plans will likely continue to grow in popularity.

Part-Time Employee Benefits and Status Another key design issue is whether to provide benefits to part-time employees. Many employers do not provide part-time employee benefits except some paid time off. Figure 12-4 shows the percentage of full-time and part-time employees in the private sector that have access to and participate in selected employee benefits. Part-time employees are most likely to receive retirement benefits and paid holidays and vacation. However, they are far less likely to have access to health care, life insurance, and paid disability leave benefits. Benefits for part-time employees are often provided in proportion to the percentage of full-time work they provide.

Of particular concern is the lack of benefits available to freelance, or *gig* workers. Since these workers are technically self-employed, companies that use their services are not able to offer them employee benefits. Some companies, like Uber and Etsy, have partnered with health insurance brokers to provide a way for gig workers to obtain group-rated health benefits at their own expense. These freelancers may also be able to join wellness and health programs by paying their share of the costs.[12]

FIGURE 12-4 Access to and Participation in Selected Employee Benefits for Private-Sector Workers

Benefit Category	Part-Time Employee		Full-Time Employee	
	Access (%)	Participation (%)	Access (%)	Participation (%)
Retirement	38	22	81	65
Healthcare	20	14	88	73
Life insurance	13	12	75	73
Short-term disability	15	14	47	46
Long-term disability	5	5	44	42
Average number of paid holidays	6		8	
Average number of vacation days	12		15	

Note: *Access* means that the employee is offered the opportunity to enroll in the benefit plan. *Participation* means that the employee actually enrolls in the benefit plan or receives the benefit.

Source: U.S. Bureau of Labor Statistics, 2017.

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Since company-provided benefits are exclusively intended for direct employees, gig workers may be less financially prepared for retirement since they cannot participate in company pension plans.[13]

A number of companies have expanded access to employee benefits in order to attract part-time workers, who are often a vital part of the flexible workforce. Larger organizations with more than 500 employees are much more likely to provide some benefits to their part-time employees while small employers often provide them only to full-time workers.[14]

Domestic Partner Benefits There were various state interpretations of how marriage was defined prior to 2015 when the U.S. Supreme Court in 2015 changed the way terms such as *marriage* and *spouse* are defined and essentially treats same-sex spouses the same as opposite-sex married couples.[15] Now, under federal law, same-sex spouses may be entitled to certain benefit plans, and if same-sex couples get divorced, one partner may be entitled to a share of retirement benefits.[16]

The unintended consequence of this court decision has been some elimination of domestic partner benefits by some employers. Approximately one-third of companies that previously provided health care benefits to domestic partners have dropped that coverage because same-sex couples can legally marry. Their reasoning is that all couples are now on equal footing under the law, and therefore, one standard, consistent set of criteria can be used to determine eligibility for medical benefit plans.[17]

Generational Differences in Benefit Needs Hiring and retaining older workers can be an important strategy for an organization seeking high-quality talent with a wealth of knowledge and experience. The average retirement age has increased in recent years as more workers decide to remain in the workforce in order to save more money before leaving employment. Organizations can help older workers with financial planning and wellness programs that may ease their path to retirement, opening up opportunities for younger workers to grow and advance.[18] Offering modified work schedules, part-time benefits, and simplified seasonal travel can be attractive to older workers. For example, CVS Caremark instituted a snowbird program to allow pharmacists to migrate south for the winter months and transfer to pharmacies in those locations. The pharmacists return to their northern homes during the warmer months and work in pharmacies there for the summer.[19]

Despite their familiarity with technology, Millennial employees still place high value on in-person interactions regarding their employee benefits. They seek personalized information especially when choosing among benefit options. Although benefit program managers often use mass communication methods to share information, this is not the preferred way for many younger employees to learn all the details about their benefits. Ongoing communications, rather than once-a-year blasts during the open enrollment period, may enhance the perceived value employees obtain from employer-sponsored benefit plans.[20]

12-3 Benefits Administration, Technology, and Communication

Open enrollment
A time when employees can change their participation level in various benefit plans and switch between benefit options

Third-party administrators (TPAs)
Vendor that provide enrollment, recordkeeping, and other administrative services to organizations

Legal compliance, record keeping, enrollment, and participation issues result in significant administrative responsibilities for employers. Organizations may have internal HR professionals handle these duties, or they may use employees and vendors to streamline many of the routine clerical tasks involved. Since benefit plans are often subject to substantial regulation, it is vital to have good internal controls to ensure compliance.[21] Many organizations offer an annual open enrollment period. **Open enrollment** is a time when employees can change their participation level in various benefit plans and switch between benefit options.

Outsourcing Benefits Administration With the myriad of benefits, many organizations make a coordinated effort to administer their benefits programs. One significant trend is the outsourcing of benefits administration. **Third-party administrators (TPAs)** are vendors that provide enrollment, recordkeeping, and other administrative services to organizations. Outsourcing is on

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the rise, and many organizations use TPAs to help manage costs and to provide expertise and efficiency in plan administration. However, employers need to be careful when selecting TPAs because sensitive employee information will be shared with vendors. Further, companies must ensure that their employees receive high-quality service from TPAs.[22]

Technology and Employee Self-Service The spread of HR technology, particularly web-based and mobile systems, has significantly changed the benefit administration burden on HR staff. Internet and computer-based systems are being used to communicate benefit information, conduct employee benefit surveys, and facilitate benefit administration. These systems can decrease expenses, increase positive communication, and effectively connect people across many HR functions, including benefit management.

Self-service
Technology that allows employees to change their benefit choices, track their benefit balances, and submit questions to HR staff members and external benefit providers

Information technology makes it possible for companies to offer self-service to employees. **Self-service** is technology that allows employees to enroll in and change their benefit choices, track their benefit balances, and submit questions to HR staff members and external benefit providers. However, not all employees can easily navigate the online system for benefit enrollment and maintenance. While the ideal self-service portal includes links to medical care providers, investment funds for retirement plans, and other important information, it can easily overwhelm employees. It is therefore important that assistance is available and that employees are provided with help screens, contact information for administrators, and access to HR experts.[23]

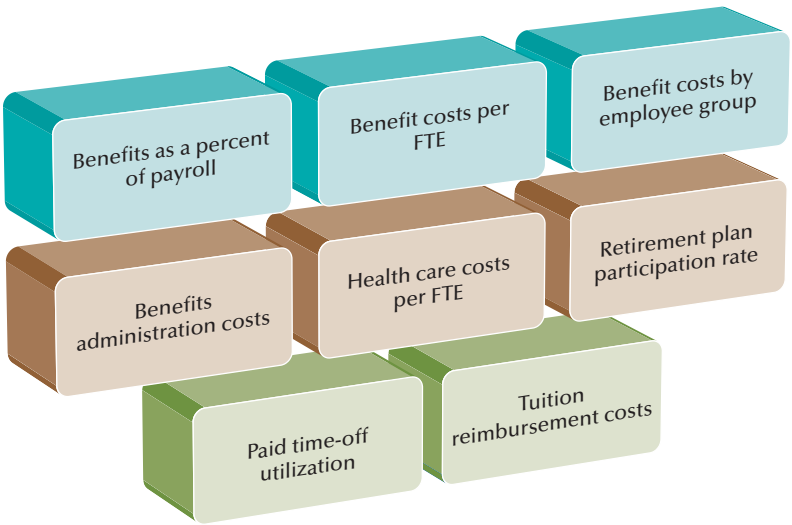
Technology can be useful for both companies and their employees in administering benefit plans. To foster employees' financial wellness, some companies offer a mobile app that automates savings. Employees can set up a recurring deposit into a savings account. The app includes an option for companies to make matching contributions if they want to really emphasize the importance of personal saving.[24] However, companies must carefully guard employees' personal information and prevent cyberattacks that would compromise such data. Evolving technology such as blockchain may facilitate the sharing of personal information in benefits portals and other applications.[25]

MEASURE

12-3a Benefits Measurement

The significant costs associated with benefits mean that companies should periodically conduct cost/benefit analysis to determine the payoffs for the expenditures. Numerous HR metrics can be used to evaluate whether benefits are providing the expected results in terms of employee retention, well-being, and satisfaction. Some examples are shown in Figure 12-5.

FIGURE 12-5 Frequently Used Benefit Metrics



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Other metrics are used to measure the return on the expenditures for various benefit programs provided by employers. Employers often track utilization and cost metrics for workers' compensation, wellness programs, prescription drug costs, leave time, tuition aid, and disability insurance. Both overall benefit expenditures generally and costs for individual benefits need to be measured and evaluated as part of strategic benefits management.

12-3b Benefit Cost Control

Since benefit costs have risen significantly in the past several years, particularly for health care, employers are focusing more attention on measuring and controlling them, even reducing or dropping benefits offered to employees. For example, during economic downturns, many organizations stop contributing to the employee 401(k) plan, reduce education reimbursement, and cut training expenses. To soften the blow to employees, some companies add voluntary, employee-paid benefits such as group auto and home insurance programs at reduced group rates.

Another common means of benefit cost control is cost sharing, which refers to having employees pay for more of their benefit costs. The majority of firms use this strategy along with providing wellness programs, offering employee health education, and changing prescription drug programs. Companies might also consider consolidating benefit packages into more streamlined offerings to minimize costs. The emergence of *big data* in organizations may help HR and benefits professionals to better determine the costs and utilization of benefit programs to more effectively manage these expenses.[26]

12-3c Benefit Communication

Employees are often not fully aware of the values and costs associated with the benefits provided by employers. This is in large measure due to ineffective communication by the company and the lack of a clear strategy for discussing benefits with employees. This means that the investments many companies make in benefits may not be helping them effectively attract and retain competent employees.

Employees' satisfaction with benefits is most definitely linked to benefit communications. For instance, employees often do not fully understand their health benefits, a situation that can cause dissatisfaction in the workplace. Consequently, many employers develop special benefit communication systems to inform employees about the monetary value of the benefits they provide. Merrill Lynch's survey of over 1,000 employers across the United States showed that roughly one-third of HR professionals dedicate time to teaching workers about their benefits. These education efforts commonly focus on retirement, health care, and staffing issues such as downsizing.[27]

Companies can develop communication policies to educate employees about their benefits and the associated costs. Using Internet and social media might help increase employee access to benefits information. Year-round, multichannel communications can help workers better appreciate the value of their benefits and assist them in building their personal health and financial fitness.[28] When planning benefit communication efforts, it is important to consider factors such as the timing and frequency, the communication methods, and any specialized content. Any significant changes to benefits, such as reduced 401(k) matches and increased employee health plan contributions, should be communicated by top managers in the organization. Providing the rationale for these actions helps employees understand why their benefits are being changed. This communication should be supported by HR professionals and other key managers who are well informed and can answer any questions.

Personal Benefit Statements Some companies give individual employees a personal statement that translates benefits into dollar amounts. These statements give employees a snapshot of the total compensation they receive. They help employees see the "hidden paycheck," that is, the value of their benefits. These statements can be shared with family members to emphasize the true package of rewards provided by the employer.

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LO3 Specify three legally required benefits.

12-4 Legally Required Benefits

The earliest benefit law was the Social Security Act, which was passed at the end of the Great Depression. Little was done on the federal level after that until the 1970s and later. Federal statutes have been enacted to address financial and employment security for workers, particularly those with medical problems.

12-4a Social Security and Medicare

The Social Security Act of 1935 and its later amendments established a system to provide *old-age*, *survivor's*, *disability*, and *retirement* benefits. Administered by the federal government through the Social Security Administration, this program provides benefits to individuals who were previously employed. Medicare was implemented in 1965 to provide medical care for people over the age of 65. The Federal Insurance Contributions Act (FICA) was passed to facilitate payroll contributions in support of both programs.

Social Security Employees and employers share in the cost of Social Security through a tax on employees' wages or salaries. The current rate is 6.2 percent paid by each party (for a total of 12.4 percent). The amount of wages subject to tax is reviewed and increased periodically. Starting in 2018, the taxable wage base was increased to $128,400, with earnings over that amount not being subject to Social Security tax.[29]

Social Security is a politically sensitive program. The U.S. Congress has responded to public pressure by raising payments and introducing cost-of-living adjustments. Concerns persist about the long-term financial viability of the program. In response, the normal retirement age to receive maximum Social Security benefits has been steadily increased from 65 to 67, and it remains to been seen if further age increases will occur in the future. Individuals who rely solely on Social Security retirement benefits may have difficult living at the level of comfort they envision as those benefits typically are not adequate. However, for many low-income earners, this is the only retirement benefit they will receive.[30] Workforce demographic changes, such as the aging workforce, result in funding challenges in the United States as well as many other countries. Government leaders around the world will face impending financial issues in the future to fulfill the payment obligations of these programs.

Medicare Medicare is a government-operated health insurance program for older Americans (age 65 and above) and for some citizens with disabilities. Medicare is funded by a tax on employers and employees. Each party pays 1.45 percent of employee earnings. Unlike the taxes paid for Social Security, there is no earnings limit on Medicare contributions. Therefore, all wages earned by workers are taxed at 2.9 percent. An additional Medicare tax of 0.9 percent for individuals who earn higher incomes was instituted in 2013. The future financial solvency of the program has been questioned, and legislative action in the coming years is likely to be needed to address the program's continuation.

12-4b Workers' Compensation

Workers' compensation Security benefits provided to workers who are injured on the job

Workers' compensation is a benefit program provided to workers who are injured on the job. State laws require most employers to provide workers' compensation coverage by purchasing insurance from a private carrier, state insurance fund, or self-insuring.

Workers' compensation regulations require employers to provide cash benefits, medical care, and rehabilitation services to employees for injuries or illnesses that occur within the scope of their employment. In exchange, employees give up the right to pursue legal actions and awards. However, various circumstances may influence a company's obligation to pay workers' compensation. The following "HR Competencies & Applications: 'One Toke over the Line'—No Coverage for Medical Marijuana" feature explores how medical and recreational marijuana use by employees may impact such coverage.

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HR

COMPETENCIES & APPLICATIONS

"One Toke over the Line"—No Coverage for Medical Marijuana

A number of states have legalized the use of marijuana for medical purposes. Nine other states have legalized marijuana for recreational use. These actions have fueled debates and clouded many issues about how to treat the drug for the purposes of workers' compensation. This is because the use of marijuana for any purpose, despite what state statutes allow, is still illegal under federal law.

One of the most pressing questions about medical use of the drug is who gets to pay for it in workers' compensation cases? States such as Michigan, Vermont, Colorado, and Montana have specified that insurers are not required to reimburse employees for medical marijuana, and many experts believe that this is currently the case in many others states as well, even in states that offer no legal precedence or have legalized the drug in some way. However, such an approach has been challenged and could be reviewed further in new court cases.

Employers with zero-tolerance drug policies appear to be particularly protected against reimbursement claims for medical marijuana. For instance, companies can still terminate the employment of individuals who use marijuana because federal law recognizes it as an illegal substance, even in states such as Colorado that have legalized the drug for recreational use. Courts have also generally supported an employer's right to fire employees who have used marijuana for medical purposes when the company has a zero-tolerance drug policy. However, states such as New Mexico and Rhode Island have laws in place to protect the use of medical marijuana, so HR professionals and managers should become familiar with relevant state statues.

Another challenge involves situations where employees are injured on the job and test positive for marijuana use, but the drug did not lead to the injuries. A recent case in Oklahoma determined that a worker was still entitled to workers' compensation benefits even though it was determined that he had marijuana in his system—because the drug did not contribute to his being harmed.[31]

As a line manager or HR professional, you might have to make determinations about employee drug use and workers' compensation. You might also work for a company that has a zero-tolerance drug policy. Consequently, consider the following questions:

1. Have you ever worked for an organization that had a zero-tolerance drug policy? If so, how did the company manage this policy? If not, do you think your employer should have developed such a policy?
2. What should HR professionals and line managers do to better educate themselves about the impact of marijuana use on workers' compensation?

KEY COMPETENCIES: Ethical Practice (Behavioral Competency) and Workplace (Technical Competency)

No-fault insurance
An injured worker receives benefits even if the accident was the employees' fault

The concepts of no-fault insurance and exclusive remedy balance the rights of employers and employees under workers' compensation. **No-fault insurance** means that an injured worker receives benefits even if the accident was the employee's fault. For example, if an employee violates the safety rules and fails to wear safety shoes and drops a heavy object on his foot that causes a broken toe, his medical and disability expenses will still be paid by the employer's insurance coverage. **Exclusive remedy** means that workers' compensation benefits are the only benefits injured workers may receive from the employer to compensate for work-related injuries. In most instances, an injured worker cannot file a lawsuit for additional money.

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Exclusive remedy
Workers' compensation benefits are the only benefits injured workers may receive from the employer to compensate for work-related injuries

Workers' compensation programs are funded at the employer's expense; workers cannot be required to make financial contributions for this coverage. Since each state operates independently, employers must be aware of various regulations if they operate in multiple states. The Bureau of Labor Statistics reports that, on average, private-sector employers spend about $0.47 per hour, or 1.3 percent of total payroll, in workers' compensation costs.[32] Costs in some states are much higher. Costs can vary a great deal based on the requirements in each state and the safety record for each company.

Since workers' compensation is an experience-rated insurance program, one of the most effective cost-control mechanisms to keep premiums low involves focusing on accident prevention.[33] The types of jobs in companies, the work that is performed, and employees' pay rates can also influence the expenses related to workers' compensation insurance. Given these many variables, there is also growing concern over "premium fraud" on the part of employers. Companies can distort the number of previous claims, misclassify employees, and disclose incorrect (lower) pay to reduce the costs associated with workers' compensation. These misrepresentations can lead to serious and costly legal action.[34]

12-4c Unemployment Compensation

Unemployment compensation was established as part of the Social Security Act of 1935 to provide a minimum level of benefits for workers who are out of work. Each U.S. state operates its own unemployment compensation system, and benefit levels and job-search provisions differ significantly from state to state. Each company pays an unemployment tax that is based on an "experience rate," which reflects the number of claims filed by workers who leave employment.

Under normal circumstances, an employee who is out of work and actively looking for employment can receive up to 26 weeks of pay at the rate of 50 percent to 80 percent of normal pay. Most employees are eligible. However, workers fired for misconduct or those not actively seeking employment are generally ineligible.

During times of widespread economic hardship, the government might increase the number of weeks during which eligible workers receive benefits. The decision to extend benefits is often controversial, and legislators struggle to find a balance between providing income security to workers and reducing workers' motivation to seek employment.[35]

12-4d Additional Legally Required Benefits

Besides workers' compensation and unemployment insurance, most companies must provide additional benefits. The Patient Protection and Affordable Care Act, enacted in 2010, requires many employers to provide health care coverage to their workers. The law is discussed in the section on health care later in this chapter. Continued group medical benefits under COBRA regulations and health care portability and medical information privacy under HIPAA are also discussed in the health care section of this chapter. Job-protected medical leave under FMLA is discussed in the section on time-off benefits.

LO4 Discuss the trends in retirement plans and compare defined benefit and defined contribution plans.

12-5 Retirement Benefits

The aging of the workforce in many countries is affecting retirement planning for individuals and retirement plan costs for employers and governments. In the United States, the number of citizens at least 55 years of age has increased significantly in recent years, and older citizens constitute a large portion of the population. Unfortunately, many U.S. citizens have inadequate savings and retirement benefits to fund their retirements. According to a recent study, only six out of ten Baby Boomers believe they have sufficient retirement income to cover their basic expenses in retirement and 60 percent indicate that the majority of their retirement income will be come from Social Security.[36] In response, several states have introduced state-sponsored retirement plans for workers whose

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employers do not provide optional retirement savings plans. Oregon, California, New York, and Illinois are among those states that are attempting to fill the gap for workers who may be too dependent on federal social programs in retirement.[37]

While traditional pension plans that provided a fixed amount for retirement at a defined age were the norm for decades, since the early 1980s, fewer companies have provided these plans. Instead, employee-funded retirement accounts have become standard. The percentage of employees who are enrolled in traditional plans has continued to decline since the early 1980s and employees who work for the government or belong to labor unions have the highest level of participation.[38] Employees who work for private employers have seen their companies freeze the traditional plans and restrict new employees from enrolling.[39]

Given these realities, retired individuals must often rely on Social Security payments, which were not designed to provide full retirement income. Financial planners refer to these options as the **three-legged stool** of retirement income, which is a model showing the three sources of income to fund an employee's retirement. Figure 12-6 shows how the model has changed over time, with workers now carrying a greater financial burden to prepare for retirement. Employers emphasize that employees must take on more responsibility to plan and save for retirement.

Three-legged stool
A model showing the three sources of income to fund an employee's retirement

Retirement benefits can be a valuable tool for attracting and retaining workers. Sixty percent of employees with less than two years of service at companies with traditional pension plans state that the pension plan is an important reason for their job choice. Further, 80 percent of workers at companies with traditional pensions plan to continue working for their employer until they retire. Over half of employees surveyed report that they would switch jobs to get better retirement benefits.[40] Therefore, the decisions a company makes about its retirement benefits can have an important and lasting impact on talent management.

12-5a Retirement Plan Concepts

Certain rights are associated with retirement plans. One such right, called **vesting**, gives employees a benefit that cannot be taken away. If employees resign or are terminated before they have worked long enough to become vested, no pension rights accrue to them except the funds they have contributed. If employees work for the required number of years to be fully vested, they retain their pension rights and receive the amounts contributed by both the employer and themselves.

Vesting
A benefit that cannot be taken away

Another feature of some retirement plans is **portability**. In a portable plan, employees can move their retirement benefits from one employer to another. Instead of requiring workers to wait until they retire to move their retirement plan benefits, once workers are vested in a plan, they can transfer their fund balances to other retirement plans if they change jobs.

Portability
A retirement plan feature that allows employees to move their retirement benefits from one employer to another

FIGURE 12-6 The Three-Legged Stool of Retirement Income

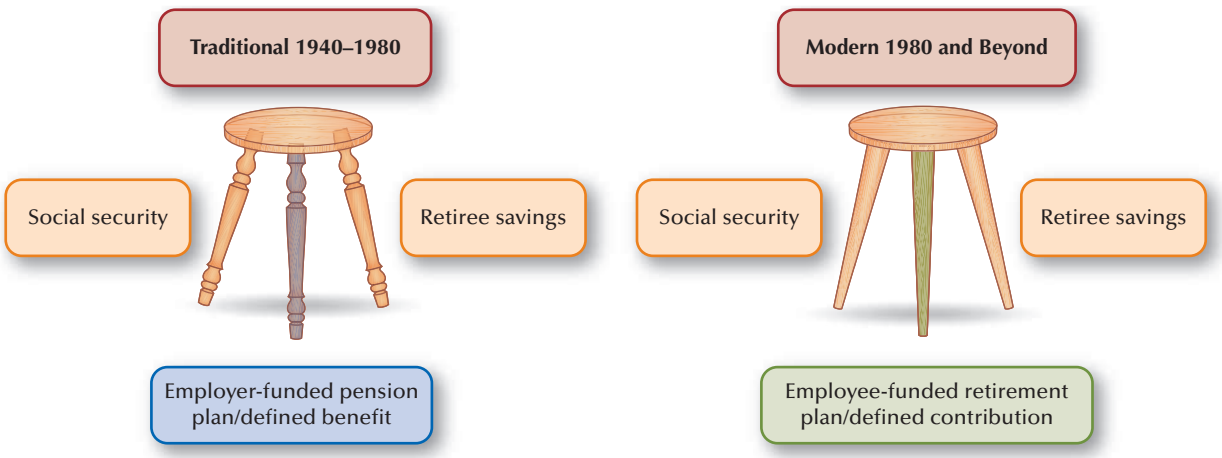

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FIGURE 12-7 Comparison of Defined Benefit and Defined Contribution Retirement Plans

Defined Benefit	Defined Contribution
◆ Typically funded at least in part by employer	◆ Typically funded by employee and employer
◆ Amount of benefit paid at retirement is predetermined	◆ Amount of benefit at retirement is determined on the basis of investment performance
◆ Investment risk borne by employer	◆ Investment risk borne by employee
◆ Benefit guaranteed by Pension Benefit Guaranty Corporation (PBGC)	◆ Benefit not guaranteed
◆ Amount of contribution changes on the basis of actuarial assumption	◆ Amount of contribution is defined by employee participation level and company match
◆ Common in public sector and unionized workforces	◆ Common in private sector and nonunion workforces

12-5b Retirement Plans

Retirement plan
A program established and funded by the employer and/or employees to fund employees' retirement years

A **retirement plan** is a program established and funded by the employer and/or employees to fund employees' retirement years. Organizations are not required to offer retirement plans to employees beyond contributions to Social Security. There are two broad categories of retirement plans: defined benefit plans and defined contribution plans, as shown in Figure 12-7.

Defined Benefit Pension Plans A traditional pension plan is one in which the employer makes required contributions and the employee receives a defined amount each month upon retirement. A **defined benefit plan** is a retirement program in which employees are promised a pension amount based on age and years of service. A small percentage of companies in the private sector offer defined benefit plans to their employees, while public-sector employers still provide them. Based on data from the Pension Benefit Guarantee Corp., there has been a consistent decrease in defined benefit plans from 114,000 in 1985 to a current number of roughly 22,000.[41]

Defined benefit plan
Retirement program in which employees are promised a pension amount based on age and years of service

Contributions are based on actuarial calculations of the benefits to be paid to employees after retirement and the formula used to determine such benefits. A defined benefit plan gives employees greater assurance of benefits and greater predictability in the amount of benefits that will be available for retirement. These plans reward long service with a company.

Companies that provide defined benefit plans must comply with cumbersome and strict government rules regarding the funding of the plan. If the funding is inadequate to pay the benefits promised, the company must make up the shortfall. To reduce some of these risks, some employers have excluded new employees from these programs and/or halted future accruals of benefits. Many employers have dropped defined benefit plans in favor of defined contribution plans (discussed next) so that their contribution liabilities are known.

Defined benefit pension plans offer greater security to employees. The benefits are guaranteed by the Pension Benefit Guaranty Corporation (PBGC). The PBGC maintains a solvency fund to pay benefits if a company goes bankrupt and cannot pay its retiree benefits. The fund is supported by employer contributions of approximately $74 per participant per year.[42]

Defined benefit plans may experience a resurgence. Since so few companies offer them to new employees, reintroducing these plans could be a source of differentiation in the labor market. However, funding risk and regulatory burdens make companies wary. Companies might consider offering these pension plans again, but a careful financial forecast would be necessary to determine the feasibility and cost-effectiveness of such a plan. It is unlikely that these plans will come back in great force.

Defined contribution plan
Retirement program in which the employer and/or employee makes an annual payment to an employee's retirement account

Defined Contribution Pension Plans A **defined contribution plan** is a retirement program in which the employer and/or employee makes payments to fund an employee's retirement

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account. The key to this plan is the contribution rate; employee retirement benefits depend on fixed contributions and investment earnings. Profit-sharing plans, employee stock ownership plans (ESOPs), and 401(k) plans are commonly defined contribution plans. Because of their portability and other features, these plans are sometimes preferred by younger, shorter-term employees. When individuals retire or change jobs, they can keep funds in the current account, withdraw the cash and use or reinvest it some other way, or do both to varying degrees. Research indicates that more employees who change jobs before retiring are leaving the funds in these accounts instead of withdrawing them.[43]

Since these plans hinge on the investment returns on previous contributions, employees' retirement benefits are somewhat less secure and predictable. Companies can also be held liable for their management of ESOPs when the performance of stock is below what it expected or when the plan administrators breach their fiduciary responsibility. Executives of California Pacific Bank were held liable for mismanaging the ESOP and diverting those funds to the bank rather than the ESOP plan. They paid nearly $1 million in fines and restitution to plan participants.[44]

401(k) plan
Plan allows for a percentage of an employee's pay to be withheld and invested in a tax-deferred account

The **401(k) plan** gets its name from section 401(k) of the federal tax code. This plan allows for a percentage of an employee's pay to be withheld and invested in a tax-deferred account. 401(k) plans now dominate the field of employment-based retirement programs.[45] These plans are attractive to employees because contributions are made on a tax-deferred basis, so the employee pays lower income taxes during working years. Of course, taxes must be paid when funds are withdrawn during retirement. With 401(k) plans, the employee becomes the manager of investment risk and the decision maker regarding investment options. The Department of Labor requires companies to disclose information about the fees, expenses, and investment alternatives associated with their 401(k) plans to participants in quarterly and annual statements (which are available online).[46]

There are many features that companies may include in their 401(k) plans. A valuable characteristic of these plans is company matching contributions. Many employers match the employee's contribution up to a percentage of pay, which encourages employees to enroll in such plans and feel positive about making contributions themselves. The most common level of matching is dollar for dollar up to a specified limit.[47] Some plans offer the option for employees to obtain loans from their 401(k) accounts. Individuals are expected to pay back loans from these accounts with interest. However, if a loan cannot be repaid, it may be subject to a 10 percent penalty and income taxes. Evidence suggests that this loan feature can encourage more employees to participate in 401(k) programs.[48] Additionally, some companies include a hardship withdrawal feature in their plans to allow employees to take money from their account to purchase a home or to pay expenses incurred due to some personal catastrophe.[49]

Auto-enrollment
Process by which employee contributions to a 401(k) plan are started automatically when an employee is eligible to join the plan

Auto-escalation
Automatic increases of 1 percent a year to a 401(k) plan

There are other ways that employees can be encouraged to participate in 401(k) programs. One feature that can help is the use of automatic enrollment. **Auto-enrollment** is a process by which employee contributions to a 401(k) plan are started automatically when the employee is eligible to join the plan. Some companies set the initial contribution rate at around 3 percent of pay, but others are setting the initial rate higher, from 4 percent to 6 percent. The employee has the ability to increase that rate or to stop the contributions voluntarily. Some companies also use **auto-escalation**, automatic increases of 1 percent a year, to boost employee contribution levels unless employees voluntarily stop these increases.[50] Smaller companies are less inclined than larger firms to offer 401(k) and other retirement programs to their employees. Less than half of employees working for firms with fewer than 50 workers have access to a company-sponsored retirement plan. This may result in difficulties for smaller firms to attract key talent since larger companies may offer these valuable benefits.[51]

Financial education and counseling can be used to help employees understand how to manage their 401(k) account and get the greatest value from the plan. People who use investment assistance earn better returns on their retirement funds than those who manage their own accounts. Employers can offer a variety of education programs designed for specific groups of employees. Many companies offer online education tools such as webinars, risk assessments, and retirement calculators. Since companies have turned to 401(k) plans as their main retirement programs, educating

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employees is an important part of helping them achieve financial security in retirement. Overall, there are several approaches that companies should use to improve employee participation rates, including the following:

- Use automatic enrollment and increases to get the ball rolling.
- Help workers roll over money from previous tax-deferred plans so that they dedicate more funds to retirement.
- Keep an eye out for employees who need help managing their current accounts and/or retirement planning.
- Custom-tailor retirement communications to fit the needs of the audience.
- Adopt a holistic approach to retirement planning that considers all investments and potential streams of money.[52]

In general, working Americans are poorly informed about retirement and often procrastinate when it comes to planning appropriately. A recent survey showed that only about one-third of the respondents understood basic investment concepts and retirement planning approaches.[53] A major problem is that most people underestimate how much they will need to save for retirement. So-called Retirement IQ can be improved through education sessions with employees.[54] Companies can provide retirement planning for employees of all ages and shift the content as employees near retirement age.

12-6 Legal Regulation of Retirement Benefits

Numerous laws and regulations affect retirement plans. Key regulations govern plan communications, funding, and other important aspects of retirement programs. The laws have been enacted to ensure that workers understand their plans and are assured of receiving the full value of promised benefits.

12-6a Employee Retirement Income Security Act

Widespread criticism of many pension plans led to enactment of the Employee Retirement Income Security Act (ERISA) in 1974. The purpose of this law is to ensure that private pension plans and other plans governed by ERISA meet minimum standards. ERISA requires plans to periodically provide participants with information about plan features (such as vesting), funding, and benefit accrual amounts.

Violating ERISA can lead to costly lawsuits for employers. For example, employees of Boeing are suing the company because their pension benefits were reduced when they relocated to the Seattle operation. They had been reassured that they would not experience any changes in their pension benefits. The case is still working through the courts.[55] In another case, employees of New York university have filed a lawsuit claiming that the university failed to fulfill its fiduciary obligation by allowing the pension plan administrator to charge excessive fees and offer lower-performing funds in its plan.[56] These cases illustrate that employers should spend considerable time developing policies that comply with the provisions of the law.

12-6b Retirement Benefits and Age Discrimination

According to a 1986 amendment to the Age Discrimination in Employment Act (ADEA), most employees cannot be forced to retire at a specific age. In many employer pension plans, "normal retirement" is the age at which employees can retire and receive full pension benefits. Employers must decide whether individuals who continue to work past normal retirement age (typically 65) are eligible for the standard benefit package provided to active employees under age 65. Changes in Social Security regulations have increased the age for full benefits past age 65, so modifications in policies may occur.

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Early Retirement Many pension plans include provisions for early retirement to allow workers to retire before the normal retirement age. Phased retirement is an alternative used by individuals and firms. Historically, employees either worked full time or were retired full time. Phased retirement allows employees to bridge between these two states while offering the company a chance to retain important knowledge and skills.

Some employers use early retirement buyout programs to cut back their workforces and reduce costs. Buyout programs often include incentives such as outplacement services, health care benefits, and a severance payment. There is, of course, a risk that too many employees will participate, thereby leaving the company shorthanded. Employers must take care to make these early retirement programs truly voluntary and to communicate them effectively.

Older Workers Benefit Protection Act The Older Workers Benefit Protection Act (OWBPA) was enacted in 1990 as an amendment to the ADEA. It requires equal treatment for older workers in early retirement or severance situations. It also sets specific criteria that must be met if older workers are asked to sign waivers promising not to sue for age discrimination in exchange for severance benefits during layoffs.

LO5 Explain the importance of managing the costs of health benefits and identify some methods of doing so.

12-7 Health Care Benefits

Employers provide a variety of health care and medical benefits, usually through insurance coverage. Major changes brought about by the Patient Protection and Affordable Care Act (PPACA), which is still evolving, may significantly alter the involvement of employers in providing these essential benefits. This legislation is discussed in the following section. Employees often consider health plans to be one of the most important benefits that companies offer. The most common plans cover medical, dental, prescription drug, and vision care expenses for employees and their dependents.

12-7a Increases in Health Benefit Costs

Managing health care benefits can be challenging, time-consuming, and expensive for companies. For several decades, the costs associated with health care coverage have increased considerably in the United States. This raises a number of concerns for both employers and employees because they have to pay for this coverage.

Health costs across the United States totaled $1.4 billion in 2000 and more than doubled to $3.3 billion in 2016 and now account for approximately 18 percent of GDP. Prescription drug costs have continued to increase at double-digit rates, making them one of the fastest-growing health-related costs.[57] Yearly premiums have increased somewhat overall and the average family plan was approximately $19,000 per year in 2017.[58] The average cost for employer-provided health care coverage in 2016 was $9,666 per employee.[59] These increased expenses have led companies to require employees to shoulder some of the costs of premiums and benefits. On average, employees pay 23 percent of premiums for employee-only coverage and 40 percent of premiums for family coverage.[60] One response has been the enactment of federal legislation regarding health care insurance. The following sections summarize this legislation and discuss the implications for organizations.

12-7b Health Care Reform Legislation

Landmark legislation enacted in 2010 changed health care in the United States, making insurance available to an additional 32 million people. Provisions of the Patient Protection and Affordable Care Act (PPACA) were phased in over several years, culminating in universal coverage in 2014. While many elements of the act were controversial and lead to lawsuits, the U.S. Supreme Court ruled in 2012 and 2015 that the law was constitutional. Therefore, the landscape of employer-sponsored health benefits continues to undergo many significant changes.

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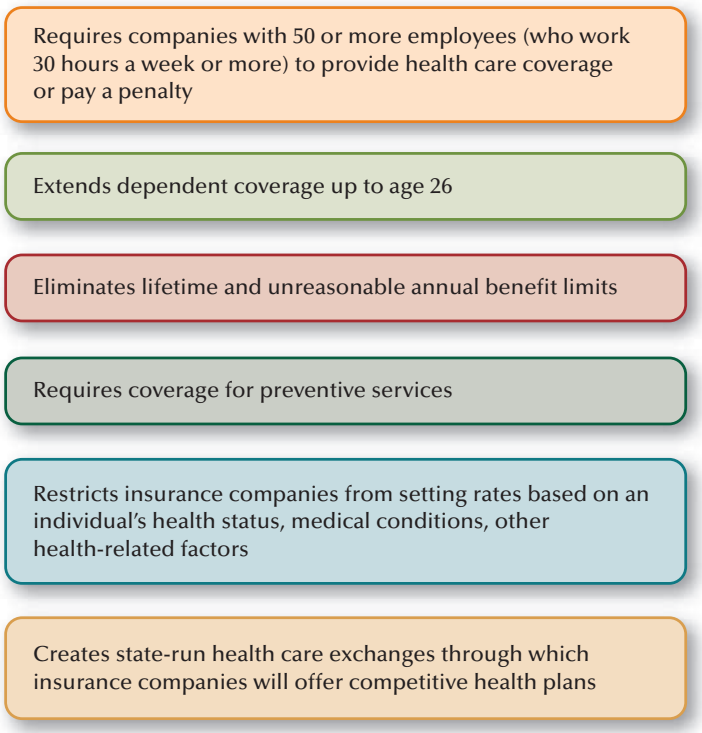
FIGURE 12-8 Key Provisions of the Affordable Care Act



Key Provisions The PPACA includes many important provisions intended to provide affordable health care for all citizens. Although the original legislation required every individual to obtain health care coverage, that provision was eliminated in 2017 as part of the tax reform bill.[61] Key elements of the law are highlighted in Figure 12-8, and more details are provided in the next sections.

12-7c Employer-Sponsored Plans

ETHICS

Companies with at least 50 full-time or full-time equivalent (FTE) employees who work at least 30 hours per week are required to offer minimum essential health care coverage to these workers and their dependent children (until they are 26 years old). Health care coverage must be affordable, and employee costs cannot exceed government-mandated levels. Employers that fail to provide adequate health coverage will pay an annual penalty of $2,320 per employee beyond the first 30 full-time workers.[62] As a result, some employers might cut staff or reduce hours to avoid providing coverage or paying penalties. Dropping health insurance plans, or hiring more part-time staff and/or decreasing the number of hours employees work in order to avoid providing health care coverage, can have a negative effect on attracting, motivating, and retaining employees. Companies should also be aware of the potential for customer backlash over the use of these cost-cutting approaches as this action could tarnish the company's brand.

Employers that provide high-cost ("Cadillac") health benefits to employees may face a 40 percent tax starting in 2020. Initially planned for implementation in 2018, Congress deferred the excise tax for two years. Individual plans that cost more than $10,200 and family plans that cost more than $27,500 would be subject to the tax. Many of these plans are part of negotiated benefits in labor union agreements and union leaders have been vocal opponents of the excise tax. Further, since health care costs are rising in general, many additional plans may fall under this tax provision in the future. Unless acted on by legislators, generous health care plans will become even more costly to employers.[63]

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While employer-sponsored health coverage is still a tax-favored benefit, employers must report the value of this coverage on employees' W-2 forms. During debates and negotiations on health care and tax reform, some members of Congress advocated for eliminating the tax-free nature of these plans.[64] This is a topic that benefits professionals and organization leaders should monitor and respond to if changes are proposed or enacted.

12-7d Controlling Health Care Benefit Costs

Employers offering health care benefits are taking a number of approaches to control and reduce their costs. As shown in Figure 12-9, the most frequently used strategies include the following:[65]

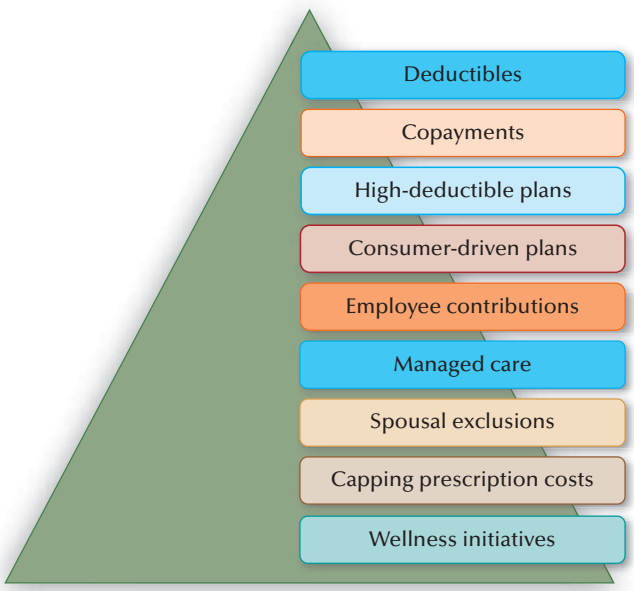
- Increasing deductibles and copayments
- Instituting high-deductible plans
- Offering consumer-driven health plans
- Increasing employee contributions
- Using managed care
- Limiting family coverage; excluding spouses
- Managing prescription drug costs
- Increasing health preventive and wellness efforts

Deductible
Money paid by an insured individual before a health plan pays for medical expenses

Increasing Employee Cost Sharing Eliminating "first dollar" coverage and raising deductibles mean that the employee must more actively participate in the purchase of health care services. A **deductible** is money paid by an insured individual before the medical plan pays for medical expenses. Employers that raise the per-person deductible from $300 to $500 realize significant savings in health care expenses because employees use fewer health care services and prescription drugs. The average deductible in 2015 was $386, a full $269 increase from just a decade earlier.[66]

The use of high-deductible plans has increased in recent years. The programs are often relatively inexpensive, but patients must pay high deductibles that are often $1,000 or more before

FIGURE 12-9 Health Care Cost Control Measures



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coverage begins. Employees who enroll in these plans are also able to set aside their own money in a health spending account to pay for their expenses. A **health spending account** is a tax-favored savings plan to provide funds for paying medical expenses. These plans are subject to a number of regulations and limits and are available only to individuals in high-deductible health care plans.[67]

Health spending account
A tax-favored savings plan to provide funds for paying medical expenses

High deductible plans can also be combined with other types of savings plans to create a **consumer-driven health (CDH) plan**, which is a health plan that provides employer financial contributions to employees to help cover their health-related expenses.[68] CDH plans may represent the wave of the future as they give employees ownership of their health care dollars. Many more large and small companies are indeed offering such programs.

Consumer-driven health (CDH) plan
Health plan that provides employer financial contributions to employees to help cover their health-related expenses

Copayments are the portion of medical expenses paid by an insured individual for medical treatment. For example, the health plan may require a fixed $30 copay for each physician visit. Alternatively, the copay may be based on a percentage, such as 20 percent, of medical treatment costs up to a set dollar amount. Companies can increase the fixed copay amount, increase the percentage, or increase the dollar amount that employees share for costs.

Copayments
The portion of medical expenses paid by an insured individual for medical treatment

Increasing Employee Contributions Employees are usually required to pay a portion of the monthly premium to maintain health care insurance. On average, single employees pay $1,200 per year while employees with family coverage pay $5,700 per year in premiums.[69] Workers in the private sector pay substantially higher premium costs than those in the public sector.[70]

Using Managed Care Several other types of programs attempt to reduce health care costs paid by employers. **Managed care** consists of approaches that monitor and reduce medical costs through restrictions and market system alternatives. Managed care plans emphasize primary and preventive care, the use of specific providers that charge lower prices, restrictions on certain kinds of treatment, and prices negotiated with hospitals and physicians. Preferred provider organizations (PPOs) and health maintenance organizations (HMOs) are the most common forms of managed care.

Managed care
Approaches that monitor and reduce medical costs through restrictions and market system alternatives

Spousal Exclusions Spousal exclusion provisions limit access to a company's health plan when an employee's spouse works for another company that offers health insurance. Companies may charge a premium surcharge to enroll the spouse or require that the spouse enroll in his or her own employer's plan. Approximately 27 percent of employers have adopted these restrictions.[71]

Prescription Drug Plan Management Since prescription drug cost inflation has outpaced general inflation for a number of years, companies are working to rein in these expenses. Many companies separate their prescription drug coverage from the general health care plan to better monitor and manage these costs. A common strategy is to provide different levels of coverage for various medications. Generic medicines might be provided at little to no cost to the patient while brand-name drugs may carry a higher price tag. Companies may also utilize mail-order pharmacy plans to reduce the dispensing fees associated with prescription medications.[72] Since over 55 percent of Americans take at least one prescription medicine, the costs associated with pharmacy benefits should be closely watched and benefits managers should actively seek alternatives.[73]

12-7e Wellness Initiatives and Other Innovative Health Care Programs

A major strategy of cost reduction is wellness programs that focus on improving worker health. Preventive measures and wellness efforts can take many forms. Many employers offer programs to educate employees about health care costs and how to reduce them. Newsletters, formal classes, and many other approaches are designed to help employees understand why health care costs are increasing and what they can do to control them. Employees receive incentives to use wellness facilities and to participate in health-related programs.

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Approximately 50 percent of employers offer some type of wellness programs to encourage employees to live a healthy lifestyle and to focus on cost savings when making decisions about their health care.[74] Many plans are broadening the definition of "wellness" to include social, financial, and behavioral health programs in a more holistic approach to employee well-being.[75] **Well-being** represents the overall level of employee physical, mental, financial, and social wellness. Creating a "culture of well-being" and involving workers' family members in these efforts can go a long way toward lowering health care costs, improving lives, and increasing employee productivity and engagement.[76]

Well-being
The overall level of employee physical, mental, financial, and social wellness

ETHICS

However, there are some challenges associated with the use of health and wellness programs to more effectively manage health care costs. Although these initiatives are intended to save money, they pose some ethical issues because employees may feel that their employer is invading their personal privacy or putting cost savings before individual freedom when they request health information as part of wellness programs. This may be particularly true regarding information about family members' health status and issues. Another concern is that employees might not feel comfortable participating in exercise sessions and wellness activities with their coworkers because these activities can be overly competitive and can invite individuals to judge each other.[77]

Recent court decisions and EEOC guidelines regarding incentives to motivate employees to sign up for wellness program have created uncertainty and confusion for employers.[78] While some incentives are permitted, companies must be careful not to violate the Americans with Disabilities Act (ADA), the Health Insurance Portability and Accountability Act (HIPAA), or the Genetic Information Nondiscrimination Act (GINA). A bill was introduced in Congress to clarify the issues, but as of yet it has not been voted into law. Balancing individual privacy concerns with corporate cost-saving initiatives can blur ethical lines; therefore, companies should carefully assess any wellness programs before implementing them to ensure employee concerns are considered. See the following "HR Competencies & Applications: Well-Being Leads to Higher Productivity" feature to learn how companies and employees benefit from investments in employee wellness.

12-7f Health Care Legislation

The importance of health care benefits to employers and employees has led to the creation of a variety of federal and state laws. Several laws have been enacted to provide protection for employees who leave their employers, either voluntarily or involuntarily. To date, the two most important laws that govern issues related to the protection of former workers are COBRA and HIPAA.

COBRA Provisions The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 requires that most employers with 20 or more full-time and/or part-time employees offer extended health care coverage to certain groups of plan participants. These *qualified beneficiaries* are as follows:[79]

- Employees who voluntarily quit or are terminated
- Widowed or divorced spouses and dependent children of former or current employees
- Retirees and their spouses and dependent children whose health care coverage ends
- Any child who is born or adopted by a covered employee
- Other individuals involved in the plan such as independent contractors and agents/directors

Qualifying event
An event that causes a plan participant to lose group health benefits

A **qualifying event** is an event that causes a plan participant to lose group health benefits. Typically, reduction in work hours or loss of employment constitutes a qualifying event for employees. Divorce or death of an employee constitutes a qualifying event for covered family members. When a qualifying event occurs, a complex notification process begins. There are a number of deadlines that the company and the employee must meet to comply with COBRA requirements.

The qualified beneficiary must pay the full cost of premiums plus a 2 percent administrative charge. The premiums generally fall short of the true cost of providing this coverage since adverse selection often occurs. Compliance with COBRA regulations can be very complicated, and noncompliance with the law can lead to lawsuits and substantial penalties. Consequently, COBRA requirements often mean additional paperwork and related costs for

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HR

COMPETENCIES & APPLICATIONS

Well-Being Leads to Higher Productivity

In the past, many companies offered employee wellness programs to improve worker health and fitness. While those programs are certainly valuable, progressive firms now recognize that employee well-being is a more comprehensive concept that includes social, financial, mental and physical health elements. It turns out that improving employee well-being positively affects employee wellness, while also increasing employee engagement and productivity. The average company can reduce people-related costs by over $1,600 per employee due to decreases in sick days and disability leaves.

Here are some ways in which a company can address employee well-being:

- *On-site fitness programs*: Primarily focused on physical fitness, these programs can also include yoga classes and stress-management workshops.
- *Flexible work arrangements*: Offering flexibility to employees can reduce their stress and boost their productivity and morale.
- *Mindfulness training*: Meditation, breathing, and yoga may help employees to focus on the present, which can improve efficiency and reduce stress.
- *New parent career coaching*: Helping new parents adjust to the new demands on their time and energy can lead to better work–life integration for employees.
- *Financial education*: Money, budgets, retirement planning, and other financial issues can be addressed through seminar and workshops to help relieve employee stress and anxiety.
- *Access to healthy food*: Providing organic, processed-free foods for employees at a reasonable cost in company cafeterias can boost health and energy.
- *Promote healthy sleep habits*: Lack of sleep is a major health issue, so providing quiet rooms or nap spaces can help employees recharge during the day.[80]

As evidenced by these examples, companies can promote health care with a number of well-being programs that are innovative, supportive, and educational. HR professionals can take on a leadership role in the development of these policies, which positions HR as a key player in the promotion of well-being in the workplace. Given these opportunities to enhance employee wellness, consider the following questions:

1. How would you rate these well-being initiatives in terms of their value to employees? How might an organization implement and promote any of these ideas?
2. What evidence or data would HR professionals need in order to obtain top management buy-in to offer these kinds of programs? If you were an HR professional, what would you do to promote health care in your organization?

KEY COMPETENCIES: Consultation (Behavioral Competency) and Workplace (Technical Competency)

many employers. COBRA administration is frequently outsourced to a TPA that has expertise and data management capabilities.

HIPAA Provisions HIPAA allows employees to switch their health insurance plans when they change jobs and to enroll in health coverage with the new company regardless of pre-existing health conditions. The statute also prohibits group insurance plans from dropping coverage for a sick employee and requires them to make individual coverage available to people who leave group plans.

One of the greatest impacts of HIPAA comes from its provisions regarding the privacy of employee medical records. These provisions require employers to provide privacy notices to

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employees and to carefully store sensitive employee personal information. They also regulate the unauthorized disclosure of protected health information. While many violations are committed by health care providers, employers also deal with personal health information and must take steps to ensure that this information is secured and not disclosed, intentionally or accidentally. Fines can be as low as $100 per violation for inadvertent noncompliance up to $50,000 per violation for willful neglect or noncompliance.[81] Maintaining employee personal information securely and limiting access on a "need to know" basis can prevent violations and the resulting fines.

12-7g Dental and Vision Coverage

Additional health benefit programs frequently include coverage for dental and vision care expenses. Employees typically pay a portion of the premium for dental and vision plans. These plans often emphasize preventive care. Semiannual dental visits and annual optometry visits may be covered in full or at minimal cost to the employee.

LO6 Describe the growth of financial, family-oriented, and time-off benefits and their importance to employees.

12-8 Financial Benefits

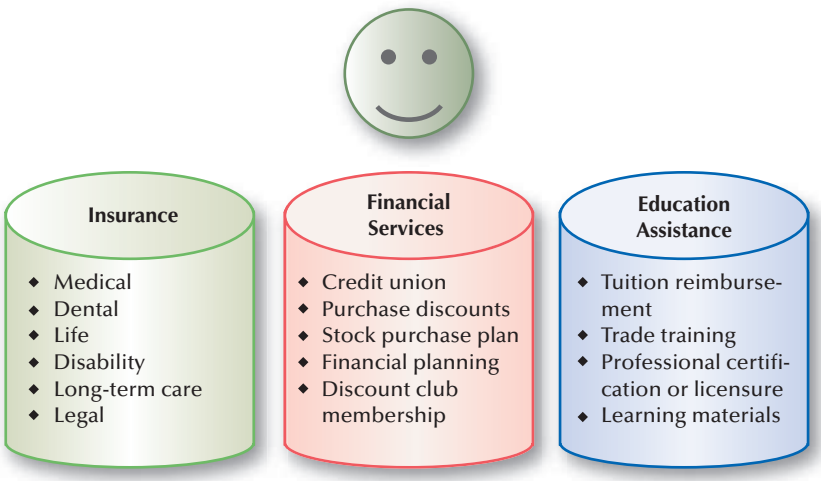
Companies may offer employees a wide range of special benefits that provide financial support and security. Figure 12-10 illustrates some common financial benefits. Employers find that such benefits can be useful in attracting and retaining employees. Workers like receiving these benefits, which are often not taxed as income.

12-8a Insurance Benefits

In addition to health care insurance, some companies provide other types of insurance. These benefits offer major advantages for employees because employers may pay some or all of the costs. Even when employers do not pay any of the costs, employees still benefit because of the lower rates available through group programs. The most common types of insurance benefits are the following:

- *Life insurance*: A typical level of coverage is one and one-half or two times an employee's annual salary.
- *Disability insurance*: Both *short-term* and *long-term disability insurance* provide continuing income protection for employees who become disabled and are unable to work.

FIGURE 12-10 Common Types of Financial Benefits



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- *Long-term care insurance*: Usually voluntary, these plans allow employees to purchase insurance to cover costs for long-term health care in a nursing home, assisted-living facility, or at home.
- *Legal insurance*: In these plans, employees (or employers) pay a flat fee for a fixed number of hours of legal assistance each month. In return, they have the right to use the service of a network of lawyers to handle their legal problems.

12-8b Financial Services

Financial benefits include a wide variety of items. A *credit union* sponsored by the employer provides savings, checking, lending, and other financial services for employees. *Purchase discounts* allow employees to buy goods or services from their employers at reduced rates, often at a company store. *Discount programs* and *club memberships* may also be offered to allow employees to purchase goods from local vendors or "club" stores at lower rates. The programs are inexpensive for companies to implement and are viewed positively by employees.[82]

Stock purchase plan
Plans where employees may buy shares in the company at a discount, or the company pays the brokerage fees

To facilitate employee investment and savings, stock purchase plans may be offered to workers. In a **stock purchase plan**, employees may buy shares in the company at a discount, or the company pays the brokerage fees. This type of plan allows employees to benefit from the future growth of the corporation with the intention of increasing employee loyalty to the organization and interest in its success.

Financial planning and *counseling* can be important services, especially for Millennial workers and those nearing retirement. Financial wellness programs are being offered by more companies as they expand beyond focusing solely on encouraging employees to participate in 401(k) plans. In fact, 59 percent of employers report that they recognize that financial stress can distract workers and lead to lowered well-being. So, they are using mobile apps, social media, and in-person meetings to educate and assist their employees in managing their personal finances.[83] For example, IBM offers its Money Smart financial literacy program to assist employees with various financial decisions like estate planning, college savings, home purchase planning, and debt management.[84]

The Financial Literacy and Education Commission has developed a variety of free resources that individuals or employers can use to boost financial wellness. The website, www.mymoney.gov, offers advice and planning tools that build financial literacy and confidence. Companies with limited budgets for benefit plans can utilize this website to provide important information to their employees. The following "HR Perspective: Cooking Up Financial Health" feature showcases how Original Rudy's Country Store and Bar-B-Q help its employees to be more financially literate.

Relocation Assistance Relocation benefits are offered by many firms. Companies may pay for temporary living expenses and moving expenses and help a "trailing spouse" find a job. Numerous other financial-related benefits may be offered as well, including the use of a company car, company expense accounts, and assistance in buying or selling a house.

12-8c Education Assistance

Another benefit that is popular with employees is education assistance and tuition aid, which pays some or all of the costs of formal education courses and degree programs. Many employers offer some form of education assistance to their employees. Fiat Chrysler partnered with Strayer University and offers college courses tuition-free to its employees and family members. The company implemented the program to reduce employee turnover at dealerships.[85] McDonald's recently "supersized" its tuition assistance program by lowering eligibility requirements to employees who work as little as 15 hours per week and have been employed at least 90 days. They further tripled the maximum tuition reimbursement to $2,500 from the previous $700 benefit level. The company is hoping that these more-generous benefits will help it attract and retain employees.[86]

The influx of recent college graduates with student loans is prompting some employers to provide student debt relief benefits. The average student graduates college with nearly $30,000 in loans to repay. This debt burden weighs heavily on the minds of employees and prevents them from living

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HR PERSPECTIVE

Cooking Up Financial Health

Barbecue is serious business in Texas, and Original Rudy's Country Store, and Bar-B-Q not only takes its restaurants seriously, but it also takes the financial acumen of its employees seriously. The 27-year business has 130 employees and operates in three locations in San Antonio. A few years ago, the company's president decided to offer a financial wellness program to the restaurant employees. Topics included in the program are the basics of money, how to budget, how to create an emergency fund, and how to handle debt. The HR director, Sandra Devol, said that they decided to offer the program because most of their associates didn't know how to budget and were living paycheck to paycheck. Many of them had expensive payday loans. The company pays well, so they knew that employees were earning a decent living. However, they were not handling their finances well.

Major reasons why employers don't offer financial wellness programs include not knowing how to start one, not seeing it as a priority, or lacking internal resources. The company adopted an off-the-shelf personal finance program called SmartDollar (https://www.smartdollar.com/business/how-does-it-work). While many companies offer this program as an option, Rudy's decided to go "all in" and make the program mandatory for all employees. The program got off to a rocky start when it was first implemented because it can be difficult for people to discuss their finances. As an incentive, the company owner raffled off $1,000 to be split among four associates who were active participants to help them pay down personal debt.

Over time, the program has progressed. Various incentives are offered throughout the year to keep employees engaged and excited about it. Back-to-school cash awards, cash for Christmas, and scholarships have all been included to maintain interest and show the company's support. Employees who have done well in their planning help those who are new to the program or still struggling to get their finances under control.

Rudy's employees are not unique in their reluctance to join in the financial education program. The three major emotions people often feel around money are fear, shame, and cynicism. Company managers therefore shared their own personal stories of financial struggles to reduce employees' anxiety. Rudy's offers the course in its facilities in a classroom setting. The company size is ideal for this type of face-to-face training as it gives everyone a chance to participate during class sessions.

In addition to the SmartDollar program, Rudy's also offers a 401(k) plan and a healthy eating wellness program. The results of the program have been great. The 127 employees who have participated have paid down over $500,000 in debt and have saved over $568,000 in the two years since the program started. The company has also experienced lower medical costs and lower absenteeism.[87]

Based on the program at Rudy's, answer the following questions:

1. Do you think requiring participation in financial literacy programs is a good idea? Why or why not?
2. Would you participate in such a program if your employer offered one? Would you need some incentive (financial or otherwise) to participate? If so, what type of incentive would entice you?

independently and fully engaging in their work.[88] Signing bonuses for student debt, matching loan payments, or financial planning would be attractive enticements and over 80 percent of surveyed workers indicate that they would utilize these benefits.[89] Office supply retailer, Staples, recently rolled out a plan to pay top performers a monthly $100 loan repayment stipend for up to three years. The company plans to offer the benefit to additional groups of employees in the future.[90]

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12-8d Severance Pay

Companies may provide severance pay to individuals whose jobs are eliminated or who leave the company by mutual agreement. While the Worker Adjustment and Retraining Notification Act (WARN Act) of 1988 requires employers to give 60 days' notice of mass layoff or plant closings, it does not mandate severance pay. The amount of severance pay is often determined by an employee's level within the organization and years of service with the company. Some employers provide continued health insurance or outplacement assistance as part of the severance package.

There are some financial issues that should be considered when offering severance payments. Severance payments are considered taxable income for FICA calculations so Social Security and Medicare contributions must be withheld. Severance pay may also affect the unemployment benefits received by former employees. Much of this is determined by how states treat severance payments, how the company specifies these payments, and how the company policies are implemented.[91] HR professionals and managers should consult state guidelines when instituting severance pay.

12-9 Family-Oriented Benefits

The composition of families in the United States has changed significantly in the past few decades. Two-earner families and single-parent households are now the norm. Workers therefore seek out companies that balance work and nonwork obligations and offer family-friendly benefits. To enhance the recruiting and retention of high-quality talent, employers have established a variety of family-oriented benefits. The chapter opening Headline case "Thinking Outside of the Box" describes how one company has focused on providing family-focused benefits. A major legal requirement regarding family-oriented benefits is the Family and Medical Leave Act (FMLA), which provides for unpaid leaves of absence.

12-9a Family and Medical Leave Act

The FMLA was enacted in 1993 and has been amended several times. It covers all federal, state, and private employers with 50 or more employees who live within 75 miles of the workplace. Only employees who have worked at least 12 months and 1,250 hours in the previous year are eligible for leave under the FMLA. The law provides for unpaid leave; however, some companies pay short-term disability benefits during FMLA leaves under certain conditions.

FMLA Leave Provisions The law requires employers to allow eligible employees to take a maximum of 12 weeks of unpaid, job-protected leave during any 12-month period for the following situations:[92]

- Birth of a child and care for the newborn within one year of birth
- Adoption or foster care placement of a child
- Caring for a spouse, child, or parent with a serious health condition
- Serious health condition of the employee
- Military family members who must handle the affairs for military members called to active duty
- Twenty-six weeks leave to care for a military servicemember injured while on active duty

Serious health condition
An illness or injury that requires inpatient care or continuing treatment by a health care provider for medical problems that exist beyond three days

A **serious health condition** is an illness or injury that requires inpatient care or continuing treatment by a health care provider for medical problems that exist beyond three days. An *employer* may require a medical certificate from a health care provider to support the reason for the employee's leave. The Department of Labor has issued many guidelines regarding FMLA employee leaves, as shown in Figure 12-11.

The FMLA has been revised since its enactment. Noteworthy revisions were made in 2009 regarding military servicemembers and their families. Expanded coverage allows families of injured active military servicemembers to take caregiving leave for up to 26 weeks to assist servicemembers

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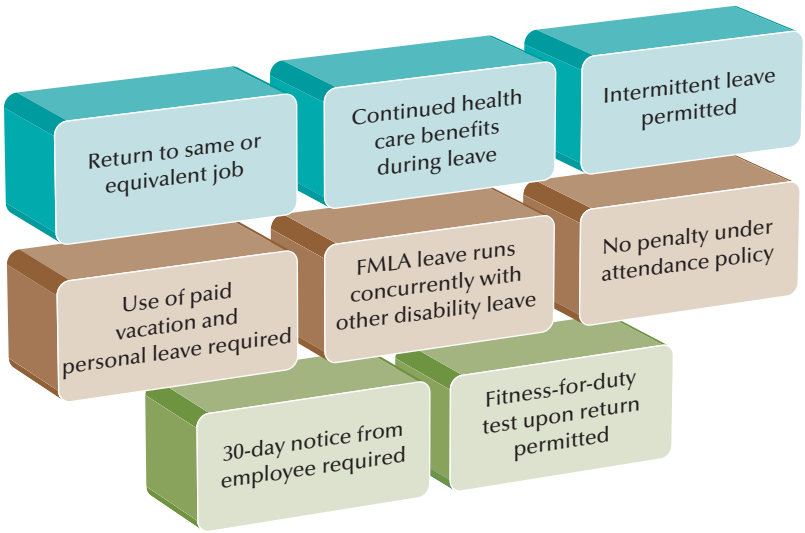
FIGURE 12-11 Guidelines Regarding FMLA Administration



Source: http://www.dol.gov/whd/fmla.

who were injured on active duty. The law was further expanded to help families of National Guard or Reserves personnel manage their affairs while the member is on active duty in support of a contingency operation.

Impact of the FMLA Since the enactment of the FMLA, employees have used it more than 100 million times.[93] Although FMLA leave is unpaid, employers have to cover the workload for employees on family leave. Currently, paid leave is required for employers in California, New Jersey, and Rhode Island. Several cities have also instituted paid leave requirements. There has been discussion in the federal legislature about mandating paid leave, but to date that has not been implemented.[94]

There is sometimes concern that employees who use such leave might abuse the excused time off or obtain leave under fraudulent conditions. This is certainly an area where HR and line managers must work closely together. Further, line managers should receive training in the provisions of FMLA along with company policies related to leaves of absence.[95] FMLA is complex and it is important that every organization has an individual who is knowledgeable about the nuances of its application. Penalties for violation FMLA can include back pay, front pay, reinstatement, attorney fees, and other costs. As many employees seek to balance work demands with family and medical situations, significant demands have been placed on HR professionals to ensure compliance with FMLA provisions.

12-9b Family-Care Benefits

Family issues are important for many organizations and workers. Companies may offer work–life balance options to all employees regardless of family status. A variety of family benefits can be provided.

Adoption and Fertility Benefits A number of employers provide maternity and paternity benefits to employees who give birth to children, primarily paid time off. Some employees adopt children, and in the interest of fairness and life enrichment, some organizations provide specific benefits to support adoption. Over half of employers now offer adoption benefits that provide $7,000 of financial assistance on average.[96] An emerging trend in family-care benefits is assistance with infertility issues. A recent survey showed that 66 percent of employers plan to offer fertility

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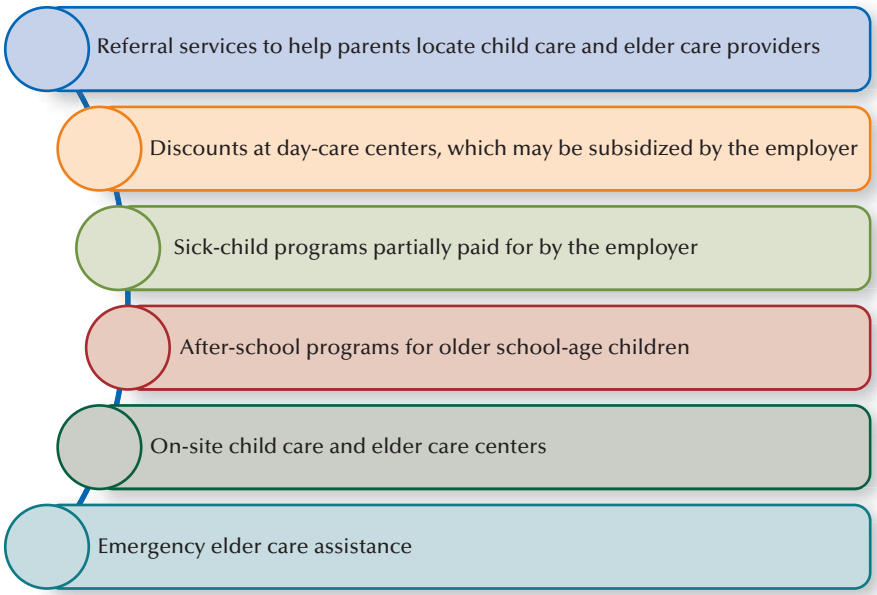
FIGURE 12-12 Child Care and Elder Care Programs



treatments by 2019. Since in-vitro fertilization procedures can cost well over $10,000, financial assistance may be highly valued by employees who need this benefit.[97]

Caregiver Assistance Balancing work and family responsibilities is a major challenge for many workers. Whether they are single parents or part of dual-career couples, employees often experience difficulty obtaining high-quality, affordable child care. Further, employees may be "sandwiched" between raising their own children and caring for aging parents. Figure 12-12 highlights programs to help employees deal with child-care and elder-care issues. These programs can be beneficial to companies because they can enhance employees' work attitudes and retention. The following "HR Perspective: Banking on Maternity Assistance" demonstrates one bank's unique maternity concierge services for its employees.

12-10 Paid-Time-Off Benefits

Paid time off represents a significant portion of total benefit costs. Employers give employees paid time off for a variety of reasons. Paid lunch breaks and rest periods, holidays, and vacations are common. But time off is given for many other purposes as well, including various leaves of absence. Employees place high value on paid time off, and some prefer time off rather than extra pay.

12-10a Vacation Pay

Paid vacations are a common benefit. Employers often use graduated vacation time scales based on employees' lengths of service. Some companies have a "use it or lose it" policy whereby employees forfeit any vacation not used during the year. Other companies have policies to buy back unused vacation time, or they allow employees to donate unused vacation days to a pool that can be used by other workers. And, a small percentage of companies offer unlimited vacation time. Despite the obvious attractiveness of such a program, it often results in employees actually taking fewer vacation days then when a fixed policy is in place. The key to making unlimited vacation plans work is to establish a high level of trust, specify clear, measurable performance outcomes, and require a minimum amount of time away from work.[98]

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HR PERSPECTIVE

Banking on Maternity Assistance

Cincinnati-based Fifth Third Bank noticed that employees who have taken maternity leave in the prior year leave the company at nearly twice the rate of all female employees. Since 60 percent of the bank's 18,000 employees are women, the bank had a real incentive to provide better options to help women through the exciting but stressful time of having a baby. Further, the bank has a goal of increasing the percentage of women in leadership positions. If new mothers stay home rather than returning to work, the bank's leadership goals will be more difficult to achieve.

Fifth Third heard from new mothers that the overwhelming tasks associated with new parenthood were causing anxiety and career issues. Distractions related to new motherhood affected their employees and made it difficult for them to concentrate while at work. Enter the maternity concierge. The bank introduced a concierge service for expectant and new mothers. Employees can access the services for up to two years. Fifth Third contracted this service out to Best Upon Request, a vendor that specializes in maternity assistance. Best Upon Request hires and trains the employees, and the bank pays for the service. Nearly 200 employees have participation in the program since it was introduced. The company has invested over six figures in the program.

The maternity concierge can handle a wide range of tasks for the new or expectant mother. Everything from scheduling baby showers, arranging for photographers, and designing and ordering birth announcements can be included in the concierge's job description. They can even plan "reveal" parties where expectant parents unveil the gender of the baby. Further, they have expertise in recommending strollers, ordering breast pumps, and investigating child care services. Think of the time that can be saved when the new mother can delegate some of these tasks to an individual with knowledge about the many details in welcoming the new arrival.

Mothers receive between six to eight weeks of fully paid maternity leave. And the company recently rolled out a four-week paid parental bonding leave for both new mothers and fathers. This is in addition to the mother's maternity paid leave time. New mothers in the program refer to the concierge as "their mom"—they see the concierge as a trusted, capable assistant who provides valuable help at a time they need it most.[99] Consider the following questions about Fifth Third Bank's maternity concierge program:

1. Do you think companies should be involved in family matters such as maternity planning and adjustment? Do you think that offering such services would be attractive to both male and female employees?
2. What kind of maternity planning support do you think organizations should offer employees? What kinds of cost constraints do you think should be considered?

12-10b Holiday Pay

Most employers provide pay for a variety of holidays. Employers in the United States commonly offer fewer paid holidays than those in many other countries. The number of paid holidays can vary depending on state/provincial laws and union contracts.

As an abuse-control measure, employers can require employees to work the last scheduled day before a holiday and the first scheduled workday after a holiday to be eligible for holiday pay. Some employers pay time-and-a-half to hourly employees who must work on holidays.

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12-10c Leaves of Absence

Employers grant *leaves of absence*, taken as time off with or without pay, for a variety of reasons. All the leaves discussed here add to employer costs even if they are unpaid because the missing employee's work must be covered, either by other employees doing extra work or by temporary employees working under contract.

Leaves are given for a variety of reasons. Some, such as *military leave* and *jury leave*, are required by various state and federal laws. Employers can pay the difference between the employee's regular pay and the military or jury pay. Federal law prohibits discriminating against military reservists by requiring them to take vacation time when deployed or in training.

Funeral leave, or *bereavement leave*, is another common type of leave offered. An absence of up to three days for the death of immediate family members is often granted. Some policies also allow unpaid time off for the death of more distant relatives.

Family Leave As mentioned earlier in the chapter, the FMLA guarantees unpaid leave for certain family and medical reasons. Even though *paternity leave* for male workers is available under the FMLA, a relatively low percentage of men take it. The primary reason for the low usage is a perception that it is not as socially acceptable for men to stay home for child-related reasons. This view has begun changing as Gen X fathers are participating more actively in childrearing duties.

Sick Leave Many employers allow employees to miss a limited number of days because of illness without losing pay. The majority of U.S. workers receive paid sick leave. Some employers allow employees to accumulate unused sick leave, which may be used in case of catastrophic illnesses. Others pay their employees for unused sick leave. If an organization does not pay workers for sick time, it might be encouraging them to come to work when they are ill, causing lower productivity, or spreading illness and disease.

Individuals who work for federal contractors are entitled to 56 hours of paid sick leave per year as a result of Executive Order 13706. Absences must be substantiated with appropriate medical documentation similar to those required for FMLA authorization.[100] Several states including Arizona, California, Connecticut, Massachusetts, Oregon, and Vermont require employers to provide some paid sick leave.[101] Since a company may operate in numerous cities or states, it is important to be aware of all specific requirements in each location.

12-10d Paid-Time-Off Plans

Paid-time-off (PTO) plans
Plans that combine all sick leave, vacation time, and holidays into a total number of hours or days that employees can take off with pay

A growing number of employers have made use of a **paid-time-off (PTO) plans**. These plans combine all sick leave, vacation time, and holidays into a total number of hours or days that employees can take off with pay. Many employers have found PTO plans to be more effective than other means of reducing absenteeism, scheduling time off, increasing employee understanding of leave policies, and assisting with recruiting and retention.

12-10e Employee-Paid Group Benefits

To combat the high cost of benefit programs, some companies offer employees the opportunity to purchase benefits through payroll deductions. The cost for these benefits is typically less than if the employee purchased them on his or her own because the buying power of the group reduces the cost.

Adding employee-paid voluntary benefits is becoming a popular and cost-effective strategy for many companies. It is part of a trend that gives employees choices but also makes them responsible for selecting and funding the benefits they find valuable. In particular, employees are willing to pay for the cost of income protection insurance in the case of disability. Other employee-paid benefits include pet health care insurance, critical illness coverage (cancer care), and supplemental life insurance. Payroll deductions make employee participation in these plans convenient and simple.

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SUMMARY

- Benefits provide additional compensation to employees as a reward for organizational membership.
- Since benefits are generally not taxed, they are highly desired by employees.
- Benefit design and cost-control actions are crucial to strategic benefit efforts.
- Companies in most nations outside the United States are required to provide more generous benefits for their employees than are companies in the United States.
- Public-sector employees in the United States frequently receive richer benefits than employees working in the private sector.
- Benefits can be viewed as mandatory or voluntary. The general types of benefits include security, health care, retirement, financial, family oriented, and time off. Benefit administration is often outsourced to third-party administrators.
- Major legally required benefits are Social Security, Medicare, workers' compensation, and unemployment compensation.
- Organizations provide retirement benefits through defined benefit or defined contribution plans. Use of defined contribution retirement plans is growing.
- Retirement programs are governed by several federal laws, including ERISA and ADEA.
- Recent federal legislation requires employers to provide health care benefits to their employees.
- Since health care benefit costs have increased significantly, employers are managing their health benefit costs more aggressively by increasing employee copayments and employee contributions, limiting spousal coverage, using managed care, and switching to consumer-driven health (CDH) plans.
- Federal laws allow former employees to continue their group medical insurance after leaving employment and limit the use of pre-existing condition limits for new plan participants.
- Various types of financial services, insurance benefits, relocation assistance, education assistance, financial literacy programs, and other benefits enhance the appeal of an organization to employees.
- Family-oriented benefits include complying with the Family and Medical Leave Act (FMLA) of 1993 and offering adoption benefits, child-care assistance, and elder-care assistance.
- Holiday pay, vacation pay, various leaves of absence, and paid-time-off plans are another means of providing benefits to employees.

CRITICAL THINKING CHALLENGES

1. Why are benefits strategically important to employers, and what are some key strategic considerations?
2. Discuss the following statement: "Health care costs are out of control in the United States, and increasing conflicts between employers and employees are likely as employers try to reduce their health benefit costs."
3. Assume that as an HR staff member, you have been asked to research consumer-driven health (CDH) plans because your employer is considering implementing one. Go to a leading benefits information resource, *Employee Benefit News*, at www.benefitnews.com, and identify elements of a successful CDH plan and some examples of firms that use such a plan.
4. Based on the information discussed in the chapter, how would you oversee the design (or redesign) of a benefits program in a large organization? What issues would you consider?
5. Your company now has more than 60 employees. The controller has been handling all of the HR functions, including administration of the company's benefits. You are considering outsourcing the benefit administration function to enable the controller to focus more on the company's accounting needs. Information to assist you in determining the type of services that would best meet the company's needs can be found at www.corbanone.com.

   A. What are the differences between the services offered by a Human Resources Outsourcing (HRO), Administrative Service Organization (ASO), and Professional Employer Organization (PEO)?
   B. Based upon the company's size and the types of benefits offered, which service will best meet the needs of the company?

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CASE The City in Red

Houston is among a number of cities that are facing major issues in funding their employee pension benefits. With oil prices falling over the past few years, the city's coffers have been negatively affected. Voters recently approved a cap on property taxes in Texas' largest city. This means that city officials will have difficulty in raising enough revenue to pay all of the costs of running the city. Houston's problems are echoed in Dallas, which has similar issues.

City employees, firefighters, and police officers are all members of various labor unions with collective bargaining agreements that include substantial defined benefit retirement payments. Making any changes to the benefit structure requires negotiating with the labor unions and agreement of the membership. Since the benefits have been a part of employee compensation schemes for many years, it can be difficult to obtain their agreement on lowering their pension payments.

Houston and Dallas city officials have not made payments to their pension funds at a sufficient level to adequately fund employee pension obligations. Houston underfunded its pension over the past few years by nearly $100 million. Dallas is a smaller city than Houston, and the government tried to issue bonds and reduce benefits to cover its shortfall. But employees and their union representatives rejected that approach. Houston city officials were able to strike a deal that included employees contributing to the pension plan and accepting lower benefits. The inevitability of a financial crisis in the city of Houston allowed city leaders to obtain an agreement for sharing the burden of getting the pension plan in reasonable financial condition.

Since pension obligations are so extensive, these two Texas cities have found it difficult to hire police officers, repair potholes, and carry out other routine operations in the city. In addition to the ballooning obligation, investment returns have fallen short of expectations. In recent years, most investment funds have earned far below the 8 percent that is built into funding plans. This increases the gap between funds available and benefits promised. For instance, Chicago city officials' inability to address their pension funding gap means that the city can pay for only one-quarter of the benefits it has promised. Therefore, Houston and Dallas can see what will come next if they are unable to address their funding gap in public pensions.[102]

QUESTIONS

1. How would you address this pension funding crisis if you were a city official in Houston or Dallas? How would you address this problem if you were a member of one of the public unions?
2. What might city residents/citizens do to prevent such problems from occurring? What are the potential challenges associated with your strategy?

SUPPLEMENTAL CASES

Limited Taps Technology to Communicate Benefits

This case describes how a company improved its communication with employees to explain their benefit plans. Since the retail chain's workforce is primarily young, part-time workers, the company utilized social media and technology to better reach out to employees and get them more engaged in the employee wellness and benefit plans. (For the case, visit MindTap® at www.cengage.com/login.)

Creative Benefits Tie Employees to the Company

This case investigates how a number of companies offer creative benefits to employees to enhance their work engagement and job performance. (For the case, visit MindTap® at www.cengage.com/login.)

Delivering Benefits

This case explores how FedEx provides benefits to its employees. (For the case, visit MindTap® at www.cengage.com/login.)

Benefiting Connie

This case describes the problems that can occur when trying to coordinate time-off leaves for employees. (For the case, visit MindTap® at www.cengage.com/login.)

Strategic Benefits at KPMG Canada

This case explores how KPMG Canada updated its benefit program by involving employees in the design process. (For the case, visit MindTap® at www.cengage.com/login.)

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SECTION 5

CHAPTER 13
Risk Management and Worker Protection

CHAPTER 14
Employee Rights and Responsibilities

CHAPTER 15
Union–Management Relations

CHAPTER 16
Global Human Resource Management

Employee Relations and Global Human Resource Management

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CHAPTER 13

Risk Management and Worker Protection

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Understand risk management and identify its components.

LO2 Discuss important legal areas regarding safety and health.

LO3 Outline the basic provisions of the Occupational Safety and Health Act of 1970 and recordkeeping and inspection requirements.

LO4 Recognize the activities that constitute effective safety management.

LO5 List three workplace health issues and highlight how employers are responding to them.

LO6 Define workplace security concerns and discuss some elements of an effective security program.

LO7 Describe the nature and importance of disaster preparation and recovery planning for HR.

WHAT'S TRENDING IN RISK MANAGEMENT AND WORKER PROTECTION

Health, safety, and security issues are becoming more important to employers and their workers as natural and manmade threats continue to challenge the workplace. Companies must be proactive in order to protect workers and other stakeholders from potential losses. Here are some leading trends in risk management and worker protection.

1. Workplace safety remains an important issue in organizations. The Occupational Health and Safety Administration (OSHA) has made it easier for companies to report safety information and incidents and is encouraging injury prevention programs.
2. Companies are introducing more wellness programs to decrease the costs of health care. Organizations are becoming more proactive by using "carrots" and "sticks" to incentivize workers and their families to adopt healthy practices. Health concerns such as the popularity of e-cigarettes and legalized marijuana in several states pose new challenges for employers that must determine how to control these substances in the workplace, while complying with a myriad of laws and regulations.
3. Data security breaches at many large retailers, financial institutions, and government agencies highlight the need for extreme vigilance on the part of everyone who handles data for organizations. New employment policies, screening practices, and other cybersecurity measures are being taken to prevent large-scale data theft and/or misuse.
4. Various types of workplace incivility, bullying, and violence are becoming common concerns in many business sectors. Employers should monitor their work cultures, develop policies that prevent such misconduct, and encourage managers and employees to effectively address misbehavior when it occurs.

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HEADLINE

Industries Pushed Around by Workplace Bullying

While the behavior is not always easy to define, workplace bullying involves different counterproductive acts that target individuals in organizations. Such misconduct includes generalized rudeness, hostility, sarcasm, teasing, and meanness. But it can also involve more serious forms of negative interaction such as spreading gossip, social isolation, aggression, intimidation, threats, and sabotage. Consequently, workplace bullying has the capacity to negatively impact employee morale in companies, leading to poor work attitudes and turnover.

According to many reports, workplace bullying is occurring more frequently in organizations. Evidence suggests an upward trend in the number of cases reported by employees, with incidences happening at much higher rates than many types of work harassment. Women tend to be the most common victims, but many times they are also the perpetrators; women tend to bully other women in more than half of the cases reported.

The situation can be even more challenging for managers who have to deal with these cases. While the EEOC recommends that companies provide employees incivility and bystander training to promote positive employee relations, there is currently no federal legislation that provides protection to employees. Additionally, only a few states have developed statutes to prevent workplace bullying. For instance, in California employers are required to provide managers and supervisors "abusive conduct" training as part of an effort to reduce all forms of harassment and bullying.

Certain industries appear to be particularly susceptible to workplace bullying, and this may be caused by a combination of the work and the individuals attracted to the jobs. For instance, occupations that are highly competitive, high-status, high-achievement, and/or stressful tend to encourage such misconduct, particularly when bullies get to work with individuals who are employed in lower-status jobs that provide support functions. Examples include the medical field, higher education, and hospitality work. Work in these sectors can also attract individuals who are highly

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competent and motivated, which may make them less tolerant of coworkers who are less capable. A corporate culture that focuses on a hierarchical structure and the use of power can also play a role in promoting bullying; the cultures commonly promoted in higher education, law enforcement, and nursing are good examples. Victims should take steps to confront bullies in these industries and make them aware of their misconduct. Managers must also evaluate company culture and take action when necessary to prevent bullying.[1]

LO 1 Understand risk management and identify its components.

Organizations can take steps to anticipate threats to business assets and operations. Understanding and preparing for these challenges is the focus of *risk management*. Even though managers may realistically have a limited capacity to predict future events and plan ahead, it is important to consider the possibilities for losses and disruptions and to develop a game plan to respond to these issues.

Planning and accounting for risk helps mitigate any potential negative impacts and enhances the capacity to realize possible opportunities. For instance, managers can use various approaches and frameworks to track organizational risks so that actions can be taken to reduce the likelihood of problems occurring. **Risk management** involves the responsibility to consider physical, human, and financial factors to protect both organizational and individual interests.

Risk management
Involves the responsibility to consider physical, human, and financial factors to protect organizational and individual interests

Risk management involves these essential issues:

- How big is the threat to our organization?
- How likely is the threat to occur?
- What options do we have to reduce its impact?
- What is the preferred course of action to prevent a major loss?[2]

Even though risk management is often a distinct business function, there are specific and separate risks associated with employees. In the United States and other developed nations, HR departments are included in the prevention, minimization, and elimination of workplace risks. These risk issues call for collaboration between risk managers and HR executives to develop plans that protect companies. When HR is involved in risk management, the organization may preserve both financial and human assets.

There are a variety of risk management issues linked to HR, including preventing accidents and health problems at work, protecting employees from workplace violence, and ensuring HR data security. Other issues can involve preparing for natural disasters, terrorist attacks, and global disease outbreaks. A major part of HR-based risk management in most organizations involves health, safety, and security, as shown in Figure 13-1. The terms *health*, *safety*, *and security* are closely related and—because they affect each other in practice—can often be considered together when policies are created. The broader and somewhat more nebulous term is **health**, which refers to a general state of physical, mental, and emotional well-being. A healthy person is free from illness, injury, or mental and emotional problems that impair normal human activity. Health management practices in organizations are focused on maintaining that overall well-being. For instance, a company might provide its workers and their families with preventive flu shots as part of a generalized health and wellness plan so that individuals are encouraged to be healthier.

Health
General state of physical, mental, and emotional well-being

Safety
Condition in which people's physical well-being is protected

Security
Protection of employees and organizational facilities from forces that may harm them

Typically, **safety** refers to a condition in which people's physical well-being is protected. The main purpose of effective safety programs in organizations is to prevent work-related injuries and accidents. For example, a manufacturing operation that involves saws and cutting tools would provide guards and devices to lessen the risk of harm to workers. Finally, the purpose of **security** is to protect employees and organizational facilities from forces that may harm them. With the growth of workplace violence and issues such as data breaches, terrorism, and sabotage, security has become a concern for both employers and employees. Education can help; for instance, an insurance company

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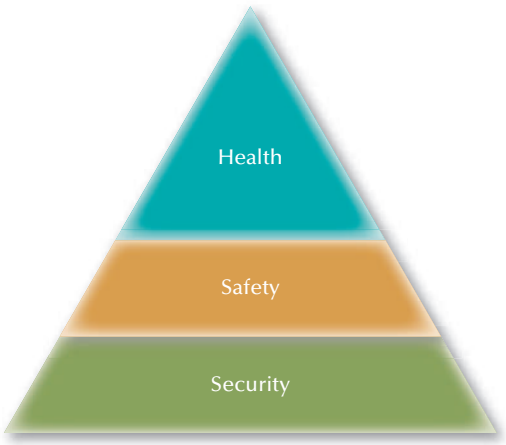
FIGURE 13-1 Key Facets of HR-Based Risk Management



could offer workplace violence seminars to educate its employees on the warning signs that often lead to danger to others on the job.

LO2 Discuss important legal areas regarding safety and health.

13-1 Safety and Health Regulations

Employers must comply with a variety of federal and state laws when developing and maintaining healthy, safe, and secure work environments. Major legal concerns are workers' compensation legislation, the Americans with Disabilities Act (ADA), child labor laws, civil rights nondiscrimination provisions, and collective bargaining laws.

13-1a Workers' Compensation

First enacted in the early 1900s, workers' compensation laws are on the books in all states today. As noted in Chapter 12, under these laws employers purchase insurance to compensate employees for injuries incurred while on the job. Experience-rated premiums reflect the company's accident rate. Employers that have higher accident rates pay higher premiums. Figure 13-2 shows the typical elements of benefits paid to injured workers or their survivors. Depending on the amount of lost time and the injured workers' wage level, these laws often require payments be made to an employee for the time away from work because of an injury, to cover medical bills, and for retraining if a new job is required as a result of the incident. Most state laws also set a maximum weekly amount for determining workers' compensation benefits. Frequently, workers' compensation benefits also make up for the permanent loss of some functionality or inability to perform the previous job.

Workers' compensation coverage in many states includes emotional impairment that may have resulted from physical injury, as well as job-related strain, stress, anxiety, and pressure. Some cases of suicide have also been determined to be job related in some states, with payments made under workers' compensation. Companies with operations in multiple states must pay particular attention to the specific requirements in each state, as they differ widely.

Another aspect of workers' compensation coverage relates to employees who *telecommute*—arrangements that allow them to work remotely from their homes. In most situations, individuals are covered under workers' compensation laws while working at home for employers. Therefore, if an employee is injured while performing a job, the employer is likely liable for the injury; the same applies to an employee who travels as part of work.[3]

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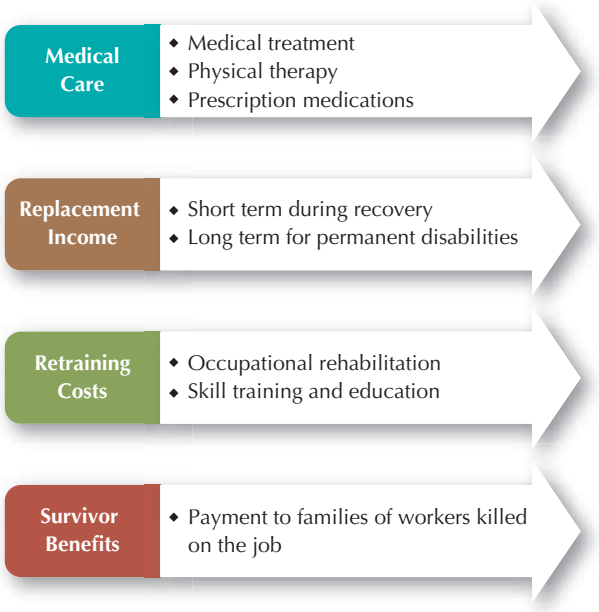
FIGURE 13-2 Elements of Workers' Compensation Benefits



Source: Adapted from http://injury.findlaw.com/workers-compensation.html.

Controlling Workers' Compensation Costs Workers' compensation costs have become a major issue and can represent from 2 percent to 10 percent of payroll for employers. Given these cost concerns, companies should focus on preventing injuries and accidents. An accident that doesn't happen saves a worker from physical and emotional trauma, and it saves the company financial and management resources. Accident prevention is the primary way to keep workers' compensation costs low. A number of detailed recommendations are presented in the "Safety Management" section later in this chapter. Opt-out workers' compensation plans are used in Texas to cut some costs, and if employees choose to opt out of such plans, these programs may represent a cost-effective option for other states in the future because employers set many of the terms. However, firms may lose protection from injury claims and lawsuits in these arrangements.[4]

ETHICS

Another key to reducing these expenses are *return to work plans*. These plans monitor employees who are off work because of injuries and illness with the goal of having them return to do *restricted duty work* that is less physically demanding until they are able to perform their full range of job duties. While restricted duty return to work programs can save workers' compensation costs, employers still incur the costs of lower productivity and workload distribution issues.[5] Human resource professionals work to integrate benefits from workers' compensation with requirements under the ADA and Family and Medical Leave Act (FMLA). Injured workers may be entitled to time off under the FMLA while recuperating from injuries sustained on the job.

Workers' compensation fraud is an expensive problem. It is estimated that about one-fourth of the workers' compensation claims filed are fraudulent. False and exaggerated claims make up the bulk of the fraud and cost employers billions of dollars annually. Employees may fabricate injuries or malinger on disability leave to obtain greater benefits. Employers must continually monitor their workers' compensation expenditures. Efforts to reduce workplace injuries, illnesses, and fraud can reduce workers' compensation premiums and claims costs. Many of the safety and health management suggestions discussed later in this chapter can help reduce workers' compensation costs.

Fraud may also be committed by employers who underreport injuries or misclassify employees to avoid paying high premiums. Line managers and HR staff may be tempted to deny claims in order to lower workers' compensation costs. However, the ethical treatment of workers means that legitimate injuries are appropriately investigated and handled according to established company

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standards. The organization's culture and reward programs should align to promote accurate recordkeeping related to safety and prompt treatment for injured workers.

13-1b Americans with Disabilities Act and Safety Issues

When employers try to return injured workers to restricted duty work to reduce workers' compensation costs, they may encounter issues with the ADA. When making accommodations for injured employees by offering restricted duty work, employers may undercut what are really essential job functions. Making such accommodations for injured employees for an extended period of time may require employers to make similar accommodations for job applicants with disabilities. Therefore, limiting the duration of restricted duty work may help the company avoid future ADA issues.

HR professionals often fully understand ADA guidelines as they relate to physical disabilities. However, it becomes more difficult when mental illness is at issue. Employees might not be aware of the extent to which their disabilities (such as depression) might be affecting their job performance. To the extent that workplace misconduct is an issue, management should follow normal procedures. If an employee shows signs of violence or a threat, managers should carefully assess the situation, and perhaps input from mental health professionals will assist in formulating a course of action that preserves the employee's dignity while providing for a safe work environment. Under the ADA, they might also have to ask individuals about their medical conditions if threats are perceived, such as when employees harm themselves physically (e.g., self-cutting), which signal the potential presence of significant mental health issues.[6]

Navigating between workers' compensation, FMLA, ADA, and many other state laws can be a complex situation for the injured worker and the company. Sound policies and procedures established by human resources can make the process smoother and easier to manage.[7]

13-1c Child Labor Laws

Safety concerns affecting younger workers, especially those under the age of 18, have resulted in restrictions on the type of work they can perform and the schedules they can work. Child labor provisions in the Fair Labor Standards Act (FLSA) set the minimum age for most employment at 16 years, with some exceptions for individuals who are 14 or 15 years old. Figure 13-3 details the permissible and prohibited work schedules and duties for young workers. There are certain exceptions for family-owned businesses and particular restrictions for hazardous occupations. In fact, teens working for farms and family-owned firms may be exposed to fewer hazards and incur fewer injuries.[8]

Penalties for violating these provisions can be costly; a single charge may result in a minimum fine involving thousands of dollars. Therefore, companies need to be very careful in how they employ young workers.[9] Two grocery store chains in Iowa—Fareway and Hy-Vee—were cited for allowing workers under the age of 18 to operate compactors and cardboard bailers, work that is considered dangerous. Both situations resulted in enforcement actions and fines for violating the FLSA.[10]

Employers with many young employees find that work-related injuries of teenaged workers are a significant issue. The retail and restaurant sectors consistently face safety and health issues with these workers. Since many young workers take more risks at work, much like they do when they drive cars, they are more likely to get injured.[11] In response, OSHA has created a special section on its website that addresses teens and provides videos, photos, and text explanations of work-related hazards along with worker rights and responsibilities. Teenage workers might be less cautious than older employees on the job, so extra steps should be taken by managers to highlight workplace safety issues. In addition, properly training managers and employees in permissible tasks for younger workers and safe practices is critical in the effort to prevent injuries to these higher-risk workers.

13-1d Legal Issues Related to Work Assignments

The rights of employees in work assignments are addressed as part of various regulations. Two primary areas where work assignments and concerns about safety and health intersect are reproductive health and unsafe work.

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FIGURE 13-3 Child Labor Law Restrictions

Age	Restrictions
Any age	◆ Permitted to deliver newspapers ◆ Permitted to work as an entertainer ◆ Permitted to work for a family-based farm or other business that is owned and operated by their parents ◆ Cannot work in manufacturing or mining jobs regardless of ownership
Ages 14 to 15	◆ Can work a maximum of 3 hours/day up to 18 hours/week when school is in session ◆ Can work between the hours of 7:00 a.m. and 7:00 p.m. when school is in session ◆ Can work a maximum of 8 hours/day up to 40 hours/week when school is not in session ◆ Can work until 9:00 p.m. when school is not in session
Ages 16 to 18	◆ Can work unlimited hours in permissible jobs ◆ May perform any farm job ◆ May perform any nonhazardous job ◆ May not drive on public roads or perform duties of a delivery driver
Age 18	◆ Minimum age for employment in hazardous occupations ◆ No longer subject to child labor provisions

Source: Adapted from Department of Labor, http://www.dol.gov/whd/childlabor.htm.

Work Assignments and Reproductive Health Assigning employees to work in areas where their ability to have children may be affected by exposure to chemical hazards or radiation is an issue. Women who are able to bear children or are pregnant present the primary concerns, but in some situations, the possibility that men might become sterile is also an issue. Based on standards specified in the Civil Rights Act and the Pregnancy Discrimination Act, employers should not prevent women (or men) from working in hazardous jobs because of reproductive concerns. Although employers have no absolute protection from liability, the following actions can help:

- Maintain a safe workplace for all by seeking the safest working methods.
- Comply with all state and federal safety laws.
- Inform employees of any known risks.
- Document employee acceptance of any risks.

Unsafe and Unhealthy Work Under labor laws, workers may challenge unsafe work assignments, whether or not they are members of a labor union. Both union and nonunion workers have refused to work when they considered the work unsafe, and several court cases support their actions. The conditions for refusing work because of safety concerns include the following:

- The employee's fear is objectively reasonable.
- The employee has tried to have the dangerous condition corrected.
- Using normal procedures to solve the problem has not worked.

GLOBAL

HR professionals must also consider risk management when managing employees around the world. Safety and health laws and regulations can vary greatly from country to country, ranging

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from virtually nonexistent to more stringent than those in the United States. The importance placed on health and safety is affected by the level of regulation and other governmental and societal factors present in each country.

A variety of ethical concerns surface when considering health and safety issues in other countries. For instance, an increase in the number of industrial accidents in developing countries sheds light on the dangerous working conditions that are sometimes commonplace. The following "HR Ethics: What Is the Real Cost of Your iPhone?" feature discusses the challenges for companies seeking to purchase low-cost products from suppliers operating in other countries.

In addition to complying with workers' compensation, ADA, child labor laws, and legislation covering various safety and health concerns, most employers must comply with the Occupational Safety and Health Act of 1970. This act, which is administered by the Occupational Safety and Health Administration, has impacted the workplace profoundly. The following section provides an overview of these topics.

ETHICS

What Is the Real Cost of Your iPhone?

Consumers often look for products with unique features or that are inexpensive. In response, companies try to find suppliers that can produce these products at the lowest cost so that they can sell them at a profit. What many consumers may not realize is that often the real cost of the product is not dollars and cents, but human loss and suffering.

Most electronics, including the wildly popular iPhone, are produced primarily in China and other developing nations. Safety and health laws in these countries lag behind those in the United States, and workers there are subjected to strenuous work schedules and poor working conditions. Workers are often housed in overcrowded dormitories. They are frequently required to work excessive overtime schedules—they often work seven days a week—and may be required to handle toxic chemicals while producing the electronic devices. Worker suicides occurred with alarming regularity at Hon Hai's facilities in recent years. Workers have also staged walkouts and pickets to obtain higher wages.

Companies such as Apple, HP, and Samsung deal with these suppliers because doing so is cheaper than manufacturing in the United States. It can take years to develop a productive working relationship with a supplier to ensure product quality and prompt delivery schedules. Companies are naturally reluctant to drop a supplier unless violations are serious and ongoing. Samsung recently determined that the majority of its suppliers fail to comply with safety regulations such as providing adequate safety equipment, conducting evacuation drills, and maintaining reasonable overtime schedules.

Auditing suppliers is now a regular practice for U.S.-based firms, and they are making an effort to reduce safety problems and worker abuse around the world. However, the allure of low-cost products and consumer demand for constant innovation make it difficult to put worker safety first. As long as customers buy iPhones and other electronics and do not object to the hazardous work conditions at production facilities, companies are not likely to change their practices.[12]

With worker safety issues in mind, consider the following questions:

1. How can consumers learn about supply chain issues and worker safety concerns when shopping for electronic devices? How could an HR department help?
2. What can companies do to ensure that their suppliers comply with worker safety and health regulations? How should HR professionals ensure that safety and health are key issues in the workplace?

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LO3 Outline the basic provisions of the Occupational Safety and Health Act of 1970 and recordkeeping and inspection requirements.

13-2 Occupational Safety and Health Act

The Occupational Safety and Health Act of 1970 was enacted to ensure that the health and safety of workers would be protected. Every employer that is engaged in commerce and has one or more employees must comply with the act. Farmers with fewer than 10 employees are exempt. Employers in specific industries, such as railroads and mining, are covered under other health and safety acts. Federal, state, and local governments are covered by separate statutes and provisions.

The Occupational Safety and Health Act of 1970 established three agencies within the Department of Labor to oversee various aspects of workplace safety:

1. The Occupational Safety and Health Administration, known as OSHA, administers the provisions of the law, conducts workplace inspections, and works with companies to improve worker safety.
2. The National Institute for Occupational Safety and Health (NIOSH) is a supporting body that conducts research and develops safety standards.
3. The Occupational Safety and Health Review Commission (OSHRC) reviews OSHA enforcement actions and addresses disputes between OSHA and employers that are cited by OSHA inspectors.

By making employers and employees more aware of safety and health considerations, OSHA has significantly affected organizations. OSHA regulations and its on-site presence appear to have contributed to reductions in the number of accidents and injuries. For instance, OSHA requires employers to prevent retaliation against employees who report safety concerns in the workplace, which can be done by following several suggested "best practices" such as offering antiretaliation training and creating better reporting and review protocols.[13]

13-2a OSHA Enforcement Actions and Results

A major responsibility of OSHA is to enforce safety regulations in an effort to reduce injuries and illnesses in the workplace. Enforcement includes creating guidelines and rules, investigating, inspecting, and levying fines. Compliance officers have great discretion and authority to ensure worker safety. In an effort to motivate organizations to comply with safety directives, OSHA has issued press releases that name the employers that have been fined as part of enforcement actions, but there have been fewer of these announcements more recently.[14]

The results of OSHA's enforcement process are evident in accident statistics since enactment of the law. Since 2003, incidences of nonfatal occupational injuries and illnesses have steadily declined, and despite an uptick over the last few years, incidences of fatal work injuries have also generally decreased. Figures 13-4 and 13-5 show these positive trends. Specific accident, illness, and fatality rates tend to vary based on the industry, type of work performed, and other factors. For instance, the health care, manufacturing, and retail sectors report some of the highest overall numbers of cases and rates of injuries/illnesses in general. The construction, transportation and warehousing, and agriculture, forestry, fishing, and hunting industries report some of the highest number of incidences and rates specifically related to fatal work injuries.[15]

While reports indicate improvements in the management of safety, some issues may require extra attention in certain industries. Hispanic workers have experienced a much higher proportion of fatal injuries, which may stem from language barriers, fear of speaking out, and working in more dangerous occupations such as construction.[16] Industries that employ a high percentage of Latinos should ensure that workers understand safe practices and are equipped with proper protective gear. Further, a significant number of workplace injuries fatalities occur in the construction industry. Some of the leading causes for deaths include falls, being struck by an object, and electrocution. This led OSHA to develop requirements for fall protection, especially in the residential construction sector, as well as rules for confined spaces.[17] The poultry industry is also known to have high injury and fatality rates, and a recent repeal of an executive order requiring poultry processing plants to report this information in order to receive government business may require these firms to develop

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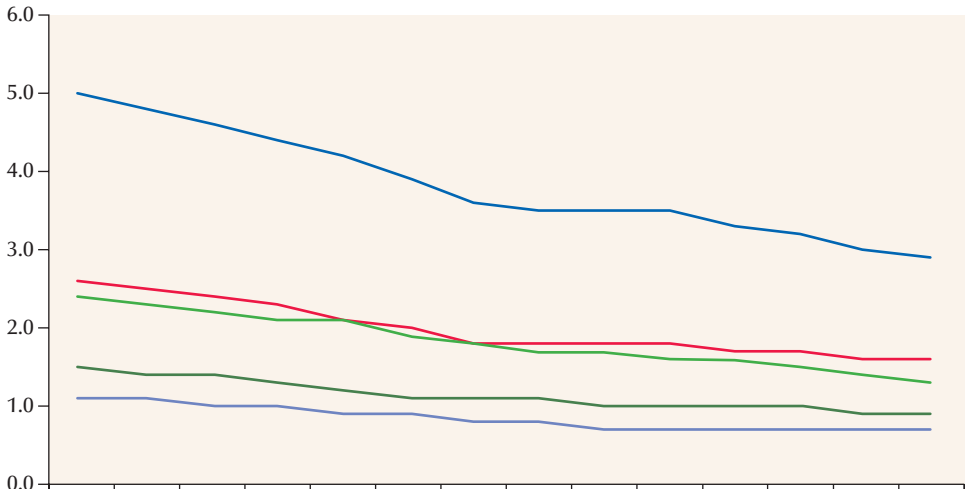
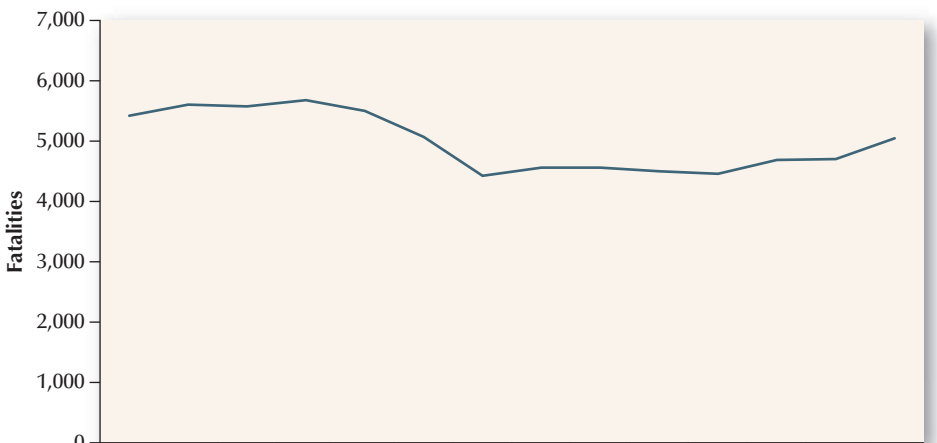
FIGURE 13-4 Nonfatal Occupational Injury and Illness Incidence Rates, 2003–2016



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Recordable Cases (TRC)	5.0	4.8	4.6	4.4	4.2	3.9	3.6	3.5	3.4	3.4	3.3	3.2	3.0	2.9
Days Away from Work, job transfer,or restictioncases (DART)	2.6	2.5	2.4	2.3	2.1	2.0	1.8	1.8	1.8	1.8	1.7	1.7	1.6	1.6
Other Recordable Cases (ORC)	1.5	1.4	1.4	1.3	1.2	1.1	1.1	1.1	1.0	1.0	1.0	1.0	0.9	0.9
Days of Job transfer or Restriction only cases (DJTR)	1.1	1.1	1.0	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Days Away fromWork cases (DAFW)	2.4	2.3	2.2	2.1	2.1	1.9	1.8	1.7	1.7	1.6	1.6	1.5	1.4	1.3

Source: U.S. Bureau of Labor Statistics, U.S. Department of Labor, November 2017.

FIGURE 13-5 Workplace Fatalities, 2003–2016



2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
5,575	5,764	5,734	5,840	5,657	5,214	4,551	4,690	4,693	4,628	4,585	4,821	4,836	5,190

Source: U.S. Bureau of Labor Statistics, 2017.

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a stronger commitment to safety.[18] Finally, OSHA initiated stronger enforcement efforts on behalf of temporary workers. Temporary workers make up a significant part of the workforce and often have a higher risk of occupational injury. Staffing agencies and the companies that employ temporary workers bear some responsibility for ensuring that these individuals are properly trained and equipped for any workplace hazards that they may encounter.[19]

13-2b Workplace Safety Standards

To foster workplace safety, OSHA has established specific standards to regulate equipment and other aspects of the work environment. National standards developed by engineering and quality control groups are often used by OSHA to establish its own standards. OSHA rules and standards are frequently complicated and technical. While many industries, like construction and health care, have specific workplace requirements, all companies must adhere to two key provisions:

- *General duty*: The act requires that the employer has a general duty to provide safe and healthy working conditions, even in areas where OSHA standards have not been set. Employers that know or reasonably should know of unsafe or unhealthy conditions can be cited for violating the general duty clause.
- *Notification and posters*: Employers are required to inform their employees of OSHA safety and health standards. OSHA posters must also be displayed in prominent locations in workplaces.

Hazard Communication OSHA has established *process safety management* (PSM) standards that focus on hazardous chemicals. Hazard communication standards require manufacturers, importers, distributors, and users of hazardous chemicals to evaluate, classify, and label those substances using standardized symbols. Employers must make information about hazardous substances available to employees, their representatives, and health professionals. This information is contained in *material safety data sheets* (MSDSs), which must be readily accessible to those who work with chemicals and certain other dangerous substances. The MSDSs indicate antidotes or actions to be taken should someone be exposed to the substances. If the organization employs many workers for whom English is not the primary language, then the MSDSs should be available in the necessary languages. Also, workers should be trained in how to access and use the MSDS information.

Additional process safety management requirements include *lockout/tagout regulations*. Firms must control hazardous energy such as electrical or hydraulic power by providing mechanics and tradespeople with locks and tags to make equipment inoperable during repair or adjustment to prevent accidental start-up of defective machinery. Strict procedures regarding removal of the device help ensure that equipment is safe to operate.

Personal Protective Equipment Standards for personal protective equipment (PPE) require that employers analyze job hazards, provide adequate PPE to employees in hazardous jobs, and train them in the use of PPE items. Common PPE items include safety glasses, hard hats, and safety shoes. Employers are required to provide PPE to all employees (at no cost) who work in an environment that presents hazards or who might have contact with hazardous chemicals and substances on the job. Some courts have ruled that employees are entitled to be paid for the time it takes to put on and take off protective equipment, while others have ruled that they are not entitled to pay. Claims of this nature are case specific, and no broad generalizations can be made. If a company requires significant "donning and doffing" for safety purposes, managers should work with HR to determine if payment is warranted.[20]

Bloodborne Pathogens and Infectious Diseases OSHA has established a standard regarding exposure to bloodborne pathogens such as the hepatitis B virus (HBV) and the human immunodeficiency virus (HIV). This regulation was developed to protect employees who are regularly exposed to blood and other such substances from contracting AIDS and other serious diseases. Obviously, health care laboratory workers, nurses, and medical technicians are at greatest

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risk. Providing workers with protective equipment such as gloves and masks along with training in proper handling of bodily fluids are important precautions that help avoid the spread of infectious diseases.

The recent outbreak of Ebola highlights that the requirements under this standard as universal precautions to prevent infection are important when facing this virus. Workers at particular risk may include those in the health care, mortuary and death care, airline, and other travel service industries. Training and protective equipment are important preventive measures for companies to implement.[21]

Pandemic Guidelines In addition to regulations, OSHA issues guidelines to protect people at work in matters of health and safety. One such set of guidelines can help employers prepare for a pandemic such as West Nile virus, bird flu, or swine flu. These guidelines provide information about how organizations can manage a serious disease outbreak with proper procedures and safety equipment. In addition, guidelines are provided to help a company continue operations with a depleted workforce.

Cumulative trauma disorders (CTDs)
Muscle and skeletal injuries that occur when workers repetitively use the same motions when performing tasks

Cumulative trauma disorders (CTDs) are muscle and skeletal injuries that occur when workers repetitively use the same muscles when performing tasks. *Carpal tunnel syndrome*, a cumulative trauma disorder, is an injury common to people who put their hands through repetitive motions such as typing, playing certain musical instruments, cutting, and sewing.

Problems caused by repetitive and cumulative injuries occur in a variety of work settings. The meatpacking industry has a very high level of CTDs. Grocery cashiers experience CTDs from repetitively twisting their wrists when they scan bar codes on canned goods. Office workers experience CTDs too, primarily from doing extensive typing and data entry on computers and computer-related equipment. Workstation design that encourages proper posture, assistive devices, and job rotation may alleviate some of these repetitive motion injuries. Ergonomic studies and solutions are explored later in this chapter's "Safety Management" section.

13-2c OSHA Recordkeeping Requirements

Employers are generally required to maintain a detailed annual record of the various types of injuries, accidents, illnesses, and fatalities for inspection by OSHA representatives and for submission to the agency. Most organizations must complete OSHA Form 300 to report workplace accidents and injuries and retain it for five years.[22]

Reporting Injuries and Illnesses The OSHA 300 log is the primary reporting document that companies must prepare and maintain related to workplace injuries. The required information recorded on the log includes the following:

- Employee's name and job title
- Date and place of injury
- Description of injury or illness
- Injury classification (as explained later in this discussion)

Employers must keep a log for each establishment on site. Employees have the right to review these records. Each year, employers are also required to summarize data from the log and post it in the workplace from February 1 through April 30.[23] Injuries to direct and indirect (temporary, contract, and other contingent workers) workers must all be recorded.

Categories of recordable injury include the following:

- *Death*: Fatality at the workplace or caused by work-related actions
- *Injuries causing days away from work*: Job-related injuries or disabling occurrences that cause an employee to miss regularly scheduled work on the day following the accident
- *Injuries or illnesses causing job transfer or restricted duty*: Job-related injuries or illnesses that lead to an employee working in a job outside his or her normal assignment
- *Other recordable cases*: Injuries that require treatment by a physician but do not cause an employee to miss a regularly scheduled work turn[24]

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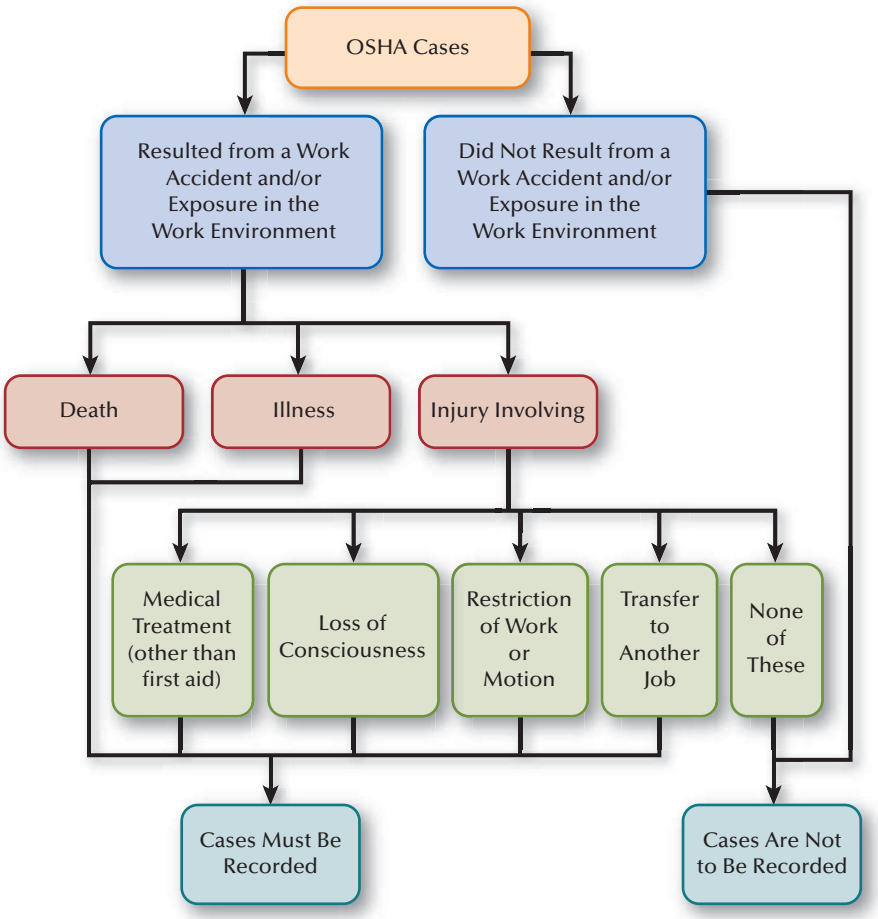
FIGURE 13-6 Determining Recordability of Cases under the Occupational Safety and Health Act



The recordkeeping requirements for these injuries and illnesses are summarized in Figure 13-6. Notice that only very minor injuries (those requiring only first aid) do not have to be recorded for OSHA. For example, an employee who closes his hand in a door and is treated by a first aid responder with an ice pack but does not seek further medical treatment would not be considered to have a recordable injury.

Several years ago, reporting requirements expanded the list of incidents that must be reported directly to OSHA shortly after they occur. Occupational fatalities and hospitalizations of three or more employees must be reported directly to OSHA within eight hours of learning of any occurrences. In addition, injuries that result in amputation, loss of an eye, or one employee being hospitalized must also be reported directly to OSHA within 24 hours of learning of any occurrences. OSHA officials are focusing on these severe incidents that lead to major human loss because they indicate that serious hazards are likely to be found in such workplaces.[25] OSHA also recently started an electronic injury and illness reporting system and requires organizations that employ 250 or more workers at a worksite, as well as companies that employ 20 to 249 workers at a worksite in specified hazardous sectors, to submit information from Form 300; all large companies will be expected to submit information from Form 300 and Form 301 (the injury or illness incidence report).[26]

There is reason to believe that some organizations misrepresent how often injuries and illnesses occur in the workplace. Nearly half of employers investigated by OSHA for documentation problems fail to report every worker illness or injury. Health care providers also claim that some companies have encouraged them to deemphasize illnesses and injuries, as well as to give inadequate treatment to employees. Accurate reporting is more likely to occur in organizations with a positive safety climate and when supervisors consistently enforce safety behaviors. Managers must realize

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that companies can incur hefty federal and state fines—in the millions of dollars—for not properly disclosing incidents. In an effort to mitigate these concerns, companies should carefully review manager performance assessment and reward programs to ensure that managers are not motivated to inaccurately report accident occurrences in order to earn a bonus or other reward; a supportive culture that encourages reporting is also important.[27]

13-2d OSHA Inspections

The Occupational Safety and Health Act provides for on-the-spot inspections by OSHA compliance officers or inspectors. Inspections may also occur as part of an investigation of a complaint or as part of targeted enforcement in high-hazard industries. In *Marshall vs. Barlow's Inc.* the U.S. Supreme Court held that safety inspectors must produce a search warrant if an employer refuses to voluntarily allow the inspectors into the facility. The Court also ruled that an inspector does not have to show probable cause to obtain a search warrant. A warrant can be obtained easily if a search is part of a general enforcement plan.[28]

Dealing with an Inspection When an OSHA compliance officer arrives, managers should ask to see the inspector's credentials. Next, the company HR representative or safety professional should insist on an initial conference with the compliance officer. The compliance officer may request that a union representative, an employee, and a company representative be present while the inspection is conducted. During the inspection, the officer checks organizational records to see if they are being maintained and to determine the number of accidents that have occurred. Following this review of the safety records, the officer conducts an on-the-spot inspection and may use a wide variety of equipment to verify compliance with standards. After the inspection, the compliance officer can issue citations for any violations of standards and provisions of the act.

Citations and Violations Although OSHA inspectors can issue citations for violations of the act, whether a citation is issued depends on the severity and extent of the problems, and on the employer's knowledge of them. In addition, depending on the nature and number of violations, monetary penalties can be assessed against employers. The nature and extent of the penalties depend on the type and severity of the violations as determined by OSHA officials.

Many types of violations are cited by OSHA. Ranging from the most severe to minimal, including a special category for repeated violations, the most common are as follows:

- *Imminent danger*: When there is reasonable certainty that the condition will cause death or serious physical harm if it is not corrected immediately, an imminent danger citation is issued, and the inspector posts a notice. Imminent danger situations are handled on the highest-priority basis. If the condition is serious enough and the employer does not cooperate, a representative of OSHA may obtain a federal injunction to close the worksite until the condition is corrected. The absence of guardrails to prevent employees from falling into heavy machinery is one example of an imminent danger.
- *Serious*: When a condition could probably cause death or serious physical harm, and the employer should know of the condition, OSHA issues a serious violation citation and may impose a fine up to $12,934 per violation, taking inflation into consideration. Examples of serious violations are the absence of a protective screen on a lathe and the lack of a blade guard on an electric saw.
- *Other than serious*: Violations that could impact employees' health or safety but probably would not cause death or serious harm are called other than serious. Violators may be fined up to $12,934 per violation, accounting for inflation. Having loose ropes in a work area might be classified as an other-than-serious violation.
- *De minimis*: A *de minimis* condition is one not directly and immediately related to employees' safety or health. No citation or fines are issued, but the condition is mentioned to the employer. Lack of doors on toilet stalls is a common example of a de minimis violation.
- *Willful and repeated*: Citations for willful and repeated violations are issued to employers that have been previously cited for violations. If an employer knows about a safety violation or has been warned of a violation and does not correct the problem, a second citation is issued.

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The penalty for a willful and repeated violation can be high, up to $129,336 per violation based on estimated inflation.

Federal OSHA compliance officers conducted over 39,000 inspections and found over 70,000 violations in a recent year. The most common violations are related to fall protection, hazard communication, scaffolding, respiratory protection, and powered industrial trucks. The construction industry is cited more often than any other industry.[29]

LO4 Recognize the activities that constitute effective safety management.

13-3 Safety Management

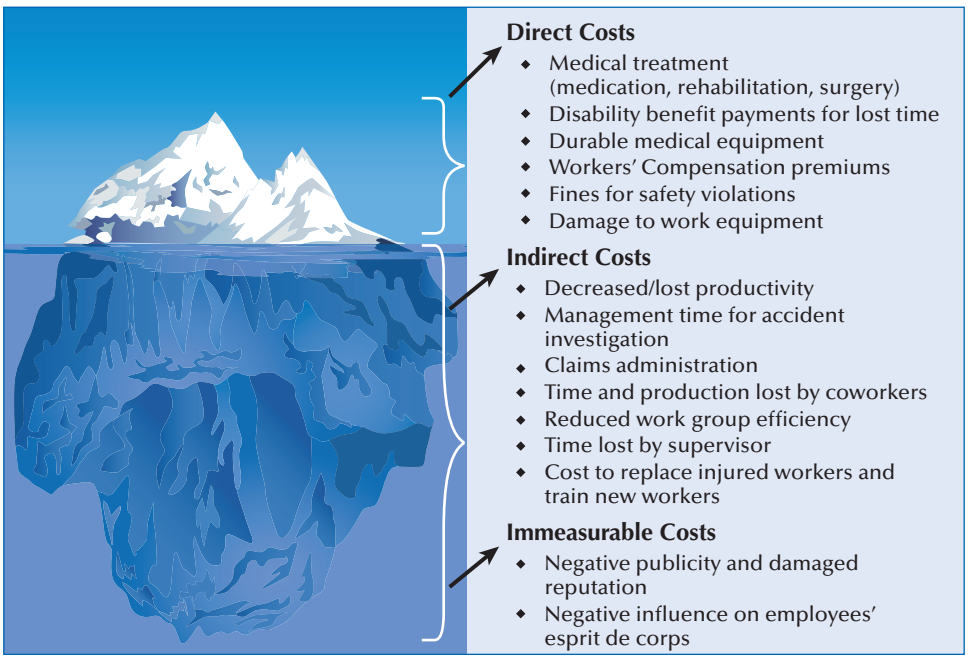
Accidents can be costly for organizations because there are direct, indirect, and immeasurable costs associated with occupational safety incidents. Figure 13-7 shows that the direct costs of accidents and illnesses are only a small part of the total costs, and organizations should estimate all the expenses associated with health and safety issues, particularly any indirect costs that might be overlooked.

Well-designed and effectively managed safety programs can result in reduced accidents and associated costs. Further, a variety of safety problems often decline as a result of management efforts that emphasize a safe work environment. Companies that proactively manage safety efforts tend to perform better financially than those that do not. Often, the difference between high-performing firms with good occupational safety records and other firms is that the high-performing ones have effective safety management programs. The HR unit and operating managers share responsibility for coordinating health, safety, and security efforts.

Organizations with effective safety management programs take many of the following steps to reduce accidents:

- Organizational commitment to safety
- Safety policies, discipline, and recordkeeping

FIGURE 13-7 Examples of Direct, Indirect, and Immeasurable Costs of Accidents



Source: Based partly on http://www.fit2wrk.com/_forms/ARTICLE_Fit2wrk_ClinicalEd_vol1-16.pdf.

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- Safety training and communication
- Effective safety committees
- Inspection, investigation, and evaluation
- Accident reduction using ergonomics

13-3a Organizational Commitment to Safety

At the heart of safety management is an organizational commitment to a comprehensive safety effort that should be coordinated at the top level of management and include all members of the organization. The actions of managers should also support this effort. For instance, a manager in a metal stamping plant who fails to use hearing protection can hardly be surprised when employees neglect to wear earplugs or earmuffs.

Balancing the competing demands for safety and productivity can be difficult, especially for front-line supervisors. Executives must lead the effort by establishing a culture that emphasizes safety as the highest priority. Enlightened managers adopt a long-term view by recognizing that safe operations also result in higher productivity and better organizational outcomes.[30]

13-3b Safety Policies, Discipline, and Recordkeeping

Designing safety policies and rules along with disciplining violators are important components of safety efforts. Frequently reinforcing the need for safe behavior and frequently supplying feedback on positive safety practices are also effective ways of improving worker safety. Such safety-conscious efforts must involve employees, supervisors, managers, safety specialists, and HR personnel.

For policies about safety to be effective, good recordkeeping about accidents, causes, and other details is necessary. Without records, an employer cannot track safety performance or compare benchmarks against other employers, and the employer may not even realize the extent of the safety problems.

13-3c Safety Training and Communication

Accidents in the workplace are often reduced with safety training that is conducted in various ways. Regular sessions with supervisors, managers, and employees can be coordinated by HR staff members. Communicating about safety procedures, reasons accidents occurred, and what to do in an emergency is critical. Without effective communication about safety, training is insufficient. To reinforce safety training, continuous communication to develop safety consciousness is necessary. Many companies hold brief monthly safety meetings conducted by front-line supervisors. This keeps safety on everyone's mind and provides a regular forum to remind employees about safe work practices and accident prevention.[31] For instance, Tyson Foods decided to retrain its workers who handle live poultry after receiving reports of animal mistreatment.[32]

Employers may need to communicate in a variety of media and languages. Such efforts are important to address the special needs of workers who have vision, speech, or hearing impairments; who are not proficient in English; or who face other challenges. Multiple training approaches might be needed to enhance individual learning, including the use of role-playing and other active practice exercises, behavioral examples, and extensive discussion.

13-3d Effective Safety Committees

Employees frequently participate in safety planning through safety committees, which are often composed of workers from a variety of levels and departments. A safety committee generally meets at regularly scheduled times and has specific responsibilities for conducting safety reviews, identifying risks, and making recommendations for changes necessary to avoid future accidents. At least one member of the committee usually comes from the HR department.

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Some best practices for utilizing safety committees include the following:

- *Leadership involvement*: Senior leaders need to endorse and support safety committee efforts. Middle managers and front-line supervisors must actively assist the committee and address concerns.
- *Committee selection*: To ensure commitment, employees who are already safety advocates should be assigned to the committee. Member terms should be staggered to provide a fresh perspective and continuous energy.
- *Committee structure*: Typically, equal representation from management and employees keeps the committee in balance. Smaller committees (up to 12 members) normally function better than do larger committees.[33]

13-3e Inspection, Investigation, and Evaluation

It is not necessary to wait for an OSHA inspector to check the work area for safety hazards. Regular inspections can be performed by a safety committee or by a company safety coordinator. Problem areas should be addressed immediately to prevent accidents and keep work productivity at the highest possible levels. Also, OSHA inspects organizations with above-average rates of lost workdays more frequently. Therefore, reducing accidents can lower the frequency of on-site OSHA visits.

The accident investigation process is shown in Figure 13-8. Identifying why an accident occurred is extremely important to determine the workplace conditions and worker behaviors that led to the incident. Talking with the injured worker and witnesses helps establish the facts and time line so that the root cause of the accident can be determined. This information is critical to prevent future occurrences.[34]

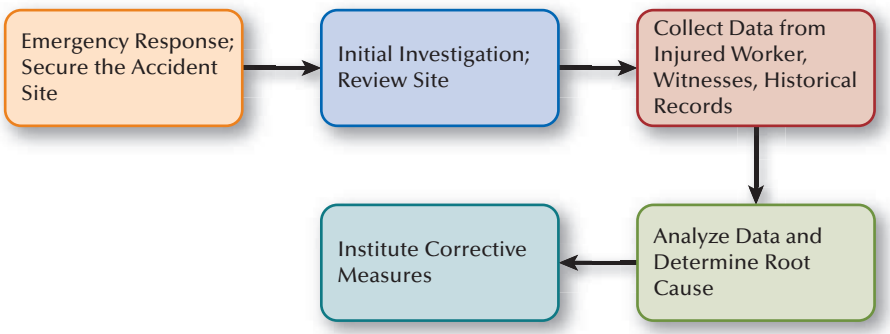
Closely related to accident investigation is research to determine ways of preventing accidents. Employing safety engineers or having outside experts evaluate the safety of working conditions may be useful. If many similar accidents seem to occur in an organizational unit, a safety training program may be necessary to emphasize safe working practices. As an example, a medical center reported a greater than average number of back injuries among employees who were lifting heavy patients. Installing patient-lifting devices and safety training on the proper way of using them was initiated. As a result, the number of worker injuries was reduced.

13-3f Accident Reduction Using Ergonomics

Ergonomics
Study and design of the work environment to address physical demands placed on individuals as they perform their jobs

Ergonomics is the study and design of the work environment to address physical demands placed on individuals as they perform their jobs. The primary goal is to make work more human friendly and to reduce work-related injuries, particularly repetitive motion problems. In a work setting, ergonomic studies look at factors such as fatigue, lighting, tools, equipment layout, and placement of controls. Ergonomics can provide economic value to employers by reducing injuries.

FIGURE 13-8 Accident Investigation Process



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For specific problem industries and jobs, OSHA has voluntary guidelines that identify industries with serious ergonomic problems and give employers tools to help highlight and control ergonomic hazards. Among the industries receiving guidelines are nursing homes, poultry processors, and retail grocery stores.

Ergonomics analysis includes reviewing physical, environmental, and psychological stressors and finding ways to reduce their impact on workers. Management must commit to reducing injuries caused by repetition and cumulative trauma, along with poor workstation design and workflow.[35] Getting employees involved is the key to successfully implementing an ergonomics program.

13-3g Approaches for Effective Safety Management

Companies typically use elements from each of three basic approaches to manage safety. Figure 13-9 shows the organizational, engineering, and individual approaches and their components.

Organizational Approach Companies can effectively manage safety by designing safer jobs and creating policies that encourage safety. Safety committees can be used to increase awareness and involve employees in safety issues. Guidelines for accident investigations can help managers identify the causes of safety incidents. Finally, reward and recognition programs are a common method of keeping safety at the top of employees' priority list.[36]

Engineering Approach Employers can prevent some accidents by designing machines, equipment, and work areas so that it is much more difficult for workers who perform potentially dangerous jobs to injure themselves and others. Providing safety equipment and guards on machinery, installing emergency switches and safety rails, keeping aisles clear, and installing adequate ventilation, lighting, heating, and air conditioning can all help make work environments safer. The use of ergonomic techniques further advances injury prevention through workstation design. For example, drones can be used in the mining industry to explore dangerous areas of caves to minimize potential harm to workers.[37]

Individual Approach Engineers approach safety from the perspective of redesigning the machinery or the work area. Industrial psychologists and human factors experts see safety

FIGURE 13-9 Approaches for Effective Safety Management

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differently. They address the proper match of individuals to jobs and emphasize employee training in safety methods, fatigue reduction, and health awareness. The results of many field studies involving thousands of workers show a definite relationship between human factors and occupational safety. Behavior-based safety (BBS) approaches are efforts to reduce *risky behavior* and increase safe behavior by defining unsafe behavior and attempting to change it. While BBS is beneficial, it does not constitute a complete approach to dealing with safety.

By combining organizational, engineering, and individual elements, companies can create an integrated approach to injury prevention. The most effective safety management program is one that is consistent with the organization's culture and management philosophy.

13-3h Measuring Safety Efforts

MEASURE

Organizations should monitor and evaluate their safety efforts. Just as organizational accounting records are audited, a firm's safety efforts should be audited periodically as well. Accident and injury statistics should be compared with previous accident patterns to identify any significant changes. This analysis should be designed to measure progress in safety management.

Organizational safety efforts are measurable. Common metrics are workers' compensation costs per injury/illness; percentage of injuries/illnesses by department, work shifts, and job categories; and incident rate comparisons with industry and benchmark targets. Regardless of the specific measures used, it is critical to use relevant HR metrics to track and evaluate safety management efforts. The following "HR Competencies & Applications: Calculating Incidence Rates" feature explains how to determine the frequency of injuries to enable comparison.

Employers in a variety of industries have found that emphasizing health and safety pays off in many ways. Lower employee benefits costs for health care, fewer work-related accidents, lower workers' compensation costs, and more productive employees can all result from employer efforts to stress health and safety.

13-4 Employee Health and Wellness

LO5 List three workplace health issues and highlight how employers are responding to them.

Employee health problems are varied—and somewhat inevitable. They can range from minor illnesses such as colds to serious illnesses related to the jobs performed. Some employees have emotional health problems; others have alcohol or drug problems. Some problems are chronic; others are transitory. All may affect organizational operations and individual employee productivity.

Employers face a variety of workplace health issues. Previously in this chapter, cumulative trauma injuries and exposure to hazardous chemicals were discussed because OSHA has addressed these concerns through regulations or standards. Other concerns associated with employee health include substance abuse, emotional/mental health, older workers, smoking, and obesity.

13-4a Substance Abuse

Substance abuse
Use of illicit substances or misuse of controlled substances, alcohol, or other drugs

Use of illicit substances or misuse of controlled substances, alcohol, or other drugs is called **substance abuse**. The millions of substance abusers in the workforce cost global employers billions of dollars annually. While some reports conflict, recent evidence suggests that the use of illegal and legal drugs is increasing dramatically, particularly the abuse of prescription painkillers and opioids.[38] This challenge has led engine manufacturer Cummins to drug test its employees and provide counseling when necessary.[39]

Employers' concerns about substance abuse stem from the ways it alters work behaviors, causing increased tardiness and absenteeism, lower participation and productivity, a higher rate of mistakes, and more industrial accidents; it can also cause an increase in withdrawal (physical and psychological) and antagonistic behaviors, which may lead to workplace violence.[40] In the case of alcohol, even though consumption of it is legal, employers are still permitted to limit its use in the workplace. Many companies have also instituted drug screening programs that include pre-employment testing

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HR

COMPETENCIES & APPLICATIONS

Calculating Incidence Rates

An organization's leaders frequently compare their safety results to other organizations in their industry and to their own organization over time. However, companies vary widely in size, making comparisons difficult and perhaps meaningless.

Take two manufacturing companies as an example:

- Company A has 2,500 employees and incurred 45 recordable accidents.
- Company B has 200 employees and incurred 7 recordable accidents.

Which company is running a safer operation? It looks like Company B because it had fewer injuries. But Company A employs a lot more workers. How can you compare the two?

There is a useful formula that easily determines the answer to this question. The incidence rate of injuries and illnesses can be computed as follows:

incidence rate
= (number of injuries and illnesses × 200,000)
÷ employee hours worked

The 200,000 hours in the formula represents the equivalent of 100 employees working 40 hours per week, 50 weeks per year and provides the standard base for the incidence rates. Therefore, no matter how many employees a company has, it is possible to compare incidence rates within an industry or over time.

So, which company is doing a better job? Let's calculate their incidence rates:

Company A	Company B
$\left(\frac{45 \times 200{,}000}{5{,}000{,}000}\right) = 1.8$	$\left(\frac{7 \times 200{,}000}{400{,}000}\right) = 3.5$

Now we can see that Company B is incurring injuries at the rate of 3.5 for every 100 workers, while Company A is incurring only 1.8 injuries for every 100 workers. So, Company A is keeping its workers safer. You can use the same formula to compute incidence rates for all recordable injuries, injuries with lost work days, and any other category of illnesses or injuries.

Each year, the Bureau of Labor Statistics publishes national incidence rates detailed by industry and employer size to help companies track their results against others in the same industry or of similar size. OSHA also uses this information to identify worksites with high incidence rates so that stepped-up enforcement and preventive action can be taken.[41]

Now that you understand how incidence rates can be computed, answer the following questions:

1. How might safety committees use this information when working on accident prevention programs? Could an HR department provide any assistance?
2. How might reward programs for managers take into account incidence rates for injuries and illnesses? What could HR professionals do to facilitate any changes made to the reward system?

KEY COMPETENCIES: Critical Evaluation, Business Acumen; HR Expertise: Organization/Technology & Data, Workplace/Risk Management

and testing after workplace accidents, along with zero-tolerance policies that address employees' use of both alcohol and drugs.

A company should also consider utilizing an employee assistance program (EAP) for support and counseling related to substance abuse. EAPs assist troubled employees so that they can remain employed. HR professionals get involved in substance abuse issues by taking actions such as training supervisors to identify and help prevent problems. They also work with supervisors and managers to institute progressive discipline for substance abusers that provides them with a chance to seek assistance.

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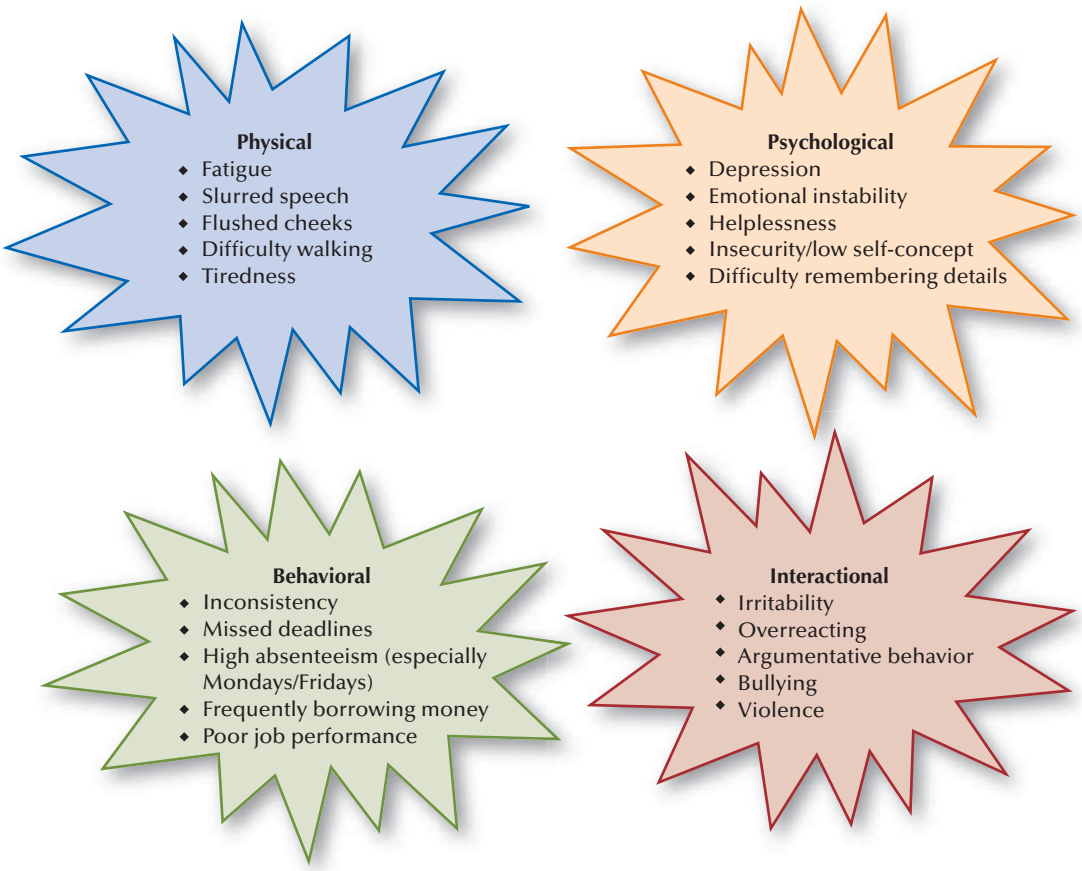
FIGURE 13-10 Common Signs of Substance Abuse



HR professionals and managers should refrain from diagnosing employees, as this is a task best left to those trained in mental health and substance abuse issues. Rather, all management actions should focus on work behaviors and job performance. Figure 13-10 shows common signs of substance abuse that HR professionals and managers can monitor. However, not all signs may manifest in any one case. A pattern that includes some of these behaviors may indicate the need to pay closer attention.

Many companies use alcohol and drug testing, especially following an accident or some other reasonable cause; some employers also use random testing programs. Many firms also require some or all applicants to take a drug test before they are hired. Use of these policies, including the types of drug tests required, often depend on state laws, type of industry, and corporate directives.[42] Using these tests can improve employee productivity and attendance and reduce injuries and workers' compensation claim costs.[43]

The U.S. Department of Transportation requires drug testing for transportation workers in aviation, trucking, railroad, mass transit, pipeline, and commercial vessel operations. The U.S. Department of Labor provides extensive guidance on its website to help employers implement legal and effective drug testing programs. Key points include careful selection of a certified testing lab, proper policy and notification to applicants and employees, precise chain of custody, and confirmatory testing of positive results.

Types of Drug Tests There are several types of tests to detect drug use: urinalysis, radioimmunoassay of hair, surface swiping, and fitness-for-duty testing. The innovative fitness-for-duty tests can be used alone or in conjunction with focused drug testing. These tests can identify individuals under the influence of alcohol or prescription drugs to the extent that their abilities to perform their

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jobs are impaired. Some firms use fitness-for-duty tests to detect work performance safety problems before permitting an employee to operate dangerous equipment. As an example, in one firm when a crew of delivery truck drivers comes to work, they are asked to "play" a video game—one that can have serious consequences. Unless the video game machine presents receipts saying they passed the test, they are not allowed to drive their trucks that day. It works like this—the computer has an established baseline for each employee. Subsequent testing measures each employee against his or her baseline. Interestingly, most test failures are unrelated to drugs or alcohol. Rather, fatigue, illness, and personal problems more frequently render a person unfit to perform a hazardous job.

Handling Substance Abuse Cases The ADA affects how management can handle substance abuse cases. Currently, users of *illegal* drugs are specifically excluded from the definition of *disabled* under the act. However, those addicted to *legal* substances (e.g., alcohol and prescription drugs) are considered disabled under the ADA, as are recovering substance abusers.[44]

To encourage employees to seek help for their substance abuse problems, a *firm choice option* can be recommended and has been endorsed legally. In this procedure, a supervisor or a manager confronts the employee privately about unsatisfactory work-related behaviors. Then, in keeping with the disciplinary system, the employee is offered a choice between help and discipline. Treatment options and consequences of further unsatisfactory performance are clearly discussed, including what the employer will do. Confidentiality and follow-up are important when employers use the firm choice option.[45] In practice, this approach may be similar to a "required disclosure" used to kickstart accommodations as part of a drug-free workplace policy, but employers need to be careful that any questions about an employee's medical condition are not considered to be an unlawful.[46]

Legalized Marijuana The legal use of marijuana for medical reasons has been authorized in over half of states and the District of Columbia in the United States. In addition, a number of states have also legalized the recreational use of marijuana. This poses some dilemmas for companies located in those states, but consumption of the drug is still illegal under federal law. Conflicting state and federal treatment of marijuana adds to the problem for employers as they work to maintain a safe work environment.[47]

An organization might consider developing a zero-tolerance policy if it is not currently required by state regulations to make accommodations for users of medical marijuana; some firms may elect to accommodate use of the marijuana for medical purposes regardless of state laws. Another option involves placing users of medical marijuana on disability leave (or time off associated with the FMLA) so that these individuals can assess their current situation in the company. Finally, companies might utilize fitness-for-duty tests to ensure that workers can safely and effectively perform their job duties. There may be liability if an employee who is known by the employer to be using marijuana is involved in an accident. Employers should continue to monitor legal decisions regarding the legalization of marijuana and adapt their policies as needed.[48]

13-4b Emotional/Mental Health

A variety of emotional/mental health issues affect the workplace, which are often addressed by employers. The number of cases appears to be increasing, and the negative impact on employee well-being and the bottom line is alarming. Many individuals are facing work, family, and personal life pressures, but Millennials and expatriates may be particularly susceptible to these mental and emotional setbacks. Although certain people can successfully manage these pressures, some individuals have difficulty handling the demands. Due to the stigma associated with such concerns, many employees conceal these illnesses and fail to get the help they need. This only makes their problems worse, and their work performance and overall well-being can suffer as a result. Specific events, such as death of a spouse, divorce, or medical problems, can affect individuals who otherwise have been coping successfully with life's pressures. Depression and seasonal affective disorder are other common emotional/mental health challenges. The effects of depression are seen at all organizational levels, from warehouses and accounting offices to executive suites.[49]

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Beyond trying to communicate with employees and relieving some workload pressures, it is generally recommended that supervisors and managers contact HR personnel, who can intervene and then refer affected employees to outside resources through employee assistance programs; support programs that rely on peers and technology might also be developed. It is also important to note that emotional/mental illnesses such as schizophrenia, depression, and seasonal affective disorder are recognized by disability laws, and employers may need to accommodate employees with these conditions.[50]

13-4c Stress and Burnout

Stress
The harmful physical or psychological reaction that occurs when people are subject to excessive demands or expectations

Individuals who feel that they lack control and resources to deal with the many pressures they face can experience stress and burnout. **Stress** is the harmful physical or psychological reaction that occurs when people are subjected to high work expectations, excessive mental and physical demands, job insecurity, poor interpersonal relations, and low work–life balance. Stress is a key concern in organizations because of its negative impact on employees. Absenteeism (sometimes long term), mental health issues, reduced productivity, conflict, turnover, and burnout are just a few of the adverse outcomes when stress is not resolved.[51]

GLOBAL

Work stress is a particularly challenging issue in Japan, where a strong work ethic and expectations for high job performance exist—these factors often drive individuals to work long hours on the job. This office culture has been linked to several recent suicides. As a result, some Japanese companies are shutting down worksites after hours, encouraging workers to leave early some days, and requiring employees to take needed vacation time off.[52]

Other steps can be taken to reduce stress and burnout. For example, setting reasonable work standards, conducting walking meetings, establishing positive work–life balance programs and flexibility, recognizing outstanding work, introducing humor and creating a fun work environment, using positive stress (to motivate), relying on meditation and other relaxation techniques can help.[53] Training in resilience, mindfulness, and stress management can also be beneficial.[54] Figure 13-11 provides examples of sources of workplace stress and possible ways to address them.

13-4d Smoking at Work

In response to health studies, complaints by nonsmokers, and resulting state laws, many employers have instituted no-smoking policies throughout their workplaces. Some companies refuse to hire smokers or nicotine users because they want to improve job performance, reduce health-related expenses, and promote healthier lifestyles.

FIGURE 13-11 Workplace Stressors and Ways to Combat Workplace Stress

Workplace Stressors	Ways to Combat Workplace Stress
◆ Increased volume of work ◆ Longer work hours ◆ Increased pace of work and tight deadlines ◆ Increased performance expectations and pressures	◆ Learn coping strategies ◆ Get enough sleep ◆ Get regular exercise ◆ Relax ◆ Eat healthy, nutritious meals ◆ Seek support from sympathetic colleagues

Source: Adapted from Donna Owens, "Stressed Out," *HR Magazine*, March 2014, pp. 44–45.

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The emergence of e-cigarettes has complicated matters for employers. While e-cigarettes do not produce smoke, the vaporized liquids contain nicotine, and federal agencies have not yet agreed on their legal status. The Food and Drug Administration does not consider them a drug or medical device, and they are therefore not subject to FDA oversight. The Department of Transportation prohibits their use on airplanes. Several states (e.g., New Jersey, North Dakota, and Utah) and municipalities (e.g., Chicago) have banned e-cigarettes in public places and places of employment. NIOSH recommends that companies advance workplaces that are smoke-free (this includes e-cigarettes), so companies should consider developing appropriate polices in accordance with legal requirements and organizational culture and standards.[55]

13-4e Health Promotion

Health promotion
Supportive approach of facilitating and encouraging healthy actions and lifestyles among employees

Employers concerned about maintaining a healthy workforce try to move beyond simply providing healthy working conditions and promote employee health and wellness in other ways. **Health promotion** is a supportive approach of facilitating and encouraging healthy actions and lifestyles among employees. Health promotion efforts can range from providing information and increasing employee awareness of health issues to creating an organizational culture supportive of employee health enhancements, as Figure 13-12 indicates. Going beyond simple compliance with workplace safety and health regulations, organizations engage in health promotion by encouraging employees to make physiological, mental, and social choices that improve their health and improving workplace conditions. Examples include encouraging sick individuals to take days off, providing better lighting at worksites and offering work transportation to shift employees, and using fitness trackers and other technology to track wellness behaviors.[56]

The first level of health promotion (information and awareness) leaves much to individual initiative for following through and making changes in actions and behaviors. Employers provide information on topics such as weight control, stress management, nutrition, exercise, and smoking cessation. Even though such efforts may be beneficial for some employees, employers that wish to impact employees' health must also offer second-level efforts, such as more comprehensive programs and actions that focus on employees' lifestyle and wellness. The third level requires a commitment to wellness that is seldom seen in employers.

Obesity Nearly one-third of U.S. adults are obese, and another one-third are overweight.[57] Obesity is a fact of modern life and a concern to employers due to related economic costs, including doctor visits, diabetes, high blood pressure, higher health care premiums, and lost workdays. Obesity affects employees both mentally and physically, so programs to combat it should address both aspects.[58] Companies can take steps to address the increasing problem of obese employees. Some firms offer incentives to workers who are involved in physical fitness programs and lose weight. In one firm with an active program focusing on obese employees, more than 2,000 employees lost over 61,000 pounds as part of the program.

FIGURE 13-12 Health Promotion Levels

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Wellness programs
Programs designed to maintain or improve employee health before problems arise

Wellness Programs Companies' drive to improve productivity, decrease absenteeism, and control health care costs has merged into programs to improve employee well-being. **Wellness programs** are programs designed to maintain or improve employee health before problems arise. They encourage self-directed lifestyle changes, including reducing cholesterol and heart disease risks and implementing individualized exercise programs and follow-up. Employer-sponsored support groups have been established for individuals dealing with health issues such as weight loss, nutrition, and the need to break unhealthy habits.

Based on EEOC rules, managing employee health may involve offering incentives to individuals and their families who participate in wellness programs and meet or exceed various health targets and metrics. An alternative to incentives is penalizing employees who don't undergo screenings or fail to follow prescribed treatment regimens for chronic health problems; obviously, employees far prefer "carrots" to "sticks." But there are some potential issues under the Affordable Care Act related to offering incentives and imposing penalties for health compliance, and based on recent HIPAA guidelines, companies can only offer incentives up to 30 percent of the total cost of an employee's (self-only) health care premiums (up to 50 percent can be offered in the case of tobacco-cessation efforts); a recent court ruling may also dampen the ability to reward or punish employees under wellness plans, so these issues are complex and will likely play out in future court rulings.[59] Companies spend an average of $600 per employee on wellness-based incentives. Lifestyle management programs such as weight management, physical activity, and stress management are the most frequently used approaches.[60]

Wellness apps for mobile devices have become the latest trend, with employers using technology such as biometrics and personalized wellness plans. Redbox Automated Retail gave its employees trackers when they joined a company-sponsored walking challenge. They urged the employees to take selfies when they were wearing their trackers in unusual locations. Keeping wellness programs fresh and interesting helps maintain employee participation and success.[61]

Employee assistance program (EAP)
Program that provides counseling and other help to employees having emotional, physical, or other personal problems

Employee Assistance Programs As previously mentioned, organizations can respond to specific and difficult health issues with an **employee assistance program (EAP)**, which is a program that provides counseling and other help to employees having emotional, physical, or other personal problems. An employer typically contracts with a third-party counseling agency for the service. Employees who have problems may then contact the agency, either voluntarily or by employer referral, for assistance with a broad range of problems. The employer or the health care plan pays for counseling costs.

EAPs ideally help improve employee performance (lower absenteeism/turnover and higher involvement), reduce expenses associated with benefits (decreased claims and workers' compensation costs), and enhance organizational well-being (better wellness, lower risk/security problems, drug testing follow-up).[62] These programs often provide help for troubled employees, identifying problems, allowing for short-term interventions, and referring employees who need more complex services. Employees' EAP utilization rates are under 5 percent. A high percentage of calls are related to child care and elder care.[63] Other areas commonly addressed by EAPs include mental health and substance abuse problems, relationship issues, legal and financial problems, and career advice. Companies can encourage employees to use these resources when needed and protect individuals' confidentiality so that they feel safe in using the EAP.

LO6 Define workplace security concerns and discuss some elements of an effective security program.

13-5 Workplace Security Concerns

Traditionally, when employers have addressed worker risk management, the main focus has been on reducing workplace accidents, improving safety practices, and reducing health hazards at work. However, providing security for employees is becoming more important. Threats can involve physical harm, financial damage, or data theft and misuse. Virtually all of these areas have significant HR implications.

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13-5a Security Management

A comprehensive approach to security management is needed to address a wide range of possible threats to an organization's assets and workers. These threats may come from outside the organization or may be due to employee misbehavior. HR managers may be responsible for security programs or may work closely with security managers or consultants.

Security audit
Comprehensive review of organizational security

Security Audit A **security audit** is a comprehensive review of organizational security. Sometimes called a *vulnerability analysis*, such an audit uses managers inside the organization (e.g., the HR manager and the facilities manager) and outsiders (e.g., security consultants, police officers, fire officials, and computer security experts) to assess security issues and risks.

Typically, a security audit begins with a survey of the area around the facility. Factors that can be evaluated include lighting in parking lots, traffic flow, location of emergency response services, crime in the surrounding neighborhood, and the layout of the buildings and grounds. Vulnerabilities in data systems have become an ever-growing issue, and cybersecurity protections should be included in the security audit.[64] The audit may also include a review of the security available within the firm, including the capabilities of guards. Another part of the security audit reviews disaster plans, which address how to deal with events such as earthquakes, floods, tornadoes, hurricanes, and fires.

Controlled Physical Access A key part of security involves controlling access to the organization's physical facilities. Many workplace homicides occur during robberies. Therefore, employees who are most vulnerable, such as taxi drivers and convenience store clerks, can be protected with bulletproof partitions and restricted access areas.

Many organizations limit access to facilities and work areas by using electronic access or keycard systems. Although not foolproof, these systems can make it more difficult for an unauthorized person, such as an estranged spouse or a disgruntled former employee, to enter the premises. Access controls can also be used in elevators and stairwells to prevent unauthorized people from entering designated areas within a facility.

Access to HR and Other Sensitive Data/Information Cybersecurity, cross-device tracking, and phishing and spam attacks are real concerns in organizations, with some firms rewarding employees for using safe practices.[65] Controlling computer access is an important part of safeguarding employees' personal data. Coordinating with information technology staff to change passwords and access codes and otherwise protect company information are important steps to secure IT resources. Threats to business data include hackers breaching computer systems, remotely installed malware, theft of laptops and mobile storage devices, and insider threats. Preventing access and downloading capabilities decreases the chance of employees either intentionally or accidently exposing company data.[66] The following "HR Competencies & Applications: Dangers of BYOD" feature discusses issues related to employees using their personal devices to perform work-related tasks.

Since HR information systems are a treasure trove of valuable personal data, special precautions should be taken to secure these data. Using third-party vendors and cloud-based data storage increases the risk of data theft or breaches. For example, a breach of HR systems at the U.S. Postal Service compromised the personal data of over 800,000 employees, potentially disclosing their names, Social Security numbers, dates of birth, and other sensitive data.[67] Information security experts believe that data security is 20 percent technical and 80 percent managerial. This emphasizes the importance of policies, training, and employee awareness and vigilance for all who handle HR data.[68]

13-5b Employee Screening and Selection

A key facet of providing security is screening job applicants. Legal constraints somewhat limit what HR management can do, particularly regarding the use of psychological tests and checking references. However, firms that do not screen employees adequately may be subject to liability if

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HR

COMPETENCIES & APPLICATIONS

Dangers of BYOD

Bring your own device (BYOD) policies are becoming common in most workplaces because employees want to stay in touch using their smartphones, and companies save resources by not having to provide technology to all employees. However, this trend is not without risk. Nearly half of Generation Y employees admit that they don't follow corporate security guidelines, and over 10 percent wouldn't report an incident involving their device being compromised.

Think about all of the photos, messages, and other data you might store on your personal mobile phone or tablet. If your employer enforces strict procedures when employees terminate their employment, you might find that your device has been wiped clean, and all of your personal data is lost when you leave the company; to protect company data, some firms do just that. It sounds like a harsh solution, but what's a company to do?

Here are some issues to consider as managers create policies to deal with the BYOD trend:

- Are employees' personal devices as secure as office-based equipment?
- How can companies protect corporate data when employees can access it from mobile devices?
- Are there procedures in place to promptly and effectively address breaches from mobile devices?
- Has the company established a protocol to wipe a compromised device clean of all data files?
- What controls are in place to manage employees' use of apps to protect against malware and other attacks?

Setting up security measures to restrict access to sensitive company data from mobile devices, training employees in data security procedures, and coordinating between HR and IT personnel when employees terminate their employment are critical steps for protecting vital data resources. Ensuring that employees understand the implications of using their own devices to access company data can prevent loss of personal data.[69]

Consider the advantages and disadvantages of allowing employees to bring their own devices to work and answer the following questions:

1. How can companies encourage employees to report when their devices are compromised? How could HR departments assist with these efforts?
2. What is your opinion on using your own mobile phone or tablet to perform your job duties?

KEY COMPETENCIES: Communication, Consultation; HR Expertise: Organization/Technology & Data; Workplace/Risk Management

an employee later commits crimes. For instance, an individual with a criminal record for assault was hired by a firm to maintain sound equipment in clients' homes. The employee used a passkey to enter a home and assaulted the owner; consequently, the employer was held responsible for not doing an adequate background check. Of course, when selecting employees, employers must be careful to use only valid, job-related screening means and to avoid violating federal equal employment opportunity (EEO) laws and ADA.

13-5c Security Personnel

Providing adequately trained security personnel in sufficient numbers is part of security management. Many employers contract with firms specializing in security. If security is provided in-house, security personnel must be selected and trained to handle a variety of workplace security problems,

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ranging from dealing with an employee's violent behavior to taking charge in natural disasters. Many states require security guards to be registered and often require ongoing training to maintain that status. Essential skills for a security guard include decision-making skills, patience, observation skills, and physical strength.[70]

13-5d Workplace Violence

Workplace violence consists of violent acts directed at someone who is at work or on duty. Physical assault, threats, harassment, intimidation, and bullying all qualify as violent behaviors at work. Workplace violence can be perpetrated by several categories of individuals:

- *Criminal*: A crime is committed in conjunction with the violence by a person with no legitimate relationship with the business (e.g., robber, arsonist, trespasser).
- *Customer*: A person with a legitimate relationship with the business becomes violent (e.g., patient, student, inmate, customer).
- *Coworker*: A current or past employee attacks or threatens another employee (e.g., contractor, temp).
- *Domestic*: A person who has no legitimate relationship with a business but has a personal relationship with the victim commits some form of violence against an employee (e.g., family member, boyfriend).

Examples of these terrible acts sometimes occur. For example, a UPS driver fatally shot three coworkers at a San Francisco facility before killing himself, while a former employee of Bronx-Lebanon Hospital Center returned to the facility, shot seven individuals, and killed himself—one female doctor was killed and the other individuals were injured, some seriously.[71] Since acts of violence in the workplace can be committed by employees inside the firm, as well as those outside the firm, all workers should be trained to identify signs that might indicate an impending violent act.

Workplace Violence Warning Signs In many cases, the perpetrator of a violent act exhibits signs well before committing the act.[72] However, these signals are often given inadequate attention or dismissed. Fears of litigation cause some HR professionals and managers to wait for clearer evidence that an employee will act violently. Although a cautious approach may seem legally defendable, companies also have a duty to protect their workers from workplace danger. Taking threats seriously and acting proactively if an employee poses a threat are appropriate steps to take.[73]

Warning signs may be exhibited at various levels, as shown in Figure 13-13. All employees should receive awareness training to emphasize the shared responsibility for maintaining a safe workplace. Supervisors should observe and document odd behavior. Involving HR staff and mental health experts along with law enforcement personnel when situations escalate can help contain a potentially violent incident. Balancing the rights of individual employees with the right for all to work in a safe and secure worksite is not easy, and companies must work to establish policies and procedures that reduce threats of violence.[74]

Violence Prevention Training Managers, HR staff members, supervisors, and employees should be trained on how to recognize the signs of a potentially violent employee and what to do when violence occurs; any violence plans that have been developed should also be introduced.[75] During training at many firms, participants learn the typical profile of potentially violent employees and are trained to notify the HR department and to refer employees to outside counseling professionals. Such training requires observers to notice individuals' verbal and nonverbal reactions that may indicate anger or hostility and to listen to individuals who are exhibiting such reactions.

Specific suggestions addressed in training for dealing with potentially violent employees typically include the following:

- Ask questions requiring explanations and longer answers that allow the individual to vent.
- Respond calmly and nonthreateningly to the individual's emotions, acknowledge concerns, and demonstrate understanding about how the individual feels.

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FIGURE 13-13 Levels of Workplace Violence Warning Signs

Source: Adapted from DOL.gov, http://www.dol.gov/oasam/hrc/policies/dol-workplace-violence-program.htm.

- Get assistance from others, perhaps a manager not directly affected by the situation being discussed.
- Indicate the need for time to respond to the concerns voiced and then set up another time for follow-up.
- Notify security and HR personnel whenever an employee's behaviors change dramatically or when a job disciplinary action may provoke significant reactions from an employee.

Workplace Incivility and Bullying Dysfunctional workplace interactions, as well as abusive, aggressive, and difficult coworkers, can create a workplace filled with hostility and disrespect,[76] and some of these issues are explored at the beginning of this chapter in the HR Headline feature. **Incivility** occurs when rude behavior by ill-mannered coworkers or bosses makes the targets of incivility feel annoyed, frustrated, or offended. Some employees do not find incivility serious enough to file a formal complaint, and when they do complain, management does not always respond appropriately. These situations allow such misbehavior to spread and become a more serious cultural issue in an organization.[77] But incivility can escalate into bullying and lead to other destructive workplace behaviors that are likely to require action.[78]

Incivility
Rude behavior that offends other employees

Bullying is behavior that the victim perceives as oppressive, humiliating, threatening, or infringing on the target's human rights and that occurs over an extended period of time. Workplace bullying tends to be prevalent in certain industries, which Figure 13-14 illustrates. Bullying, especially by supervisors and people in positions of authority, can damage employees and organizations through poor work attitudes, serious physical and emotional damage to targets, decreased ethical decision making, lost time from work and lower productivity, and increased turnover.[79] Both supervisors and coworkers have been found to bully, and targets typically quit their jobs rather than stay and attempt to work things out through the organization's complaint mechanisms.[80] Defining the kinds of behaviors that constitute bullying, instituting effective hiring policies, training employees and supervisors, and providing a confidential reporting process can help reduce workplace bullying.[81]

Bullying
Behavior that the victim perceives as oppressive, humiliating, threatening, or infringing on the target's human rights and that occurs over an extended period of time

Dealing with Workplace Violence The increase in workplace violence has led many employers to develop policies and practices that aim to prevent and respond to it. Policies can specify how workplace violence is to be dealt with in conjunction with disciplinary actions and referrals

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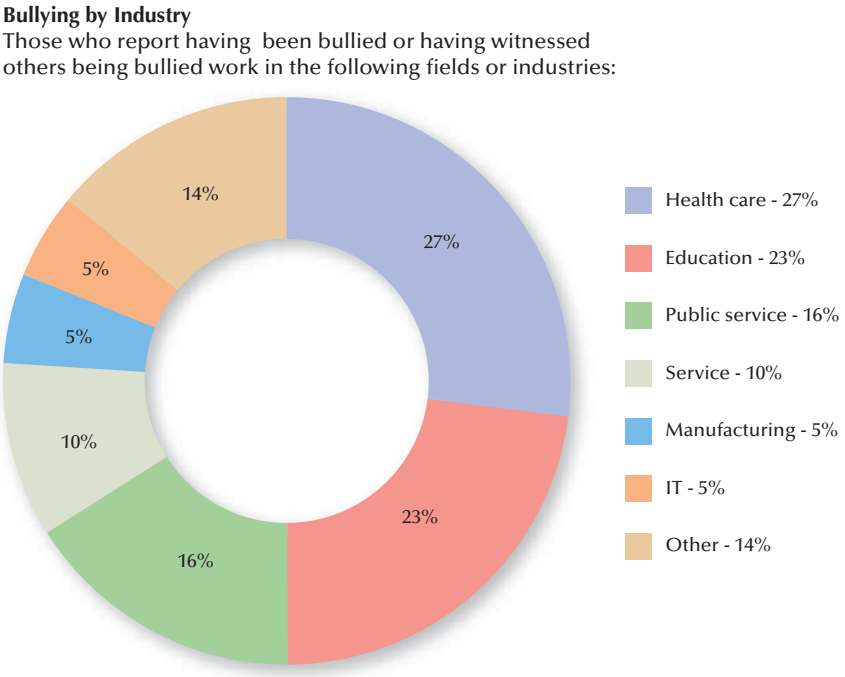
FIGURE 13-14 Prevalence of Workplace Bullying Based on Industry



Key: Health care 27%, Education 23%, Public service 16%, Service 10%, Manufacturing 5%, IT 5%, Other 14%.
Source: Workplace Bullying Institute, 2013.
Additional source: Dana Wilkie, "Where the Bullies Are," *HR Magazine*, March 2016, pp. 51–56.

to EAPs. Training managers and others is an important part of successful practice. Utilizing case studies and providing definitions and examples are more effective than simply training employees on the company's policy. Establishing a supportive, respectful organizational climate can also mitigate concerns about workplace bullying and other counterproductive behaviors.[82]

One application of these policies is a *violence response team*. Composed of security personnel, key managers, HR staff members, and selected employees, this team functions much like a safety committee but with a different focus. Such a team conducts analyses, responds to and investigates employee threats, and may even help calm angry, volatile employees.

Employers must be careful because they may face legal action for discrimination if they discharge employees for behaviors that often precede violent acts. For example, in several cases, employees who were terminated or suspended for making threats or even engaging in physical actions against their coworkers then sued their employers, claiming they had mental disabilities covered under the ADA.

Post-violence response is another aspect of managing workplace violence. Whether the violence results in physical injuries or death or just intense interpersonal conflicts, it is important that employers have plans to respond afterward. Their response must reassure employees who may be fearful of returning to work or who experience anxiety and sleeplessness, among other reactions. Providing referrals to EAP resources, allowing employees time to meet with HR staff, and arranging for on-site trained counselors are all possible elements of post-violence response efforts.

LO7 Describe the nature and importance of disaster preparation and recovery planning for HR.

13-6 Disaster Preparation and Recovery Planning

During the past several years, many significant disasters have occurred. Some have been natural disasters, such as hurricanes, major snowstorms, flooding in various states, tornadoes, and wild fires. There has also been concern about terrorism, and fires and explosions have damaged some firms. According to a SHRM study, the 9/11 attacks encouraged many organizations to revisit and

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update the plans used to prepare employees for various disasters, and while not every kind of problem can be foreseen, just having such a plan can be very beneficial for building confidence; communicating this plan is also important.[83] All of these issues have led to an expanded role for HR staff in disaster planning.

Crisis management has become important to prepare for any instance in which organizations and their employees are impacted by such events. Effectively managing a crisis that a company faces can be detailed in three basic steps:[84]

GLOBAL

- *Pre-crisis*: Identify how crises can be avoided through proper preparation, risk assessment, and disaster prevention.
- *Crisis*: Craft a plan that enables the firm to adequately identify and respond to a crisis.
- *Post-crisis*: Identify how the organization can better respond to the same or a similar crisis if it were to happen again.

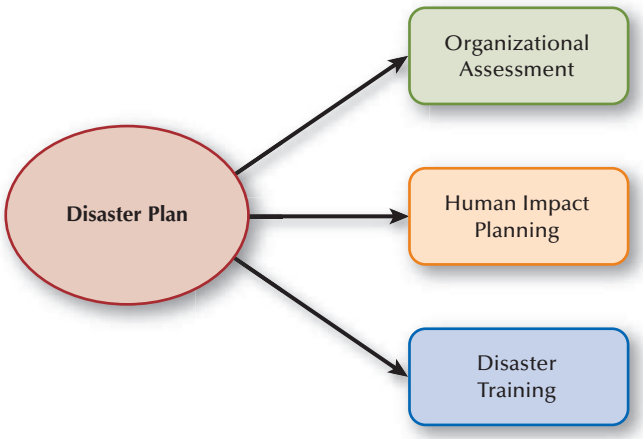
Such planning and preparation is particularly important when sending employees abroad for overseas assignments. Proper planning should be conducted before individuals leave their home worksites. If possible, HR professionals should visit foreign locations and discuss security with employees, and the degree to which a security presence and personal weapons are needed for protection should be determined. An evaluation should be made to determine the potential risks to employees and families who are being sent abroad.

13-6a Disaster Planning

Effective disaster planning involves the three components shown in Figure 13-15. Imagine that a hurricane destroys a facility where employees work as well as many of the employees' homes. Or picture an explosion or terrorist attack that prohibits workers from getting to their workplaces. These situations demonstrate the human dimensions to natural and human-caused disasters. However, many employees report that their companies are not prepared to handle emergencies that might affect them.[85] Disaster planning should include consideration of organizational factors, human impact analysis, and disaster training.

Organizational Assessment Organizational assessment includes establishing a disaster planning team, often composed of representatives from HR, security, information technology, operations, and other areas. The purpose of this team is to conduct an organizational assessment of how various disasters might affect the organization and its employees. Then a disaster recovery plan is developed to identify how the organization will respond to various situations.

FIGURE 13-15 Elements of a Disaster Plan



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Human Impact Planning The impact of events on people should be assessed and contingency plans put in place. Issues such as having backup databases along with employee contact information are key considerations of such planning. Identifying who will take responsibility for various duties and how these efforts will be coordinated must also be determined.

Some organizations have done an effective job with such planning. For instance, after losing power and Internet service because of Hurricane Sandy, ICS Software, a New York–based provider of health administration programs, used cloud phone services offered by the firm 8×8 so that employees could continue talking to customers from their residences.[86]

Disaster Training All planning efforts may be wasted if managers and employees are not trained on what to do when disasters occur. Training should take place regularly and reflect actual workplace conditions to simulate a real emergency as closely as possible. This training should cover a wide range of topics, including the following:

- First aid/CPR
- Hazardous materials containment
- Disaster escape means
- Employer contact methods
- Organizational restoration efforts

But this training is not sufficient without conducting exercises or simulations that allow managers and employees to use the training.[87] Much like public schools have fire evacuation exercises, employers may have site evacuation drills. Regular tests to ensure that information technology and databases are securely accessible away from the main location should occur. Responses observed during exercises or simulations may identify additional training needs or modifications needed within the organization.

SUMMARY

- The four components of risk management are workplace safety and health, employee health and wellness promotion, workplace and worker security, and disaster preparation and recover planning.
- Health is a general state of physical, mental, and emotional well-being. Safety is a condition in which the physical well-being of people is protected. Security is the protection of employees and organizational facilities.
- Workers' compensation coverage is provided by employers to compensate employees who suffer job-related injuries and illnesses.
- Both the Family and Medical Leave Act (FMLA) and the Americans with Disabilities Act (ADA) affect employer health and safety policies and practices.
- The Fair Labor Standards Act (FLSA) limits the types of work that younger employees, especially those under the age of 18, can perform.
- Global security is of growing importance, and employers must plan carefully for employees who are traveling and working abroad.
- Companies that operate in multiple countries must evaluate various requirements and safety standards, and they then must plan accordingly.
- The Occupational Safety and Health Act states that employers have a general duty to provide safe and healthy working conditions.
- The Occupational Safety and Health Administration (OSHA) has established safety standards to provide guidance in many areas, including hazard communication and personal protective equipment. OSHA requires employers to keep records of occupational illnesses and injuries, inspects workplaces, and can issue citations for several levels of violations. Developing safety policies, disciplining violators, keeping safety records, conducting safety training, communicating on safety issues, establishing safety committees, inspecting work areas for safety concerns, investigating accidents, and evaluating safety efforts are all part of comprehensive safety management.
- Effective safety management requires integrating three approaches: organizational, engineering, and individual.
- Ergonomics looks at the physical demands of work. Employers can promote employee health at several levels to improve organizational operations and individual employee productivity.

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- Substance abuse, emotional/mental health, and smoking at work are common health issues and represent growing concerns for organizations and employees.
- Employers have responded to health problems by establishing and supporting wellness programs and employee assistance programs.
- Establishing and maintaining an organizational culture of health continues to pay off for many employers.
- Secure workplaces and corporate data are important, particularly as the frequency of computer hacking attacks increases.
- Employers can enhance security by conducting security audits, controlling access to workplaces and computer systems, screening employees adequately during the selection process, and providing security personnel.
- Disaster preparation and recovery planning have grown to be important HR concerns.

CRITICAL THINKING CHALLENGES

1. What can first-line supervisors do to help control workers' compensation costs, and how might they be rewarded for doing so?
2. What should an employer do when facing an OSHA inspection?
3. As the HR manager of a distribution and warehouse firm with 600 employees, you plan to discuss a company wellness program at an executive staff meeting next week. The topics to cover include what a wellness program is, how it can benefit the company and employees, and the process for establishing it. To aid in developing your presentation to the executives, consult the website www.welcoa.org and other applicable websites you can locate.
4. What should be included in disaster planning for a large employer in Annapolis, Maryland, that is concerned about natural disasters such as floods and snowstorms that might shut down the company and parts of the city?
5. The number and magnitude of data breaches have been increasing at retailers, banks, government agencies, and other institutions. The management team at your company has decided to develop plans for dealing with data security breaches. Because your company has many employees who telecommute and you employ a high percentage of contract and temporary employees, there are many factors to consider.
   A. What policies would you recommend to help ensure that insiders (including direct and indirect workers) do not steal sensitive corporate data or compromise the integrity of the computer system?
   B. Write a suggested procedure for dealing with computer and data access when an employee (including direct and indirect workers) terminates employment. What steps should be taken to protect the company's IT data?

CASE Companies Partner to Promote Active Work Cultures

Medical research shows that sitting for extensive periods of time at work can be detrimental to employee well-being. Studies indicate that sedentary individuals can suffer higher rates of heart and cardiovascular issues, reduced decision-making efficiency, and higher incidences of diabetes and over 30 chronic ailments. Research also shows that exercise can only partially compensate for sitting too much throughout the day. Consequently, there is a growing need to address this chronic health issue in organizations.

One solution that directly addressed this challenge is "activity-permissive" workstations and worksites that afford employees opportunities to be more active while they complete their work. Examples include desks that can be elevated so that workers are able to stand while typing and performing other administrative activities. Another variation to the theme involves treadmill desks, which enable employees to walk while being busy at their workstations. Bike desks provide similar health benefits, enabling workers to cycle while taking care of their responsibilities. Other specialized furniture and accessories can also be used, including cushioned floor mats for stretching and exercise, elliptical machines that can be placed under desks, and chairs that encourage people to move around. Use of these devices in workspaces is becoming more common as wellness professionals are finding that they increase individual mental efficiency, job performance, and workplace morale. They can also reduce generalized sickness and injuries among workers, as well as enhance recruiting because talented job candidates are often interested in wellness initiatives.

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Several companies manufacture these specialized desks, workstations, and devices. Located in Coppell, Texas, Varidesk manufacturers platforms that are placed on top of office desks and can be elevated so that employees stand while doing their work. The costs of these devices range from almost $200 to about $800. LifeSpan, located in Salt Lake City, Utah, manufactures both bike desks and treadmill desks, with costs ranging from $1,000 to $2,000. Grand Rapids, Michigan-based Steelcase Inc. manufactures complete sit-stand desks, and these items range in price from several thousand dollars up to $5,000.

Despite the costs of these devices, many companies realize the benefits of their use. For instance, Zillow Group purchased sit-stand desks and treadmills for its workforce of 2,600 employees and found that they decreased individual work stress and made the company more attractive as an employer; health claims have also decreased and worker engagement has improved. Humana, the health insurance firm located in Louisville, Kentucky, placed sit-stand and treadmill desks in many of its offices, which has resulted in increased employee engagement and retention.[88]

QUESTIONS

1. What are some of the major benefits of using office furniture and workstations to promote employee health? Are there any associated challenges?
2. What rewards might be offered to employees for using sit-stand desks and treadmills to promote fitness in the workplace? How could you further motivate them to focus on these health and wellness initiatives?
3. Using Zillow Group and Humana as examples, how would you promote health and wellness by encouraging employees to be more active? What kinds of results would you expect to see?

SUPPLEMENTAL CASES

Building a Culture of Safety

This case investigates how a construction firm implemented a comprehensive safety program for its employees and subcontractors. (For the case, visit MindTap® at www.cengage.com/login.)

Wellness Programs Help the Bottom Line

This case explores the positive individual and organizational benefits of wellness programs. (For the case, visit MindTap® at www.cengage.com/login.)

Data Security

This case explores the different challenges associated with managing data security. (For the case, visit MindTap® at www.cengage.com/login.)

What's Happened to Bob?

This case concerns warning signs of possible alcohol use and the consequences at work. (For the case, visit MindTap® at www.cengage.com/login.)

Communicating Safety and Health Success

This case provides information on the success of safety and health efforts in the workplace. (For the case, visit MindTap® at www.cengage.com/login.)

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CHAPTER 14

Employee Rights and Responsibilities

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Explain elements of employment contracts, including noncompete and intellectual property agreements.

LO2 Define employment at will and discuss how wrongful discharge, just cause, and due process are interrelated.

LO3 Discuss issues associated with employee privacy, free speech, and whistle-blowing.

LO4 Analyze workplace monitoring, employer investigations, and other steps taken to ensure a safe and productive workplace.

LO5 Understand the use of policies, procedures, and employee handbooks to communicate workplace behavior and performance expectations.

LO6 Outline approaches to employee discipline and termination of employment.

WHAT'S TRENDING IN EMPLOYEE RIGHTS AND RESPONSIBILITIES

Today's workers want their employers to provide a fair, safe workplace where they can perform rewarding work and reach their goals. Employees are more willing to assert themselves and expect to be treated well on the job, so employers are changing their policies and practices so that the workplace is fair and professional. The following trends in employee relations reflect these issues:

1. Privacy issues are in the forefront as employers often monitor individuals' movement on the Internet. While individuals understand that there is need to do so in certain circumstances, they often do not approve of extensive tracking of their online activities, particularly in relation to the workplace. Employers should develop fair policies that protect organizational resources and reputation, as well as ensure employee privacy.
2. Employees' interest in expressing themselves both in the office and outside the workplace have led to a variety of free speech and conduct challenges. Companies must effectively balance the ability of individuals to express their ideas and beliefs with the need to create a unified workplace that accommodates a variety of opinions.
3. There is heightened awareness in organizations about data and information security. Concerns about data breaches and security in many companies have strengthened the idea that personal and professional information must be adequately protected.
4. Increased awareness of issues such as workplace bullying and harassment, as well as activism in government agencies and legislatures, has resulted in an expansion of worker protection laws and additional restrictions on employer conduct. These laws and restrictions greatly influence the nature of employment in companies.

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HEADLINE

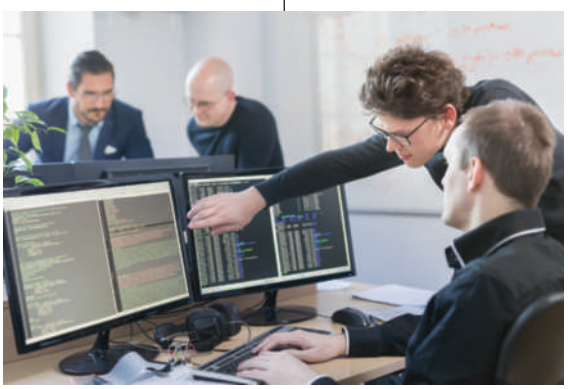
Google Fires Employee over Diversity Memo

Many companies are interested in advancing diversity within their ranks. Such an initiative is often managed using a variety of programs that can include mentoring and diversity training. While these programs are often highly effective at promoting diversity awareness and equal opportunity in organizations, they can sometimes result in less diverse consequences and increase concerns that an employer is using its power to change people's beliefs.

Some of these issues are highlighted in a recent situation at Google. In particular, Google's leadership decided to terminate software engineer James Damore for circulating a controversial memo about the company's efforts to hire and promote women within the high-tech firm. The reason given was that statements made about Google's strategies to hire more women and minority engineers conflicted with its policies against workplace discrimination and harassment. Mr. Damore made specific mention of several biological factors that he believed caused the underrepresentation of women in the tech industry and leadership positions. These assertions triggered the termination decision based on the company's code of conduct, with chief executive Sundar Pichai claiming that the memo was "advancing harmful gender stereotypes in our workplace." Damore also believed that Google should shelve its mandatory bias training because it may present only certain positions and precipitate some negative feelings and consequences.

At the crossroads of this decision at Google is the issue of free speech in organizations. A key question arises—how much should companies allow employees to express their personal views as they attempt to manage the workplace in ways that are the most effective for ensuring positive job performance? There is unfortunately no quick and easy answer.

From both legal and morale perspectives, Google's interest in promoting an inclusive culture that values individual differences is outstanding and commendable. Doing so provides a workplace that capitalizes on the many talents of different people. However, it is probably also a good idea for employers to promote an environment that champions all workers, even ones who may have somewhat varying viewpoints. Ignoring this concern can precipitate backlash from employees and business commentators alike. Early reports indicated



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that slightly over half of Google employees disagreed with the termination of Mr. Damore, and some reactions from the press have been negative. Several scientists have supported some of the statements found in the memo, and some research appears to back up a few of the claims made. The firing decision may also conflict with the National Labor Relations Act, which allows employees to organize and express dissenting views of corporate decisions and actions. Consequently, companies might encourage employees to have healthy debates about these issues without fear of discipline, thus supporting a strong culture of diversity.[1]

This chapter explores many interrelated issues that affect the management of human resources: *employee rights, HR policies,* and *discipline.* Employees have some basic rights as citizens, but those rights are further influenced by the HR policies and rules an employer establishes. For instance, disciplinary policies establish standards about how managers should deal with those who fail to follow organizational requirements. The variations in how these policies are managed illustrate how the concepts of rights, policies, and discipline evolve as legal, societal, and organizational values change. At one time, there were few restrictions on how employers could operate an organization. However, there are now a multitude of laws and employee rights that affect employer–employee relationships. HR professionals must help create a work environment that honors fairness, protects individual privacy, treats all workers with dignity and respect, while at the same time allowing the business to succeed.

14-1 Employer and Employee Rights and Responsibilities

Rights
Powers, privileges, or interests derived from law, nature, or tradition

Statutory rights
Rights based on specific laws or statutes passed by federal, state, or local governments

Responsibilities
Obligations to perform certain tasks and duties

Rights generally do not exist in the abstract. Instead, **rights** are powers, privileges, or interests derived from law, nature, or tradition. Of course, defining a right presents considerable potential for disagreement. For example, does an employee have a right to privacy of communication in personal matters when using the employer's computer on company time? Moreover, *legal rights* may or may not correspond to certain *moral rights,* which opens "rights" up to controversy and lawsuits.

Statutory rights are the result of specific laws or statutes passed by federal, state, or local governments. Various laws have granted employees certain rights at work, such as equal employment opportunity, collective bargaining, and workplace safety. These laws and their interpretations have also been the subjects of a considerable number of court cases because employers also have rights.

Rights are offset by **responsibilities**, which are obligations to perform certain tasks and duties. Employment is a reciprocal relationship in that both the employer and the employee have rights and obligations as depicted in Figure 14-1. For example, if an employee has the right to a safe working environment, then the employer has an obligation to provide a safe workplace. If the employer has a right to expect uninterrupted, high-quality work from the employee, then the worker has the responsibility to be on the job and to meet job performance standards. The reciprocal nature of rights and responsibilities suggests that each party in an employment relationship should ideally regard the other as having rights and should treat others' rights with respect.

The relationship between employers and their employees has evolved over time. Some companies have assumed a paternalistic approach to their workers, while others keep a hands-off approach. The following "HR Perspective: Building Cars by Building Workers" feature provides an historical perspective on how Henry Ford treated his employees. Compared to modern-day employee expectations, it shows how very much the world of work can impact people's lives. But many organizations attempt to improve the lives of their employees by developing policies and practices that

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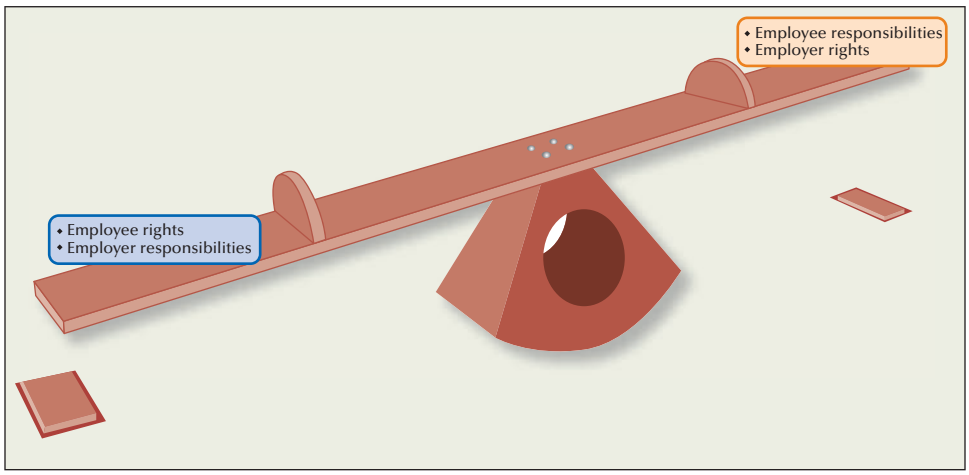
FIGURE 14-1 Balancing Employee and Employer Rights and Responsibilities



make the workplace more favorable. Examples of such efforts include delegation policies, less frequent meetings, closing to recognize holidays, allowing (and learning from) failure, and focusing on empowerment in the workplace.[2]

14-1a Contractual Rights

LO1 Explain elements of employment contracts, including noncompete and intellectual property agreements.

When individuals become employees, they take on both employment rights and responsibilities. Those obligations can be spelled out formally in a written employment contract or more likely in an employer handbook and policies disseminated to employees. Contracts formalize the employment relationship. An employee's **contractual rights** are based on a specific contract with an employer. For instance, a union and an employer negotiate a labor contract that specifies the terms, conditions, and rights that employees who are represented by the union have with the company. The contract also spells out the company's rights and obligations.

Contractual rights Rights based on a specific contract between an employer and an employee

Employment contract Formal agreement that outlines the details of employment

Employment Contracts Traditionally, executives and senior managers have negotiated individual employment contracts, but they are now becoming more common for highly specialized professional and technical employees who have scarce skills. An **employment contract** is a formal agreement that outlines the details of employment. An employment agreement should address all particulars of the employment relationship, including the following:

- Base pay and incentive compensation
- Basic and supplementary benefits and perquisites
- Key job functions and performance criteria
- Contract term
- Terms and conditions for terminating employment

Companies are more likely to use a formal employment contract when employees are hired from outside the organization rather than being internally promoted, the employment situation is highly risky and uncertain, and compensation is unusually generous.

Noncompete agreements Agreements that prohibit individuals who leave an organization from working with an employer in the same line of business for a specified period of time

Noncompete Agreements Employment contracts may include **noncompete agreements**, which prohibit individuals who leave an organization from working with an employer in the same line of business for a specified period of time. A noncompete agreement may be presented as a separate contract or as a clause in an employment contract. Though primarily used with newly hired employees, some firms have required current employees to sign noncompete agreements. In the past, noncompetes were required only at top executive levels, but now they often apply to

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HR PERSPECTIVE

Building Cars by Building Workers

As a leader in the industrial revolution, Henry Ford had a unique approach to managing workers in his automobile assembly plants. In the early 1900s, he doubled workers' pay to $5 per day in an effort to reduce turnover. He also did this because he had a sincere interest in their well-being.

Henry Ford's concern for his employees' health and security went well beyond the factory floor. He required his workers to be "thrifty and neat." He created a group within the company called the Sociological Department, which visited employees at their homes to help them manage household finances and family health. Eventually, the department had over 200 agents who worked with Ford's 13,000 employees, many of whom were immigrants seeking to improve their lot in life.

Ford's assembly line workers had to obtain authorization from the Sociological Department if they wished to buy a car. They would be quizzed on their family status (whether they were married and had children), any outstanding debts, and whether they had life insurance. Only after proving their financial security were they granted permission to buy a car. Ford also provided the services of a legal team whose lawyers would help workers with issues ranging from buying a home to obtaining U.S. citizenship—all at no cost to the employee.

Jobs at Ford were highly coveted, and Ford Motor Company was viewed as an employer of choice because it paid the highest wages in the automotive industry. The paternalistic approach of Henry Ford has long since disappeared at the company, and the automotive industry has moved forward in the hundred years since the Sociological Department checked in on workers and helped them become good employees *and* good citizens in their communities.[3] Consider Ford's humanitarian way of dealing with his employees as you answer the following questions:

1. How did Ford's approach to employee relations impact employees? Do you think it was to their advantage or disadvantage for the company to take such an active interest in their lives?
2. What are some of the things Henry Ford did that you think have merit? If you were running a company, what practices of his might you adopt?

sales representatives, engineers, and others involved in research and innovation. Such agreements can also apply to line-level employees and jobs that pay minimum wage, and they can be offered by many different types and sizes of employers operating in a variety of industries. The use of noncompete agreements can increase a company's competitive advantage, protect trade secrets, enhance manager stability, reduce employee costs, and encourage greater expenditures on human capital.[4]

Courts have ruled both for and against companies that have fired employees who refuse to sign noncompete agreements or violate them. Such lawsuits have increased tremendously in the past decade. Consider the founder of a small technology startup who was sued by his former employer. They settled the legal action after six months of negotiating. Startup firms often face greater financial issues when trying to recruit highly skilled talent. Restrictions imposed due to noncompete agreements make it very difficult for these companies to legally hire employees. A Cambridge, Massachusetts technology startup founder claimed that noncompete agreements made it difficult for him to hire software engineers at his firm. However, he also required newly hired employees to sign a noncompete to protect the intellectual value created at the firm.[5] Cases involving Jimmy John's and Law360 have some companies questioning whether they should enforce these agreements or require employees to sign them at all, but other cases involving Amazon and Nike show that some firms are determined to enforce them.[6] But signing noncompete agreements can provide employees leverage to negotiate additional compensation from an employer, even when they leave a firm. When

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David Hoffmann left McDonald's to become the president of Dunkin' Donuts in the United States and Canada, he gave up millions of dollars in compensation because he did not sign a noncompete agreement.[7]

To create enforceable noncompete agreements, the specified criteria must balance the interests of both employees and employers. Reasonable geographical and time limitations should be imposed, and the agreement should be confined to jobs of a similar type. Some states more aggressively enforce noncompete agreements than do others. The courts use a number of guidelines to determine whether noncompete agreements are acceptable, and the following recommendations represent some key considerations and *reasonable* practices that have some legal basis:

- Sets reasonable limits on the expectations of employees not looking for work elsewhere
- Typical duration under two years
- Restricts activity to a logical geographic scope
- Grants employees additional "consideration" beyond regular employment
- Limits employees from working within the current area of specialization but does not prohibit employment in new fields[8]

Contracts may also include *nonpiracy agreements,* which bar former employees from soliciting business from former customers and clients for a specified period of time. Clauses requiring *nonsolicitation of current employees* can be incorporated into the employment agreement. These limitations are created to protect the company from former employees attempting to recruit former coworkers or clients, essentially poaching talent or business. Poaching employees in general has become a significant concern for some employers; 21st Century Fox sued Netflix for hiring away two of its executives by allegedly encouraging them to break their working agreements.[9]

Intellectual Property An area often covered in employment contracts is protection of *intellectual property* and *trade secrets.* A 1996 law made theft of trade secrets a federal crime punishable by fines up to $5 million and 15 years in jail. Employer rights in this area include the following:

- The right to keep trade secrets confidential
- The right to have employees bring business opportunities to the employer first before pursuing them elsewhere
- A common-law copyright for works and other documents prepared by employees for their employers

The primary objectives of using employment contracts to help protect trade secrets are to notify workers that they will be privy to sensitive information on the job, to limit employees' discussion of trade secrets and competitive actions, and to indicate that innovations made by employees on the job fall under the management and control of the organization.[10] A variation of this theme involves a lawsuit brought forth by a former Snapchat employee who claims the company terminated him after he would not disclose proprietary information about Facebook, his former employer.[11]

14-1b Implied Contracts

Implied contract
An unwritten agreement created by the actions of the parties involved

The employment relationship is affected by both formal and informal agreements. The rights and responsibilities of the employee may be spelled out in a job description, an employment contract, HR policies, or a handbook, but often they are not. The rights and responsibilities of the employee may exist *only* as unwritten employer expectations about what is acceptable behavior or performance on the part of the employee. Some court decisions have held that if an employer hires someone for an indefinite period or promises job security, the employer has created an implied contract. An **implied contract** is an unwritten agreement created by the actions of the parties involved. Such promises establish employee expectations, especially if there has been a long-term business relationship.

When the employer fails to follow up on the implied promises, the employee may pursue remedies in court. Numerous federal and state court decisions have held that such implied promises, especially when contained in an employee handbook, constitute a contract between an employer and its employees, even without a signed contract document.

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LO2 Define employment at will and discuss how wrongful discharge, just cause, and due process are interrelated.

14-2 Rights Affecting the Employment Relationship

As the power of labor unions has declined in the United Stated and employees increasingly regard themselves as free agents in the workplace, the struggle between individual employee and employer rights has become heightened. Several concepts from law and psychology influence rights in the employment relationship, including employment at will, wrongful or constructive discharge, just cause, due process, and organizational justice.

14-2a Employment at Will

Employment at will (EAW)
A common-law doctrine states that employers have the right to hire, fire, demote, or promote whomever they choose, unless there is a law or a contract to the contrary, and employees may quit at any time with or without notice

Employment at will (EAW) is a common-law doctrine stating that employers have the right to hire, fire, demote, or promote whomever they choose, unless there is a law or a contract to the contrary, and employees can quit at any time with or without notice. An EAW statement in an employee handbook usually contains wording such as the following:

> *The Company does not offer permanent or guaranteed employment. Either the Company or the employee can terminate the employment relationship at any time, with or without cause, with or without notice. This is called Employment at Will. This employment-at-will relationship exists regardless of any other written statements or policies contained in this Handbook or any other Company documents or any verbal statement to the contrary.*[12]

National restrictions on EAW include prohibitions against the use of race, age, sex, national origin, religion, and/or disabilities as bases for termination. Restrictions on other factors vary from state to state. Nearly all states have enacted one or more statutes to limit an employer's right to discharge employees.

EAW and the Courts The courts have recognized certain exceptions to EAW as follows:

- *Public policy exception*: This exception to EAW holds that employees can sue if fired for a reason that violates public policy. For example, an employee who was fired for filing a complaint with OSHA can sue the employer.
- *Implied contract exception*: This exception to EAW holds that employees should not be fired as long as they perform their jobs. Long service, promises of continued employment, and lack of criticism of job performance imply continuing employment.
- *Good-faith and fair-dealing exception*: This exception to EAW suggests that a covenant of good faith and fair dealing exists between employers and at-will employees, including agreements and stipulations that appear in employee handbooks. If an employer breaks this covenant by unreasonable behavior, the employee may seek legal recourse.
- *Statutory exception*: This exception to EAW indicates that protected class characteristics cannot be used as a reason to terminate employees (i.e., religion, sex, race, etc.).[13]

Over the past several decades, many state courts have revisited and revised EAW contractual provisions. Some courts have placed limits on the doctrine, including situations when employers act harmfully toward workers. Terminations should be fair, based on effective performance reviews, and well-justified based on reasonable standards.[14]

Wrongful discharge
Termination of an individual's employment for reasons that are illegal or improper

Wrongful Discharge Employers that run afoul of EAW restrictions may be guilty of **wrongful discharge**, which involves the termination of an individual's employment for reasons that are illegal or improper. Employers can take several precautions to reduce wrongful-discharge liabilities. Having a well-written employee handbook, training managers, and maintaining adequate documentation are key ways to prevent wrongful discharge.

A landmark court case regarding wrongful discharge was *Fortune vs. National Cash Register Company* (1977). The case involved the firing of a salesperson (Mr. Fortune) who had been with

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National Cash Register (NCR) for 25 years.[15] Mr. Fortune was terminated shortly after he sold a large customer order that would have earned him a substantial commission. After reviewing the evidence, the court concluded that he was wrongfully discharged because NCR dismissed him to avoid paying the commission, thus violating the covenant of good faith and fair dealing. Given the increase in wrongful-discharge lawsuits based on different interpretations of the law, companies are much more concerned today about the potential for litigation. Organizations need an appropriate defense against wrongful-discharge lawsuits, some of which are highlighted in Figure 14-2.

Constructive discharge
Process of deliberately making conditions intolerable to get an employee to quit

Constructive Discharge Closely related to wrongful discharge is **constructive discharge**, which is the process of deliberately making conditions intolerable to get an employee to quit. Under normal circumstances, an employee who resigns rather than being dismissed cannot later collect damages for violation of legal rights. An exception to this rule occurs when the courts find that the working conditions were made so intolerable as to *force* a reasonable employee to resign.[16] Then, the resignation is no longer considered voluntary but is effectively an involuntary termination. Dangerous duties, insulting comments, and failure to provide reasonable work are examples of actions that can lead to a claim of constructive discharge.

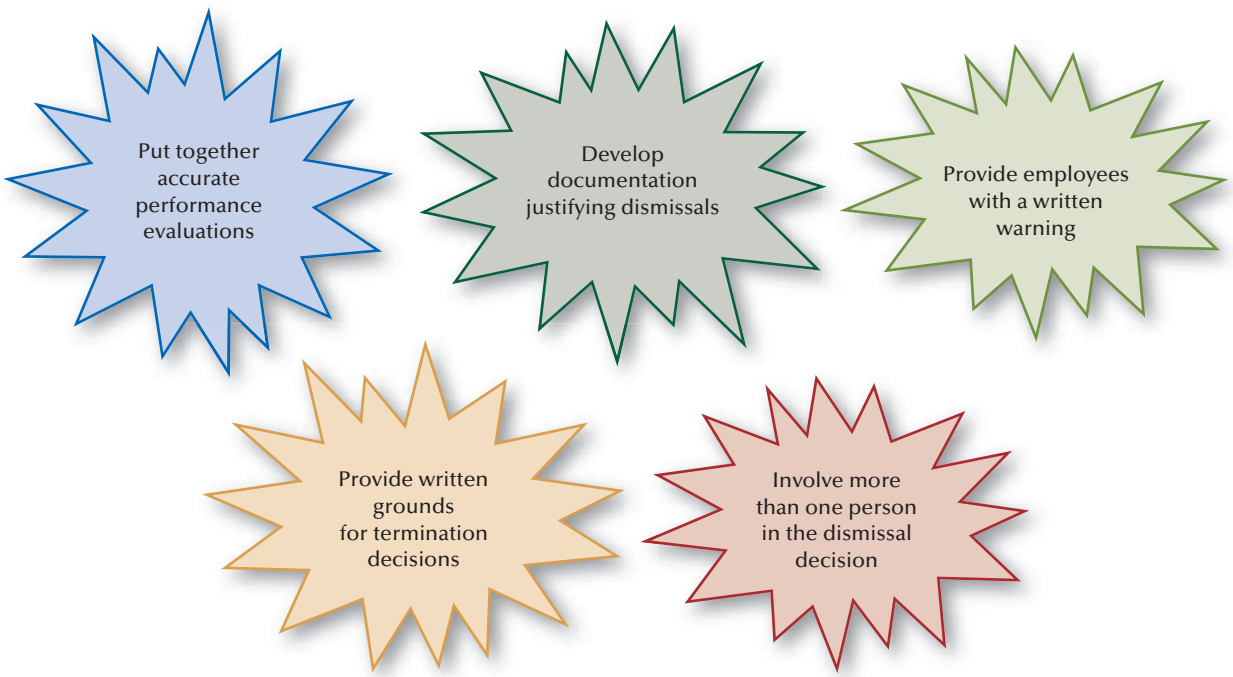
14-2b Just Cause

Just cause
Reasonable justification for taking employment-related action

ETHICS

Just cause is reasonable justification for taking employment-related action. Union contracts typically require an employer to provide a "good reason" for disciplinary actions such as dismissal, but this protection does not exist in at-will situations. There are many examples of just cause terminations (i.e., firing "for cause" when serious violations have occurred)—Wells Fargo fired several senior executives for questionable selling practices, Goldman Sachs terminated a number of employees for cheating on corporate training exams, and the government contractor RDG-CGS fired two sisters for working on online university classes while they were on the clock.[17] Executive employment agreements may also specify a list of behaviors such as harassment or assault that can result in termination and loss of severance pay.[18]

FIGURE 14-2 Keys for Preparing a Defense against Wrongful Discharge



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ETHICS

Even though definitions of *just cause* vary, the overall concern is fairness. To be viewed by others as *just,* any disciplinary action must be based on facts in the individual case. Consistency in messaging and documentation, basing levels of punishment administered on the seriousness of infractions, and being consistent in disciplinary proceedings can also improve perceptions of fairness.[19] Violations of these requirements can result in legal action. For instance, a court could easily rule that a high-performing worker was not fired for just cause if he had been terminated for poor performance after taking unpaid time off associated with the Family and Medical Leave Act to help a sick relative.

14-2c Due Process

Due process
Occurs when an employer is determining if there has been employee wrongdoing and uses a fair process to give an employee a chance to explain and defend his or her actions

Due process, like just cause, is about fairness. Due process protects employees from unjust or arbitrary discipline or termination. **Due process** occurs when an employer is determining if there has been employee wrongdoing and uses a fair process to give an employee a chance to explain and defend his or her actions. This typically involves thoroughly investigating all employment actions and giving individuals an opportunity to express their concerns to objective reviewers of the facts in the situation. Due process represents ethical and respectful treatment of employees, and companies that fail to utilize such a process risk being seen as unethical. Organizational justice is a key part of due process.

Figure 14-3 shows some factors to be considered when evaluating just cause and due process. Courts determine if employers' actions are fair based on how managers address these factors.

14-2d Organizational Justice

Organizational justice
The fairness of decisions and resource allocations in an organization

Organizational justice is the fairness of decisions and resource allocations in an organization. Employees' perceptions of fairness and justice in the workplace influence their attitudes and behaviors. For example, employee job satisfaction and commitment are affected by how fairly they believe they are treated by the company.[20] A wide range of HR activities can affect these perceptions of justice, including selection processes, job performance reviews and appraisals, and disciplinary actions.

Individual perceptions of fairness or justice in the workplace depend on at least three different types of assessments—the process of decision making, the actual decision made, and how the decision is explained to an employee. The elements of organizational justice, as shown in Figure 14-4, are explained in the following sections.[21]

The first factor, procedural justice, focuses on whether the procedures that led to an action were appropriate and clearly understood and whether they provided an opportunity for employee input.

FIGURE 14-3 Criteria for Evaluating Just Cause and Due Process

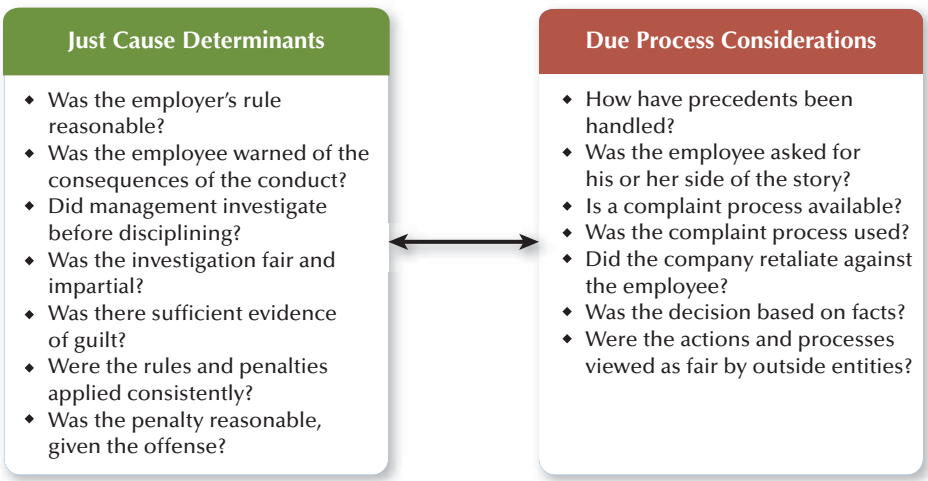

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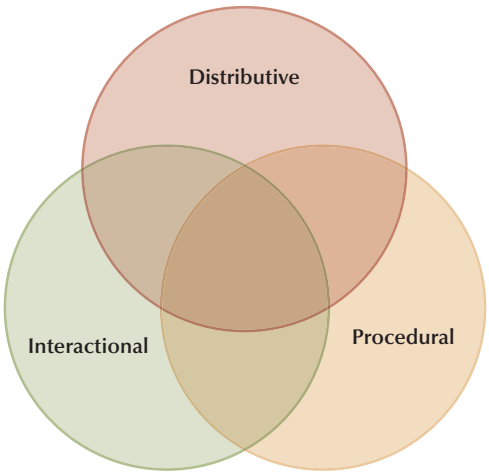
FIGURE 14-4 Interrelated Elements of Organizational Justice



Procedural justice
Perceived fairness of the processes used to make decisions about employees

Procedural justice is the perceived fairness of the processes used to make decisions about employees. In other words, are the rules fair and fairly applied to everyone? Due process is a key part of procedural justice when making promotion, pay, discipline, and other HR decisions. If organizations provide procedural justice, employees may not always like a particular decision, but they tend to respond positively because they know it was reached in a fair way. One study found that procedural justice has the capacity to influence how reward choice impacts job performance among workers.[22]

Distributive justice
Perceived fairness in the distribution of outcomes

Second, people obviously prefer favorable outcomes for themselves. They decide the favorability of their outcomes by comparing them with the outcomes of others, given their relative situations. This decision involves the concept of **distributive justice**, which is the perceived fairness in the distribution of outcomes. Disciplinary action based on favoritism—when some are punished and others are not—would likely be viewed as unfair. Fairness depends on employee perceptions and is ultimately a subjective determination.

Interactional justice
The extent to which a person affected by an employment decision feels treated with dignity and respect

Interactional justice is the extent to which a person affected by an employment decision feels treated with dignity and respect. Is an adequate explanation provided to explain the decision? Is the employee treated considerately and professionally? For example, if a manager gruffly delivers the news that an employee has not been selected for promotion and fails to explain why, the employee is likely to feel that the decision was unfair. In turn, the employee is more likely to treat coworkers negatively, and the perceived unfairness trickles down through the organization or work group.[23]

Employees who feel that they have not been treated fairly may respond in a number of ways, sometimes even counterproductively. For instance, some look for ways to "even the score" and seek revenge by acting destructively. Others may forgive a single unfair decision if their overall opinion is that the organization acts fairly. Managers should continuously work to foster a reputation as fair and just since employees maintain a fairly stable perception of the organization's level of justice and can excuse an exceptional episode of unfairness.[24]

Companies may improve perceptions of justice by providing procedures to deal with employee complaints. In union-free firms, the complaint procedures differ from those for unionized employees, who typically have a formal grievance procedure specified in the union contract. Due processes in union-free firms are more varied and may address a broader range of issues. Numerous employers use an **open-door policy**, which allows workers who have a complaint to talk directly to someone in management. However, managers should be careful to balance reasonable accessibility with time on their own to get work done.[25] Since this policy can be mishandled, union-free firms benefit from having formal complaint procedures that are well-defined to provide a more systematic due process for employees than do open-door policies.

Open-door policy
A policy that allows workers with a complaint to talk with someone in management

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14-2e Alternative Dispute Resolution

Disputes between management and employees about work issues are normal and inevitable, but how the parties resolve their disputes is important. Open-door policies, formal grievance procedures, and lawsuits provide several resolution methods. However, companies are looking to alternative means of settlement. High litigation costs, delays in the court system, and damage to employer–employee relationships have prompted growth in alternative dispute resolution (ADR) methods such as arbitration, peer review panels, ombuds, and mediation. For employees to trust these methods, companies should communicate decisions clearly and give employees an opportunity to provide input.[26]

Arbitration Disagreements between employers and employees can result in lawsuits that are costly and time-consuming. Consequently, to settle disputes, some companies use the process of arbitration.

Arbitration
Process that uses a neutral third party to make a binding decision, thereby eliminating the need to involve the court

Arbitration is a process that uses a neutral third party to make a binding decision, thereby eliminating the need to involve the court. Arbitration has been a common feature in union contracts. However, it must be set up carefully if employers want to use it in union-free situations. Since employers often select the arbitrators, and because arbitrators may not be required to issue written decisions and opinions, some see the use of arbitration in employment-related situations as unfair.

Some firms use *compulsory arbitration,* which requires employees to sign a pre-employment agreement stating that all disputes will be submitted to arbitration. These agreements require employees to waive their rights to pursue legal action until the completion of the arbitration process. A legal check of compulsory arbitration as part of ADR should be done before adopting the practice. In addition, companies should ensure that arbitrators function in an equitable manner, arbitration decisions and awards reflect the law, and proper attempts are made by the organization to communicate arbitration agreements to employees.[27]

Peer Review Panels Some companies allow their employees to appeal disciplinary actions to an internal committee of employees. This panel reviews the actions and makes recommendations or decisions. Peer review panels use fellow employees and perhaps a few managers to resolve employment disputes. Panel members are specially trained volunteers who sign confidentiality agreements, after which the company assigns them to hear appeals.

These panels have several advantages, including reduced lawsuits, provision of due process, decreased costs, and management and employee development. Also, peer review panels can complement a formal complaint process for at-will employees because solutions can be identified and implemented without court action. If an employee later files a lawsuit, the employer has a stronger case since a group of the employee's peers previously reviewed the employer's decision and found it to be appropriate.

Ombuds
Individuals outside the normal chain of command who act as independent problem solvers for both management and employees

Ombuds Some organizations ensure process fairness through **ombuds**—individuals outside the normal chain of command who act as independent problem solvers for both management and employees. At many large- and medium-sized firms, ombuds have effectively addressed complaints about unfair treatment, employee–supervisor conflicts, and other workplace behavior issues. Ombuds address employees' complaints and operate with a high degree of confidentiality; they can also improve employee perceptions of procedural justice.[28]

Mediation Ombuds, as well as other individuals and groups who oversee disputes, will sometimes use *mediation* as a tool for developing appropriate and fair outcomes for all parties involved. Mediation has a number of advantages, including the ability to save money/time and facilitate confidentiality, as well as the capacity to develop unique and beneficial dispute outcomes.[29] Mediators may use either a facilitative or evaluative approach to dispute resolution. Facilitative techniques foster communication among the parties to help uncover options for settling. Evaluative techniques, on the other hand, point out the potential weaknesses in each side's case and offer potential settlement options. Many mediators use a combination of those approaches depending on the circumstances of the dispute.[30]

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HR COMPETENCIES & APPLICATIONS

Setting Up an Alternative Dispute Resolution Process

Creating an internal process to settle employment-related disputes and conflicts can benefit both the organization and its employees with faster resolution of complaints/issues. An alternative dispute resolution (ADR) process can address concerns such as employee discipline matters, violations of policy, and employment termination decisions.

ADR can take a number of forms, including arbitration, peer review, ombuds, and mediation. It is not necessary to include all forms of ADR—managers can choose the approaches that make the most sense for the organization. Here are some suggested steps in developing an ADR process:

1. Determine the organization's readiness for ADR. Is ADR consistent with the organization's culture and other HR processes? There needs to be a good match between culture and process for ADR to work.
2. Identify key stakeholders among both formal and informal leaders. Top executives must support an ADR program. Don't ignore the informal leaders, since they can influence the rest of the employees, and their support is critical.
3. Research the various ADR options to determine which ones are the best fit for the organization. For example, peer review is most successful when there is a high level of trust within the workforce.
4. Design the program by using a cross-functional team that includes HR, line managers, and senior managers. This way, input from many different areas of the organizations is provided.
5. Get feedback from employees on the initial design. Use focus groups, town hall meetings, suggestion systems, or e-mail polls. Share all the details so that employees can effectively evaluate the process.
6. Design the rollout strategy and communication plan. Determine whether to "go live" right from the start, or to use a pilot test of the process first. Decide how to get the word out to managers and employees so that they understand how the process works and what types of disputes are appropriate to bring to the ADR process.
7. Remind employees about the process periodically (such as once a year), so that they know it is operational and effective.

ADR is generally effective when managers and employees understand the process and trust it to resolve their issues. The benefits it can provide mean that employers and employees will not be tied up in a lengthy, drawn-out process of resolving problems. Speedy, fair resolution allows everyone to move on from a situation and get back to productive work.[31] As you consider the process of ADR, discuss these questions:

1. Have you worked at a job where ADR was used? If so, what type of ADR was there, and how effectively did it work?
2. If you were a manager, what would you see as the advantages and disadvantages of using the various forms of ADR to resolve employment disputes?

KEY COMPETENCIES: Relationship Management, Business Acumen; HR Expertise: Organization/Structure of the HR Function, Organization/Employee Relations

The variety of ADR methods available to employers can be confusing. The preceding "HR Competencies & Applications: Setting Up an Alternative Dispute Resolution Process" feature offers a step-by-step process to establish an effective means of resolving employment disputes without the high cost of litigation.

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14-3 Managing Individual Employee and Employer Rights Issues

GLOBAL

Although the U.S. Constitution grants certain rights to citizens, over the years, laws and court decisions have limited their application in the workplace. Globally, laws and policies vary, which means employers with expatriates and local workers in different countries face a confusing array of obligations. Balancing both employers' and employees' rights is a growing HR concern because of increased litigation and an expanding global workforce. Employers have legitimate rights to ensure that employees are doing their jobs and working in a secure environment, while employees expect their rights, both on and off the job, to be protected.

Right to privacy
An individual's freedom from unauthorized and unreasonable intrusion into personal affairs

The **right to privacy** is defined in legal terms as an individual's freedom from unauthorized and unreasonable intrusion into personal affairs. Although the right to privacy is not specifically identified in the U.S. Constitution, past U.S. Supreme Court cases have established that such a right must be considered. Also, several states have enacted right-to-privacy statutes. A scope of privacy concerns exists in other countries as well.

The dramatic increase in Internet communications, social media, mobile devices, and telecommunications systems is changing the nature of privacy issues in many workplaces. One example is the use of a smart mirror with face recognition technology to help facilitate office and other social interactions.[32] The use of technology by employers to monitor employee actions also increases concerns that the privacy rights of employees are being threatened. A related concern involves the degree to which employers can lawfully request to see employees' cell phones. One of the main issues to consider is whether the phone was provided by the company, and if so, whether there is an expectation in the workplace that employee privacy is not guaranteed given that electronic monitoring occurs.[33]

14-3a Privacy Rights and Employee Records

LO3 Discuss issues associated with employee privacy, free speech, and whistle-blowing.

The Privacy Act of 1974 was enacted to protect individual privacy rights in the United States. It includes provisions affecting HR recordkeeping systems. This law applies *only* to federal agencies and to organizations supplying services to the federal government. However, similar laws in some states, while somewhat broader in scope, have also been enacted. For the most part, state rather than federal law regulates private employers on this issue.

Employee Medical Records Recordkeeping and retention practices have been affected by a provision in the Americans with Disabilities Act (ADA) requiring that all medical-related information be maintained separately from all other confidential files. The Health Insurance Portability and Accountability Act (HIPAA) also includes regulations designed to protect the privacy of employee medical records. Both paper and electronic files must be safeguarded. As a result of all the legal restrictions, many employers have established several separate files on each employee.

Security of Employee Records It is important to establish access restrictions and security procedures for employee records to protect the privacy of employees and protect employers from potential liability for improper disclosure of personal information. Individuals' Social Security numbers, personal addresses, and other contact information should be protected.

The Data Protection Act requires employers to keep personnel records up to date and keep only the details that are needed.[34] The following guidelines are offered regarding employer access and storage of employee records:

- Restrict access to records to a limited number of individuals.
- Use confidential passwords for accessing employee records in various HR databases.
- Set up separate files and restricted databases for particularly sensitive employee information.
- Inform employees about which types of data are retained.
- Purge employee records of outdated data.
- Release employee information only with employee consent.

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Personnel files and records are usually maintained for three years. However, different types of records should be maintained for shorter or longer periods of time based on various legal and regulatory standards. Another concern is how electronic records are maintained and secured, especially given the advances in software, e-mail, and mobile technology. Companies should establish an electronic records policy to ensure legal compliance and avoid violating individuals' personal rights. Employers must comply with federal, state, and international records retention laws.

Data privacy is becoming increasingly important with the growth of mobile technologies and the use of applications (apps) that offer various functions. A large number of apps collect information about users. It is vital to ensure that company policies accurately and completely identify all data being collected so that users are aware of how their personal information is being handled.[35]

14-3b Employees' Free Speech Rights

Individual right to freedom of speech is protected by the U.S. Constitution. However, that freedom is *not* unrestricted in the workplace, so employees and companies need to be aware of appropriate boundaries.[36] Three situations in which employees' freedom of speech might be restricted include expressing controversial, divisive, and/or political views, whistle-blowing, and using the Internet and other communication-based technology.

Employee Expression of Controversial, Divisive, and/or Political Views Questions of free speech can arise over the right of employees to advocate controversial, divisive, and/or political viewpoints. Numerous examples can be cited. For instance, can an employee of a tobacco company join in antismoking demonstrations outside of work? Can a disgruntled employee at a union-free employer wear a union badge or a cap at work? Can employers discipline employees in these situations? The use of foul language at work may even be an issue—should individuals who use excessive profanity on the job be reprimanded?[37] The answer is likely "yes" if the disciplinary actions can be justified by job-related reasons and the company follows a due process procedure, but many different workplace factors should be considered when determining the best course of action.

But because an employer *might be able* to punish employees who make inappropriate and embarrassing statements or occasionally use foul language doesn't necessarily mean that the employer should do so. Perhaps an employer shouldn't because employees may view this as heavy-handed and an overreaction. It may cause other employees to quit their jobs or to lose respect for the employer. The best way to handle these concerns is to (1) attempt informal resolution first, (2) clearly outline the boundaries and standards for appropriate behavior in a formalized policy that addresses work expectations, and (3) have a signed nondisclosure privacy agreement.

An emerging consideration is the expression of political views by employees. States such as California, Colorado, Louisiana, New York, Utah, and South Carolina provide protections for the political activities of workers, and the National Labor Relations Act allows for employees to organize in an effort to ensure "mutual aid or protection"; employers are therefore advised not to base work-related decisions on employees' political beliefs and/or efforts.[38] The Supreme Court recently ruled that a Paterson, New Jersey police officer who was demoted after carrying a campaign sign for a political figure could file a lawsuit.[39] In the wake of criticisms that the company suppresses conservative opinions on its social network, Facebook now offers "political bias" training to its executives and employees to ensure that different kinds of ideas can be openly expressed.[40]

ETHICS

Whistle-blowers Individuals who report real or perceived wrongs committed by their coworkers or employers

Whistle-Blowing and Employee Protection Individuals who report real or perceived wrongs committed by their coworkers or employers are called **whistle-blowers**. Many well-known whistle-blowing incidents have occurred in past years. A high-profile whistle-blowing case heard by the U.S. Supreme Court involved a former air marshal who disclosed to a journalist that the Transportation Security Administration (TSA) had reduced in-flight marshal protection due to budget reasons despite credible threats of possible terrorist hijacking plots.[41] The case shows the possible conflict between two legislative priorities—to prevent terrorist attacks and to encourage whistle-blowing. Another case involved the SEC giving $30 million to a foreign whistle-blower who was working for the company in an auditing and compliance role. This situation highlights the possible

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conflict that exists between managers who are given the responsibility to stop misconduct and the temptation to blow the whistle for personal gain.[42] As such, cases of whistle-blowing often involve controversial topics and are often very complex.

No comprehensive whistle-blowing law fully protects the right to free speech of both public and private employees. However, several laws and guidelines, including the Sarbanes-Oxley Act and antiretaliation rules issued by OSHA, provide some protection for corporate whistle-blowers.[43] For instance, the Sarbanes-Oxley Act is intended to remedy companies' ethical breaches by requiring organizations to properly report financial results, encouraging ethical business practices, and providing protection for whistle-blowers.[44] Equal Employment Opportunity Commission rules also protect whistle-blowers from retaliation when they report workplace injuries and violations of the Affordable Care Act.[45]

Employers need to address two key questions in regard to whistle-blowing: (1) When do employees have the right to speak out, with protection from retribution? (2) When do employees violate the confidentiality of their jobs by speaking out? Even though the answers may be difficult to determine, retaliation against whistle-blowers is clearly not appropriate or legal. Whistle-blowers are often treated poorly by their employers because they are seen as disloyal and as a significant threat to the stability of the organization. This is why an ethical culture that includes reporting mechanisms that encourage employees to tell managers about problems and retaliation policies that prevent mistreatment of whistle-blowers are beneficial.[46] The culture of the organization often affects the degree to which employees report inappropriate or illegal actions internally or resort to using outside contacts. Consequently, HR professionals should be actively involved in helping the company develop an ethical culture by creating fair and ethical policies.

14-3c Technology and Employer–Employee Issues

The extensive use of technology by employers and employees constantly creates new communication issues and challenges that should be addressed.[47] For example, one employee was fired by Liberty Advisory Group for tweeting negative comments about the widow of a Navy SEAL who was recognized posthumously by President Trump in an address to Congress, and a football coach who was a former NFL player was terminated at Christian school after a photo was posted of him and his spouse in possession of a bottle of alcohol.[48] Terminating workers for openly complaining about an employer on social media has also come under scrutiny based on recent court rulings. The National Labor Relations Board has ruled that disciplining employees for posting negative comments about an employer's practices may not be acceptable if the posting amounts to protected activity. However, interpretation of the ruling suggests that it does not condone excessive disloyalty or communication of highly sensitive content.[49] Employers should consider asking an individual to take down damaging online information, ask that the individual not indicate that they are an employee of the company, and/or ask the website to remove the information; an employer may also consider taking legal action against the person who posted the information or directly address the information online with counter postings.[50]

ETHICS

An emerging counterpart to employers monitoring employees is the practice of employees recording conversations in the workplace. The popularity of mobile phones and many company policies allowing personal devices in the workplace have led to employees covertly recording closed-door meetings during which employment matters are discussed. The legal status of such recordings is still being determined as various state and federal laws are considered along with specific facts in any case. Employers are wise to implement a no recording policy to address the issue up front.[51]

Monitoring Electronic Communications The use of e-mail, social media, and text messaging has led to major issues regarding employee and workplace privacy. Employers have good reason to monitor what is said and transmitted through their Internet and voicemail systems despite employees' concerns about free speech. Organizations want to reduce employee misconduct, protect corporate resources, prevent hacking and virus attacks, ensure productivity, and follow federal guidelines.[52] Many employers have specialized software that can retrieve deleted e-mail and other electronic communications, retrace web searches, and even record each keystroke made on

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employees' computers. Monitoring, while perhaps needed, can harm work unit cohesion and trust among employees.[53] But some companies monitor the electronic communications of employees to improve the ways that they might interact with each other in the workplace.[54]

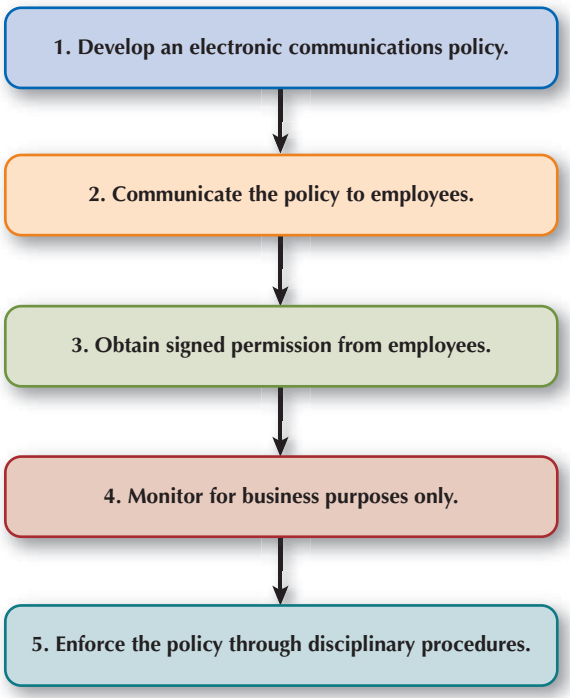
Employees have varying opinions about electronic monitoring based on different situational factors, which can present many challenges. They may understand the reasons companies monitor their electronic communications but also worry about their personal privacy and confidential data.[55] Further, the standards and acceptance of monitoring vary greatly in different nations (e.g., France versus the United Kingdom), so companies need to consider these factors and inform managers about what actions are considered appropriate.[56] Organizations need to consider such issues when developing policies regarding the monitoring of electronic communications.

Bring your own device (BYOD)
The practice of employees using their own mobile devices such as smartphones and digital tablets in the workplace

The practice of employees using their own mobile devices such as smartphones and digital tablets in the workplace raises additional issues. **Bring your own device (BYOD)** is becoming increasingly common, and it presents both advantages and disadvantages for firms. Employees are already familiar with their own devices, which make them more efficient and productive using this technology. However, concerns about data security, lost or stolen devices, and privacy should be addressed with a company policy.[57]

HR Policies on Electronic Communications Since a great deal of work activity involves using technology, it is important for HR professionals to provide guidance to executives, managers, and employees. Many employers have developed and disseminated electronic communications policies. Figure 14-5 outlines recommended employer actions for such policies, including monitoring. These policies should describe to employees why monitoring is needed, the methods used, and the amount of monitoring planned. Employees should also sign off to indicate that they understand the purpose and scope. Inappropriate communication and material should be clearly discussed, and individuals should receive guidance about the company's standards for using communication systems to send and receive private messages. A proactive approach that attempts to balance the rights of the company with the privacy concerns of employees can preserve the dignity of all parties and lead to a professional and productive work environment.[58]

FIGURE 14-5 Recommended Employer Actions regarding Electronic Communications



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14-3d Employee Rights and Personal Behavior Issues

Another area employers should watch is employee personal behavior on or off the job. For example, an invasion of privacy claim might result if an employer investigates off-the-job charges of illegal behavior. Failure to conduct due diligence can jeopardize disciplinary actions that should be taken by employers or can result in liability for negligent retention. Some of the more prevalent concerns in this area are discussed next.

Counterproductive Behavior Employers may decide to review unusual behavior by employees both on and off the job. The occurrence of various counterproductive behaviors such as workplace bullying, harassment, and assault can potentially hurt companies and their employees in many different ways. Employees may even commit some of these actions off the job site. For example, an employee may send threatening or harassing e-mails or text messages to a coworker's personal accounts. This situation might warrant employer involvement to protect the targeted employee and reduce the chance of litigation. Organizations may also deal with employees and/or managers who are hostile, insulting, or extremely rude to customers, suppliers, and/or employees at different levels of the organization, and misbehaviors that may result in harm to bystanders. To respond to such actions, managers and HR professionals should document inappropriate behaviors and meet privately with individuals to discuss concerns, give feedback, and explain expectations. Defining acceptable and unacceptable behaviors and communicating standards to all employees is also helpful.[59]

Dress and Body Appearance Limitations Employers can put limits on employees' dress and appearance in the workplace, including items such as visible tattoos, certain clothing and accessories, and body piercings. Having a written dress policy is recommended to ensure consistency, safety, and fair treatment. However, companies should be ready to make reasonable accommodations for religious practices and ethnic attire; they may even elect to be more accepting in the interest of enhanced employee morale and engagement.[60] One industry in which dress and appearance codes and policies are important is the food and beverage industry. For instance, a national pizza chain might prohibit visible tattoos and many kinds of body piercing to ensure a consistent corporate image.

Job-related reasons for imposing reasonable dress and appearance requirements are typically supported by the courts. The key is to give adequate notice to employees and managers, consistently enforce restrictions, and answer concerns before a dress and appearance code is drafted and implemented. Training supervisors on how to effectively manage appearance requirements is also beneficial.[61]

Off-Duty Behavior An additional employee rights issue concerns personal behavior off the job. Employee misconduct off the job has the potential to seriously damage the reputation of the business, especially if individuals wear clothing or other identifying badges or logos that show the general public where they work. Employers encounter special difficulty in establishing just cause for disciplining employees for their off-the-job behavior. To protect intellectual property or trade secrets, some firms establish rules that restrict employees from dating or from "moonlighting" for a competitor.

Most people believe an organization should not control the lives of its employees off the job except when there are clear job-related consequences. For example, a company can take action if an employee who drives as part of his or her job is cited for drunk driving. But what should an employer do if an employee is an acknowledged transvestite, a member of an activist environmental group, a leader in a racist group, a member of a hate group, or an exotic dancer on weekends? What should be done if an employee is seen in public making inappropriate hand gestures to politicians of a particular party or criticizing certain interest groups? In some of these cases, the employer should do nothing; in other cases, action might be taken. Cases involving harassment, arrests, working while supposedly on leave, and drug use are specific cases that may prompt action. Overall, employers should balance concerns about negligent retention with concerns for employee privacy.[62]

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Weapons in the Workplace Companies face a vexing situation regarding employees who legally own firearms and believe they have the right to bring them to work. Highly publicized cases of employees who open fire in the workplace, especially in response to being terminated, make everyone aware of the dangers of weapons. Although U.S. citizens have a constitutional right to bear arms, does that right transfer to the workplace? In private-sector workplaces, it does not. However, a number of states have enacted legislation preserving the rights of employees to carry firearms, even on an employer's premises. Employers are legally obligated to provide a safe working environment for all employees. Balancing that obligation with employees' individual rights is still being decided in the courts.[63] Suggestions for addressing this issue are presented in the following "HR Competencies & Applications: Caught in the Crosshairs" feature.

14-4 Balancing Employer Security and Employee Rights

Balancing employer and employee rights is difficult. On one side, employers have a legitimate need to ensure that employees are performing their jobs properly in a safe, secure environment. On the other side, employees expect their rights to be protected. In some cases, "continuous screening" is a recommended practice that involves ongoing "post-hire monitoring" of employees to ensure adequate due diligence, security, and risk management.[64]

Technology has made it easier and cheaper to monitor employees. It also increases the risks of data loss or other threats to companies' information or reputation. Social media is the new gathering place for people to share legitimate as well as harmful comments about their employers. Monitoring social media sites may uncover employee misconduct that an employer has a right to know about. For example, several hospital employees were caught discussing a patient on Facebook in clear violation of hospital policy and HIPAA privacy regulations. Employers can monitor social media when there is a job-related reason to do so. However, the sheer volume of data generated on social media makes this a practice best conducted by exception rather than as an ongoing procedure.[65]

14-4a Workplace Monitoring

LO4 Analyze workplace monitoring, employer investigations, and other steps taken to ensure a safe and productive workplace.

In the United States, the right of protection from unreasonable search and seizure concerns only such actions taken by government officials. Thus, employees of private-sector employers can be monitored, observed, and searched at work by representatives of the employer. Several court decisions have reaffirmed the principle that both private- and public-sector employers may search desks, files, lockers, and computer files without search warrants if they believe that work rules have been violated. Also, the terrorist attacks of September 11, 2001, led to passage of the USA PATRIOT Act, which expanded legislation to allow government investigators to engage in broader monitoring of individuals and workplaces, to protect national security.

Conducting Video Surveillance at Work Numerous employers have installed video surveillance systems in their workplaces. Some employers use these systems to ensure employee security in parking lots, garages, and dimly lit exterior areas. Other employers have installed them on retail sales floors, in production areas, and parts and inventory rooms to reduce theft and shrinkage. When video surveillance is extended into employee restrooms, changing rooms, and other more private areas, employer rights and employee privacy collide. It is important that employers using such methods develop a video surveillance policy, inform employees about the policy, conduct the surveillance only for legitimate business purposes, and strictly limit those who view the surveillance results. Employee morale should be considered when developing policies because employees may see monitoring systems as a sign that they are not trusted, which can lower their commitment and positive impressions of the company.

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COMPETENCIES & APPLICATIONS

Caught in the Crosshairs

Finding a way to balance the individual right to bear arms with the requirement to create a safe workplace can challenge human resource professionals, and gun control is certainly a controversial political topic. However, employers have legitimate concerns about weapons in the workplace for practical and business reasons. Three-fourths of all workplace fatalities are related to guns, and many tragic incidents of worker-committed gun violence have occurred in recent years.

The Second Amendment of the U.S. Constitution protects a citizen's right to own and bear arms, and many states have enacted laws that allow employees and others to carry firearms on an employer's premises. Some of these laws specifically address concealed weapons and affirmatively permit storing firearms in a privately owned vehicle in an employer's parking lot. The courts have found that such laws are not pre-empted by OSHA's general duty clause. This leaves employers to find a way to satisfy these competing mandates.

Important things to determine include the following:

1. How does the company define the term *weapon*? Is it only guns, or do other weapons such as knives or machetes also qualify as weapons?
2. How does the company define the term *workplace*? Does the workplace include an employer's parking lot?
3. If the company decides to permit firearms in employees' vehicles, what measures will be put in place to minimize risks? Must all weapons be locked in a vehicle's trunk or stowed away in some other secure way? Must ammunition be kept separately from the firearm itself?
4. If security guards are authorized to carry weapons, what steps are taken to ensure that they are properly screened and trained?

This is an evolving and controversial issue. HR professionals should stay informed about legislation in all states in which the organization has employees and operations. The primary consideration should be for a safe workplace for everyone. Employers should continue to monitor court rulings and address the issue proactively.[66] Based on these issues, consider the following questions:

1. How do you feel about the right to bear arms and whether companies should be limited in restricting employees from having weapons on the premises?
2. What restrictions would you recommend to companies regarding weapons in the workplace?

KEY COMPETENCIES: Leadership & Navigation, Consultation; HR Expertise: Organization/Employee Relations, Workplace/Employment Law Regulations

Monitoring Employee Performance Employee activity may be monitored to measure performance, ensure performance quality and customer service, check for theft, and/or enforce company rules or laws. The common concerns in a monitored workplace usually center not on whether monitoring should be used but on how it should be conducted, how the information should be used, and how feedback should be communicated to employees. Companies should strive to collect information that is needed to manage business operations but not track every detail just because they *can*.[67] Research points to other considerations. A recent study determined that electronic monitoring processes that were utilized for employee development, that were adequately explained, and that provided good feedback resulted in more positive perceptions of organizational justice, which led to many positive work outcomes such as supervisor trust, work satisfaction, and work performance.[68]

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At a minimum, employers should obtain a signed consent form indicating that the employee knows performance will be monitored and phone calls will regularly be taped. It is further recommended that employers provide employees with feedback on monitoring results to help employees improve their performance and to commend them for good performance.[69] For example, one call center allows employees to listen to their customer service calls and rate their own performance. Then the employees meet with their supervisors to discuss both positive and negative performance issues. The following "HR Ethics: Is Somebody Out There Watching Me?" feature presents details of employee monitoring in the trucking industry.

14-4b Employer Investigations

Another area of concern regarding employee rights involves workplace investigations. The U.S. Constitution protects public-sector employees in the areas of due process, search and seizure, and privacy at work, but private-sector employees are not protected. Whether it occurs on or off the job, employees' unethical or illegal behavior can be a serious problem for organizations. Examples

HR ETHICS

Is Somebody Out There Watching Me?

Employers have a right to expect that employees who are on the clock are performing their job duties in a safe and efficient manner. Alternatively, employees prefer to work free from scrutiny and invasive management oversight. The two parties' expectations can put them on a collision course for employee relations problems.

Companies in trucking and service industries have started to utilize GPS technology to track drivers' movement and operating practices. Over 37 percent of service-related companies track their workers' locations using either handheld devices or their vehicles. Tracking can be used to improve customer service by notifying clients that a service technician is on the way or to verify that service was provided. It can also be used to uncover employee misconduct or unsafe driving practices.

Sophisticated tracking software can record if drivers brake too hard or speed. If a driver is too close to another vehicle, the software can intercede by slowing down the truck. In addition to using this type of tracking to discipline employees, some firms also use it to identify and reward drivers who demonstrate exemplary driving habits.

There are few regulations limiting employers' ability to track employees, and no federal laws prohibit employers from using GPS. Further, with the exception of Delaware and Connecticut, there is no requirement that employers even tell workers that they are being tracked. However, keeping silent about tracking endangers the trust that employees have in their employers. There is also a benefit of letting workers know that they are being monitored, as it might deter them from breaking the rules. The owner of Accurid Pest Solutions says that since instituting monitoring, his drivers now call the dispatch center if they have to pull off the road or change their routing.

Employers and employees work hard to maintain a safe, productive work environment. Tracking worker activities should be done with consideration for both sides of the issue and using an approach of fairness and respect.[70] After reading about this practice, answer the following questions:

1. What are the costs and benefits of implementing a tracking program but not telling employees about it? Should companies tell employees that their actions are being tracked?
2. What are the possible reactions employees might have if they are advised up front that their activities will be tracked? What could be done to improve their reactions?

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of employee misconduct include illegal drug use, falsification of documents, misuse of company funds, disclosure of organizational secrets, workplace violence, employee harassment, and theft of corporate resources. Workplace investigation enables employers to gather information about potential misconduct, mitigate corporate risks and liabilities, and make sound decisions moving forward.[71]

Conducting Work-Related Investigations Workplace investigations can be conducted by internal or external personnel. Often, HR staff and company security personnel lead internal investigations.[72] In the past, the use of outside investigators such as the police, private investigators, or attorneys was restricted by the Fair Credit Reporting Act. However, passage of the Fair and Accurate Credit Transactions (FACT) Act changed the situation, and now employers can hire outside investigators without first notifying the individuals under investigation or getting their permission.

Technology is frequently used when workplace investigations are conducted. This allows employers to review e-mails, access computer logs, conduct video surveillance, and use other investigative tactics. When using audiotaping, wiretapping, and other electronic methods, care should be taken to avoid violating privacy and legal regulations. In addition to these considerations, the following best practices should be used when conducting workplace investigations:

- Develop a good working plan that outlines how the company should respond to crises before they occur—details about information gathering and management, as well as investigation objectives, can also be highlighted. Confidentiality should be a high priority throughout investigations, and all-important incidents should be properly documented.
- Specify whether HR or another party (e.g., an attorney or accountant) will conduct the actual investigation of workplace incidents. If possible, select an objective and impartial investigator who does not have any professional connections with the individuals being investigated.
- Investigate problems quickly before evidence can be tampered with or destroyed and begin interviewing key witnesses. Investigate wrongdoing within several days after being made aware of the incident and try to finish the investigation within two weeks. Investigators should try to resolve any issues within a 30-day timeframe.
- Allow for a "free narrative" of information to be provided by interviewees, supplemented with "probing questions" if needed. Assess the credibility of individuals providing information in an investigation by looking at the following factors: personal demeanor, reliability, chronology, credibility of answers provided, whether information can be corroborated, and past and present motives. "Points of interest" may also be identified for further clarification in the investigation.
- Use the stories and information collected to conclude the investigation and recommend any remedial steps that should be taken. Present the results of investigations to key decision makers and make appropriate recommendations.[73]

ETHICS

Employee Theft and Fraud Employee theft of property and company secrets does occur, and white-collar theft through embezzling, accepting bribes, and stealing company property is also a concern. Evidence suggests that fraud is a significant challenge for businesses in the United States, with the average company losing 5 percent of its annual revenues to fraud. Not surprisingly, employees at higher levels in an organization commit more serious acts of fraud. For example, the average loss is $500,000 when an executive is involved compared to $75,000 when the fraud is committed by a lower-level employee.[74] A variety of factors may encourage fraud in companies, including a corrupt culture and a competitive workplace.

There are a number of ways to address employee theft and other workplace misconduct. Typical methods include conducting thorough pre-hire applicant screening and background investigations. Honesty tests may also be used both before and after a person is hired. After hire, workplace monitoring can be used to review unusual behaviors. Developing an ethics code that outlines appropriate behaviors and encouraging managers and business owners to model desired behavior help highlight the organization's expectations. Ethics training that focuses on enhancing ethical decision making

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in the workplace can also prevent employee misconduct. Finally, internal checks and balances along with splitting up critical job functions across different positions and random audits of inventory can help reduce employee fraud.[75]

Honesty and Polygraph Tests Paper-and-pencil honesty tests are alternatives to polygraph testing, as mentioned in Chapter 7. These tests are widely used in pre-hire screening, particularly in the retail industry and others. Polygraph tests may be used as part of an internal investigation for employees who are *reasonably suspected of involvement in a workplace incident (theft, embezzlement, etc.) that resulted in specific economic loss or injury to the employer*. The Employee Polygraph Protection Act prohibits the use of polygraphs for most pre-employment screening and also requires that employees must

- Be advised of their rights to refuse to take a polygraph exam,
- Be allowed to stop the exam at any time, and
- Not be terminated because they refuse to take a polygraph test or solely because of the exam results.

If private-sector employers administer polygraph tests to employees or applicants, they are required to use licensed, bonded examiners and to carefully guard the information obtained during the test.[76] Organizations should thoroughly evaluate the need for such tests and use them sparingly.

Substance Abuse, Drug Testing, and Employee Rights Employee substance abuse and drug testing have received a great deal of attention. Concern about substance abuse at work is appropriate, given that absenteeism, accident and damage rates, and theft and fraud are higher for workers using illegal substances or misusing legal substances such as prescription drugs and alcohol. The National Council on Alcohol and Drug Dependence (NCADD) estimates that 70 percent of people who illegally use drugs are employed.[77] Figure 14-6 identifies some of the negative effects of substance abuse in the workplace. Ways to address substance abuse problems were discussed in Chapter 13. Employee rights associated with substance abuse are discussed in the following sections.

Laws Addressing Drug Testing The ADA specifies that alcoholism is a disability but that dependency on illegal drugs is not. Individuals in treatment or in a recovery program for an addictive substance are protected by provisions in the ADA. However, employees who are not capable of working because they are under the influence, have poor attendance records, or are poor performers regardless of their drinking and/or drug problems are subject to disciplinary action.

The U.S. Supreme Court has ruled that certain drug-testing plans do not violate the Constitution. Private-sector programs are governed mainly by state laws, which can be a confusing hodgepodge. The Drug-Free Workplace Act of 1988 requires government contractors to take steps to eliminate employee drug use. Failure to do so can lead to disqualification for government contracts.

FIGURE 14-6 Negative Impacts of Substance Abuse in the Workplace

Work Performance	Personal Behavior	Financial Costs
◆ Inconsistent work quality ◆ Increased absenteeism ◆ Carelessness; mistakes ◆ Risky, unsafe acts	◆ Blaming coworkers for own errors ◆ Complaints, excuses for time off ◆ Deteriorating personal hygiene ◆ Avoiding colleagues	◆ Inadequate production ◆ Rework or replacement for poor quality production ◆ Coverage for absences ◆ Workers' compensation and health care

Source: Adapted from NCADD, https://ncadd.org/learn-about-drugs/workplace/242-drugs-and-the-workplace.

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Tobacco and alcohol do not qualify as controlled substances under the act, and off-the-job drug use is not included. The U.S. Department of Transportation (DOT) requires regular testing of truck and bus drivers, train crews, mass-transit employees, airline pilots and mechanics, pipeline workers, and licensed sailors. Firms that operate under DOT guidelines must use pre-employment, post-accident, and random drug exams to verify that individuals involved in transportation activities are fit for duty. Employees who fail an exam or refuse to participate are barred from working and must enroll in treatment. They must also pass a separate return-to-duty drug screen and be randomly tested six additional times over a 12-month period.

Drug Testing and Employee Rights Unless federal, state, or local law prohibits testing, employers have a right to require applicants and employees to submit to drug testing. Pre-employment drug tests are widely used. Employers generally use one of three policies when current employees are required to undergo drug testing: (1) random testing of everyone at periodic intervals, (2) testing only in cases of probable cause, or (3) testing after accidents. If testing is done for probable cause, it must be based on performance-related behaviors, such as excessive absenteeism or poor performance, not just the substance use itself. From a policy standpoint, it is most appropriate to test for drugs when the following conditions exist:

- Job-related consequences of the abuse are severe enough that they outweigh privacy concerns.
- Accurate test procedures are available.
- Written consent of the employee is obtained.
- Results are treated confidentially, as are any related medical records.
- Employer offers a complete drug rehabilitation program, including an employee assistance program.

The recent legalization of marijuana in many states adds additional complexity to this issue. However, employers are free to establish policies and work expectations to provide a safe and productive workplace because use of marijuana is still illegal based on federal law. Employees who test positive or report for duty and cannot perform their jobs properly are not immune from reprimand, even in states where recreational and medical marijuana use is legal.[78]

14-5 Human Resource Policies, Procedures, and Rules

Policies
General guidelines that help focus organizational actions

Procedures
Customary methods of handling activities

Rules
Specific guidelines that regulate and restrict individuals' behavior

HR policies, procedures, and rules greatly affect the employment relationship. **Policies** act as general guidelines that help focus organizational actions. Examples include policies that cover bringing pets to the workplace, workplace romance and displays of affection, employee scheduling, and work breaks.[79] In general, policies are general in nature, whereas procedures and rules are specific to various situations. The important role of all three requires that they be reviewed regularly.

Procedures provide customary methods of handling activities and are more specific than policies. For example, a policy may state that employees are awarded vacations according to years of service, and a procedure establishes the specific steps for authorizing vacation time.

Rules are specific guidelines that regulate and restrict individuals' behavior. They are similar to procedures in that they guide action and typically allow no discretion in their application. Rules reflect a management decision that action be taken—or not taken—in a given situation, and they provide more specific behavioral guidelines than do policies. An example of a rule might be that a vacation day may not be scheduled the day before or after a holiday. Other examples include the development of rules for dating in the workplace, standards for how to act appropriately at an office party, and expectations for ensuring a positive workplace.[80]

Perhaps more than any other part of the organization, the HR function needs policies, procedures, and rules. People react strongly to differential treatment regarding time off, pay, vacation time, discipline, and other factors. New and smaller employers often start without many of these HR issues well defined. But as these companies grow, issues become more complex, with policy

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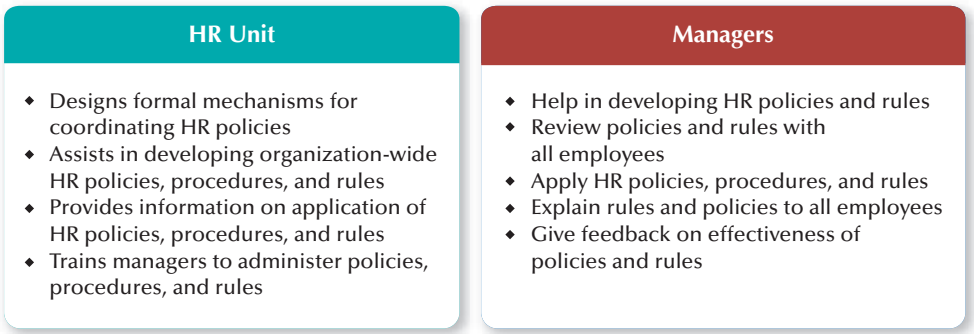
FIGURE 14-7 Shared Responsibility for Policies, Procedures, and Rules



decisions being made on an as-needed basis. Before long, the inconsistency and resulting employee complaints bring on the need for clear policies, procedures, and rules that apply to everyone. Therefore, it is advisable to establish and enforce specific HR policies, procedures, and rules.

Coordination and shared responsibility between the HR unit and operating managers are necessary for HR policies, procedures, and rules to be effective. As Figure 14-7 shows, managers are the main users and enforcers of policies, procedures, and rules, and they should receive explanations about these topics and training in how to carry them out. The HR unit supports managers, reviews policies and disciplinary rules, and trains managers to use them. Often policies, procedures, and rules are provided in employee handbooks.

14-5a Employee Handbooks

LO5 Understand the use of policies, procedures, and employee handbooks to communicate workplace behavior and performance expectations.

Employee handbook
A physical or electronic manual that explains a company's essential policies, procedures, and employee benefits

An **employee handbook** is a physical or electronic manual that explains a company's essential policies, procedures, and employee benefits. It is an important tool for communicating information about workplace culture, benefits, attendance, pay practices, safety issues, discipline, and other critical information for employees, and it can help prevent employment lawsuits.[81] Handbooks are sometimes written in a formal legalistic fashion but are more effective when written so that employees can easily understand the contents. Using more common language can make the handbook more readable and usable. Even small organizations can use available computer software with sample policies to prepare handbooks relatively easily.

There are a number of best practices that a company should consider when developing an employee handbook. For instance, many companies are developing creative handbooks that are more dynamic—this can include the use of graphics, writing that is easier to read, and multimedia content.[82] Managers should view handbooks as a way for the firm to better communicate standards to workers. Given this viewpoint, handbooks should be customized to fit a company's current situation instead of being too generalized. Also, the more personalized, easy to understand, and well organized (with many headings and subheadings) a handbook is, the more likely it will be accepted and appreciated by employees. Figure 14-8 suggests a range of topics that might be included in a handbook. Each company will include those policies and subjects that are most important for their employees. Several recommendations on creating an employee handbook include the following:

- *Eliminate controversial phrases.* For example, the phrases *probationary* and *permanent employee* may be misinterpreted to imply that employees are no longer employed at will once they have passed a training period. This wording can lead to disagreement over what the parties meant by *permanent.* A more appropriate phrase is *regular employee.*
- *Use disclaimers.* Disclaimers should be prominently displayed, not hidden in small text where they are essentially overlooked and meaningless. For instance, many companies include a disclaimer to highlight the at-will status of employees. If a company wishes to convey information about important employment limitations, it is critical that employees are aware of the disclaimers.

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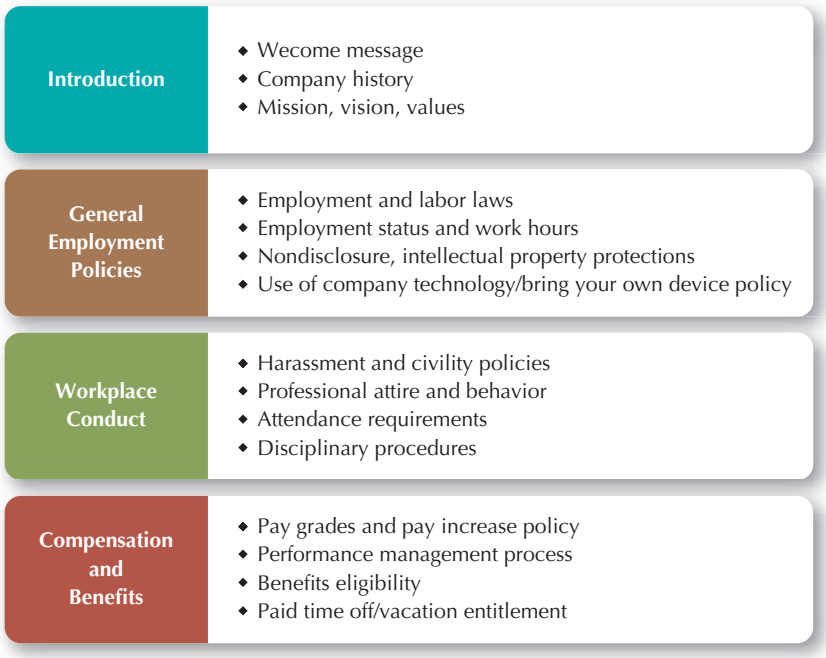
FIGURE 14-8 Possible Topics for an Employee Handbook



Sources: Based on Susan Heathfield, "Need to Know What Goes in an Employee Handbook"; http://humanresources.about.com/od/handbookspolicies/a/sample_handbook.htm; Small Business Administration, "Employee Handbooks"; https://www.sba.gov/content/employee-handbooks.

- *Keep the handbook current.* The contents in employee handbooks must be revisited and revised when new issues are encountered or the conditions of the workplace change. Doing so helps prevent employee grievances and complaints. Consequently, employee handbooks and HR policies should be reviewed on an ongoing basis but at least once a year.[83]

To communicate and discuss HR information, a growing number of firms provide employee handbooks electronically using an intranet, which enables employees to access policies at any time. It also allows changes in policies to be made electronically rather than distributed as paper copies. Additionally, the handbook can be linked to related information that makes accessing details easier for employees. The following "HR Competencies & Applications: Taking Your Handbook Online" feature provides recommendations for moving from a paper to a digital handbook.

Legal Considerations and Best Practices The courts have used employee handbooks against employers in lawsuits by charging a broken "implied" contract. This should not eliminate the use of employee handbooks as a way of communicating policies to employees. In fact, not having an employee handbook with clear HR policies can leave an organization open to costly litigation as well. A sensible approach is to first develop sound HR policies and employee handbooks to communicate them and then have legal counsel review the language contained in the handbook.

14-5b Communicating Human Resource Information

HR communication focuses on the receipt and dissemination of HR data and information throughout the organization. *Downward communication* flows from top management to the rest of the organization, informing employees about what is and will be happening in the organization and what top management's expectations and goals are. For instance, organizations communicate with

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HR

COMPETENCIES & APPLICATIONS

Taking Your Handbook Online

Moving from a paper handbook to a digital one can help companies cut costs, make updates easier and quicker, and provide employees with a more interactive format. Before jumping in and simply copying all the content from paper to digital form, HR professionals and other managers should take some time to plan for a smooth transition. The following steps can help make the process go smoothly:

1. *Put the acknowledgment up front.* Set up the handbook so that employees must first read all disclaimers and complete an acknowledgment before gaining access to the handbook contents.
2. *Require employees to log in.* Required use of company passwords and sign-on credentials limits access to this internal document to those who have a legitimate right to read it. The handbook is not generally made available to those outside the company.
3. *Link handbook content to relevant information.* A powerful use of online handbooks is linking related documents and information for employees. For example, in the section that discusses payroll, link to tax withholding forms to make it easy for employees to find the correct documents.
4. *Include e-mail and telephone contact information for HR staff.* Many employees prefer to contact HR to ask questions or get clarification of policies or benefits. Make HR easy to reach so that employees see the staff as supportive and available.
5. *Proofread everything before it goes "live."* Model good practice and verify spelling, grammar, and punctuation before releasing content. The handbook should represent the professional image of HR and the company. Test all the hyperlinks and keep them current if content is moved or changed.
6. *Notify employees of the change.* Announce the change to an online handbook in a way that ensures all employees will know about the new format. Consider a mandatory sign-on within the transition period and required acknowledgement. Check in with employees that don't respond so that you can answer any questions they may have.
7. *Immediately notify employees of changes.* Be sure to develop a process for maintaining the handbook and letting employees know when things change. While an online handbook can be easily updated, it is critical that employees are notified when important changes are made to policies and procedures.
8. *Keep a few printed copies available.* Some employees are not comfortable with technology and may prefer a hard copy of the handbook. Print a few and let employees know that they are available on an "as-requested" basis. Be sure that the printed copies always reflect the most up-to-date version of the handbook.[84]

Using technology to disseminate policies and other important employment information can be efficient and effective. Consider the following questions about online handbooks:

1. What are some of the interactive features that you would incorporate into an online employee handbook? How do you think these features would enhance employee use of the handbook?
2. How often would you determine if changes to an employee handbook were needed? How would you notify employees of changes to handbook contents?

KEY COMPETENCIES: Communication; HR Expertise: Organization/Employee Relations, Organization/Technology & Data

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employees through internal publications and media, including newsletters, company magazines, organizational social media websites, videos, Internet postings, and e-mail announcements. Whatever the formal means used, managers should make an honest attempt to communicate information employees need to know.

Upward communication enables managers to learn about employees' ideas, concerns, and information needs. Companies use surveys and employee suggestion programs to encourage the upward communication of good ideas.[85] For instance, the creation of Amazon Prime was a suggestion from a software engineer. The Prime loyalty program provides members with free two-day shipping and has resulted in billions of dollars of additional sales for Amazon.[86] Companies also use frequent, short questionnaires called **pulse surveys** to solicit anonymous employee feedback. Often delivered as a mobile app, quick surveys are pushed out to employees who can safely inform company leaders about problems or concerns in the workplace. Canadian casual dining restaurant chain Earls discovered through a pulse survey that kitchen prep teams felt socially isolated from the rest of the workers due to their early starting time. With this information, Earls managers could then be more attentive to this group of workers and try to improve their commitment and engagement.[87]

Pulse surveys
Frequent, short questionnaires used to solicit anonymous employee feedback

Maintaining a healthy exchange in both top-down and bottom-up communication keeps all organization members informed and engaged with current initiatives and issues in the firm. Employees feel more connected to the organization and are more willing to offer their ideas when management supports and welcomes their input.[88]

LO6 Outline approaches to employee discipline and termination of employment.

14-6 Employee Discipline

The previous sections about employee rights and organizational rules provide the backdrop for a discussion of employee discipline because employee rights often are a key issue in disciplinary cases. **Discipline** is a process of corrective action used to enforce organizational rules. Problem employees are most often affected by the discipline system. Examples of common disciplinary issues caused by problem employees include absenteeism, tardiness, productivity and quality deficiencies, violations of safety and codes of conduct, and insubordination.[89] Fortunately, problem employees represent a small percentage of the workforce in most companies. However, if managers fail to deal with problem employees promptly, work outcomes are often negatively affected, and work unit relationships can become strained. Identifying violations and other behavior problems and taking steps to correct them is a responsibility primarily borne by line managers, but HR staff assists in dealing with disciplinary action.

Discipline
A process of corrective action used to enforce organizational rules

14-6a Effective Discipline

Because of legal concerns as well as justice perceptions, managers must understand discipline and know how to administer it properly. Using objective descriptions, effective discipline should be aimed at problem behaviors, not at employees personally, because the goal is to improve their performance. If a manager tolerates or ignores unacceptable behavior, other employees will see this as tacit approval and may also misbehave. However, if selected employees are not reprimanded for violations, those who are punished may resent the unfairness of that action. The level of discipline administered should also fit the seriousness of misbehavior—other factors such as seniority and past conduct can also be considered. Finally, feedback should be given to employees in as few written documents as possible to avoid the appearance that excessive punishment is being administered. These managerial decisions influence employees' sense of organizational justice and can lead to lowered commitment and engagement.[90]

Role of Human Resources HR professionals assist line managers in dealing with disciplinary matters. While enforcing rules and handling discipline is primarily the responsibility of line managers, HR managers oversee disciplinary procedures to ensure that remedial actions follow corporate and legal guidelines, are done appropriately, and are fair and consistent. One study conducted in

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the United Kingdom found that line managers were expected to handle discipline cases. HR was expected to function in a more objective, advisory role, performing activities such as assisting inexperienced line managers during hearings and guiding the actions of managers. However, evidence suggested that many managers were not capable of handling some disciplinary situations, which meant that HR had to step in and manage cases in a more formal manner.[91] These findings show that HR professionals must be adequately prepared to function as trainers and mediators in cases where discipline must be administered to employees.

Training of Supervisors Training supervisors and managers on when and how discipline should be used is crucial. Employees see disciplinary action as being fairer when it is given by trained supervisors who base their actions on procedural justice, instead of when discipline is carried out by untrained supervisors. Training in counseling and communication skills provides supervisors and managers with the tools necessary to deal with employee performance problems, regardless of the disciplinary approaches used.

14-6b Approaches to Discipline

The disciplinary system can be viewed as an application of behavior modification to a problem or unproductive employee. The best discipline is clearly self-discipline, and most people can be counted on to do their jobs effectively when they understand what is required at work. But for some people, the prospect of external discipline helps their self-discipline. The two most common approaches to discipline are *positive discipline* and *progressive discipline*.[92]

Positive Discipline Approach The positive discipline approach builds on the philosophy that violations are actions that usually can be corrected constructively without penalty. When using this approach, managers focus on fact finding and guidance to encourage desirable behaviors, rather than penalties to discourage undesirable behaviors. The four steps to positive discipline are as follows:

1. *Counseling:* The goal of this phase is to heighten employee awareness of organizational policies and rules. Often, people simply need to be made aware of rules, and knowledge of possible disciplinary actions may prevent violations.
2. *Written documentation:* If an employee fails to correct behavior, then a second conference becomes necessary. Whereas the first stage occurs as a conversation between supervisor and employee, this stage is documented in written form, and written solutions are identified with the aim of preventing further problems from occurring.
3. *Final warning:* If the employee does not follow the written solutions noted in the second step, a final warning conference is held. In that conference, the supervisor again emphasizes to the employee the importance of correcting the inappropriate actions. Some firms require the employee to take a day off with pay to develop a specific written action plan to remedy the problem behaviors. The decision day off emphasizes the seriousness of the problem and the manager's determination to see that the behavior is changed.
4. *Discharge:* If the employee fails to follow the action plan that was developed and problems continue, then the supervisor can discharge the employee.

The advantage of this positive approach to discipline is that it focuses on solving problems. The greatest difficulty with the positive approach to discipline is the extensive amount of training required for supervisors and managers to become effective counselors and the need for more supervisory time with this approach than with the progressive discipline approach. Utilizing a positive discipline approach must be an appropriate fit for an organization's culture and employment philosophy.

Progressive Discipline Approach Progressive discipline incorporates steps that become progressively more severe and are designed to change the employee's inappropriate behavior. Figure 14-9 shows a typical progressive discipline process; most progressive discipline procedures use verbal and written reprimands and suspension before resorting to dismissal. For example, at a

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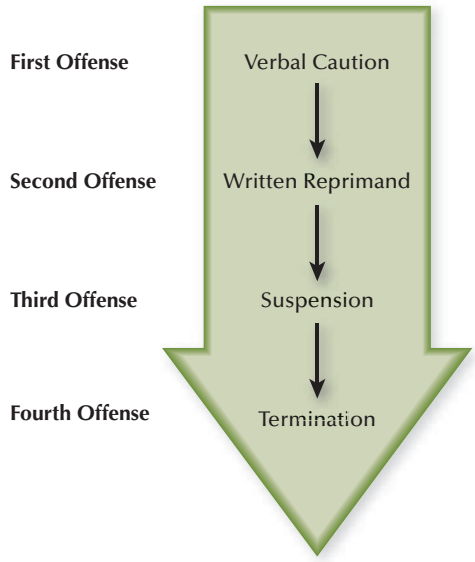
FIGURE 14-9 Progressive Discipline Process



manufacturing firm, an employee's failure to call in when absent from work might lead to a suspension without pay after the third offense in a year. Suspension sends employees a strong message that undesirable job behaviors must change, or termination is likely to follow. A progressive discipline approach can also be used in concert with informal employee counseling, the performance appraisal system, the appeals process, and safety/security management.[93]

Although it appears to be similar to positive discipline, progressive discipline is more administrative and process oriented. Following the progressive sequence ensures that both the nature and the seriousness of the problem are clearly communicated to the employee. Not all steps in progressive discipline are followed in every case. Certain serious offenses are exempted from the progressive procedure and may result in immediate termination. Within reason, some offenses that can lead to immediate termination (or "summary dismissal"); some examples include intoxication on the job, alcohol or drug use at work, severe types of harassment, fighting and other workplace violence, and theft.[94] However, if a firm has a written progressive disciplinary policy, it should be followed when immediate termination is not appropriate; otherwise, an employee's dismissal could be considered outside the normal disciplinary procedures.

14-6c Challenges in Employee Discipline

At-Will Employment A disciplinary process can demonstrate to employees the organization's commitment to due process and just cause in employment actions. However, there is a potential for a formally stated discipline process to undercut an organization's at-will provisions. Conferring with legal counsel in the development of both an at-will provision and a discipline procedure can help an organization reconcile these two issues.[95]

Fairness and Consistency Fairness in disciplining employees is not a simple matter, and a variety of issues can be considered when making decisions associated with discipline. Does fairness require that all employees who commit the same infraction receive the same punishment? Does it mean that companies are forever tied to past practices? An emphasis on equity should be the key concern moving forward. For instance, perceptions of equity may be improved when past misbehaviors are taken into consideration when administering punishments; updating work rules and levels of reprimand to better reflect how work conditions have changed over the years is another way to ensure greater fairness in the workplace.

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Documentation Problems While managers are typically advised to "document, document, document," there can be a downside if documentation is sloppy, inconsistent, or incomplete. Documenting employee conduct issues is critical to ensure that the process is done correctly. Documentation should include (1) company performance and behavior expectations, (2) the employee's specific failure to comply, (3) prior warnings or counseling with the employee, (4) expectations for future conduct, and (5) consequences for failure to correct the deficiencies. Managers sometimes document issues ineffectively by focusing on the employee's intentions rather than outcomes, including excessive information and descriptions, failing to outline the associated consequences for not improving, and/or not providing specific examples of employee behavior; they may also avoid giving negative feedback with the hope that poor performance will go away without confrontation. Training for managers with regard to the discipline process should include detailed, hands-on practice in recording and documenting employee performance problems in addition to how to hold a disciplinary meeting.[96]

Reluctance to Discipline Managers may be reluctant to use discipline for many reasons. Some of the main reasons include the following:

- *Organizational culture of avoiding discipline:* If the organizational "norm" is to avoid penalizing problem employees, then managers are less likely to use discipline or to dismiss problem employees.
- *Lack of support:* Some managers do not want to use discipline because they fear that their decisions will not be supported by higher management. All levels of management should be in agreement with respect to disciplinary actions. Reversing frontline supervisors' decisions can seriously undermine their authority and harm their effectiveness.
- *Guilt:* Managers realize that before they became managers, they may have committed the same violations as their employees, and therefore they do not discipline others for similar actions because of their previous conduct.
- *Fear of loss of friendship:* Managers may fear losing friendships or damaging personal relationships if they discipline employees.
- *Avoidance of time loss:* Discipline often requires considerable time and effort. Sometimes it is easier for managers to avoid taking the time required for proper discipline, especially if their actions may be overturned on review by higher management.
- *Fear of lawsuits:* Managers are sometimes concerned about being sued for disciplining an employee, particularly if the discipline leads to termination.

Support from HR can help reluctant managers promptly deal with employee performance and behavioral problems. As a part of their own performance expectations, managers should be held accountable for enforcing all organizational policies.

14-6d Termination: The Final Disciplinary Step

Termination
Occurs when an employee is removed from a job at an organization

The final stage in the disciplinary process may be called *discharge, firing, dismissal,* or *termination,* among other terms. Regardless of the word used, **termination** occurs when an employee is removed from a job at an organization. Terminations occur for a wide range of reasons. For instance, excessive violations of attendance policies commonly lead to employee terminations. Other causes involve breaking company rules, behavioral issues such as sexual harassment and other unethical acts, and poor execution of work-related duties. Misconduct due to substance abuse and addiction can also lead to termination, particularly in jobs that require driving.

Termination Issues Even though positive and progressive approaches to discipline provide employees with warnings about the seriousness of their performance problems, terminating an individual's employment is a serious matter and should be taken only after conferring with HR and confirming that the decision is fair and free of bias. Terminations should not take place in the heat of the moment. Even in cases that involve very serious infractions, such as an employee found

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drinking alcohol on the job, the employee should be suspended without pay pending an investigation. The time taken to thoroughly review the situation may save the company time and litigation costs in the end.[97]

Another issue involves the use of either generic or specific communication and/or termination letters. Some professionals suggest employers should use generic letters that provide little detail about the grounds for termination, like when a serious violation has occurred. Alternatively, providing more information in a specific termination letter can protect the organization from legal problems, particularly when an individual is being fired as part of a progressive disciplinary approach. Providing specific reasons for termination can be beneficial both legally and managerially.[98]

Terminating an employee should be done face-to-face. Using e-mail or voicemail to terminate an employee is too impersonal but may be necessary when dealing with remote workers.[99] Another concern is when managers must terminate potentially violent employees. Managers must be careful not to move forward with these terminations too hastily, and they should get assistance from individuals in security, HR, and legal counsel when handling such cases. Utilizing an employee assistance program (EAP) professional can also help defuse a potentially violent situation.[100]

As previously mentioned, HR professionals and managers may face *wrongful termination* claims and lawsuits when they terminate employees. These legal challenges can be based on federal, state, and local laws. At face value, terminating workers because they do not keep their promises would seem equitable and defensible in many courts. However, to win wrongful termination lawsuits, employers need to follow appropriate HR processes and disciplinary procedures, as well as consistently document reasons for termination.

One difficult phase of employee termination is the removal of dismissed employees and their personal possessions from company facilities. The standard advice from legal experts is to physically remove the employee as quickly as possible. Ex-employees are often escorted out of the building by security guards. Some firms allow terminated employees to return to their desks, offices, or lockers to retrieve personal items under the observation of security personnel and the department supervisor/manager, but this means the ex-employee may be seen by and talk to coworkers while still upset or angry. It is unwise to give terminated employees access to computer systems or company databases after they are terminated, so HR should work closely with IT to immediately block ex-employees' sign-on credentials.

In all cases involving employee termination, treating the employee with dignity and respect is an ethical approach that may lead to fewer lawsuits and better perceptions of the company by employees. Harsh, inhumane treatment of employees being terminated can have a chilling effect throughout an organization and serves no legitimate business purpose.

Separation Agreements In some termination situations, formal contracts may be used. One type is a **separation agreement**, an agreement in which a terminated employee agrees not to sue the employer in exchange for specified benefits, such as additional severance pay or other consideration.[101]

Separation agreement
Agreement in which a terminated employee agrees not to sue the employer in exchange for specified benefits

For such agreements to be legally enforceable, the consideration is usually additional benefits not part of a normal termination package. For example, a firm may provide more generous severance pay or extended outplacement as consideration. For international employees, different legal requirements may exist in various countries, including certain requirements for severance pay and benefits. When using separation agreements, care must be taken to avoid the appearance of constructive discharge of employees. These agreements should be reviewed by legal counsel and comply with all regulations, including the WARN Act and the Older Workers' Benefit Protection Act.

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SUMMARY

- The employment relationship is a reciprocal one in which both employers and employees have statutory and contractual rights, as well as responsibilities.
- Contractual rights can be spelled out in an employment contract or be implied as a result of employer actions or promises.
- Employment at will gives employers the right to hire and terminate employees with or without notice or cause and gives employees the right to quit with or without notice.
- Court decisions have led to exceptions in employment-at-will relationships for violations of public policy, an implied contract, and good faith and fair dealing.
- Wrongful discharge occurs when an employer improperly or illegally terminates an individual's employment.
- Constructive discharge is the process of making conditions intolerable to get an employee to "voluntarily" quit a job.
- Just cause and due process are steps taken to protect employees from unfair employment-related actions.
- Organizational justice is based on assessment of three elements: procedural, distributive, and interactional justice.
- Alternative dispute resolution (ADR) approaches such as arbitration, peer review panels, ombuds, and mediation can be used to address employee complaints or disputes.
- Balancing employer and employee rights becomes an issue when dealing with privacy rights, access to employee records, free speech, and whistle-blowing situations.
- Employers are increasingly being called upon to safeguard employees' personal information, especially as the uses of technology and electronic records grows.
- The rights of employees for personal behavior must be balanced by employers' rights, particularly in regard to individuals' display of behaviors, unique dress or appearance, bringing weapons to work, and questionable off-duty actions.
- Companies have great latitude to monitor employee actions via technology and on the job site.
- Employer investigations, including drug testing, protect both employer and employee rights.
- HR policies, procedures, rules, and handbooks should be carefully developed and communicated to employees. Courts sometimes view employee handbooks as implied contracts.
- Disciplinary processes are used to enforce organizational rules and ensure a safe, productive workplace.
- The final disciplinary phase is termination of an individual's employment, which might include a separation agreement and severance benefits.

CRITICAL THINKING CHALLENGES

1. Identify how overreliance on the employment-at-will doctrine can create problems for supervisors and employees. What are the ramifications if companies default to EAW rather than dealing directly with employee conduct problems?
2. Discuss the impact on an individual employee and work unit if organizational justice is not honored by managers. Recall any past work experience you may have in which a supervisor "played favorites." How did that impact your job performance and commitment to the company? How did you react to the injustice?
3. Give some examples of how technology is creating employer–employee rights and policy issues. Then suggest some possible actions that may be needed.
4. Assume that as the HR manager, you have decided to prepare some guidelines for supervisors to use when they have to discipline employees. Gather the information needed, using Internet resources such as www.blr.com and www.workforce.com for sample policies and other details. Then prepare a guide for supervisors on implementing both positive and progressive discipline.
5. Management is developing a company workplace monitoring program to track compliance with safety procedures at an offshore oil rig platform in the Gulf of Mexico. The monitoring program is expected to help improve workplace safety compliance and reduce injuries to workers as well as possible environmental problems. To assist HR in developing the monitoring program, visit the SHRM website and conduct your own research to identify best practices regarding monitoring of workplace activity.
   A. What key components should be included in your company's employee monitoring program to best meet the needs of both employees and the company?
   B. Explain how you will introduce this program to workers. Provide your rationale for instituting monitoring equipment and reporting procedures. Convince workers that this program is for their benefit as well as for the benefit of the company.

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CASE Fidelity Deals with Workplace Bullying and Harassment

Workplace bullying and harassment have become challenging issues in many organizations and industries. Such misbehavior often involves intentionally harming others psychologically and/or emotionally on the job, as well as the development of a hostile work environment. While bullying and harassment can occur independently of each other, thus representing different issues, growing evidence suggests that these acts are interrelated, functioning together based on a prevailing negative corporate culture. Unfortunately, such misdeeds can make the workplace even worse because they can encourage poor employee morale, negative work attitudes, and low job performance.

Being one of the largest investment companies with a workforce of over 40,000 employees, Fidelity has faced many of these challenges, likely based on the sheer number of individuals who work there. The company terminated several successful money managers because of alleged sexual harassment and workplace bullying. Fidelity has a strict zero-tolerance policy that prohibits harassment and other forms of inappropriate behavior in the workplace. When incidences do occur, company officials promptly investigate what actually happened and address any issues as quickly as possible.

However, more is probably at work here, with signs pointing to a possible negative corporate culture. Fidelity has been dealing with harassment and bullying for some time, with employees complaining about a multitude of concerns. Many of the issues raised have been directed at the unethical conduct of portfolio managers who work in the equity division of Fidelity. Incidences have included disapproving comments made about the appearance of others, sexual remarks directed at women, and workplace bullying that targets both men and women victims. One internal report even pointed to persistent misbehavior that created a culture that was not supportive of women employees; it also highlighted a merit-oriented compensation structure that encouraged excessive politics among portfolio managers and analysts.

A number of these infractions have led to the termination of several successful money managers. One individual was terminated for making sexual remarks to coworkers, while another was fired for sexually harassing a junior female colleague. Through terminations or retirements, other individuals were pushed out of the company for bullying their coworkers. These cases highlight the important notion that employees have a right to operate in a work environment that is free from harassment and bullying. Consequently, employers should develop policies and practices that protect workers from such misconduct and encourage immediate action when rules are broken. Even though there is growing awareness of these concerns, challenges related to workplace harassment and bullying will likely continue—power, position, and self-interest will always have the capacity to corrupt individuals and motivate them to misbehave.[102]

QUESTIONS

1. Based on your understanding of this case, what could Fidelity do to reduce concerns about workplace harassment and bullying? If you were the HR manager at Fidelity, what policies would you develop to help reduce the prevalence of such misbehavior?
2. If you were an entry-level worker at Fidelity, how would the presence of workplace harassment and bullying influence your opinion of the company? How would you protect yourself from such misconduct?

SUPPLEMENTAL CASES

How Special Is That Sandwich?

This case highlights how a sandwich company requires all of its workers to sign a stringent "noncompetition" clause as part of the hiring process. (For the case, visit MindTap® at www.cengage.com/login.)

Dealing with Workplace Bullying

This case explores the problems that occur when "bullying" bosses or employees are present in the workplace. (For the case, visit MindTap® at www.cengage.com/login.)

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George Faces Challenges

This case describes the problem facing a new department supervisor when HR policies and discipline have been handled poorly in the past. (For the case, visit MindTap® at www.cengage.com/login.)

Employer Liable for "Appearance Actions"

This case discusses a California court ruling on terminating a female for her personal appearance. (For the case, visit MindTap® at www.cengage.com/login.)

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CHAPTER 15

Union–Management Relations

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Discuss what a union is and explain why employees join and employers resist unions.

LO2 Outline the current state of union activity in the United States and identify several reasons for the decline in union membership.

LO3 Explain the provisions of each of the major U.S. labor laws and recognize the impact of these laws and National Labor Relations Board (NLRB) rulings on nonunion workplaces.

LO4 Describe the phases of the unionization process and the typical collective bargaining process.

LO5 Define a grievance and identify the stages in a dispute resolution procedure.

WHAT'S TRENDING IN LABOR RELATIONS

Workers in union and nonunion workplaces are impacted by the existence of labor laws and decisions rendered by the National Labor Relations Board (NLRB). In particular, these factors influence how employers and employees interact with each other at work, whether unions are present or not. Support for unions also fluctuates among workers and lawmakers based on changing preferences and conditions. Several key trends in labor relations include the following:

1. There is a dilution of public employee union power in many states. Lawmakers in different states have taken steps in the past to reduce the power of public-sector labor unions. Changes such as eliminating the automatic withdrawal of union dues have led to decreased support for public unions.
2. In the past, an activist labor board extended its decisions to encompass more and more workers, both union and nonunion. But changes to board membership will likely result in alterations to workplace practices.
3. Workers in various industries are rejecting union organizing attempts, preferring to negotiate their own terms and conditions of employment. Employers are also much more concerned about providing the kinds of positive work environments that dissuade employees from unionizing.
4. Right-to-work laws are becoming more prevalent in the United States, with more than half of states now limiting the power of labor unions in the private and public sectors. Workers in those states now have greater freedom regarding membership in a union.

The landscape is constantly shifting with respect to regulations of workplace practices. Labor laws continue to evolve as workers and lawmakers respond to changes in how managers operate their companies and treat their workers. As labor board rulings and workforce dynamics progress, managers and HR professionals should remain current on how human resource practices must be modified.[1]

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HEADLINE

Whole Foods Must Ditch Its No-Recording at Work Policy

Given the many concerns over privacy and security it is easy to understand why organizations would be interested in developing policies that limit the ability of employees to record conversations and actions that occur at work. For instance, a nuclear power plant would not want workers recording how critical operations are conducted at the worksite, and a hospital would not want employees recording discussions about sensitive patient issues. Both of these examples illustrate how the development of no-recording policies would protect employers and their various stakeholders from harm. However, it is not always clear how well no-recording policies will stand up under legal scrutiny. In the case of one nuclear power plant, a NLRB judge concluded that the facility could not fully block workplace recordings, while in another case the NLRB allowed a hospital to implement a no-recording policy in the interest of protecting patient privacy.

So, what does this mean for employers interested in no-recording policies? Should they develop and implement such policies to protect corporate interests, or should they not pursue them, thus avoiding the potential for legal challenges? The correct answer may lie somewhere in the middle of these two options. A recent case involving Whole Foods Market Inc. provides some insight in these issues.

Whole Foods drafted such a policy to protect itself from the problems that can occur when recordings are allowed. The company was particularly concerned about employees not being able to express their views because they may be worried about getting recorded. Whole Foods outlined several behavioral guidelines and rules—individuals were prohibited from recording unless approval was obtained from management. Recordings were also not permitted unless all parties agreed to participate.

On appeal, one court found that the NLRB's claim about the policy—that it may unlawfully limit employees' ability to engage in concerted actions linked to collective bargaining and/or improving their situations at work—was indeed correct, and thus ruled in their favor. What does this outcome mean for employers? It means that

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employers should consider developing more specific policies about recording in the workplace. Developing polices that are too broad may create barriers to worker engagement in protected activity. Of course, interpretation of these situations may evolve further because of changes to NLRB membership.[2]

LO1 Discuss what a union is and explain why employees join and employers resist unions.

Union
Formal association of workers that promotes the interests of its members through collective action

A **union** is a formal association of workers that promotes the interests of its members through collective action. In the United States, unions typically try to increase compensation, improve working conditions, and influence workplace rules. When workers are represented by a union, these issues are decided through collective bargaining agreements and specified in formal contracts that are negotiated by management and labor.

Unions did not seem to have a bright future in the 1930s when the National Labor Relations Act (NLRA) was passed, giving unions a legal right to exist. Then they grew to represent over one-third of workers in the 1950s, only to see their strength in the private sector drop to less than 8 percent recently. However, in the public sector, unions are more common. These trends illustrate the inherent political nature of unionization, particularly because government and public opinion play such prominent roles in union strength.

While many managers think that they do not need to understand labor laws because they work in union-free workplaces, this is simply not the case. In recent years, the government has broadened its interpretation and application of labor laws to include employees who are not represented by labor unions. Therefore, a basic understanding of labor laws and NLRB rulings is important for all managers and HR professionals.[3] However, membership changes to the board may result in a course reversal in favor of employers' concerns, including how confidentiality, social media issues, and other employment issues are treated.[4]

Exactly how political, economic, and workforce changes affect employers and unions will be factors in the future of the labor–management relationship. Even though fewer workers have chosen to join unions in recent years than in the past, employers and HR professionals still need to understand the system of laws, regulations, court decisions, and administrative rulings related to the nature of unions. This is important because unions remain a strong alternative for employees in the event of poor HR practices.

15-1 Perspectives on Unionization

Union representation has many advantages and disadvantages. For instance, unions give employees an opportunity to provide feedback to employers about their concerns and suggestions that would be difficult to express otherwise. Unions can provide a balance to the unchallenged decision-making power of management when needed. Increases in job tenure, performance, and employee earnings are often associated with unionization. Alternatively, unions can negatively impact the allocation of organizational resources, decrease profitability, and hurt productivity as a result of increased compensation and rigid work practices. These points should be considered when exploring why employees join unions and why employers resist unionization.

15-1a Why Employees Unionize

Over the years employees have joined unions for two general reasons: (1) they are dissatisfied with how they are treated by their employers and (2) they believe that unions can improve their work situations. If employees believe they are being treated unfairly by their companies, they may turn to unions to get assistance with their concerns. Workers may also be motivated to join because of

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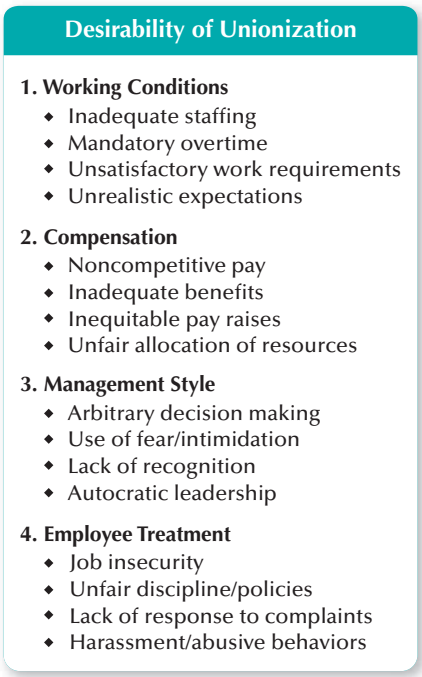
FIGURE 15-1 Factors Leading to Employee Unionization



change and uncertainty (i.e., NAFTA's impact on U.S. jobs, immigration issues, etc.), a desire for respect (i.e., emphasis on work-life balance), and strong preferences for fairness and dignity (i.e., protection from harassment).[5] As Figure 15-1 shows, some of the major factors that can trigger unionization are issues of compensation, working conditions, management style, and employee treatment.

One of the primary determinants of whether employees want to unionize is how well their companies are managed. Unions function as a watchdog for workplace equity and make sure that employees are treated fairly. Without union representation, employees may be paid unfairly and treated poorly. Employees expect to receive reasonably competitive compensation, a good working environment, effective management and supervision, and fair and responsive treatment. When these basic expectations are not met, employees may seek out a labor union. Unionization often occurs when employees feel disrespected, unsafe, underpaid, and unappreciated; they see a union as a viable option for change.

As a whole, the opinions people have about unions in general along with the actions and decisions of managers influence whether they favor union representation.[6] This implies that general opinions of organized labor create a certain mind-set among workers either for or against unions, regardless of the practices they immediately experience on the job. Once unionization occurs, the ability of the union to foster commitment from members and to remain as their bargaining agent depends on how well the union succeeds in providing the services that its members want, which can further strengthen or weaken workers' perceptions of unions.

15-1b Why Employers Resist Unions

Some employers would rather not have to negotiate with unions because they affect how employees and workplaces are managed.[7] Unions are criticized for creating inefficiencies at work that cause waste and poor performance, and union workers frequently receive higher compensation than nonunion workers. Cases determining whether independent contractors and temporary workers are actually employees (so that they can organize) abound; for instance, Uber Technologies Inc. and Lyft Inc. are trying to avoid unionization of their drivers, who are concerned about their compensation

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and other matters, because the move may harm scheduling flexibility—a ruling by a Washington state federal judge temporarily suspended a Seattle ordinance that would have allowed workers to vote for union representation.[8] The Service Employees International Union (SEIU) is also resisting the unionization of its own members, claiming that the SEIU does not directly employ these workers.[9] Despite employers' aversion to unions, higher pay and benefits and better overall treatment may yield increased job tenure and performance, if union leadership is aligned with company goals.[10] Despite this higher productivity, managers often try to identify labor-saving measures to offset increased expenses.

Some employers seek to build a cooperative relationship with labor unions, while others choose an aggressive, adversarial approach.[11] However, there are numerous strategies that can be employed to prevent unionization from occurring in the first place. As stated previously, employees become interested in organizing a union when they feel mistreated by their employers and/or operate in an unfair, undesirable, or even dangerous work environment. To remain union free, companies must be proactive and develop good employment practices; earn employee trust; encourage employee feedback; offer fair, competitive compensation; and build supportive supervisory relationships with workers. Both HR professionals and operating managers must be attentive and responsive to employees. Primary responsibility for dealing with labor unions may fall to HR or line managers depending on the organization's philosophy and history. For example, in the railroad industry, there is typically a separate function for labor relations since there are multiple unions representing various segments of the workforce and the contracts are quite complex.

15-2 Union Membership in the United States

LO2 Outline the current state of union activity in the United States and identify several reasons for the decline in union membership.

Unions played a critical role in improving the lives of American workers. Early forms of labor unions began in the eighteenth century with craft unions for skilled workers in jobs such as newspaper typesetters, boot makers, and shoemakers. With a focus on better wages, reasonable work hours, and safer working conditions, these organizations evolved as the Industrial Revolution took hold in the early twentieth century. Factories began springing up all across the nation, and demand for workers was high. Many jobs in factories were unskilled because assembly lines replaced the handwork of previous craftsmen. Immigration was flourishing at the time, and countless individuals landed on our shores with limited English language skills but hearty souls and a strong work ethic.[12]

In many workplaces, conditions were deplorable, and workers were required to work long hours with few breaks for relatively little compensation. The "sweatshop" was common, and unsafe worksites were typical. A tragic fire at the Triangle Shirtwaist Company in 1911 resulted in the deaths of 147 workers, mostly women and young girls. Employment of children was not unusual, and employees had few protections for their safety and security.

Company owners and managers did not take kindly to the perceived interference from labor unions. They resisted all attempts to organize workers, and on several occasions the military, National Guard, and police were sent to help keep the peace. Impassioned workers rioted in New York, Chicago, and other industrial centers. In the West, miners were killed or arrested in response to a number of work stoppages. In 1914, the Ludlow Massacre led to the deaths of 5 men, 2 women, and 12 children. Company "guards" hired by the mine operators attacked a union tent camp with machine guns and then set it afire in an effort to persuade striking workers to return to the mine. These examples show that during the early part of the twentieth century, labor and management fought bitterly, with management often prevailing in the courts.[13]

The financial crisis of the Great Depression in 1929 and the resulting economic hardship on workers and their families led to enactment of legislation to provide for worker financial and physical safety and security. To counteract the power of company owners, laws were enacted to encourage and support labor union membership. Workers gained the right to form labor unions and to negotiate with their employers regarding terms and conditions of their employment. Although companies were not necessarily happy with this turn of events, the playing field was being leveled, and workers now had a voice protected by law.

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In the years immediately following enactment of labor-friendly legislation, membership in unions was at an all-time high. More than 30 percent of the workforce was represented by unions from 1945 to 1960. However, as shown in Figure 15-2, since 1983, membership in unions has steadily declined, and only 10.7 percent of employed individuals in the United States were members of unions in both 2016 and 2017.[14] Figure 15-3 shows the significant difference between the private and public sectors. Private-sector employees are far less likely to belong to labor unions, with only 6.5 percent being members in 2017. A very different story is seen in the public sector, with 37.9 percent of workers being members of labor unions in 2017. Of course, the public sector makes up a smaller proportion of the total workforce. Thus, the overall trend has been a decline for several decades.[15]

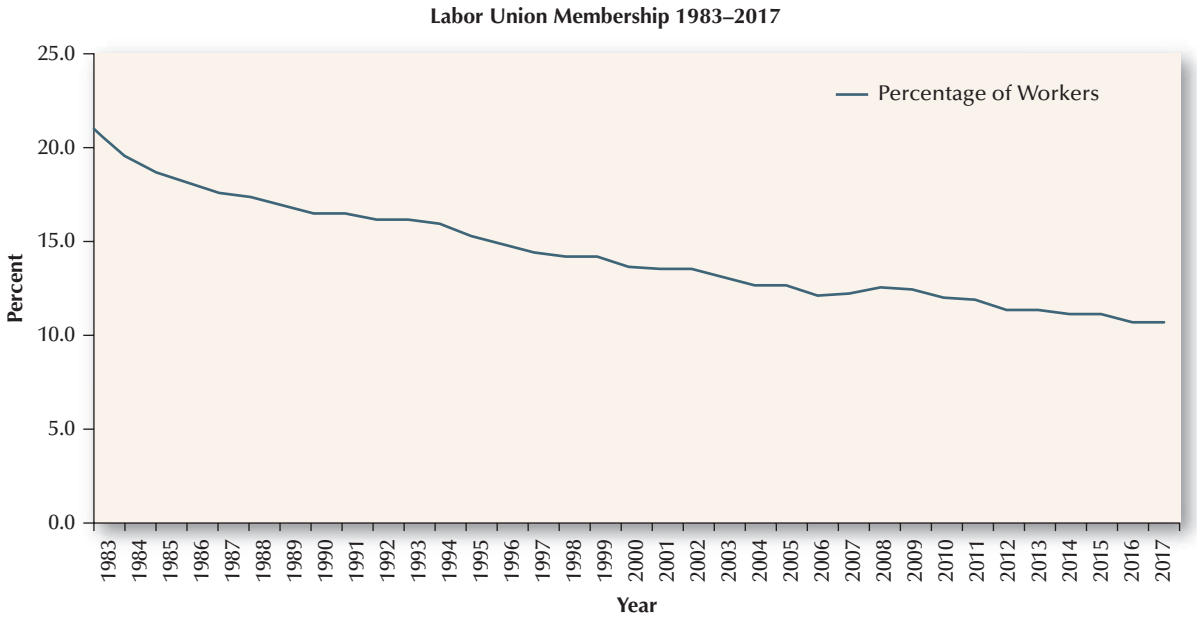
15-2a Reasons for U.S. Union Membership Long-Term Decline

Several general trends have contributed to the decline of U.S. union membership, including changing job conditions, deregulation, foreign competition, increased right-to-work legislation, and an increasing use of temporary or contingent workers. Managers in many companies have become more proactive and aggressively work to counteract union arguments through improved workplace practices.[16]

To some extent, unions may be victims of their own successes. Unions in the United States have historically emphasized helping workers obtain higher wages and benefits, shorter working hours, job security, and safe working conditions from their employers. Some believe that one cause for the decline of unions has been their success in getting those important issues passed into law for everyone. Therefore, unions may no longer be seen as necessary by many workers, even though they enjoy the results of past union efforts to influence legislation that has benefited them.[17]

Employees may also be wary of other issues. For instance, unions spending money to facilitate certain political activities and positions is a concern for individuals who have opposing viewpoints, even if members can be refunded for monies spent this way.[18] Unions may also use aggressive tactics

FIGURE 15-2 Percentage of Employed U.S. Workers Belonging to Unions



Source: Bureau of Labor Statistics.

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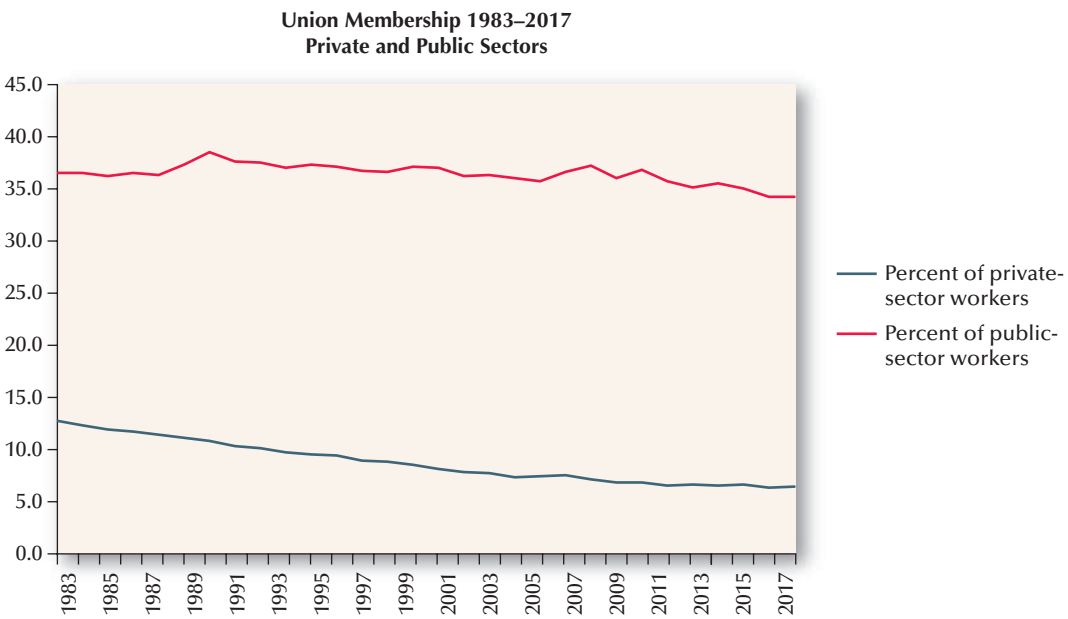
FIGURE 15-3 Union Membership by Sector, 1983–2017



Source: Bureau of Labor Statistics.

to encourage individuals to seek representation and join. The Houston cleaning organization Professional Janitorial Services was awarded damages of $5.3 million when it was determined that the SEIU tried to harm the company's reputation as a result of its preference for a secret ballet vote instead of a "card check" authorization that would allow the union to pressure employees individually; such coercion has been used in several cases.[19] Personal care assistants in Minnesota also claimed that the SEIU used pressure tactics to build support for unionization.[20]

Geographic Changes During the past decade, job growth in the United States has been the greatest in states located in the South, the Southwest, and the Rocky Mountains, places traditionally less open to unions and more "employer friendly." Manufacturers may elect to move their operations to these areas to take advantage of the available business opportunities. Another geographic issue involves the movement of many low-skill jobs outside the United States. A number of manufacturers with heavily unionized U.S. workforces have moved a significant number of low-skill jobs to the Philippines, China, Thailand, and Mexico to take advantage of cheaper labor and fewer employment restrictions.

Industrial Changes Much of the decline of union membership can be attributed to the shift in U.S. jobs from industries such as manufacturing, construction, and mining to service industries. Private-sector union membership is primarily concentrated in the shrinking part of the economy, and even in this segment, unions have experienced challenges—recent votes against unionization at a Nissan plant in Mississippi and a Boeing plant in South Carolina highlight this trend.[21] In addition, unions are not making significant progress in the fastest-growing segments of the U.S. economy. For example, there are small percentages of union members in wholesale/retail industries and financial services, the sectors in which many new jobs have been added, whereas the number of manufacturing jobs continues to shrink. Figure 15-4 shows that union representation of nongovernmental employees is heavily concentrated in utilities, transportation and warehousing, and other industrial sectors.

Unions have had difficulties making inroads with the growing number of workers in service-related jobs.[22] Amazon has aggressively opposed labor unions for years and uses the services of a law

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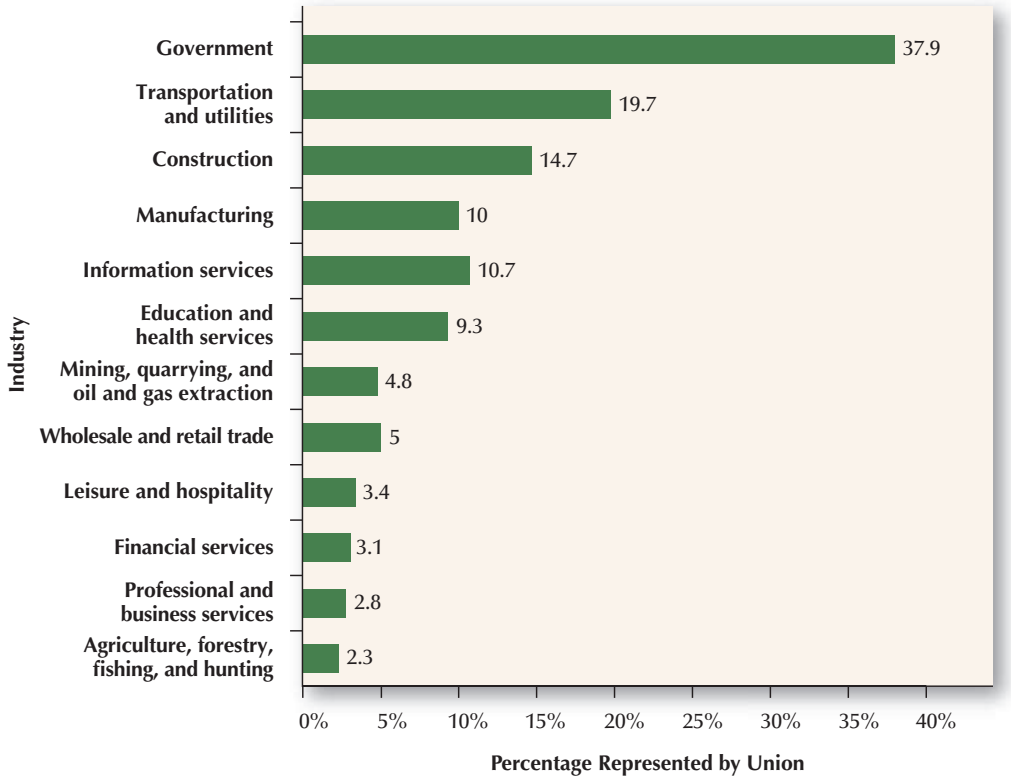
FIGURE 15-4 Union Membership by Industry, 2017



Source: Bureau of Labor Statistics.

firm that specializes in fighting union organizing efforts when the situation gets serious. Managers at fulfillment centers have reacted quickly to labor organizers distributing union literature to Amazon workers. Until recently, no union efforts led to a representation election. However, employees in Delaware rejected union representation in a first-ever union election.[23] The union message and tactics seem less effective with workers in nonindustrial occupations.

Workforce Changes Many of the workforce changes discussed in earlier chapters have contributed to the decrease in union representation of the labor force. The decline in many blue-collar jobs in heavy industry has been especially significant. For example, the United Mine Workers of America was once one of the nation's most powerful unions with 800,000 members. Today, there are far fewer members.[24]

There are growing numbers of white-collar employees such as clerical workers, insurance claims representatives, data input processors, mental health aides, computer technicians, loan officers, auditors, and retail sales workers. Unions have increased efforts to organize white-collar workers because advances in technology have boosted their numbers in the workforce. However, unions have faced challenges in organizing these workers. Many white-collar workers see unions as resistant to change and not in touch with the concerns of the more educated workers in technical and professional jobs. In addition, many white-collar workers exhibit attitudes and preferences quite different from those held by blue-collar union members and they tend to view unions as being oriented primarily toward blue-collar workers.

The growing percentage of women in the U.S. workforce presents another challenge to unions. In the past, unions have not been as successful in organizing female workers as they have been in organizing male workers. Some unions are trying to focus more on recruiting female members,

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and unions have been in the forefront in the push for legislation on such family-related practices as child care, maternity and paternity leave, pay equity, and flexible work arrangements. Women in "pink-collar," low-skill service jobs have been somewhat more likely to join unions than women working in white-collar jobs. More women tend to work in pink-collar jobs, and women overall tend to have a lower opinion of unions than do men.[25]

15-2b Public-Sector Unionism

Unions have historically enjoyed significant success in the public sector. The public sector (federal, state, and local) is the most highly unionized segment of the U.S. workforce, with 37.9 percent of government workers represented by unions (see Figure 15-4). Local (city and county) government workers have the highest unionization percentage of any group in the U.S. workforce.

Unionization of state and local government employees presents some unique challenges. First, some employees work in critical service areas such as police and firefighting. Granting these workers the right to strike endangers public health and safety. Consequently, more than 30 states have laws prohibiting work stoppages by public employees. These laws also specify a variety of ways to resolve negotiation impasses, including arbitration. But many government employees seem to believe that unions still give them greater security and better ability to influence decisions on wages and benefits compared to nonunion workers.

Public-sector unions have come under attack in recent years.[26] The high cost of union benefits, particularly retirement plans, has become a flashpoint between lawmakers and labor representatives. Public unions have been slow to change from traditional defined benefit pensions to the more contemporary defined contribution (401[k]) plans. Serious issues with inadequately funded pensions are causing city and state officials to consider drastic changes to public employees' union rights.[27] States such as Indiana, Wisconsin, and Michigan enacted right-to-work laws that reduced the bargaining power of unions. A key element of most union contracts is the automatic deduction of union dues from workers' paychecks. In Wisconsin, such deductions were outlawed, which led to a substantial drop in union membership there.[28] Controversy continues to plague public employee unions and their government employers. Finding common ground and mutually beneficial resolutions regarding "agency fees" (i.e., dues unwillingly paid by nonmembers who do not want representation) have been a key concern; the Supreme Court recently ruled against the mandatory collection of union fees from public-sector workers—unions cannot automatically deduct dues from wages unless there is consent.[29]

15-2c Unions Fighting for Survival

The continuing losses have led to disagreements and various strategies among unions about how to fight the decline. A number of unions have devised creative approaches to remain relevant and in the public eye. For instance, lobbying for reasonable work expectations for employees, decreased job cuts, a higher minimum wage, and more community control (i.e., with charter schools) are some of these issues advanced by unions.[30] Some companies are more forceful in their attempts to combat these efforts, while others ignore them and go about their business.[31] Creating partnerships with outside organizations, protesting on behalf of low-wage workers, and holding work stoppages of short duration at selected employers are all attempts to show the impact of the collective worker voice. In addition, unions are targeting specific groups of workers who they believe will be most supportive of joining the cause.

Partnerships and Worker Centers By building ties to environmental advocacy groups, plaintiffs' attorneys, racial and feminist groups, and other liberal organizations, unions are working to develop a coalition that could hold sway in state legislatures as well as Washington, DC. Banding together to apply pressure to lawmakers on a variety of worker-centered issues keeps labor unions at the forefront of protecting rank-and-file employees' interests.[32]

Worker centers usually operate as nonprofit organizations that offer their members a variety of services. They often serve as a front for unions and provide worker advocacy, lobbying, legal

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advice, and training services. Over 230 such centers focus on immigrant populations and low-wage workers with the overall purpose of helping members achieve economic justice and obtain safer and overall better working conditions. The centers are not subject to labor board oversight because their activities are broad in scope and do not amount to formal collective bargaining. Some worker centers have staged work stoppages at fast food establishments and big-box retailers to highlight low wages and other unacceptable working conditions. Worker centers start by trying to influence the general public about workers' plight but primarily encourage workers to join organized labor unions.[33]

Protests and Work Stoppages Walmart is a perennial target of union organizers, and busy shopping times like Black Friday are designated as protest days at many stores. Protesters, who are often joined by union members from the United Food & Commercial Workers, picket outside stores to demand higher wages and better working conditions. Walmart disciplined and fired some protesting employees under its attendance policy. An administrative NLRB judge ruled that Walmart workers had the right to strike, and the company had to give these individuals back their jobs.[34]

Fast food chains have also been affected by employees walking out in an effort to secure higher pay. McDonald's, Wendy's, and Burger King establishments in major cities have been subjected to protests staged by the SEIU. Restaurant workers joined union members to picket fast food locations. Both fast food chains and big-box retailers experience high employee turnover, which makes union organizing difficult.

Low-Skilled Workers Unions also target low-skilled workers, many of whom have jobs that pay less and are less desirable. Janitors, building cleaners, nursing home aides, and meatpacking workers are examples of groups that unions have successfully targeted. For instance, in the health care industry, workers in nursing homes are a fast-growing segment of the workforce. Many employees in this industry are relatively dissatisfied. The industry is often noted for its low pay and difficult, heavy work, and many employees are women who work as nurses' aides, cooks, launderers, and other low-wage laborers.

Immigrant workers in low-skill jobs comprise another group of individuals targeted by unions. Some unions have also been politically active in supporting legislation to allow illegal immigrant workers to get work permits and citizenship over time. Although these efforts are not always successful, unions are likely to continue pursuing industries and employers with numerous low-skill jobs and low-skilled workers. The advantages of unionization are especially strong for these employees.

Contingent Workers and "Joint Employer" Status Since many employers have added contingent workers instead of full-time employees, unions have tried to target part-time, temporary, and other employees who are not standard full-time workers.[35] A controversial decision by the NLRB treats temporary or contract workers as part of a primary employer's workforce. This joint employer status means that a company that uses temporary workers bears as much responsibility for complying with employment laws as the temporary agency that actually employs the workers. If the primary employer's workforce is unionized, contingent workers are also eligible to become union members. Subcontracted employment is prevalent throughout the U.S. workforce, and this labor board decision would have far-reaching, unpredictable consequences. Labor advocates and employers are closely watching NLRB decisions and cases to determine how they will impact union organizing and other employment practices.[36]

LO3 Explain the provisions of each of the major U.S. labor laws and recognize the impact of these laws and National Labor Relations Board (NLRB) rulings on nonunion workplaces.

15-3 U.S. Labor Laws

Several key labor laws have been enacted in the United States over the years. The "pendulum" has swung from a highly union-friendly stance to a more employer-friendly one. Federal lawmakers have taken actions both to hamper unions and to protect them.

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15-3a Early Labor Legislation

Early in the twentieth century, two important federal laws were passed that fostered employees' rights to form labor unions. These laws were intended to ensure economic prosperity in the United States and to provide workers with some basic rights and protections from unrestrained companies.

Railway Labor Act The Railway Labor Act (RLA) of 1926 represented a shift in government regulation of unions. The result of a joint effort between railroad management and unions to reduce transportation strikes, this act gave railroad employees "the right to organize and bargain collectively through representatives of their own choosing." In 1936, airlines and their employees were added to those covered by the RLA.

The RLA mandates a complex and cumbersome dispute resolution process. This process allows either the unions or the management to use the NLRB, a multistage dispute resolution process, and even the power of the president of the United States to appoint an emergency board. The end result of having a prolonged process that is subject to political interference has been that unions often work for two or more years after the expiration of their old contracts.

Norris-LaGuardia Act The stock market crash and the onset of the Great Depression in 1929 led to massive employer cutbacks. In some industries, employee resistance led to strikes and violence. Under laws at that time, employers could ask a federal judge to issue an injunction ordering workers to return to work. In 1932, Congress passed the Norris-LaGuardia Act, which guaranteed workers some rights to organize and restricted the issuance of court injunctions in labor disputes. An important provision of the law was to prohibit employers from asking employees to sign **yellow dog contracts**, which were pledges by workers not to join a labor union. Employees who joined a labor union after they signed such contracts were subject to discipline or termination. The Norris-LaGuardia Act thus freed employees from some of the constraints and punishments that employers had previously used to thwart their efforts to organize.[37]

Yellow dog contracts
Pledges by workers not to join a labor union

Labor Law Foundation The economic crises of the early 1930s and the continuing restrictions on workers' ability to organize into unions led to the passage of landmark labor legislation, the Wagner Act, in 1935. Later acts reflected other pressures and issues that required legislative attention. Three acts—passed over a period of almost 25 years—constitute the core of U.S. labor law: (1) the Wagner Act, (2) the Taft-Hartley Act, and (3) the Landrum-Griffin Act. Figure 15-5 indicates the primary focus of each act.

15-3b Wagner Act (National Labor Relations Act)

The NLRA, more commonly referred to as the Wagner Act, has been called the Magna Carta of labor and was, by anyone's standards, pro-union. Passed in 1935, the Wagner Act was an outgrowth of the Great Depression. With employers having to close or cut back their business operations, workers were left with little job security. However, the high rate of unemployment and the large percentage of workers who were recent immigrants allowed companies to hold down wages and pay little heed to workers' concerns. Workers were reluctant to speak out, as they could be easily replaced at a time when unemployment rates exceeded 20 percent.

Unions stepped in to provide a feeling of solidarity and strength for many workers. The Wagner Act declared, in effect, that the official policy of the U.S. government was to encourage collective bargaining. Specifically, it established the right of workers to organize free from management interference. Workers were provided with the right to participate *or not participate* in union membership. The basic provisions of the law, spelled out in Section 7, protect employees' rights as follows:

1. Employees shall have the right to self-organization, to form, join, or assist labor organizations,
2. To bargain collectively through representatives of their own choosing,
3. And to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection.

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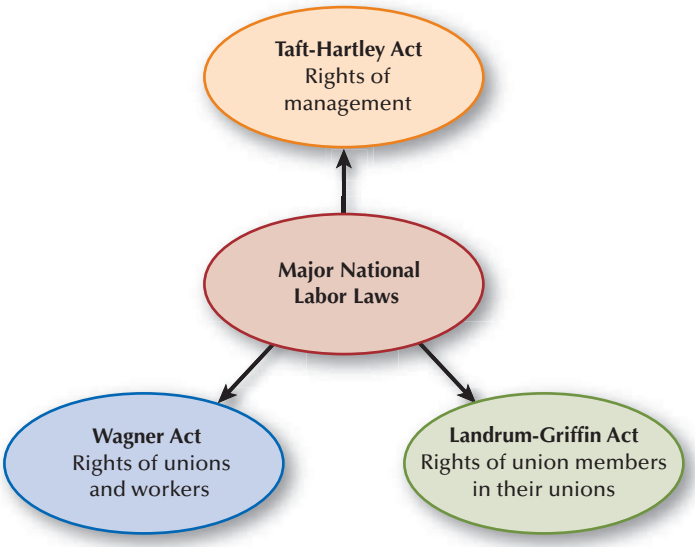
FIGURE 15-5 Major National Labor Laws



4. Employees shall also have the right to refrain from any or all of such activities except to the extent that an agreement requires membership in a labor organization as a condition of employment.[38]

Protected concerted activities
Actions taken by employees working together to try to improve their pay and working conditions, with or without a union

Unfair labor practices
Actions that employers are legally prohibited from taking to prevent employees from unionizing

These Section 7 rights have broad application, in particular the right to engage in **protected concerted activities**, actions taken by employees working together to try to improve their pay and working conditions, with or without a union. This is discussed at greater length later in this chapter. In addition to these rights, Section 8 of the law defined a number of actions that employers are legally prohibited from taking to prevent employees from unionizing. These are called **unfair labor practices**. The following "HR Competencies & Applications: Unfair Labor Practices" feature explains this in detail.

National Labor Relations Board Enforcement of the Wagner Act was assigned to the newly created National Labor Relations Board (NLRB), and today, the NLRB administers all provisions of this and all subsequent labor laws. The primary functions of the NLRB include conducting union representation elections, investigating complaints by employers or unions through its fact-finding process, issuing opinions on its findings, and prosecuting violations in court. The five members of the NLRB are appointed by the president of the United States and are confirmed by the U.S. Senate. Significant decisions and activities of the NLRB are discussed at the end of this section.

15-3c Taft-Hartley Act (Labor Management Relations Act)

The Labor Management Relations Act, better known as the Taft-Hartley Act, was passed in 1947 as a means to offset the pro-union Wagner Act by limiting union actions. It was considered to be pro-management and became the second major labor law.

The new law amended or qualified in some respect major provisions of the Wagner Act and established an entirely new code of conduct for unions. The Taft-Hartley Act confirmed employees' Section 7 rights and further protected them from restraint by unions. Several changes were made to the process of representation elections, most notably excluding supervisors from inclusion in the bargaining unit. Congress also added new types of elections. Of note, union members were given the right to hold elections to deauthorize or decertify the union thus reversing the process of representation. The law allowed states to enact right-to-work laws that gave workers greater freedom to reject union membership.

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HR COMPETENCIES & APPLICATIONS

Unfair Labor Practices

Specific actions taken by employers and unions have been designated as illegal by various labor laws. These unfair labor practices (ULPs) typically work at cross-purposes to workers' interests for fair treatment and representation.

To protect union rights, the Wagner Act prohibited employers from committing unfair labor practices. Several of those practices were identified as follows:

- Interfering with, restraining, or coercing employees in the exercise of their right to organize or to bargain collectively
- Dominating or interfering with the formation or administration of any labor organization
- Encouraging or discouraging membership in any labor organization by discriminating with regard to hiring, tenure, or conditions of employment
- Discharging or otherwise discriminating against an employee because the employee filed charges or gave testimony under the act
- Refusing to bargain collectively with representatives of the employees

To protect workers and companies from inappropriate labor union actions, the Taft-Hartley Act prohibited the following unfair labor practices:

- Refusing to engage in good-faith negotiations with employers
- Engaging in activities that might cause employers to discriminate against employees because of their union or nonunion status
- Coercing or discriminating against members
- Charging members excessive membership fees
- Failing to adequately represent all those covered by a collective bargaining agreement
- Engaging in secondary boycotts with neutral parties if the company and union are in a labor dispute

Unions, companies, and employees can file a ULP charge with the NLRB depending on the issue at hand. The NLRB investigates and resolves these charges. Over the past decade, the NLRB has handled an average of 22,000 complaints each year. Less than 10 percent typically result in a formal complaint being issued against the alleged wrongdoer.[39] Answer the following questions after reading the previous section on ULPs:

1. What should companies do to reduce the chance of ULPs? Who should receive training regarding these labor issues?
2. If the NLRB files a ULP charge against a company, what recourse does the company have? How can the company respond if it believes that the ULP is without merit?

KEY COMPETENCIES: Ethical Practice, Consultation; HR Expertise: Organization/Employee Relations, Workplace/Employment Law Regulations

A primary feature of the Taft-Hartley Act was the identification of unfair labor practices that might be committed by unions. Lawmakers recognized that companies may not be the only party that might violate workers' rights. The preceding "HR Competencies & Applications: Unfair Labor Practices" feature explains the illegal acts of unions that were defined as unfair labor practices. The act expanded the NLRB from three to five members and established the Federal Mediation and Conciliation Service (FMCS) as an agency to help management and labor settle labor contract disputes. The act required that the FMCS be notified of disputes over contract renewals or modifications if they were not settled within 30 days after the designated date.[40]

National Emergency Strikes The Taft-Hartley Act allows the president of the United States to declare that a strike constitutes a national emergency. A national emergency strike is one that would impact an industry or a major part of it in such a way that the national economy would be

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significantly affected. The act allows the president to declare an 80-day cooling-off period during which the union and management continue negotiations. Only after that period can they strike if a settlement has not been reached.

Over the decades, national emergencies have been designated in the railroad, airline, and other industries. For example, the national emergency provisions were involved in a strike of transportation and dock workers throughout the U.S. West Coast states. During the 80-day period, a contract agreement was reached, so a strike was averted.

Right-to-Work Provision One provision of the Taft-Hartley Act, section 14(b), deserves special explanation. This section allows states to pass laws that restrict compulsory union membership. Accordingly, several states have passed **right-to-work laws**, which prohibit requiring employees to join unions as a condition of obtaining or continuing employment. The laws were so named because they allow a person the right to work without having to join a union. Interest in right-to-work laws is increasing across the United States, with states such as Kentucky passing this legislation.[41]

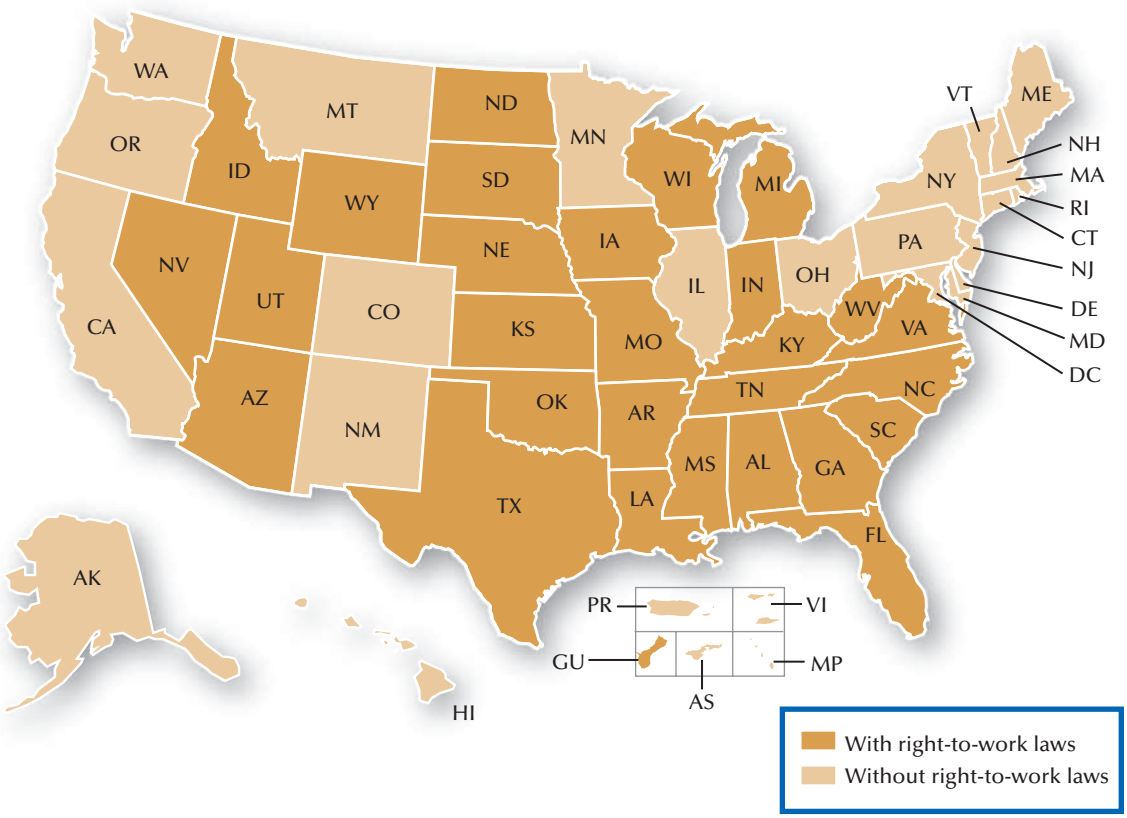
Right-to-work laws
State laws that prohibit requiring employees to join unions as a condition of obtaining or continuing employment

While the majority of right-to-work state laws were enacted between 1947 and 1963, in the recent past, several union stronghold states have also joined the list. In addition to the territory of Guam, there are now 28 states with right-to-work laws in effect, as shown in Figure 15-6. The impact of right-to-work laws on wage and employment levels is a complex issue, with outcomes being determined by a variety of factors in each state.

Open shop
Employer in which workers are not required to join or pay dues to a union

In states with right-to-work laws, employers may have an **open shop**, which means that workers cannot be required to join or pay dues to a union. Thus, even though a union may represent a group of employees at a company, individual workers cannot be required or coerced to join the union or pay dues. However, those workers are still subject to the terms and conditions negotiated by the union, and the union must represent them in any disputes. Consequently, in many right-to-work states, individual membership in union groups is significantly lower.

FIGURE 15-6 Right-to-Work States



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Closed shop
Employer that requires individuals to join a union before they can be hired

The nature of union–management relations is affected by the right-to-work provisions of the Taft-Hartley Act. Right-to-work generally prohibits an employer from having a **closed shop**, which requires individuals to join a union before they can be hired. Because of concerns that a closed shop allows a union to control who may be considered for employment and who must be hired by an employer, section 14(b) prohibits closed shops except in construction-related occupations.

In states that do not have right-to-work laws, different types of arrangements exist. Three of the different types of "shops" are as follows:

- *Union shop*: Workers must join the union, usually 30 to 60 days after being hired.
- *Agency shop*: Workers who don't join the union must make payments equal to union dues and fees to get union representation services.
- *Maintenance-of-membership shop*: Workers must remain members of the union for the period of the labor contract.

The nature of the shop is negotiated between the union and the employer. Employees who fail to meet the requirements are often terminated from their jobs.

15-3d Landrum-Griffin Act (Labor Management Reporting and Disclosure Act)

The third major labor law in the United States, the Landrum-Griffin Act, was passed in 1959 to protect the democratic rights of union members. The need for these member protections grew from instances of corruption within the Teamsters and other unions. Some unethical union officials embezzled funds for their own use, basically stealing from their own members. Under the Landrum-Griffin Act, unions are required to establish bylaws, make financial reports, and provide union members with a bill of rights. The law appointed the U.S. secretary of labor to act as a watchdog of union conduct.[42]

As required by the Landrum-Griffin Act, unions must file a financial report detailing all receipts and disbursements of funds along with a breakdown of payments made for the following activities:

- Representational activities
- Political activity and lobbying
- Contributions, gifts, and grants
- General overhead
- Union administration

The Office of Labor-Management Standards within the Department of Labor collects and retains all reports. In addition to these annual financial reports, copies of collective bargaining agreements that cover more than 1,000 workers are publicly available on the agency's website.[43] This transparency is similar to the reporting that public corporations provide to government officials and other stakeholders.

15-3e Significant NLRB Activities and Rulings

The NLRB is an appointed body whose members are nominated by the president of the United States and confirmed by Senate. There are four board members who each serve a five-year term and one general counsel who serves a four-year term. Given that a president's party typically has three members on the board, while the opposing party has two members, the nomination process and board makeup can be a political issue—the NLRB's authority, budget, and position on workplace issues is often influenced by national politics and executive branch priorities.[44]

The board has issued far-reaching decisions that impact many aspects of employment policies and practices, particularly in nonunion settings. Taking an expansive view of employees' Section 7 rights has resulted in several contentious rulings regarding language in employee handbooks and the definition of protected concerted activity. Key rulings by the labor board include company policies on employees' use of social media, company policies on courteous or respectful behavior, company confidentiality rules, and bargaining unit determination and elections.

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Policies on Employees' Use of Social Media and Electronic Communications

Employers' ability to limit what employees say about them on social media has been severely limited. While a company can restrict employees' use of its logo or trademarks, it cannot prohibit people from identifying where they work and posting derogatory comments about the company, as long as it is done with the intention of prompting coworkers to take group action. Such postings are considered protected concerted activity if their goal is collective action to improve workplace conditions. Employees should not "rant" online by posting excessively inappropriate comments, but discussing relevant issues such as their treatment and compensation, even if done in a somewhat vulgar way, can be permissible if the intent is to discuss and address work-related concerns. Companies can forbid employees from committing sexual harassment, threats of violence, sabotage, and abusive or malicious activity on social media. It is advisable to craft a narrow policy and include specific examples of what constitutes inappropriate verbiage and/or behavior.[45]

The NLRB recently ruled on how far employers can go in restricting use of e-mail and other communications technology. Employees were granted the right to use company e-mail systems to organize a union and communicate with coworkers about wages and working condition during nonworking hours. This is advantageous to labor unions since e-mail is an efficient and easy way to broadly notify employees about union organizing activities. Companies may have policies that restrict the use of electronic communications to nonworking hours, but, in reality, they are not rigidly enforced. In addition, these policies should not prevent such communication when companies allow employees to use their e-mail accounts for personal matters. Employers may elect to restrict overall use of e-mail by employees in order to reduce congestion and traffic on their e-mail systems. Union and nonunion employers are affected by any labor board ruling on this matter.[46]

Courteous or Respectful Behavior Many companies have created personal conduct policies to prohibit discourteous behavior or language in the workplace. The goal is typically to set expectations of professional demeanor. The labor board has called these policies overbroad and "chilling." For example, First Transit's policy that prohibited "discourteous or inappropriate attitude or behavior to passengers, other employees, or members of the public, as well as disorderly conduct during working hours" was called imprecise and ambiguous and as such could be considered to restrict employees' Section 7 rights. The labor board's ruling was issued to ensure that employees are free to express dissatisfaction with company policies and practices and to disagree with management actions. Further board guidance has condoned the use of profanity by employees when talking to their bosses and even in front of customers. To comply with this ruling, companies should cite specific examples of prohibited behavior and clearly communicate these to employees.[47]

Company Confidentiality Rules The labor board has limited policies that restrict employees from sharing certain confidential information. Employers cannot ban employees from discussing personal or financial information (such as their individual pay rates) or other sensitive information. This is especially troubling with regard to a workplace investigation about misconduct. This ruling puts companies in a no-win situation, as the Equal Employment Opportunity Commission (EEOC) requires confidentiality during investigations. A blanket confidentiality policy may be struck down by the NLRB. Companies can protect trade secrets and proprietary information. They should also state the right to conduct a confidential investigation if circumstances warrant it.[48]

Bargaining Unit Determination and Elections While union organizers typically attempt to create large bargaining units that will generate substantial dues revenue, in recent years, they have sought to establish labor unions within a **microunit** that includes only one job category or department within a company. Forty-one employees in Macy's Department Store working in the cosmetics and fragrances department were permitted to form a labor union, while the rest of the 150 store employees remained union free. Taking on these microunits makes organizing easier because there are often pockets of discontent within an organization. Companies must show that additional employees or departments should be added to the bargaining unit because of shared common interests with those seeking to organize the union.[49]

Microunit
Bargaining unit that includes only one job category or department within a company

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In addition to the definition of a bargaining unit, the labor board has also instituted rules and procedures to speed up representation elections. Commonly referred to as "ambush" or "quickie," these election rules give companies and employees as little as 10 days to campaign and educate workers from the time a petition is filed with the NLRB until a vote occurs. This strategy is favorable to unions since support for representation is often highest when the petition is filed, and managers are often caught off guard. Previous procedures usually provided a six-week campaign period. Aggressive union-free actions by employers were more successful with a longer time to convince employees not to support the union.[50]

Franchisors as Joint Employer A decision by the NLRB states that McDonald's USA and its franchisees are joint employers for the purposes of compliance with labor laws. The labor board's opinion is that the franchisor is liable for labor violations at all operations bearing the company's name, regardless of who owns the restaurant. This aggregate workforce is far more attractive to a labor union seeking to organize workers. Previously, each franchise operated independently with relatively few employees, not usually enough to expend a lot of union resources to establish a local union. The ruling, which has been heavily debated in subsequent decisions, certainly changes the nature of the franchise business model in the United States; however, a recent overturn of the ruling was vacated by the board because a conflict of interest suggesting that it may be overturned again in the future.[51]

Even though some of these rulings by the labor board may be overturned in a new political landscape, they highlight the need for companies to maintain effective two-way communication with their workers and to address workplace issues promptly and fairly. Companies that fail to establish good employee relations programs may find that their employees turn to labor unions to resolve their problems.

LO4 Describe the phases of the unionization process and the typical collective bargaining process.

15-4 The Union Organizing Process

The typical union organizing process is outlined in Figure 15-7. The process of unionizing workers may begin in one of two primary ways: (1) a union targets an industry, a region, or a company or (2) employees request union representation. In the first case, the local or national union identifies a firm, industry, or region in which it believes unionization can succeed. The logic for targeting is that if the union succeeds in one firm or a portion of an industry or a region, then many other workers in the industry or region will be more willing to consider unionizing. In the second case, the impetus for union organizing occurs when individual workers at an employer contact a union and express a desire to unionize. The employees themselves—and/or the union—may then begin to campaign to win support among the other employees. In these situations, the union knows that there is already some worker dissatisfaction, which makes organizing a bit easier.

15-4a Organizing Campaign

Like other entities seeking members, a union usually mounts a systematic campaign to persuade individuals to join. As would be expected, employers respond to unionization efforts by taking various steps to oppose the union.

Employers' Union Prevention Efforts Employers may make strategic decisions and take aggressive steps to remain union free. Such a choice is perfectly rational but may require some specific HR policies and philosophies. For example, "preventive" employee relations may emphasize good morale and loyalty based on concern for employees, competitive wages and benefits, a fair system for dealing with employee complaints, and safe working conditions. Other factors may also play a part in employees' decisions to remain union free, but if employers adequately address the points just listed, fewer workers are likely to feel the need for a union to represent them.[52] Some companies

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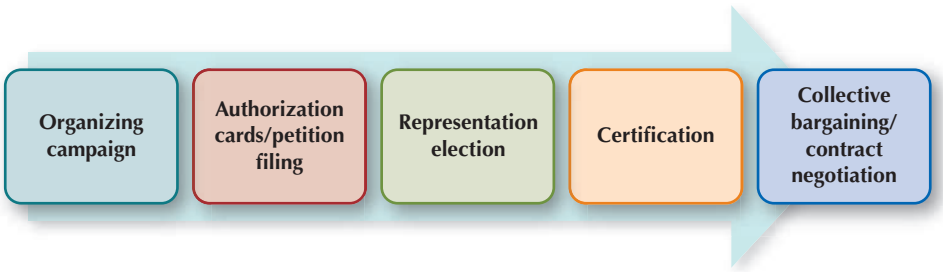
FIGURE 15-7 Typical Unionization Process



address the issue with a union-free statement in the employee handbook explaining to workers the company's employee relations philosophy. The newly enacted rules for "quickie" elections mean that companies that wish to remain union free should proactively engage with employees and maintain an ongoing dialogue about their union-free philosophy.

No-solicitation policy
Policy that restricts employees and outsiders from distributing literature or soliciting union membership on company premises

Many employers have created a **no-solicitation policy** to restrict employees and outsiders from distributing literature or soliciting union membership on company premises. Employers without such a policy may be unable to prevent those acts. A policy against solicitation must be a long-term, established approach, not a single action taken to counter a specific and immediate unionization attempt. Company no-solicitation rules must be applied uniformly such that all solicitations are treated alike. Therefore, employees who solicit coworkers to raise money for local charities should be treated the same as those who solicit coworkers to join a union. This issue is complex, and it is wise to obtain legal advice before creating a policy statement.[53]

Management representatives may use various tactics to defeat a union organizing attempt. The management campaign often begins when union literature appears or workers begin talking about unionizing. Some employers hire consultants who specialize in combating unionization efforts. Using these "union busters" (or "persuaders"), as they are called by unions, appears to enhance employers' chances of winning the representation election. Companies should carefully confer with legal counsel before engaging these services.[54]

Unions' Organizing Efforts The organizing and negotiating successes of unions are tied to the economy and economic trends. Union persuasion efforts can take many forms, including personally contacting employees outside of work, mailing materials to employees' homes, e-mailing information about the union to employees, inviting employees to attend special meetings away from the company, and publicizing the advantages of union membership. Brochures and leaflets can be given to employees as they leave work, mailed to their homes, or even attached to their vehicles, as long as the union complies with the rules established by laws and the NLRB. The purpose of all this publicity is to encourage employees to sign authorization cards. Having union supporters inside the company is a powerful tool for organizing, particularly in instances where unhappy employees have initiated contact with the union.

To encourage individuals to become involved in unionization efforts, unions have adopted electronic approaches, such as establishing websites where interested workers can read about benefits of unionization. Virtually all labor unions have websites on which they explain how their efforts help workers. They discuss issues of interest to potential members to encourage them to join. Successes in unionizing groups of employees are described. Also, the differences between wages, benefits, and job security are contrasted before and after unionization occurred.

Salting
Practice in which unions hire and pay people to apply for jobs at certain companies to begin organizing efforts

Unions sometimes pay organizers to infiltrate a targeted employer and try to organize workers. In this practice, known as **salting**, the unions hire and pay people to apply for jobs at certain companies to begin organizing efforts. The U.S. Supreme Court has ruled that refusing to hire otherwise-qualified applicants, solely because they are also paid by a union, violates the Wagner Act. However, employers may refuse to hire "salts" for job-related and nondiscriminatory reasons.[55]

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15-4b Authorization Cards

Union authorization card
Card signed by employees to designate a union as their collective bargaining agent

A **union authorization card** is signed by employees to designate a union as their collective bargaining agent. An example of a union authorization card is shown in Figure 15-8. At least 30 percent of the employees in the targeted group must sign authorization cards before a representation election can be scheduled.

Union advocates have lobbied for changing laws so that elections are not needed if more than 50 percent of the eligible employees sign authorization cards. Some states have enacted such laws for public-sector unionization. Also, some employers have taken a neutral approach and agree to recognize unions if a majority of workers sign authorization cards. During an organizing campaign, union supporters work hard to convince each coworker to sign an authorization card. It is critical that employees understand that an authorization card is not simply a request to hold a representation election. If enough employees sign cards, it is possible that the union will be designated as their representative without an election. The fact that an employee signs an authorization card does not necessarily mean that the employee is in favor of a union. Employees who do not want a union might sign authorization cards because they want management to know they are disgruntled or because they want to avoid upsetting coworkers who are advocating for unionization.

15-4c Representation Election

An election to determine if a union will represent the employees is supervised by the NLRB for private-sector organizations and by other agencies for public-sector organizations. If two unions are attempting to represent employees, the employees will have three choices: union A, union B, and no union.

Bargaining unit
Employees eligible to select a single union to represent and bargain collectively for them

Bargaining Unit Before any election, the appropriate bargaining unit must be determined. A **bargaining unit** is composed of all employees eligible to select a single union to represent and bargain collectively for them. If management and the union do not agree on who is and who is not included in the unit, the regional office of the NLRB must make the determination. A major criterion in deciding the composition of a bargaining unit is what the NLRB calls a community of interest. For example, at an airline, pilots, flight attendants, and mechanics would probably not be

FIGURE 15-8 Example of a Union Authorization Card

AUTHORIZATION FOR REPRESENTATION

I hereby authorize Teamsters Union Local No. 315, I.B.T., under the National Labor Relation Act. I, to be my exclusive collective bargaining representative in negotiations for better wages and working conditions.

Name _____ Date Hired _____
Print

Address _____ Telephones _____

City _____ State _____ Zip _____

Name of Company _____

Kind of Work _____ Dept. _____ Salary _____

Date _____ _____
Your Signature

This card is strictly confidential. Please remove tape and seal.

SAMPLE

Source: Adapted from http://www.cintasfreedomtochoose.com/card-anatomy.asp.

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included in the same bargaining unit; these employees have widely varying jobs, areas of work, physical locations, and other differences that would likely negate a community of interest. As mentioned in the previous section, new smaller microunits may be formed rather than company-wide bargaining units. Employees who constitute a bargaining unit have mutual interests in the following areas:

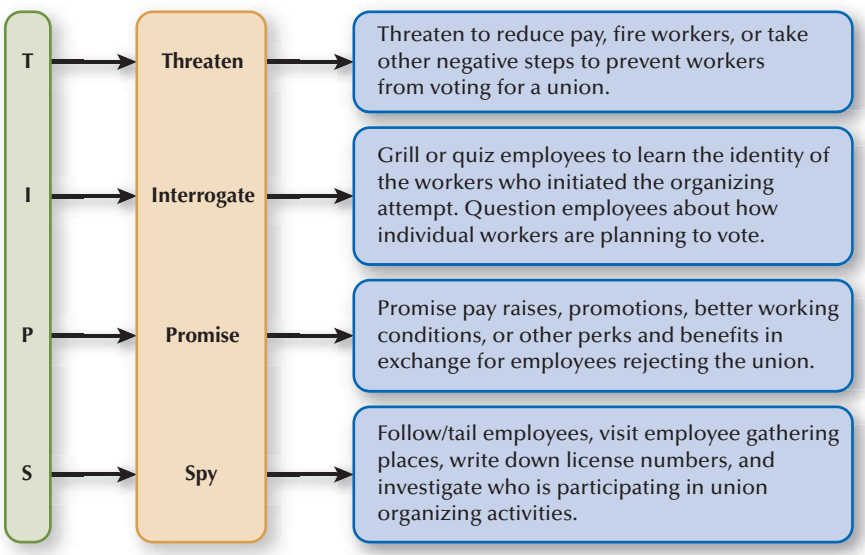
- Wages, hours, and working conditions
- Traditional industry groupings for bargaining purposes
- Physical location and amount of interaction and working relationships between employee groups
- Supervision by similar levels of management

Supervisors and Union Ineligibility The Taft-Hartley Act excludes supervisors from voting for or joining unions. As a result, supervisors cannot be included in bargaining units for unionization purposes, except in industries covered by the RLA. But who qualifies as a supervisor is not always clear. The NLRB expanded its definition to classify a supervisor as any individual with authority to hire, transfer, discharge, discipline, and use independent judgment with employees. Numerous NLRB and court rulings have been issued regarding supervisory designation in various situations. A major case decided by the U.S. Supreme Court found that charge nurses with RN degrees were supervisors because they exercised independent judgment. This case and others have provided employers and unions with some guidance about who should be considered supervisors and thus excluded from bargaining units.[56]

Election Unfair Labor Practices Employers and unions engage in many activities before an election. Both the Wagner Act and the Taft-Hartley Act place restrictions on these activities. Once unionizing efforts begin, all activities must conform to the requirements established by applicable labor laws. Both management and the union must adhere to those requirements, or the results of the effort can be appealed to the NLRB and overturned. The following "HR Competencies & Applications: Unionization Do's and Don'ts" feature highlights some of the legal and illegal actions managers must be aware of during unionization efforts. Figure 15-9 shows a commonly used acronym, TIPS, that concisely represents the actions employers cannot engage in during a campaign.

Election Process If an election is held, the union must receive only a simple majority of the votes to win. For example, if a group of 200 employees is the identified bargaining unit and only 50 people vote, only 26 (50 percent of those voting plus 1) need to vote yes for the union to be named

FIGURE 15-9 TIPS: Unfair Labor Practices during Organizing Campaigns



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HR COMPETENCIES & APPLICATIONS

Unionization Do's and Don'ts

Employers can take numerous actions to prevent unionization. All managers and supervisors must adhere to NLRB and other requirements to avoid unfair labor practices. Listed below are some common do's and don'ts.[57]

✔ DO (LEGAL)

- Tell employees that the employer opposes unionization and explain why.
- Tell employees how current wages and benefits compare with those in other firms.
- Correct any inaccurate information presented by union supporters.
- Tell employees the disadvantages of having a union (dues, assessments, etc.).
- Show employees articles about unions and relate negative experiences elsewhere.
- Explain the unionization process to employees accurately.
- Forbid distribution of union literature during work hours in work areas.
- Enforce disciplinary policies and rules consistently and appropriately.

✘ DON'T (ILLEGAL)

- Tell employees that they will be given pay increases or promotions if they vote against the union.
- Suggest that the company will close down or move if a union is voted in.
- Monitor union meetings.
- Discriminate against employees who are taking part in union activities.
- Visit employees' homes to talk them out of voting for the union.
- Make a speech to employees or groups at work within 24 hours of the election.
- Ask employees how they plan to vote or if they have signed authorization cards.
- Encourage employees to persuade others to vote against the union.
- Tell employees that they will be terminated or disciplined if they advocate the union.

After you have read these dos and don'ts, consider the following questions:

1. What are the advantages and disadvantages of hiring a "union buster" expert to assist if a company is faced with a union organizing attempt?
2. What recommendations would you give to line managers who are dealing with the inevitable disagreements between employees who support the union and those who do not? How can work unit dynamics and performance be affected during a union organizing campaign?

KEY COMPETENCIES: Communication, Ethical Practice, Relationship Management; HR Expertise: Organization/Employee Relations, Workplace/Employment Law & Regulations

as the representative of all 200 employees. Typically, with a smaller number of employees in the bargaining unit, there is a higher likelihood that the union will win.

If either side believes that the other side committed unfair labor practices, the election results can be appealed to the NLRB. If the NLRB finds evidence of unfair practices, it can order a new election. If no unfair practices were committed and the union obtains a majority in the election, the NLRB then certifies the union to serve as representative of employees in the bargaining unit.

15-4d Certification and Decertification

Official certification of a union as the legal representative for designated private-sector employees is given by the NLRB, and for public-sector employees, it is given by an equivalent body. Once certified, the union attempts to negotiate a contract with the employer. The employer *must* bargain; refusing to bargain with a certified union constitutes an unfair labor practice.

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Decertification
Process whereby a union is removed as the representative of a group of employees

If members no longer wish to be represented by the union, they can use the election process to sever the relationship between themselves and the union. Similar to the unionization process, **decertification** is a process whereby a union is removed as the representative of a group of employees. For instance, the truck drivers at C.R. England Inc. who were organized recently elected to decertify the union representing these workers.[58]

Employees attempting to oust a union must obtain decertification authorization cards signed by at least 30 percent of the employees in the bargaining unit before an election may be held. If a majority of those voting in the election vote to remove the union, the decertification effort succeeds. Some reasons that employees might decide to vote out a union are that the treatment provided by the employer has improved, the union has been unable to address the changing needs of the organizational workforce, or the image of the union has declined. Current regulations prohibit employers from initiating or supporting decertification because it is a matter between employees and unions, and employers must stay out of the process.

15-4e Contract Negotiation (Collective Bargaining)

Collective bargaining
Process whereby representatives of management and workers negotiate over wages, hours, and other terms and conditions of employment

Collective bargaining, the last step in unionization, is the process whereby representatives of management and workers negotiate over wages, hours, and other terms and conditions of employment. The goal of this give-and-take process between representatives of the two organizations is to establish conditions beneficial to both. A collective bargaining agreement will typically be in force for several years; therefore, both sides attempt to negotiate terms that they can live with for some time. The bargaining process balances the power between the parties. A comprehensive overview of past collective bargaining cases is beyond the scope of this text, but recent examples of bargaining decisions include the following:[59]

- American Air offered a 4 percent raise to its pilots as a good faith effort.
- Pratt & Whitney kept 800 jobs at a U.S. factory instead of offshoring them.
- Southwest Airlines increased flight attendants' pay by 12.5 percent and offered them lucrative signing bonuses.
- In the interest of avoiding shipping delays, dockworkers agreed to a three-year extension of their labor agreements with port operators on the West Coast.

Management–union relations in collective bargaining can follow one of several patterns. Figure 15-10 depicts them as a continuum, ranging from conflict to collusion. On the left side of the continuum, management and the union see each other as enemies. On the right side, the two entities join in collusion, which is relatively rare in U.S. labor history and is illegal. Most positions fall between these two extremes.

The power relationship in collective bargaining involves conflict, and the threat of conflict seems necessary to maintain the relationship. Perhaps the most significant aspect of collective bargaining is that it is a continuing relationship that does not end immediately after an agreement is reached. Instead, it continues for the life of the labor agreement and beyond.[60] Therefore, the more cooperative the parties are, the less hostility and conflict will carry over into the workplace. However, this cooperation does not mean that the either party agrees to all demands from the other.

15-5 Collective Bargaining Issues

A number of issues can be addressed during collective bargaining. Management rights, union security, and dues checkoff are important issues subject to collective bargaining. These and other issues common to collective bargaining are discussed next.

Management rights
Rights reserved so that the employer can manage, direct, and control its business

15-5a Management Rights

Virtually all labor contracts include **management rights**, which are rights reserved so that the employer can manage, direct, and control its business. By including such a provision, management

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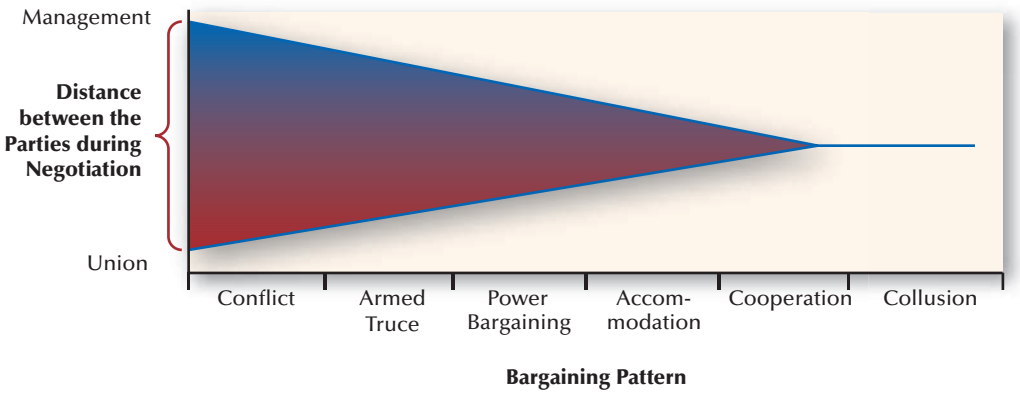
FIGURE 15-10 Continuum of Collective Bargaining Relations



attempts to preserve its unilateral right to make changes in areas not identified in a labor contract. Management naturally tries to retain as much latitude and freedom to run its operations as possible.

15-5b Union Security

Union security provisions
Contract clauses to help the union obtain and retain members and collect union dues

A major concern of union representatives when bargaining is the negotiation of **union security provisions**, contract clauses that help the union obtain and retain members and collect union dues. One type of union security clause in labor contracts is the *no-layoff policy*, or *job security guarantee.* Such a provision is especially important to many union workers because of all the mergers, downsizings, and job reductions taking place. However, management is often unwilling to consider this type of provision.

Types of Required Union Membership Another union security provision is *requiring union membership* of all employees, subject to state right-to-work laws. As mentioned earlier, a closed shop is illegal except in limited situations within the construction industry. But other types of arrangements can be developed, including union shops, agency shops, and maintenance-of-membership shops, which were discussed earlier.

Dues checkoff clause
Provides for the automatic deduction of union dues from the payroll checks of union members, thus enabling employers to transfer dues to unions through one comprehensive payment

Union Dues Issues A common union security provision is the *dues checkoff authorization* or **dues checkoff clause**, which provides for the automatic deduction of union dues from the payroll checks of union members, thus enabling employers to transfer dues to unions through one comprehensive payment. The dues checkoff provision makes it much easier for the union to collect its funds, and without it, the union must collect dues by billing each member separately. In some cases, payment of union dues may be required even if an individual decides to leave a union.[61] For instance, when the state of Wisconsin eliminated dues checkoff for public union members, participation in the union dropped dramatically and was accompanied by a substantial loss of dues revenue. Ironically, Wisconsin was the first state to grant public-sector unions the right to organize and collectively bargain in 1959.[62]

15-5c Classification of Bargaining Issues

Mandatory issues
Negotiation topics and collective bargaining issues identified specifically by labor laws or court decisions as subject to bargaining

The NLRB has classified collective bargaining issues into three categories: mandatory, permissive, and illegal.

Mandatory Issues Negotiating topics and collective bargaining issues identified specifically by labor laws or court decisions as subject to bargaining are **mandatory issues**. If either party demands to negotiate on these issues, then they must be included in bargaining. Generally, mandatory issues relate to wages, benefits, nature of jobs, and other work-related subjects. Mandatory subjects for

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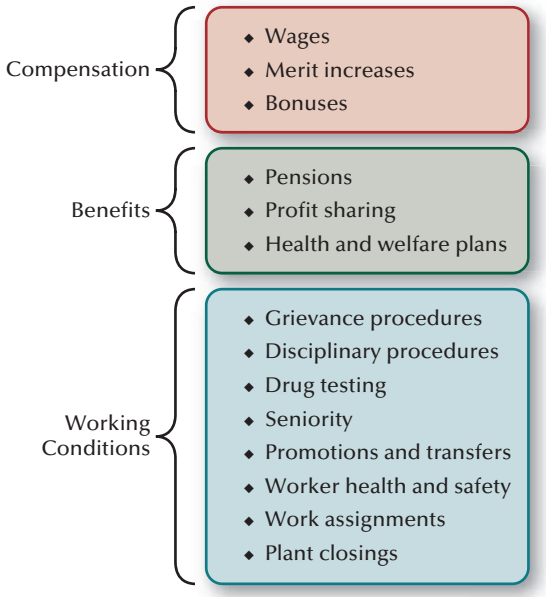
FIGURE 15-11 Mandatory Subjects of Collective Bargaining



Source: Adapted from SHRM.org, http://www.shrm.org/templatestools/hrqa/pages/collectivebargainingsubjects.aspx.

bargaining are shown in Figure 15-11. Refusing to bargain over these issues by either management or the union constitutes an unfair labor practice.

Permissive Issues In addition to the mandatory subjects of bargaining, there are collective bargaining issues that are not required but might relate to certain jobs or practices. These are categorized as **permissive issues**, which can be negotiated if both parties agree. Examples of permissive issues include benefits for retired employees, internal union business, designation of negotiators, and use of union labels.[63]

Permissive issues
Collective bargaining issues that are not required but might relate to certain jobs or practices

Illegal Issues A final category, **illegal issues**, includes those collective bargaining issues that would require either party to take illegal action. Examples would be giving preference to union members when hiring employees or demanding a closed-shop provision in the contract. If one side wants to bargain over an illegal issue, the other side can refuse.

Illegal issues
Collective bargaining issues that would require either party to take illegal action

15-6 Collective Bargaining Process

The collective bargaining process involved in negotiating a contract consists of four possible stages: preparation and initial demands, negotiations, settlement or impasse, and strikes and lockouts. Throughout the process, management and labor representatives determine the terms and conditions for their ongoing relationship.

15-6a Preparation and Initial Demands

Management and union representatives have a great deal at stake; therefore, they spend substantial time and effort preparing for negotiations. Employer and industry data concerning wages, benefits, working conditions, management and union rights, productivity, safety, and absenteeism are gathered.

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Each side presents its list of demands to the other to begin the bargaining process. If the organization argues that it cannot afford to pay what the union is asking, then it must provide evidence of its financial status. The primary focus of bargaining for both union and management is on the mandatory areas of wages, benefits, and working hours and conditions. The amount of rancor or calmness exhibited may set the tone for future negotiations between the parties.

15-6b Continuing Negotiations

After taking initial positions, each side attempts to determine what the other side values highly so that the best bargain can be struck. For example, the union may be asking the employer to pay for dental benefits as part of a package that also includes wage increases and retirement benefits. However, the union may be most interested in the retirement benefits and may be willing to trade the dental payments for better retirement benefits. Management must determine the union's priorities and then decide exactly what to trade in order to reach agreement.

Good Faith Provisions in federal law require that both employer and union bargaining representatives negotiate in good faith. In good-faith negotiations, the parties agree to send negotiators who can bargain and make decisions, rather than people who do not have the authority to commit either group to a decision. To be more effective, meetings between the parties should be conducted professionally and address issues, rather than being confrontational. Refusing to bargain, scheduling meetings at absurdly inconvenient hours, and/or using other conflicting tactics may lead to employers or unions filing complaints with the NLRB.

15-6c Settlement and Contract Agreement

Ratification
Process by which union members vote to accept the terms of a negotiated labor agreement

After reaching an initial agreement, the bargaining parties usually return to their respective constituencies to determine if the informal agreement is acceptable. A particularly crucial stage is **ratification** of the labor agreement, which is a process by which union members vote to accept the terms of a negotiated labor agreement. Before ratification, the union negotiating team explains the agreement to the union members and presents it for a vote. If the members approve the agreement, it is then formalized into a contract. Figure 15-12 lists the typical items in a labor agreement.

FIGURE 15-12 Typical Items in a Labor Agreement

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15-6d Bargaining Impasse

Conciliation
Process by which a third party facilitates the dialogue between union and management negotiators to reach a voluntary settlement

Mediation
Process by which a third party suggests ideas to help the negotiators reach a settlement

Arbitration
Process that uses a neutral third party to make a decision

Regardless of the structure of the bargaining process, labor and management do not always reach agreement on the issues. If they reach an impasse, then the disputes can be taken to conciliation, mediation, or arbitration.

Conciliation and Mediation When an impasse occurs, an outside party such as the Federal Mediation and Conciliation Service may help the two deadlocked parties continue negotiations and arrive at a solution. In **conciliation**, the third party facilitates the dialogue between union and management negotiators to reach a voluntary settlement but makes no proposals for solutions. In **mediation**, the third party suggests ideas for solutions to help the negotiators reach a settlement.

In conciliation and mediation, the third party does not impose a solution. Sometimes fact finding helps clarify the issues of disagreement as an intermediate step between mediation and arbitration.

Arbitration In **arbitration**, a neutral third party makes a decision. Arbitration can be conducted by an individual or a panel of individuals. "Interest" arbitration attempts to solve bargaining impasses, primarily in the public sector. This type of arbitration is uncommon in the private sector because companies generally do not want an outside party making decisions about their rights, wages, benefits, and other issues. Fortunately, in many situations, agreements are reached through negotiations without the need for arbitration. When disagreements continue, strikes or lockouts may occur.

15-6e Strikes and Lockouts

Lockout
Management shuts down company operations to prevent union members from working

Strike
Union members refuse to work in order to put pressure on an employer

If a deadlock cannot be resolved, an employer may revert to a lockout—or a union may revert to a strike. In a **lockout**, management shuts down company operations to prevent union members from working. This action may avert possible damage or sabotage to company facilities or injury to employees who continue to work. It also gives management leverage in negotiations.

During a **strike**, union members refuse to work in order to put pressure on an employer. Often, the striking union members picket or demonstrate against the employer outside the place of business by carrying placards and signs. General strikes may also legitimately occur over various issues related to working conditions.[64] Five types of strikes can occur, as shown in Figure 15-13.

Between the late 1940s and the early 1980s, there were hundreds of work stoppages that occurred annually. In 1981, President Reagan ended the air traffic controllers' strike with replacement

FIGURE 15-13 Types of Strikes

Economic Strikes	• The parties fail to reach agreement during collective bargaining.
Unfair Labor Practices Strikes	• Union members leave their jobs over what they feel are illegal employer actions, such as refusal to bargain.
Wildcat Strikes	• Occur during the life of the collective-bargaining agreement without approval of union leadership and violate a no-strike clause in a labor contract. Strikers can be discharged or disciplined.
Jurisdictional Strikes	• Members of one union walk out to force the employer to assign work to them instead of to members of another union.
Sympathy Strikes	• One union chooses to express support for another union involved in a dispute, even though the first union has no disagreement with the employer.

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workers. Since that time, the annual number of work stoppages has dropped significantly.[65] However, the push among many large employers to cut employee benefits, as well as resurging conflicts over contracts in Hollywood, could encourage new strikes in the future.[66]

Many unions are reluctant to go on strike because of the financial losses their members would incur or the fear that a strike would cause the employer to go bankrupt. In some cases, management has shown a willingness to hire replacements, and some strikes have ended with union workers losing their jobs. But management can work with unions to improve employees' working conditions—Bean Suntory Inc. offered many of its workers a new labor contract that focused on decreasing temporary workers and overtime and enhancing work–life balance.[67] See the following "HR Perspective: Labor Agreement Takes Flight" feature for details about contract negotiations at Boeing.

HR PERSPECTIVE

Labor Agreement Takes Flight

The threat of a work stoppage by the machinists' union at Boeing did not stop the company from demanding a labor contract that allows it to reduce costs and improve productivity. Boeing was determining where to produce the new version of its 777 long-range jet at the time of labor negotiations with its union workers in Everett, Washington. Company officials told workers that production of major sections of the new aircraft might be assigned to its facility in South Carolina, a right-to-work state, or possibly at a not-yet-established facility in the U.S. Southwest. Several states were wooing the company with tax incentives and other economic rewards to set up operations. The Washington State production facility is the company's oldest and has traditionally been the hub of manufacturing. But high labor costs are making alternate locations more attractive.

The company's threats to move production to a more labor-friendly location played against the union's threat to reject a contract offer and hit the picket lines. Striking is the union's most potent weapon to convince management that its demands are serious. The 32,000 employees represented by the International Association of Machinists (IAM) have had a contentious relationship with Boeing for many years. Labor peace is critical in an industry with long lead times and significant capital investments. Both the company and union understand the importance of good relations, yet somehow they manage to come to terms only after each side has wielded its power.

Initially, the union workers rejected the proposed contract, which included deep concessions on wages, seniority, and retirement benefits. A number of high-profile local and state civic leaders weighed in and urged the union members to accept the deal. After several additional rounds of proposals and counterproposals, the labor agreement was ratified in a 51 percent to 49 percent vote. The contract will run for eight years, giving both sides a long-term assurance of certainty. Likewise, the state also offered several financial incentives for Boeing to keep the work in Washington. The final contract delivered a critical element to the company, replacing an expensive defined benefit pension plan with a defined contribution 401(k) plan.

Despite the ability to withhold labor by striking against an employer, this tactic is rarely used because it is costly to employees as well as the company. Unions take to the streets only under circumstances that cannot be resolved in any other way. Boeing and the IAM can now work more cooperatively until the next contract in several years.[68] Answer the following questions about Boeing's business decision regarding the location of its operations:

1. How much weight do you think companies should put on tax and other incentives to locate their operations in a particular state or city? Is it a good thing for taxpayers?
2. If you were a member of the IAM, how would you feel about the company's threats to move the jobs elsewhere? After settling the contract disputes, what would be your level of loyalty and commitment to the company?

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Replacement of Workers on Strike Management retains and sometimes uses its ability to simply replace workers who strike. Workers' rights vary depending on the type of strike that occurs. For example, in an economic strike, an employer is free to replace the striking workers. But in an unfair labor practices strike, the workers who want their jobs back at the end of the strike must be reinstated.

15-6f Trends in Union–Management Negotiations

A decline in membership, an increase in business competition, and the availability of more attractive options for handling employee issues have severely weakened interest in unions. These realities have encouraged unions in both the public and private sectors to make more concessions when negotiating with management. There has even been interest in cooperative arrangements between labor organizers and companies so that both parties achieve success.

15-7 Union–Management Cooperation

The adversarial relationship that naturally exists between unions and management may lead to strikes and lockouts. However, such conflicts today are relatively rare. Even more encouraging is the recognition on the part of some union leaders and employer representatives that cooperation between management and labor unions offers a useful route if organizations are to compete effectively in the global economy.[69]

During the past decade, firms have engaged in organizational and workplace restructuring in response to competitive pressures in their industries. Restructurings have had significant effects such as lost jobs, changed work rules, and altered job responsibilities. When restructurings occur, unions can take a number of approaches, ranging from resistance to cooperation. More successful organizational restructurings occur when unions have been able to obtain information and share that information with their members to work constructively with the company management at various levels.

15-7a Employee-Involvement Programs

It seems somewhat illogical to suggest that union–management cooperation or involving employees in making suggestions and decisions could be bad, yet some decisions by the NLRB appear to have done just that. Some historical perspective is required to understand the issues that surrounded the decisions.

In the 1930s, when the Wagner Act was enacted, some employers formed sham company unions, coercing workers into joining them to keep legitimate unions from organizing the employees. As a result, the Wagner Act prohibits employer-dominated labor organizations. These prohibitions were enforced, and company unions disappeared. But the use of employee-involvement programs in organizations today has raised new concerns along these lines.

Because of the Wagner Act, employee-involvement programs set up in past years may be illegal, according to an NLRB decision dealing with Electromation, an Elkhart, Indiana, firm. Electromation used teams of employees to solicit other employees' views about such issues as wages and working conditions. The NLRB labeled these teams *labor organizations,* in line with Wagner Act requirements. It further found that the teams were dominated by management, which had formed them, set their goals, and decided how they would operate. The results of this and other decisions have forced many employers to rethink and restructure their employee-involvement efforts.

Federal court decisions have upheld the NLRB position in some cases and reversed it in others. One key to decisions allowing employee-involvement committees and programs seems to be that these entities should not deal directly with traditional collective bargaining issues such as wages, hours, and working conditions. Other keys are that the committees should be composed primarily of workers and that they have broad authority to make operational suggestions and decisions.

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Affinity groups
Groups for employees with a common interest or characteristic

Companies should keep these restrictions in mind when establishing **affinity groups** for employees with a common interest or characteristic. Affinity groups are usually built around protected status factors such as race, gender, or religion. While affinity groups can be established and encouraged to allow sharing among employees, companies should not seek recommendations about any workplace conditions from the group. It should also be clear that members of the group do not represent interests of other employees; they speak only for themselves.[70]

15-7b Unions and Employee Ownership

In some situations, unions have encouraged workers to become partial or full owners of the companies that employ them. These efforts were spurred by concerns that firms were preparing to shut down, merge, or be bought out. Such results were likely to cut the number of union jobs and workers.

Employee stock ownership plans (ESOPs) for union members have even become popular. Such programs have been successful in some situations because members have purchased all or part of an organization. However, such programs might undermine union support by creating a closer identification with the concerns and goals of employers, instead of union solidarity.

15-8 Resolving Disputes

LO5 Define a grievance and identify the stages in a dispute resolution procedure.

Complaint
Indication of employee dissatisfaction

Grievance
Complaint formally stated in writing

Employee dissatisfaction is a potential source of trouble for employers, whether it is expressed or not. Therefore, it is important that employees have an outlet to register dissatisfaction. A **complaint**, which is merely an indication of employee dissatisfaction, is one outlet. If an employee who is represented by a union believes that the company has taken an action contrary to the collective bargaining agreement, and submits it in writing, then that complaint becomes a grievance. A **grievance** is a complaint formally stated in writing.

Management should address both complaints and grievances because they highlight possible issues with workers and potential problems within the workforce. Without a **grievance** procedure, management may be unaware of employee concerns and unable to respond appropriately. Therefore, a formal grievance procedure provides a valuable communication tool for organizations, whether a union is present or not. A wide variety of grievance procedures and dispute resolution approaches are used to address employee dissatisfaction, particularly in union-free workplaces. For instance, alternative dispute resolution techniques such as mediation, panel assessments, open-door policies, and peer reviews can be effective. Those processes are discussed in Chapter 14. When employees are represented by a union, a formal grievance process, which usually ends in arbitration, is used to resolve problems.[71]

The typical division of responsibilities between the HR unit and operating managers for handling grievances varies considerably from one organization to another, even among unionized firms. The HR unit usually has more general responsibilities. Managers typically attempt to prevent and resolve grievances in order to maintain work unit harmony. Grievance resolutions may constrain future management decisions and actions, so it is important that managers actively participate in the process and handle grievances as quickly and professionally as possible.

15-8a Grievance Procedures

Grievance procedures
Specific steps used to resolve grievances

Grievance procedures are specific steps used to resolve grievances between employees and employers. Many times, first-line supervisors who are closest to a problem act as a primary problem solver in employee grievance cases. However, supervisors can be distracted by other work matters and may even be the subject of an employee's grievance. Consequently, grievances need to be handled with a specified resolution approach so that problems are appropriately resolved.

Union Representation in Grievance Procedures A unionized employee generally has a right to union representation if the employee is being questioned by management and if discipline

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may result. If these so-called *Weingarten rights* (named after the court case that established them) are violated and the employee is dismissed, he or she usually will be reinstated with back pay. Employers are not required to allow nonunion workers to have coworkers present in grievance procedure meetings. However, employers may voluntarily allow such presence.[72]

15-8b Steps in a Grievance Procedure

Grievance procedures can vary based on what is negotiated in the collective bargaining agreement. At each stage of the process, the goal is to resolve the issue and not proceed to the next step. Figure 15-14 shows a typical grievance procedure, which consists of the following steps:[73]

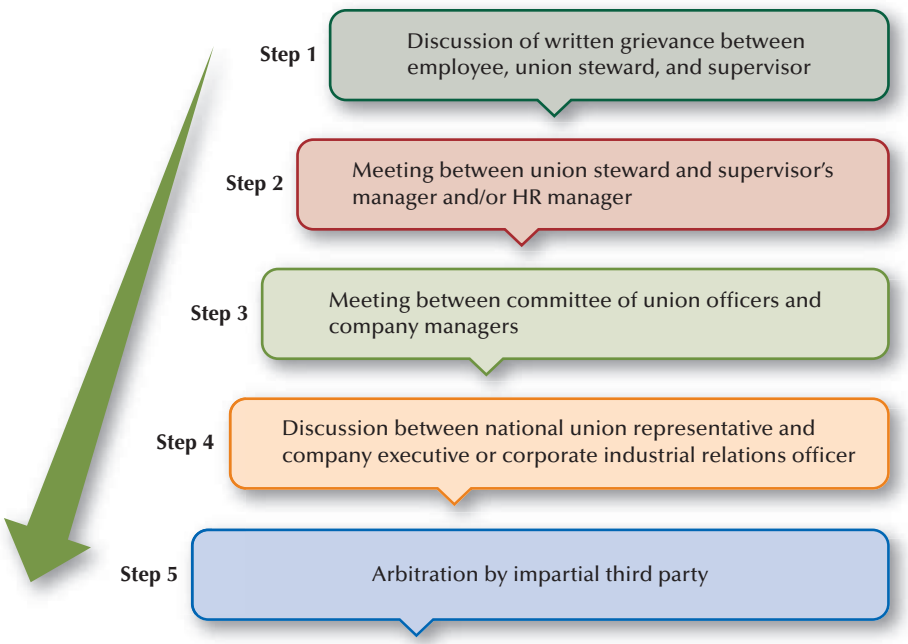
1. The employee discusses the grievance with the union steward (the representative of the union on the job) and the supervisor.
2. The union steward discusses the grievance with the supervisor's manager and/or the HR manager.
3. A committee of union officers discusses the grievance with appropriate company managers.
4. The representative of the national union discusses the grievance with designated company executives or the corporate industrial relations officer.
5. If the grievance is not solved at this stage, it goes to arbitration. An impartial third party may ultimately dispose of the grievance.

Grievance arbitration
Means by which a third party settles disputes arising from different or conflicting interpretations of a labor contract

Grievance arbitration is a means by which a third party settles disputes arising from different or conflicting interpretations of a labor contract.[74] This process should not be confused with contract or issues arbitration, discussed earlier, in which arbitration is used to determine how a contract will be written. The U.S. Supreme Court has ruled that grievance arbitration decisions issued under labor contract provisions are enforceable and generally may not be overturned by the courts. In essence, the arbitrator has the final word on the decision. Grievance arbitration includes many topic areas, with discipline and discharge, safety and health, and security being common concerns.

In conclusion, labor laws impact the relationship between companies and their workers, whether a union represents employees or not. Managers and HR professionals strive to create a

FIGURE 15-14 Steps in a Typical Grievance Procedure



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work environment that is productive, fair, and respectful. Taking steps to identify and address worker concerns can set the stage for positive interactions and outcomes for employers and employees alike.

SUMMARY

- A union is a formal association of workers that promotes the interests of its members through collective action.
- Workers join unions primarily because of management's failure to address organizational and job-related concerns.
- In the early 1990s, unions fought difficult battles to overcome powerful companies and earned the right to organize.
- The history of unions in the United States indicates that they primarily focus on wages, hours, and working conditions.
- In the United States, current union membership as a percentage of the workforce is down dramatically, being less than 12 percent of the civilian workforce.
- Unions in general have experienced a decline in membership because of geographic, industrial, and workforce changes.
- In attempts to grow, unions are targeting professionals, low-skilled workers, and contingent and part-time workers.
- Public-sector unions have recently come under attack, and some states have limited their power.
- Three laws provide the foundation of labor law and the legal basis for labor relations today: the Wagner Act, the Taft-Hartley Act, and the Landrum-Griffin Act.
- The Wagner Act was designed to protect unions and workers, the Taft-Hartley Act restored some powers to management, and the Landrum-Griffin Act was passed to protect individual union members.
- Issues addressed by the different acts include unfair labor practices, national emergency strikes, and right-to-work provisions.
- The NLRB has issued a number of controversial rulings that impact both union and union-free workplaces.
- The unionization process includes an organizing campaign, authorization cards, a representation election, certification and decertification, and contract negotiation through collective bargaining.
- Collective bargaining occurs when management negotiates with representatives of workers over wages, hours, and working conditions.
- The issues subject to collective bargaining fall into three categories: mandatory, permissive, and illegal.
- The collective bargaining process includes preparation and initial demands, negotiations, and settlement and contract agreement.
- When an impasse occurs during bargaining, work stoppages through strikes or lockouts can be used to pressure the other party.
- Union–management cooperation has been beneficial in many situations, although care must be taken to avoid violations of NLRB provisions.
- Grievances express workers' written dissatisfactions or differences in contract interpretations.
- A grievance procedure begins with the first-level supervisor and may end—if the grievance is not resolved along the way—with arbitration by a third party.
- Unions are becoming more global as the world economy expands, and global labor federations are expanding, despite differences in approaches.

CRITICAL THINKING CHALLENGES

1. Discuss the following statement: If management gets a union, it deserves one.
2. Suppose a coworker just brought you a union leaflet urging employees to sign an authorization card. What questions would you ask of the union supporter? What may happen from this point on?
3. As the HR manager, you have heard rumors about potential efforts to unionize your warehouse employees. Use the Employment Law Information Network (www.elinfonet.com/human-resources/Union-Avoidance) website to develop a set of guidelines for supervisors if they are asked questions by employees about unionization as part of a "union prevention" approach.
4. Several states have limited public-sector union power. What are some reasons for lawmakers taking this stand? What are the advantages and disadvantages of workers in the public sector belonging to labor unions? How does this impact taxpayers?
5. There has been some discussion among the employees in your company's insurance claims processing unit about forming a union. Company management has asked you to research existing labor agreements in the industry. You utilize the Department of Labor's Office of Labor-Management Standards website and access a collective bargaining agreement from the Online Public Disclosure Room (http://www.dol.gov/olms

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/regs/compliance/rrlo/lmrda.htm). You find the contract between the American National Insurance Company and the United Food and Commercial Workers. The UFCW is the union your employees are talking to, so you want to see how they have worked with other employers. You review the contract and highlight points that you think are interesting and notable.

A. Assess the management rights clause. Has the company retained important rights, or does it appear that the union has substantial power to direct business operations? Are there additional rights you think should be retained by the company? Has the union included language to protect its own security and interests?

B. Evaluate the compensation and benefits that employees receive. Is paid time off adequate or overly generous? Do employees receive generous retirement benefits? What is your overall evaluation of how "tough" the union is likely to be if your employees elect it as a representative?

CASE Interest in Student Unionization on the Rise

While no one would argue that college football is "big business" on many campuses, a decision made by the NLRB a few years ago might have led players to be treated as employees first—and students second. Athletes on scholarship at Northwestern University in Chicago asked the NLRB to determine their right to organize a labor union. Their rationale was that individuals often spend a majority of their time on the football field doing the required "work" that it takes to be an outstanding player (well over 40 hours a week in many cases), as opposed to completing their schoolwork. The athletes also hoped to negotiate some of the extensive costs associated with attending Northwestern, including health benefits, travel for home visits, utility expenses, mobile phone bills, and so forth.

The ensuing decisions were conflicting. An initial ruling by the regional director of the NLRB allowed college athletes on scholarship to organize at private universities. However, the full labor board in Washington, DC, overturned the regional director's decision, claiming that such a move does not "…promote stability in labor relations across the league." The board therefore avoided specifying that players on football scholarships are actually employees who are covered by the National Labor Relations Act. The NLRB in a separate and subsequent ruling asserted that certain rules found in the Northwestern team handbook were "unlawful" because they unfairly controlled players' speech and expression. These cases indicate that college football players remain students rather than employees who are eligible to form a labor union. If they play at private institutions, however, they may enjoy certain private-sector rights.

But the issue of unionization at college campuses continues to gain steam, even though public institutions do not fall under the purview of the NLRB. In a case involving individuals attending Columbia University, the NLRB ruled that graduate students employed at private universities, as well as undergraduate students who are given some teaching-related duties, are considered employees and can seek union representation; graduate students at the school voted overwhelmingly to unionize. In a hotly contested voting process, a majority of graduate students at Harvard University also decided in favor of forming a union. Further, Richard Griffin Jr., General Counsel for the National Labor Relations Board, wrote a memo indicating that scholarship football players and students functioning in various assistant, intern, and resident roles at private institutions of higher education should be able to seek union representation. While the remarks made in the memo are not legally binding, they could encourage students at other private colleges and universities to seek out union support. However, changes to the administration and the makeup of the NLRB may reverse some of these trends.[75]

QUESTIONS

1. What are your opinions about the push for unionization among student athletes and graduate students at private universities and colleges? Do you think they have a strong case?
2. Do you think that unionization at private schools would create any unfair advantages with regard to recruiting talented athletes and students? What should officials at public and private schools do to mitigate some of these potential disparities?

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SUPPLEMENTAL CASES

Driving Away the UAW

The case explores how a majority of employees at a Volkswagen plant in Chattanooga, Tennessee, voted not to join the United Auto Workers. (For the case, visit MindTap® at www.cengage.com/login.)

Teamsters and the Fraternal Order of Police (FOP)

This case discusses how unions sometimes compete to represent workers and explores experiences at the Denver Sheriff's Department. (For the case, visit MindTap® at www.cengage.com/login.)

The Wilson County Hospital

This case deals with labor disputes in a unionized hospital. (For the case, visit MindTap® at www.cengage.com/login.)

Walmart and Union Prevention

This case covers Walmart's efforts to stay nonunion. (For the case, visit MindTap® at www.cengage.com/login.)

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CHAPTER 16

Global Human Resource Management

Learning Objectives

After you have read this chapter, you should be able to:

LO1 Define forces impacting global trade.

LO2 Discuss three global business approaches.

LO3 Compare three types of international staffing assignments.

LO4 Identify typical international compensation practices.

LO5 Compare labor union issues in various countries.

LO6 Define four important aspects of developing leaders for a global organization.

WHAT'S TRENDING IN GLOBAL HUMAN RESOURCE MANAGEMENT

As the world shrinks due to technological and economic advances, the practice of HRM must evolve to keep pace. HR professionals, whether operating only in one country or across borders, need to be aware of what is happening around the globe. Here's what's currently trending in the area of global human resource management:

1. The graying of the workforce is not a uniquely American problem. Countries throughout the world face serious issues related to the aging workforce, loss of talent, and the burdens on social systems as workers retire. Immigration flexibility and other creative solutions may be needed to address these societal problems.
2. Economic volatility and political uncertainty create unpredictable conditions for organizations. Disruptions in the European Community, including Brexit, impact many organizations whose customers, suppliers, and/or employees live and work under conditions that can lead to unstable employment.
3. Workers are seeking jobs with organizations that offer a compelling purpose to their work and show a commitment to employee well-being. Now more than ever, organizations must consider the ways in which they treat employees and understand that worker mobility can result in high turnover if they do not provide a welcoming environment.
4. Leaders and workers alike are expressing dissatisfaction with traditional performance management processes. Finding new and better ways to provide valued performance feedback to workers helps an organization thrive and helps employees feel fulfilled in their jobs.
5. Top people challenges reported by global leaders include employee engagement, succession management, and employee retention. HR-related issues now occupy the minds of leaders in global companies and drive more business decisions than in the past.

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HEADLINE

Big, Bigger, Biggest

Why would the biggest company in the world want to grow even bigger? Leaders of Walmart decided that the best way to grow their international business was to acquire the Indian e-commerce retail giant, Flipkart. While Walmart generally grew its domestic business to over $500 billion by direct investment in thousands of smaller towns in the United States, the retail company has struggled to develop a substantial online presence.

India's growing population and increasing economic health make it a very attractive market for retail companies. Only a small percentage of retail sales in India currently come from online transactions. However, this number is expected to grow rapidly in the coming decade. Walmart has established only a small brick and mortar presence in India, and those stores are only wholesale operations not geared toward the general shopping public. Walmart is betting that the early entry into online sales will provide it with a competitive advantage as more Indian customers begin to shop online.

Walmart was able to acquire Flipkart for $16 billion despite an attempt by Amazon to purchase the company. Coincidentally, Amazon's huge online presence raised antitrust and anticompetitiveness questions by Indian authorities, so Walmart's lack of online business actually worked in its favor. Flipkart has talent, technology, and market intelligence, along with an agile and innovative culture. These intangible features of the company made it an attractive acquisition for Walmart, a company that boasts financial strength, retail expertise, and supply chain knowledge. Walmart will now compete with Amazon for online sales in this growing market. This competition is likely to result in a growing supply chain infrastructure and a large number of jobs.[1]

Bloomberg/Getty Images

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Global trade is now a fact of life as most organizations interact with partners in other countries. The flat world means that contemporary organizations are either buying or selling goods or employing workers from around the world. Organization leaders must be both capable and skilled to navigate the demands of operating in an international market. Many factors influence the ease of moving goods and workers across borders, and the situation requires constant monitoring to modify business practices.

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LO1 Define forces impacting global trade.

16-1 Managing in a Global Context

Managing a company requires leaders to be skilled at coordinating the efforts of all workers and functions to ensure success. When an organization operates in multiple countries, managing the various functions becomes even more complex. The different legal and social contexts create challenges that can make it difficult to ensure that operations run smoothly, ethically, and effectively. While it might seem less complicated to simply limit an organization's reach to a domestic market, the rewards for going global make it advantageous to expand beyond the home market.

16-1a Economic Interdependence

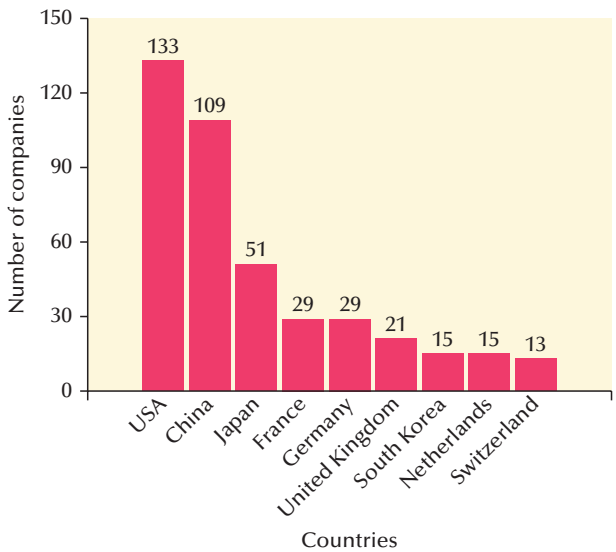
The world has become much smaller with the advent of technologies that allow for easy communication and sharing of information. Open border policies in many nations encourage the exchange of goods and services across nations. The Organisation for Economic Cooperation and Development (OECD) is a consortium of 30 democratic nations that aims to foster sustainable international trade and economic development. Companies seeking to expand beyond their home country can review OECD guidelines on operating internationally to become a multinational enterprise.[2] A **multinational enterprise (MNE)**, sometimes called a *transnational enterprise*, is an organization that has facilities and other assets in at least one country other than its home country.

Multinational enterprise (MNE)
An organization that has facilities and other assets in at least one country other than its home country

Globalization has been increasing in the past 20 years, and now most countries participate in the world economy beyond their own domestic markets.[3] Many countries are home to MNEs, although there are several countries with a great many of these organizations as shown in Figure 16-1. The United States and China top the list for hosting the most MNEs, but other nations such as Japan and EU countries also play an important role in worldwide trade.

Many economic factors are linked to different political, legal, cultural, and economic systems. Companies may decide to expand globally as a strategy to reduce costs by finding cheaper labor in developing countries. Critics of globalization cite the extremely low wage rates paid by some international firms and the substandard working conditions that exist in some underdeveloped countries–for example, those found in H&M and Gap clothing factories in Asia.[4] Some global

FIGURE 16-1 Countries with Most Global 500 Companies as of November 2017



Source: https://en.wikipedia.org/wiki/Fortune_Global_500.

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employers have made efforts to ensure that foreign factories adhere to higher HR standards, but others have not. The ongoing debate about using lower-cost labor has many angles since work sent to these countries may help improve overall conditions for their citizens. Companies that consider expanding globally should consider the balance between profits and corporate social responsibility, as well as the impact on the host nation and their own firm's reputation.[5]

Firms in the United States, Europe, and elsewhere are accustomed to relatively stable political and legal systems. Although elected officials may change over time, the well-established legal systems offer continuity and consistency for global firms. However, many nations function under turbulent and varied legal and political systems. Countries such as Venezuela, Cuba, and Zimbabwe have been run by individuals who have repressed their economic and social development, making them unattractive for global organizations.[6]

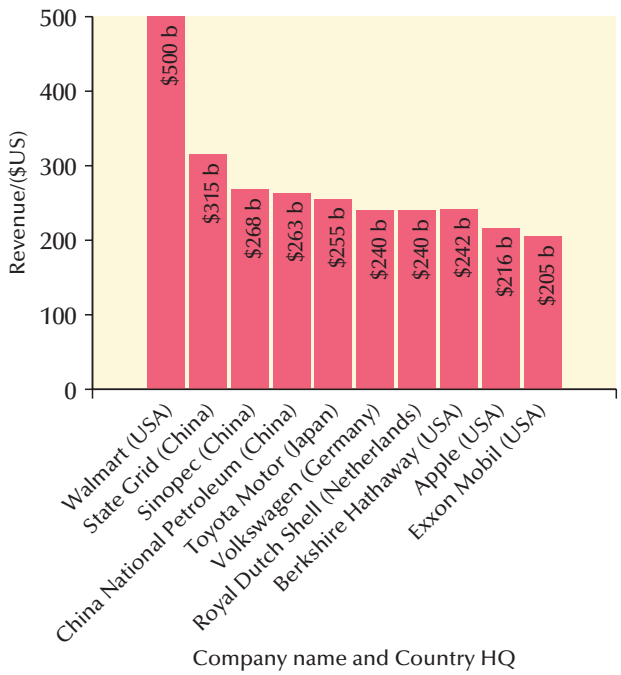
STRATEGY

With the economies of the world converging over the years, it is almost impossible not to participate in international trade. Global investment flows in 2018 are projected to be nearly $2 billion, with major economic groups such as G20 strongly influencing international trade and investment levels.[7] While an organization may not establish operations or a sales function outside of its borders, many supplies may be purchased from global suppliers, and workers may be employed around the globe. Some organizations focus strategically on being MNEs. Many of the largest MNEs are companies in the energy sector, transportation, and diversified industries, as seen in Figure 16-2. As highlighted in the chapter opening case, the world's largest company is Walmart, now growing due to its recent acquisition.

16-1b Global and Regional Alliances

The leaders of nations sometimes find that the prospects for their own countries improve when they actively work with other nations to foster free trade and fair commerce. This can lead to trade agreements or alliances between countries. A number of important alliances exist throughout the world.

FIGURE 16-2 Top 10 Fortune Global Companies—2017



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North American Free Trade Agreement—1994 (NAFTA) This agreement promotes free trade between Canada, Mexico, and the United States. Gross domestic product of these combined countries exceeds $20 trillion and, therefore, commerce without tariffs or restrictions has become important to all three nations. Some critics say that it has encouraged employers to relocate jobs to Mexico where pay is much lower than in the United States. Conversely, cheaper food from Mexico has kept U.S. grocery prices lower. The NAFTA agreement is subject to renegotiation due to an Executive Order issued in 2017. Companies with operations throughout the North American continent will need to respond to any changes brought about by a revised agreement.[8]

European Union The 28 member states of the European Union created a single internal market that allows for the free movement of goods and people across the borders of these countries. The Union is the largest economic entity in the world and accounts for nearly one-fourth of the world's economy. Since 1999, 19 members have shared a common currency, the Euro. Within the Schengen Area, passport controls have been eliminated, and citizens of the Schengen nations can easily move between the countries.[9]

While the member states have generally cooperated well, in 2016 citizens of the United Kingdom voted to leave the Union. This process, dubbed "Brexit," will result in the UK countries returning to individual economies. The negotiations are complex and ongoing, with the final outcome yet to be determined. The Brexit process may mark a change in the relationship among the EU nations, as some members (like Germany) have strong economies, while others (like Greece and Italy) have struggled to remain economically healthy.[10]

Additional Proposed Alliances The Transatlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership (TPP) are additional alliances that have been proposed. U.S. foreign policy officials continue to evaluate the merits of joining these multinational groups or favoring a country-by-country trade agreement.

The leaders of each nation determine what are the most beneficial relationships with trading partners to improve their own economic situations. Sentiments can change from being open to international trade to closing borders and/or instituting tariffs and other trade barriers in a protectionist approach. The importance of worldwide commerce is a fact of life in modern times, and companies continue to assess the most appropriate ways in which they can benefit from participating in a global economy.[11]

16-1c Population & Demographic Trends

Population growth has been declining in many developed nations around the world. A particularly important aspect of population demographics is the overall aging of the population, with people over the age of 65 becoming a larger share of the world population, and people under the age of 25 remaining flat or declining. These trends will have implications for government leaders in many countries as the available workforce shrinks and the financial requirements to provide for older citizens grows.[12]

Migration of working age individuals from less-developed countries to more-developed countries can bolster economic growth and progress. Figure 16-3 shows the net migration (people moving into a country minus those leaving the country) for each continent. Dramatic differences can be seen in the migration patterns between Asia and North America. Immigration policies instituted by each nation can significantly impact the inflow of people into a country and, in turn, its economic health.[13] Leaders of MNEs often work with government leaders to help craft immigration legislation that is favorable to their business. Companies also respond to changing demographics by utilizing technology to address workforce and population gaps. The following "HR Highlight: Driving a Revolution" feature describes how automation is being used to help companies compete and better use their human resources.

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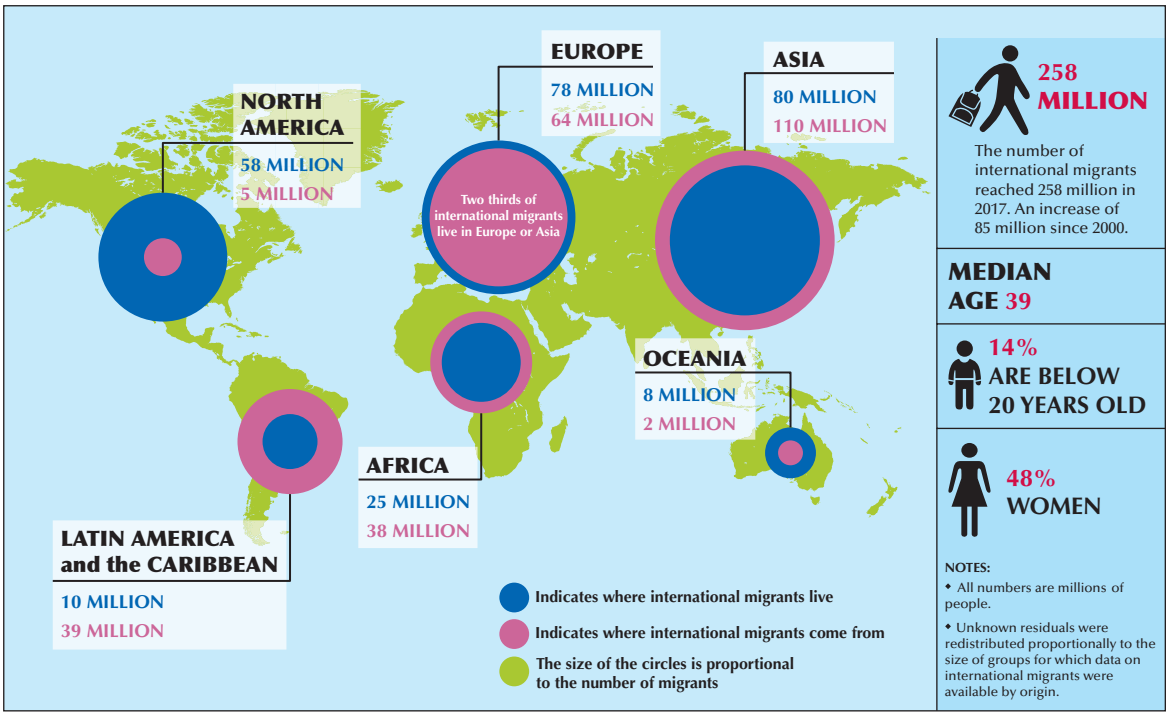
FIGURE 16-3 International Net Migration—2017



Source: https://migrationdataportal.org/themes/international-migrant-stocks.

LO2 Discuss three global business approaches.

16-2 Becoming a Global Company

Organizations that undertake expansion beyond their home country may adopt a number of approaches to broaden their operations worldwide. There is not a single "best way" to expand globally; it depends on an organization's goals and the reasons for globalizing its business. Human resource management will take different forms depending on how global operations are developed.

16-2a Reasons for Global Expansion

Organization leaders may pursue global opportunities for various reasons. In general, businesses seek to gain access to capital, customers, suppliers, and employees.[14] The following are primary reasons for global expansion:

- Diversifying markets and customer base
- Extending the sales life of current products
- Reducing dependence on current markets by spreading risk
- Countering seasonal fluctuations
- Accessing a deeper, more diverse talent pool
- Accessing a cheaper, better supplies/suppliers
- Increasing efficiencies/economies of scale; reduce costs
- Obtaining investment capital

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HIGHLIGHT

Driving a Revolution

Automation is a controversial approach to addressing the shortage of workers in many jobs. However, both workers and companies can benefit from the use of robotics and other assistive technologies. Repetitive tasks that might bore a human worker can easily be assigned to a robot that will never tire of doing the same thing over and over again every day at work. Dangerous jobs are also better performed by automated robots that will not get injured when working in hazardous conditions.

German auto-parts manufacturer Robert Bosch has embraced the use of automation to supplement the work of its 400,000 worldwide employees. Physically demanding jobs are now done by 140 robotic arms that work in tandem with a human worker. The company used no robots as little as 10 years ago. Now, they are increasing output and quality through the selective use of automation. Human workers now perform more complex tasks that require judgment. These higher-value tasks also lead to better-paying jobs for the workers.

Quality checks are conducted by BMW's human workers, who check the work performed by robots in its South Carolina assembly plant. The introduction of automation led to an increase in the workforce from 4,200 to 10,000 workers since the automated assembly system produces far greater numbers of vehicles and helps to increase demand for the luxury vehicles. Creative work requires humans who can study consumer preferences, style trends, and safety requirements to design attractive cars for BMW.

Not all automation has been successful in the automotive industry. Tesla famously struggled with production of the Model 3 car when the company relied too heavily on robots. Errors in production were not identified, which led to bottlenecks in the assembly process. So companies need to carefully assess which tasks are best suited to human workers and which ones are better done by robots.

While automotive manufacturers frequently increase the workforce after adopting automation, the mining industry tells a different story. Since robots can more safely and productively dig ore, many workers' jobs have been eliminated. Garment manufacturers are also finding that automation can replace, rather than augment, the human workforce.

In general, the use of automation makes the economy more efficient as productivity and quality improve. This leads to less expensive goods and services, which in turn creates greater demand and more work. Retraining workers for more complex and higher-value tasks is an ongoing challenge that companies around the world face as they drive the automation revolution.[15] Consider the advantages and disadvantages of using automation in industry and respond to the following questions:

1. How much responsibility should an employer have for ensuring that workers displaced by automation receive retraining? How much responsibility rests with government to assist these displaced workers?
2. What steps would you recommend to employees to ensure that their skills remain up-to-date and relevant? How would you maintain your own knowledge and skills in a time when changing technologies will likely alter your job options?

In addition to initiating a global expansion for business reasons, organization leaders typically adopt a particular worldview (or orientation) of the international marketplace. Those orientations are explained in the following section.

16-2b International Orientations

Organizations approach the international market with a particular mind-set or orientation. These orientations reflect the emphasis placed on the home country versus other countries and how they are viewed. A commonly used framework is the EPRG model that outlines the following worldviews[16]:

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Ethnocentric
A strong emphasis on home-country practices

Polycentric
A strong emphasis on each country as a unique environment

Regiocentric
Countries are considered as aggregates within a region

Geocentric
An emphasis on utilizing the best ideas and practices from anywhere in the world

- **Ethnocentric**—A strong emphasis on the home-country practices, policies, and culture. Home-country approaches dominate and operations in other countries are typically copied from the home country. The organization operates in a standardized fashion across all countries.
- **Polycentric**—A strong emphasis on each country as a unique environment. Practices, culture, and policies rely heavily on what is "normal" in each country. The organization operates in a local fashion with practices varying widely among operations in different countries.
- **Regiocentric**—Rather than emphasizing each individual nation's uniqueness, countries are considered as aggregates within a region. European Union, North America, and Asia might represent regions where practices and policies are standardized but differ across the regions. This is a blending of the ethnocentric and regiocentric orientations.
- **Geocentric**—An emphasis on utilizing the best ideas and practices from anywhere in the world. The idea is to create global mind-set that adopts ideas without regard to their origin. This approach is truly "global" in its application.

The orientation adopted by an organization is likely to change over time as the company expands more fully in the global market. Initially, an ethnocentric approach may be adopted as the organization leaders may be most familiar with the home-country practices and culture. As the organization grows and matures globally, a more geocentric approach may be adopted. There is no single best approach; it depends on the organizational goals and business strategy.

16-2c Global Business Approaches

Business leaders choose to enter the international market in different ways, from limited investment to full investment as shown in Figure 16-4.[17] These various business approaches require different levels of human resource management involvement. In general, non-equity approaches demand little from the headquarters HR staff while equity approaches require more assistance from the HR staff.

Non-equity business forms include importing and exporting, licensing & franchising, and piggybacking. These business forms provide a low-cost entry into new, global markets. The organization may begin global expansion with limited investment and risk to determine if operating outside of the home market is viable.

Importing and exporting
Buying and selling goods and services outside the home country

Licensing agreement
Organization sells the rights to its products or trademarks to producers

Franchising
Granting the right to use its business model and brand

Piggyback
Arrangements when an organization partners with another firm that sells complementary products or services

Joint ventures
Two or more partners who share ownership and risk in the investment

Merger
Two companies that combine their businesses together to create a new business entity

A common first step in expanding globally is to simply buy and sell goods and services to customers outside of the home country through **importing and exporting**. Sales and marketing employees from the organization are involved in making connections to foreign markets and negotiating contracts. As the business expands internationally, organization leaders may sell the rights to their products or trademarks to producers in foreign markets by creating a **licensing agreement**. For example, the Walt Disney Company generates over $1 billion annually through licensing the rights to produce Disney characters, Star Wars-related merchandise, and many other items related to its brand.[18] **Franchising** is an arrangement whereby a business can be replicated and expanded by granting the right to use its business model and brand. In return, the franchisee pays a fee to the franchisor. These arrangements are most common in fast food companies and other service industries. **Piggyback** arrangements are when an organization partners with another firm that sells complementary products or services. The partners are not competitors; therefore, they can both generate higher sales by promoting each other's products. For example, a food products company might partner with a beverage company to cross-sell their products.

Equity business forms include joint ventures, mergers & acquisitions, and direct investment. Organizations that undertake more serious international expansion may determine that financial and human investments are needed to truly achieve their international objectives. These business forms present greater risk to the firm and often involve more human resource considerations.

Joint ventures are created between two or more partners who share ownership and risk in the investment. Each partner retains its original business identity. Joint ventures are often created for a specific project or product and allow for transferring knowledge or technology. For example, Toyota and Mazda have formed a joint venture to build a final assembly plant for their automobiles in the United States.[19] A **merger** is two companies that combine their businesses together to create a new

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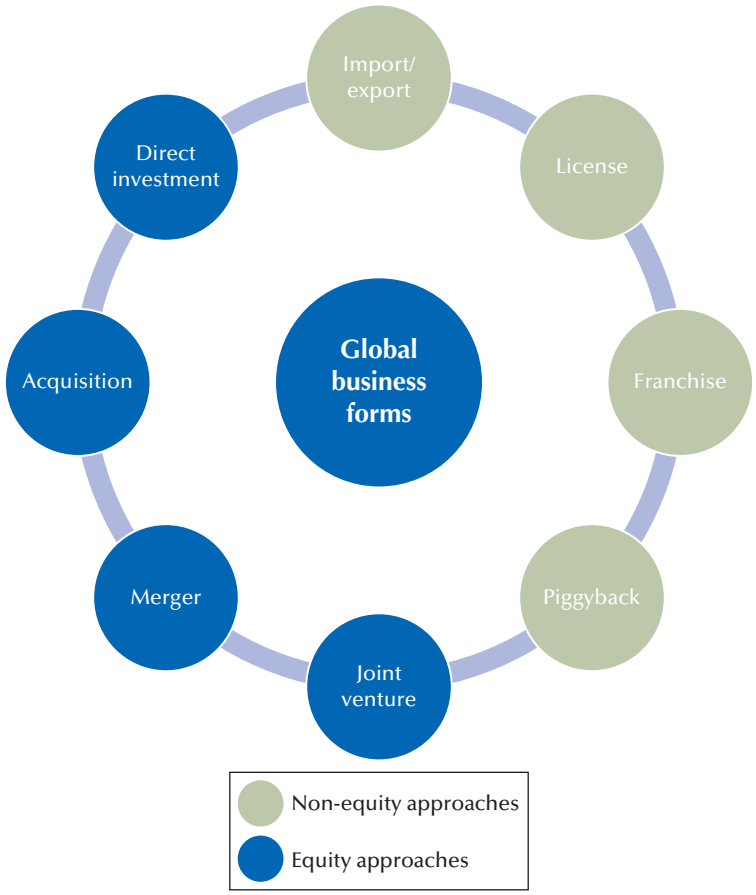
FIGURE 16-4 Global Expansion Methods



Acquisition
One company being bought by another; which typically results in the acquired company being folded into the acquirer's business

Foreign direct investment
When a company takes a controlling ownership interest in a business in another country

Outsourcing
Transferring the management and performance of a business function to an external service provider

Offshoring
A company's relocation of a business process or operation from one country to another

business entity. An **acquisition** is one company being bought by another, which typically results in the acquired company being folded into the acquirer's business. For instance, Italian candy company Ferrero acquired several candy brands (Butterfinger and Baby Ruth) from Nestle.

Joint ventures, mergers, and acquisitions present special challenges when the partners are headquartered in different countries. Tax regulations, intellectual property laws and practices, and employment-related issues add to the obstacles in bringing together two unique businesses into one operation. Human resource and organization culture aspects often play a key role in the eventual success or failure of these business formations.[20]

Foreign direct investment occurs when a company takes a controlling ownership interest in a business in another country. Establishing an operation in another country, such as the Toyota/Mazda assembly plant is an example of foreign direct investment. These two Japanese companies are investing in the U.S. market by building a facility here. Some countries, like China, require that all foreign direct investment must include a local partner to facilitate knowledge sharing and local employment.[21]

Additional methods of global expansion are outsourcing and offshoring. **Outsourcing** is transferring the management and performance of a business function to an external service provider. Companies outsource to save costs, access special expertise, or supplement their own capabilities. Outsourcing may involve partial ownership of the outsourcing firm or a contractual relationship. Outsourcing is done both in the domestic and foreign marketplaces. **Offshoring**, on the other hand, is a broad term describing a company's relocation of a business process or operation from one country to another. Some aspects of the business are moved overseas, usually as a cost-saving strategy. All offshoring represents international business and ownership of the offshore firm can take any of the forms explained previously.

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16-2d Managing Across Cultures

Culture
Shared mind-set of a group of people that distinguished them from others

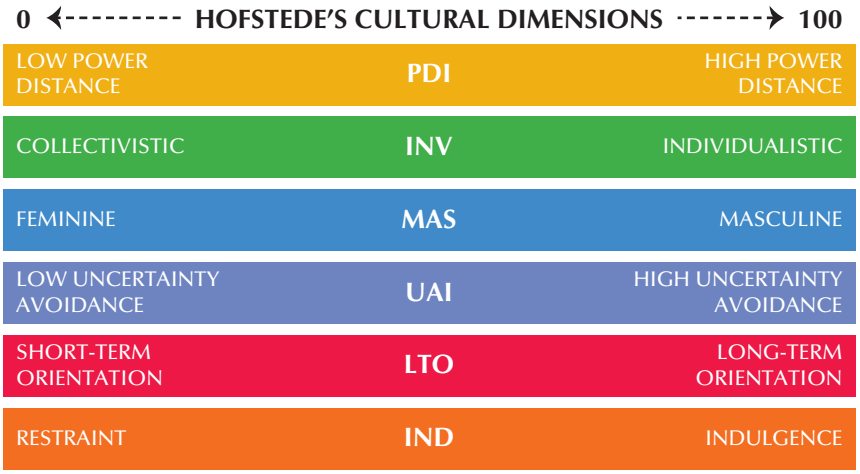
Diverse cultures represent another important concern affecting global HR management. Countries have individual cultures that reflect their history, values, and practices. **Culture** is the shared mind-set of a group of people that distinguished them from others. There are certainly differences not only between the cultures of nations but also within a nation. This is becoming more pronounced as worldwide migration increases, and individuals from different cultures settle in the same nation. Countries like Germany and Sweden, which accepted many Muslim refugees, are now redefining their national cultures.[22]

One widely-used model to classify country cultures was developed by Dutch scholar, Geert Hofstede. His research on more than 100,000 IBM employees in over 50 countries led to the development of a six-factor model (Figure 16-5) on which countries can be assessed.[23] Scores on each of the dimensions range from 1 to 100 and indicate the level of each dimension. Countries can then be compared along these dimensions. This is a useful step in analyzing the risks of international expansion and may help in determining the most appropriate countries to include in a global strategy.

The *power distance index (PDI)* refers to the inequality among the people of a country. High power distances lead to a hierarchical society, while low power distances are more egalitarian. The *individualism versus collectivism (IDV)* is the extent to which people in a society prefer to act as individuals or as members of a group. High scores on this dimension reflect emphasis on "I," while low scores reflect an emphasis on "We." The *masculinity versus femininity (MAS)* dimension refers to the preference for competition versus cooperation. High scores indicate a more aggressive, competitive culture; low scores indicate a more nurturing, cooperative culture. *Uncertainty avoidance (UAI)* is the level of comfort people in the society feel regarding ambiguity and the future. High scores mean that the society will try to control behavior as much as possible, while low scores mean a more relaxed outlook. The *long-term orientation (LTO)* dimension refers to the emphasis on the future or the present and past. Societies high in LTO value thrift and persistence, and those favoring short-term orientation will respect fulfilling social obligations. Lastly, the *indulgence versus restraint (IND)* dimension reflects free gratification or behavioral constraint within the society. High scores are found in societies where people are open and free and pursue gratification of their wants and desires. Low scores lead to regulation and suppression of individual desires.

It is important to understand the differences in national cultures when conducting business abroad. Expectations and customs differ greatly between countries. For example, working hours and demands in Japan have resulted in high levels of stress as explained in the following "HR Ethics: Worked to Death"

FIGURE 16-5 Hofstede Model of Country Culture Dimensions



Source: http://www.business-to-you.com/hofstedes-cultural-dimensions.

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HR

ETHICS

Worked to Death

A persistent problem in Japan is the phenomenon of health-related issues related to long work hours. As recently as 2015, 93 worker suicides or attempted suicides were caused by "overwork." An additional 96 workers died as a result of excessive work hours. The problem is so prevalent in Japan that it has even been given a name, "karōshi." Endemic of the culture, long work hours are seen as virtue – a point of worker pride. This has been exacerbated by an ongoing major shortage of workers in Japan. Those individuals who have jobs are being asked to do even more than their predecessors may have been required. And the previously common policy of "jobs for life" is now a situation only 60 percent of workers enjoy.

Over 20 percent of workers in Japan work more than 49 hours per week, with a higher percentage of men than women putting in extra time on the job. Over the past decade, over 750 workers' compensation claims have been filed annually due to brain and heart failure tied to excessive working hours. Recently, businesses agreed to a labor group proposal to limit overtime to 100 hours per month for a worker. While workers in South Korea work even more hours than those in Japan, the problem of *karōshi* seems uniquely Japanese.

Recent high-profile "overwork" deaths have shined a light on this problem. A 31-year-old female reporter for NHK, the state news channel, died of congestive heart failure in 2013 after working 159 hours of overtime with only two days off in the month preceding her death. The Japanese government has undertaken a study of this problem with the hope that some solutions can be found. Consider the ethical implications of doing business in Japan when you answer these questions.[24]

1. If a U.S.-based company was considering opening an operation in Japan, what precautions would you recommend they take to reduce the probability of "overwork" deaths? How might you prepare expatriates for the cultural expectations in Japan?
2. What might the reaction of workers be if you implemented shorter work schedules? How would you change the culture in your organization to be more ethical and humane?

feature. The human resource practices that may be effective in one country may not work well in a country with a different culture. Consider the reward programs, career planning, training, and equal opportunity practices in terms of how national culture will make a difference.

16-2e Global Human Resource Management

Operating in multiple countries requires the HR staff to navigate diverse laws and cultural practices in establishing effective human resource programs. Derived from the organizational strategy and consistent with the international orientation adopted by the company, HR practices must be designed to achieve the best results possible in various environments. Maintaining an appropriate balance between standardization and localization is an ongoing effort.[25]

LEADERSHIP

Significant HR challenges created by global operations include worldwide population trends that will lead to ever greater workforce diversity. As older workers retire and younger workers ascend in their organizations, development efforts will be needed to ensure that new managers are competent. Further, managing talent across multiple countries requires creative solutions. Work can be performed more easily without regard to time or location, leading to a more dispersed workforce. Engaging and motivating workers from a distance creates a new workplace dynamic that HR professionals will need to address.[26]

The global HR function is still relatively new as companies have only recently begun to understand the importance of developing HR practices specifically designed for a global workforce.[27]

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The field is growing, and there are now a number of academic journals dedicated to the study of HR practices for the global marketplace. Further, the World Federation of People Management Associations is a professional association for HR professionals who oversee HR practices in multiple countries. In recognition of the growing importance of global knowledge in HR, the Human Resources Certification Institute (HRCI) now includes both a Global Professional in Human Resources (GPHR), a credential held by over 1,700 individuals, and the Senior Professional in Human Resources–International (SPHRi), a credential held by 900 individuals.[28]

Whether an organization is actively pursuing international business opportunities or is a more passive player in the global market, nearly every organization will be impacted by commerce beyond its home country borders. Human resources professionals should learn about HR demands around the world to adopt effective practices and prepare for opportunities in their own organizations.[29] The following sections will explain several HR functions and the special considerations when operating on a global scale.

LO3 Compare three types of international staffing assignments.

16-3 Global Staffing Strategies

A wide variety of alternatives can be considered when planning for staffing global operations. The optimal solution is to combine the expertise of local employees with organization-specific knowledge of employees from the home country (headquarters). Some countries require that the organization employ a certain percentage of workers from the host country. Staffing global assignments involves making selection decisions that impact (or take place in) other countries. Cost is a major consideration when staffing global assignments, because establishing a business professional in another country can run as high as $1 million for a three-year job assignment. Further, if a business professional quits an international assignment prematurely or wants to transfer home, associated costs can be even greater. Failure rates for global assignments can run as high as 50 percent of those sent overseas.

16-3a Types of Global Employees

Global organizations can be staffed in many ways, including with expatriates, host-country nationals, and third-country nationals. Figure 16-6 shows four strategic HR approaches to international staffing. Each organization will use a staffing model that best fits its culture and strategic goals and follows its international orientation. Each staffing option presents some unique HR management challenges. Tax laws, employment regulations, and local customs all impact hiring in the international market. HR professionals need to be knowledgeable about the laws and customs of each country represented in their workforce.

Expatriate
A citizen of one country who is working in a second country and employed by an organization headquartered in the first country

An **expatriate** (or parent-country national) is a citizen of one country who is working in a second country and employed by an organization headquartered in the first country. Appropriate selection of individuals for expatriate assignment along with substantial predeparture planning and

FIGURE 16-6 Global Staffing Approaches

Home Country Nationals	International Assignees	Host Country Nationals	Third Country Nationals
◆ Citizens living and working in HQ (home) country ◆ Ex. U.S. employee working in the United States	◆ Citizens from HQ (home country) working in host country – expatriate ◆ Ex. U.S. employee working for U.S. company at operation in India	◆ Citizens of country hosting the foreign subsidiary ◆ Ex. Chinese employee working in China for U.S. firm	◆ Citizens of one country working for organization owned by company in third nation ◆ Ex. Chinese employee working in India for U.S. firm

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preparation are necessary for the assignment to succeed.[30] Experienced expatriates can provide a pool of talent that can be used as the firm expands operations into other countries. **Repatriation**, returning the expatriate to the home country, must also be executed well for the organization to capitalize on the benefits of the overseas assignment.[31]

Repatriation
Returning the expatriate to the home country

A **host-country national** is an employee working in their home country for a firm that is headquartered in a different country. For example, McDonald's may hire German workers to manage a restaurant in Berlin. Employing host-country nationals is important for several reasons. One reason is that this clearly conveys the message that the MNE is making a commitment to the host country. Host-country nationals know the culture, politics, laws, and business customs better than outsiders. Additionally, using host-country nationals provides employment in the host country, an important consideration particularly in developing economies. Since compensation levels in developing economies are often lower than those in the home country, the MNE can also save costs by employing host-country nationals. However, the willingness of host-country nationals to support expatriates may depend upon a number of things, including their own cultural similarity and perceived access to higher-status positions in the MNE.[32]

Host-country national
An employee working in their home country for a firm that is headquartered in a different country

Employing third-country nationals can involve complex determinations of legal status and requirements. A **third-country national** is a citizen of one country who is working in a second country for an organization that is headquartered in a third country. For example, Mercedes-Benz may employ an automotive engineer from India to work in its facility in the United States. Staffing with third-country nationals is a truly global approach to human resources and reflects the firm's geocentric orientation. In addition to presenting an attractive employment brand, MNEs must also consider the conditions of employment, quality of life, governance, and attitudes toward people of diverse backgrounds in the assignment country when trying to hire third-country nationals.[33]

Third-country national
A citizen of one country who is working in a second country for an organization that is headquartered in a third country

The fit between the individual and job characteristics is particularly important when dealing with overseas assignments because employees must have the proper personalities, skills, and interpersonal abilities to be effective in the international environment.[34] The selection process for an international assignment should provide a realistic picture of the life, work, and culture to which the employee may be sent. In addition, assessing the candidates' ability to adjust to a new culture, environment, and job assignment are important to achieve good P/E fit for expatriate assignments.[35]

HR managers start by preparing a comprehensive description of the job to be done such as typical responsibilities and work duties. Figure 16-7 shows many key competencies for successful global employees, which include the following:

- *Cultural adjustment*: Individuals who accept foreign job assignments need to be able to successfully adjust to cultural differences.
- *Organizational requirements*: Many global employers find that knowledge of the organization and how it operates is important.
- *Personal characteristics*: The experiences of many global firms demonstrate that the best employees in the home country may not be the best employees in a global assignment, primarily because of individuals' personal characteristics.
- *Communication skills*: Expatriate employees should be able to communicate in the host-country language, both verbally and in writing.
- *Personal and family concerns*: The preferences and attitudes of spouses and other family members can influence the success of expatriate assignments.

For U.S.-based firms, the assignment of women and members of racial/ethnic minorities to international posts involves complying with U.S. EEOC regulations and laws. There can be additional concerns related to posting women and minorities in nations where employment regulations and practices are not well developed and welcoming to a diverse workforce.[36]

16-3b Global Labor Markets

Reshoring
Firms bring jobs that had been offshored back to the home country

Employers in the United States are tapping global labor markets when necessary and offshoring when doing so is advantageous. Over the past decades, many firms expanded in India, China, Indonesia, Romania, Poland, and other countries. However, in 2016 a **reshoring** trend began in

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FIGURE 16-7 Selection Factors for Global Employees

which firms brought jobs that had been offshored back to the United States. Several forces led to this including rising wages in offshore nations, political instability, tarnished brand reputations, and pressure from the federal government.[37]

The use of the Internet has resulted in recruiting in more varied geographic regions. But recruiting employees for global assignments may present problems that require different approaches from those used in the home country. Companies should be clear about foreign travel requirements when recruiting employees because applicants take this into consideration when deciding to pursue employment opportunities. Applicants may self-select out of the hiring process if they are not willing to travel globally for the job.[38] Recruiting processes must also account for variations in culture, laws, and language, as well as the individual preferences of potential workers. Dealing with foreign labor markets can be challenging because recruiting may be regulated and require government approval. Hiring foreign employees in the United States is concerned about hiring illegal immigrants.

Another issue in HR is planning, which is frequently a direct consequence of implementing strategies to move the organization forward. HR planning deals with determining how many people will be needed to execute an organization's specific functions, a key concern in both global and domestic firms. The following "HR Competencies & Applications: Latin American Firms Face Staffing Problems" feature discusses how companies in Latin America face challenges related to HR planning.

LO4 Identify typical international compensation practices.

16-4 Compensation in a Global Organization

The growing world economy has led to an increase in the number of employees working internationally. Therefore, organizations with employees working throughout the world face some special compensation issues. Variations in laws, living costs, tax policies, and other factors must be considered when designing the compensation for local employees and managers, as well as managers and professionals on international assignment. Fluctuations in the values of various currencies must be tracked and adjustments made as exchange rates rise or fall. With these and numerous other concerns, developing and managing a global compensation system becomes extremely complex.

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HR

COMPETENCIES & APPLICATIONS

Latin American Firms Face Staffing Problems

A recent survey of large global Latin American firms headquartered in countries such as Brazil, Mexico, and Argentina showed that many have expanded into international markets through mergers and acquisitions. On average, each of these organizations managed worksites in 13 different nations, with operations frequently located in North America and Western Europe. There is also high interest for continued expansion into current and new markets. Despite these exciting trends, the survey results suggested that the firms faced a number of staffing challenges that potentially hurt their ability to grow in new regions.

The survey found that mergers and acquisitions were one of the most troubling issues, and determining how to function in different cultures was identified as one of the key difficulties. However, Latin American firms may be better able to deal with these issues given that they have experience with challenging political, legal, and economic conditions. Getting good workers and figuring out how to manage the flow of talent were also key problems that these companies faced. HR professionals in these organizations will need to determine how to most effectively manage recruiting efforts and succession plans so that people are hired and placed into the right jobs at the proper time; promotions and other placement issues will also have to be planned well to ensure that mergers and acquisitions are successful. The following considerations can help firms plan HR staffing in the global environment:

- *Pay attention to the firm's HR strategies.* Understand where and how a company plans to expand so that the right HR strategies are considered.
- *Develop consistent expansion plans.* An organization's global expansion plans should be similar across the board to ensure consistency.
- *Think about succession plans.* Have an idea about how exiting employees will be replaced with current staff so that vacancies can be filled quickly.
- *Partner with HR to lower risks.* The HR department needs to have a seat at the risk management table so that staffing and other workplace issues can be explored strategically.[39]

The ability to manage international expansion is certainly an important global competency within the HR profession. If you were given the responsibility of managing mergers and acquisitions in a global firm:

1. How would you focus HR leaders on the development of positive strategies for expansion? What HR issues do you think deserve the most attention?
2. What other steps would you take to help a global company expand into new markets?

KEY COMPETENCIES: Global & Cultural Effectiveness (Behavioral Competency) and Organization (Technical Competency)

16-4a Pay around the World

One significant global issue in compensation design is how to compensate employees from different countries. Local wage scales vary significantly among countries, and there are differences between developed nations where employees earn a high level of pay and developing nations where compensation rates are a fraction of those in developed nations. Costs-of-living standards vary a great deal between nations, and compensation differences may reflect differences in purchasing power among nations. Annual pay differences can be dramatic as shown in Figure 16-8. Pay is substantially higher in Scandinavian countries than in Mexico and many eastern European nations. Some

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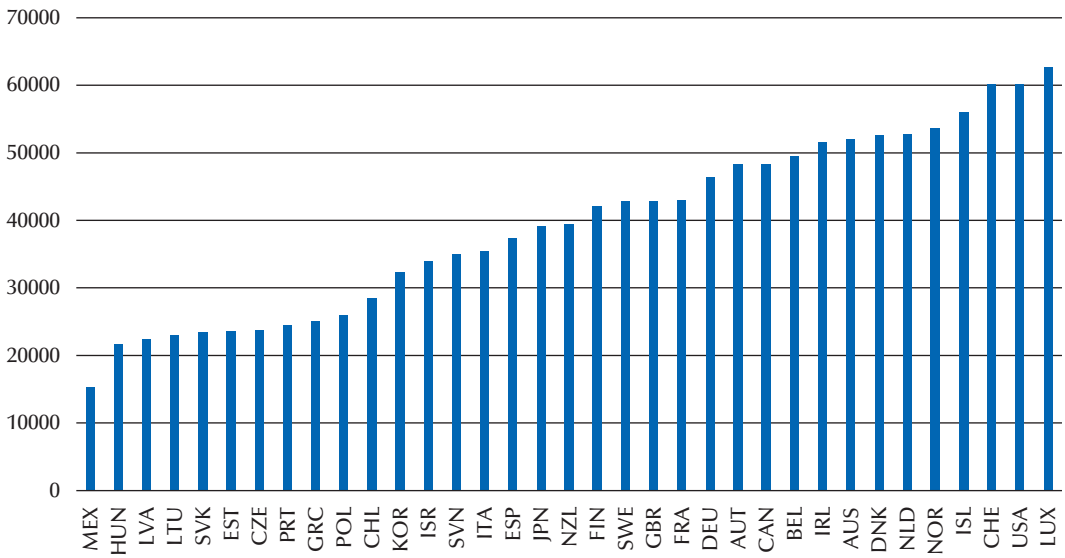
FIGURE 16-8 Average Annual Pay by Country—2016

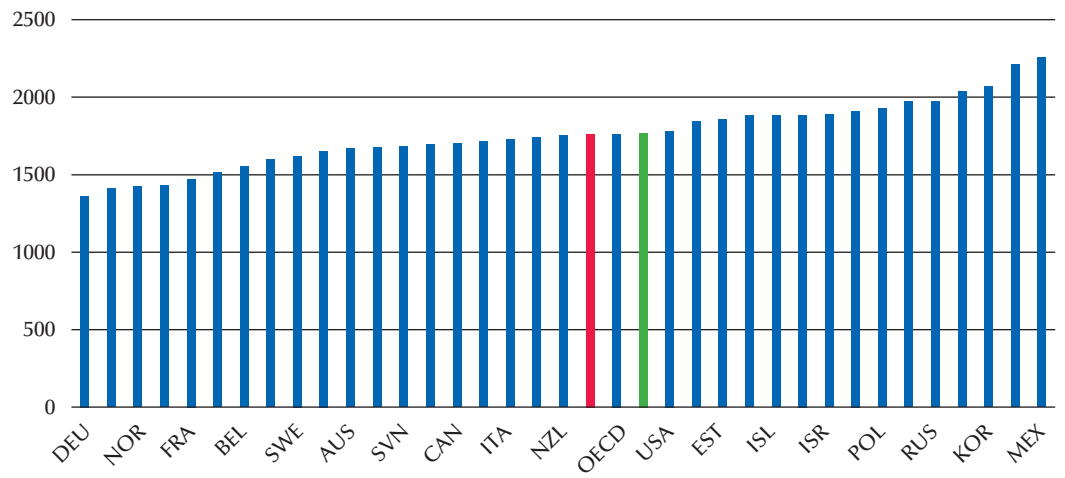


Source: https://data.oecd.org/earnwage/average-wages.htm.

of the differences in pay result from differences in annual working hours, which vary considerably between countries as displayed in Figure 16-9. Other reasons for such differences in pay are related to country culture and norms as well as business demands.

MNEs have various options regarding how to approach compensation in diverse locations. Generally, they select from a totally global approach, a totally customized approach for each location, or a hybrid method. Organizations that value consistency and hope to encourage employee mobility may favor a more standardized approach while those that wish to encourage local adaptation will likely choose a more customized approach.[40]

FIGURE 16-9 Hours Worked by Country—2016



Source: https://data.oecd.org/emp/hours-worked.htm.

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Many organizations have started to globalize their pay policies to attract and retain employees from an international talent pool. This requires management to balance the desire for consistent practices throughout the company with the need for differentiating practices based on local input and customs. This also requires companies to monitor the pay level and policy trends in other countries. For instance, evidence suggests that the differences in top manager pay that have allegedly existed between the United States and many European countries are not as large as once thought.[41] Union-led agreements and political support in Germany have also encouraged wages in that country to steadily increase, while wages in Spain have decreased.[42]

16-4b Global Variable Pay

Variable pay is expanding in global firms, as well as among employers in other countries. In Europe, Asia, and Latin America, many management professionals and general staff are eligible for broad-based variable pay plans. Programs are similar to those at U.S.-based companies, but global programs must accommodate cultural, legal, and economic differences. Bonus programs are particularly important for retaining key staffers after global mergers and acquisitions.[43] For firms with operations in multiple countries, it is important to train managers in how to distribute rewards for maximum impact.

Although administering any incentive plan can be difficult, global incentive programs can be especially challenging. A company may have an overarching strategy, such as growing market share or increasing the bottom line, but that strategy frequently results in different goals in different geographic regions. Also, laws and regulations differ from one country to the next. For example, in Latin America there are mandatory profit sharing regulations that must be reflected in variable plans. Team-based rewards are more common in collectivist cultures like Japan and Korea. Many nations and regions have very different perspectives on incentives, as the following "HR Competencies & Applications: Variable Pay around the World" feature shows.

16-4c Compensation for International Assignments

Multinational companies may staff their operations with a mixture of employees from around the world, and expatriates are often used to fill foreign positions. Regardless of how staffing is determined, compensation practices should be designed to maximize employee commitment and productivity. It has been estimated that the total employer costs for an expatriate, including all allowances, are three to four times the expatriate's salary, with the duration of a typical expatriate assignment at two or three years. The expense of sending expatriates abroad clearly warrants special attention in the global compensation approach.

Expatriate employees may have unique needs and preferences in terms of how the compensation package is structured. A married employee with children might have drastically different requirements than an unmarried employee. Because of the intricacies of devising an effective compensation plan for international assignees, companies often use consultants knowledgeable in this field.

A wide range of allowances and perquisites may be considered for inclusion in expatriate compensation. Hardship or hazard pay may be provided for expatriates assigned to dangerous or undesirable locations. Education assistance may be provided for the expatriate's dependents to make up for quality of education differences between the home and host country. Housing assistance in the form of free company-owned housing to make up for the difference in housing costs between locations may be granted. MNEs seek to find creative solutions that improve expatriate success while keeping costs under control.[44]

Home-country-based approach
Maintain the standard of living the expatriate had in the home country

The two primary approaches to international compensation for expatriates are the home-country-based approach and the host–country-based approach.[45] The **home-country-based approach** is the most commonly used method. The overall objective is to maintain the standard of living the expatriate had in the home country. Housing, taxes, and discretionary spending expenses are calculated based on those items in the home country. The company then pays the expatriate the difference so that he or she "remains whole." The home-country approach can result in higher employer costs and more administrative complexity than other plans.

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HR COMPETENCIES & APPLICATIONS

Variable Pay around the World

In the past, many global corporations built their variable pay plans around individual goals in a management by objectives (MBO) format. The trend in recent years, however, has been a move to a bottom-line results performance metric for incentive pay determination. Over 85 percent of global corporations have at least one variable pay plan, but plans are not identical across all countries in which firms operate.

Variations in incentive plans are due to cultural differences, as well as legal requirements. The following points highlight some of the variances in different countries:

- France, Italy, Spain, Portugal, and Greece are very risk-averse nations; therefore, employees strongly prefer fixed to variable compensation. There are only small differences in payouts among employees.
- Japan and Korea emphasize team awards and have very minor differences in payouts among employees. Discussing performance is not culturally accepted or welcomed.
- China and India utilize variable pay to retain rather than reward employees. Rewards are based on effort rather than results.
- Argentina, Brazil, and Mexico have historically required profit sharing for all employees. High performers are singled out for particularly rich incentive payouts.
- Bahrain, Saudi Arabia, and the United Arab Emirates are relative newcomers to incentive pay plans. Performance targets are not rigorous, and payouts are seen as an entitlement rather than earned rewards.

Managers attempting to find rewards to motivate discretionary effort in operations around the world clearly face challenges, as evidenced by the information just presented. A one-size-fits-all approach might be unsuccessful without an extended transition period and significant training and coaching of employees and managers. Further, when transferring employees to operations outside of their home country, special consideration should be given to how rewards will translate.

Companies might work toward increasing the global focus on corporate results to drive all operations toward the common bottom line. Finding ways to improve employees' line of sight to the organization's outcomes will enhance the effectiveness of any global variable pay plan.[46] Respond to these questions about global pay:

1. How can a MNE design country-specific rewards that emphasize overall corporate performance rather than local operational performance?
2. What rewards would be most successful for intra-company transfers who relocate to various countries of operation?

KEY COMPETENCIES: Global and Cultural Effectiveness; HR Expertise: People/Total Rewards, Workplace/HR in the Global Context

Host-country-based approach
Compensates the expatriate at the same level as workers from the host country

The **host-country-based approach** compensates the expatriate at the same level as workers from the host country. The company might continue to cover the employee in its retirement plan and also provide a housing allowance. If the cost of living is substantially lower in the host country than in the home country, this approach might make sense because the expatriate can live comfortably while on assignment and can more effectively acclimate to the culture of the host country.

16-4d Employee Benefits around the World

National customs and laws play a major role in the benefits provided to workers in each country. Most developed nations have implemented a retirement program similar to the social security system in the United States. Many of these programs are funded by shared contributions from workers

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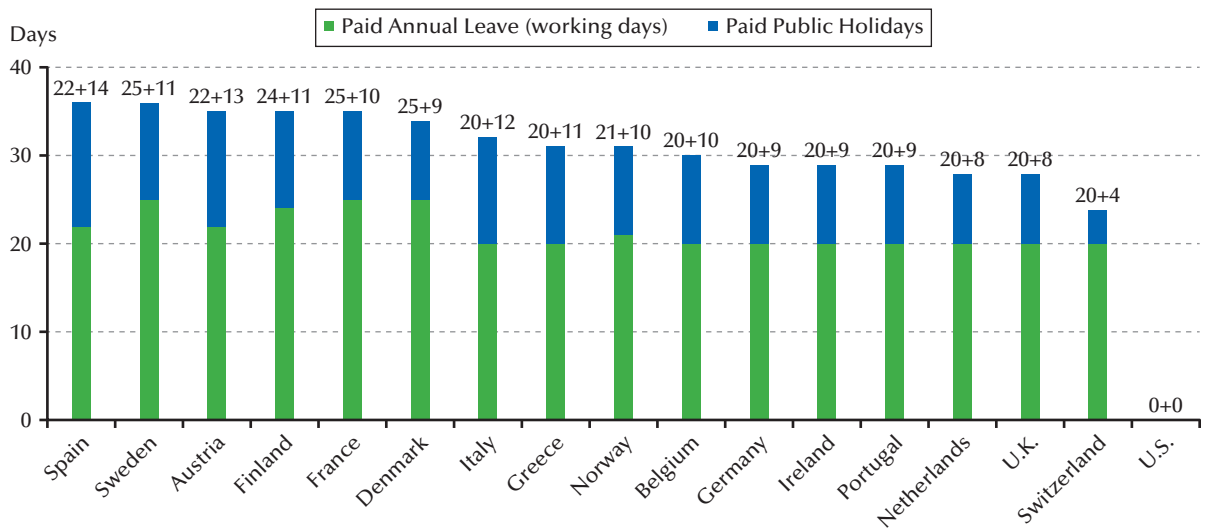
and companies.[47] Australia, Sweden, and France offer the best-designed benefit programs, while a number of countries in Asia and the Middle East offer the least-generous benefits. The U.S. social security program falls about in the middle of the spectrum with average levels of benefits.[48] National pension programs in Germany, France, and Japan, among other countries, are facing significant financial pressures because of their aging workforces and populations. The Social Security and Medicare systems in the United States face similar challenges. In Mexico, legislators are considering programs that provide unemployment insurance and universal pensions to some individuals, and changes to social security contributions have also been approved.[49]

Paid time off benefits vary significantly and employers in most countries are required to provide paid holidays, vacation, and sick leave. Employers in the United States face no such requirements which can lead to perceived inequities for employees in MNEs. Figure 16-10 shows the mandated paid time off for selected nations. Childbirth (prenatal and antenatal) and medical disability are generous in Scandinavian and European countries, and they provide lengthy paid leave for new mothers. A number of countries also provide paid time off for new fathers as well. For example, mothers in Sweden receive 14 weeks of job-protected maternity leave with at least 80 percent salary paid, while fathers receive two weeks of paternity leave at 80 percent of salary. In addition, parents are eligible for up to 480 additional paid days off for parental leave until the child's first year of school. Few industrialized nations do not mandate such benefits for employees.[50]

Countries including Great Britain, Chile, South Korea, Thailand, Brazil, and Canada have universal health care programs. These programs are financed either by employer contributions or from income taxes paid by employees, or a combination of both. In most countries, wealthier citizens can purchase private health insurance and seek treatment from private medical providers rather than using public medical providers. Ongoing legislative debate in the United States continues to change the employer-based health benefits traditionally offered by companies.[51]

Companies need to be aware of these statutory benefits and ensure that their programs are compliant in the various countries where they have operations. MNEs strive to strike a balance between cost-effectiveness and attractiveness to employees when designing their global compensation and benefit programs. For instance, some Latin American organizations offer more generous (and voluntary) benefits to increase employee motivation and morale. A survey of workers

FIGURE 16-10 Mandatory Paid Time Off by Country



Notes: Statutory minimum leave is normalised in accordance to a five-day-working week. Paid public holidays exclude those that fall on Sundays, but include those that fall on Saturdays. In the United States, there is no legal requirement for private businesses to grant paid holidays to their employees.

Source(s): International Labour Organisation, Conditions of work and employment programme (2012); Eures, Living and working conditions; and Ray, Rebecca; Schmitt, John. "No-vacation nation USA – in OECD countries" (PDF). European Economic and Employment Policy Brief (No. 3 – 2007).

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and employers in Mexico, Chile, and Brazil found that a majority of firms in each of these countries use benefits to enhance employee performance. Findings also showed that companies focus on voluntary benefits such as health and wellness initiatives and different kinds of insurance (life, disability, etc.).[52]

LO5 Compare labor union issues in various countries.

16-5 Global Employees and Labor Relations

Organizations that have employees in several countries face particular complexities regarding employment policies and practices. Some U.S. laws apply to all U.S. citizens regardless of where their workplace is located. When employing workers in the European Community (EC), regulations within the EC and each specific country (e.g., Austria or France) must be followed. Terminating employees is especially difficult in many countries (e.g., France and Italy). Some organizations adopt a comprehensive set of work rules that meet the standards of the most restrictive nation. However, this can be costly as it imposes the highest standard as a universal. Other organizations comply with each individual nation's laws and requirements. This strategy can be costly to administer, as it entails managing a portfolio of legal mandates and policies. Typically, HR policy decisions should align with the organization's overall philosophy and global strategy.[53]

16-5a Unions in the Global Arena

Globalization increases the degree to which there is economic competition among workers, companies, and nations. As such, the ability of a country to remain competitive (i.e., increasing the availability of jobs and attracting foreign direct investment) is often influenced by its labor laws and attitude toward labor unions. In some nations, unions have relatively limited bargaining power compared to the bargaining power of employers. However, in other countries, this is not the case. Diverse legal requirements and social mores have created very different situations around the world, so HR professionals should be aware of these variations when operating globally.

Many developing nations are experiencing similar issues regarding the treatment of workers as U.S. employers did during the Industrial Revolution in the early 1900s.[54] As the world economy becomes more integrated, unions worldwide are facing changes. The status of global unions is being affected in several ways.

16-5b International Union Issues

The percentage of union membership varies significantly from country to country. The highest is in the Scandinavian countries, followed by countries in continental Europe as shown in Figure 16-11.[55] Collective bargaining is set in law as the way wages are to be determined in Europe. However, in many European countries, artificially high wages and generous benefits have kept the unemployment rate high. Given these realities, the pressures for change are increasing. The range of labor concerns is quite wide and varies from country to country, with some countries most concerned about child labor; others' most pressing issues involve safety practices or employee participation in decisions.

In some countries, unions do not exist at all, are relatively weak, or are closely tied to political parties. For instance, in Italy and France, national strikes occur regularly to protest proposed changes in government policy on retirement, pension programs, and regulations regarding dismissal of employees. In recent years, pilots at French and German airlines staged strikes to protest proposed reductions in their generous benefit packages.[56] Auto workers in South Africa have used work stoppages to demand higher pay, which has resulted in lower foreign investment in the country.[57] Spain's National Court invalidated the layoff of 800 Coca-Cola workers after the company cut back its operation due to decreasing revenues and overcapacity in its facilities.[58] Labor unrest is not uncommon, and work stoppages, protests, and strikes occur in many countries.

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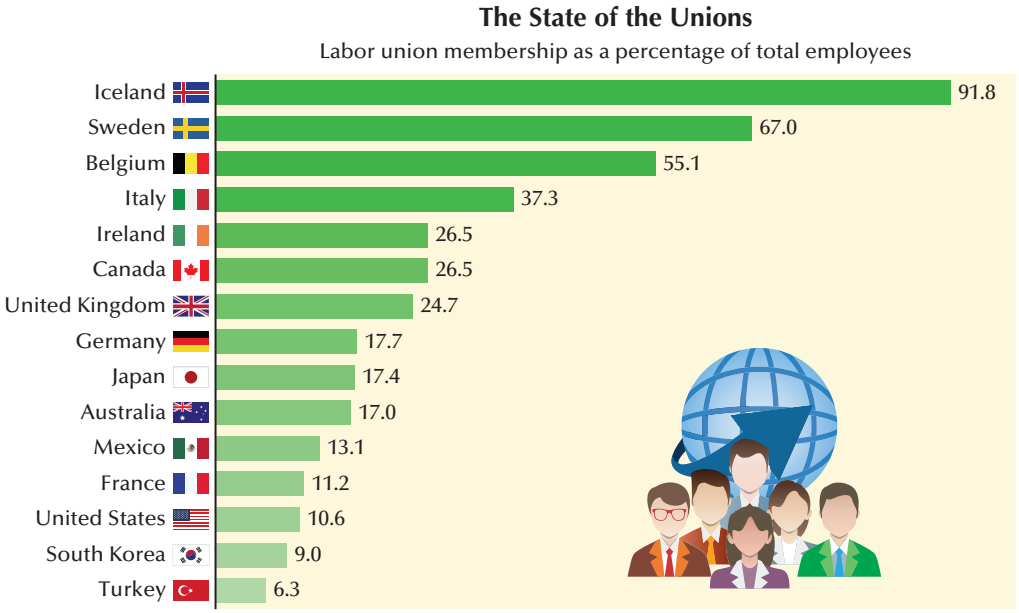
FIGURE 16-11 Union Density by Country—2015



Source: https://www.forbes.com/sites/niallmccarthy/2017/06/20/which-countries-have-the-highest-levels-of-labor-union-membership-infographic/.

Codetermination
Union or worker representatives are given positions on a company's board of directors

Some countries require the practice of **codetermination** in which union or worker representatives are given positions on a company's board of directors. This practice is common in European countries, and it led to a clashing of cultures and practices at the Chattanooga, Tennessee, Volkswagen facility. Since the company is German owned and operated, management favored involving workers on the board of directors. This would have required that the employees form a labor union, a position that was supported by company managers. Workers disagreed and elected not to organize a union.[59]

Differences from country to country in how collective bargaining occurs are also quite noticeable. In the United States, local unions bargain with individual employers to set wages and working conditions. In Australia, unions argue their cases before arbitration tribunals. In Scandinavia, national agreements with associations of employers are the norm. In France and Germany, industry-wide or regional agreements are common. In Japan, local unions bargain but combine at some point to determine national wage patterns.

16-5c Global Labor Organizations

Several organizations address global labor relations standards. The International Labour Organization, based in Switzerland, coordinates the efforts of labor unions worldwide and has issued some principles about rights at work. Such coordination is occurring as unions deal with multinational firms with operations in multiple countries.

Throughout the world, unions are also linking up as part of global labor federations. The Union Network International (UNI) is an entity composed of unions from numerous countries. This organization and other international groups are working to establish international policies on child labor, worker safety and health, and training. The UIN is also providing aid and guidance to unions in developing countries, such as those in Africa and Asia. Unions in the United States are very active in these global entities. In some situations, establishing agreements with employers based in the European Union has led to more U.S. union membership in multinational firms.

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16-5d The United States and Global Differences

Union management relations in the United States addresses some issues differently from other countries. In the United States, the key union focuses have been the following:

- *Economic issues versus other concerns*: In the United States, unions have typically focused on improving bread-and-butter issues for their members—wages, benefits, job security, and working conditions. In some other countries, integration with ruling governmental and political power and activism are equal concerns along with economic issues. In the United Kingdom, labor unions provide training programs that improve worker readiness and allow companies to hire a highly skilled workforce.
- *Organization by kind of job and employer*: In the United States, carpenters often belong to the carpenters' union, truck drivers to the Teamsters, teachers to the American Federation of Teachers or the National Education Association, and so on. Also, unionization can be done on a company-by-company basis. In other countries, national unions bargain with the government or with employer groups.
- *Collective agreements as "contracts"*: In the United States, collective bargaining contracts usually spell out compensation, work rules, and the conditions of employment for several years. In other countries, the agreements are made with the government and employers, sometimes for only one year because of political and social issues.
- *Competitive relations*: In the United States, management and labor traditionally take the roles of competing adversaries who often clash to reach agreement. In many other countries, tripartite bargaining occurs between the national government, employers' associations, and national labor federations with little conflict or obstruction.

Labor laws impact the relationship between companies and their workers, whether a union represents employees or not. Managers and HR professionals strive to create a work environment that is productive, fair, and respectful. Taking steps to identify and address worker concerns can set the stage for positive interactions and outcomes for employers and employees alike.

LO6 Define four important aspects of developing leaders for a global organization.

16-6 Global Talent Development

For a global firm, the most brilliant strategies will not improve competitiveness unless the company has well-trained employees throughout the world to carry them out. A global look at training is important as firms establish and expand operations worldwide. For U.S. employers, the challenge has increased because of the decline in specialized, skilled, and technical workers. Considering the number of global employees with international assignments, training is part of global competitive success.[60]

16-6a Global Assignment Training

The orientation and training that expatriates and their families receive before departure significantly affect the success of an overseas assignment. When these programs are offered, most expatriates participate in them, which usually positively affect cross-cultural adjustment. Also, training helps expatriates and their families adjust to and deal with their counterparts in the host country. A recent survey showed that when companies provide generous expatriate training, those who participate adjust more easily and perform better when placed on assignment in the workplace.[61]

A related issue is the promotion and transfer of foreign citizens to positions in the United States. For example, many Japanese firms operating in the United States conduct training programs to prepare Japanese employees and their families for the food, customs, labor and HR practices, and other facets of working and living in the United States. Companies around the globe are recognizing the importance of preparing workers for overseas assignments and are offering training to smooth the transition.

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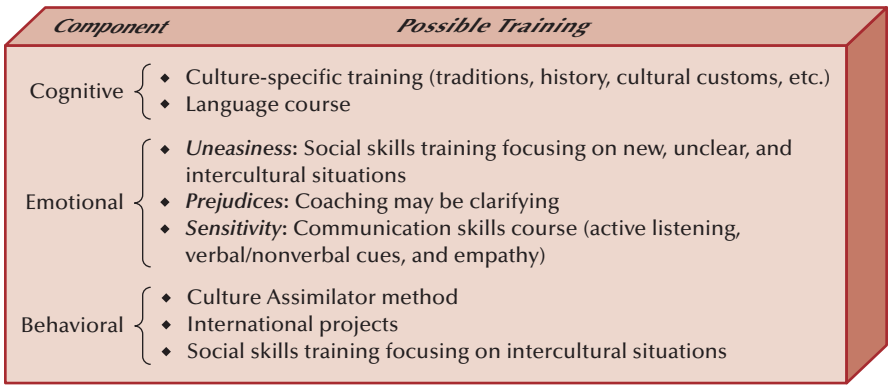
FIGURE 16-12 Intercultural Competence



Source: Developed by Andrea Graf, PhD, and Robert L. Mathis, PhD, SPHR.

Intercultural Competence Training Global employers are providing intercultural competence training for employees sent abroad and those who manage workers in multiple countries. Intercultural competence incorporates a wide range of human social skills and personality characteristics. As noted in Figure 16-12, three components of intercultural competence require attention when training expatriates for global assignments:

- *Cognitive*: What does the person know about other cultures?
- *Emotional*: How does the person view other cultures, and how sensitive is the person to cultural customs and issues?
- *Behavioral*: How does the person act in intercultural situations?

Of particular importance is providing training to managers who oversee workers in several countries. Training includes educating managers to recognize how the various laws, customs, and practices in each nation impact manager–employee relationships. There are a number of assessments that help managers obtain a personal profile of their approach to other cultures. The following "HR Competencies & Applications: Assessing Cultural Competence" feature explains several ways that companies measure the level of skills managers have when managing across cultures.

The complexities of multinational operations mean that companies, large and small, are likely to be dealing with workers, customers, and suppliers from different cultures. Building the capacity for all employees to work smoothly with diverse individuals is frequently done through diversity training, which is discussed in Chapter 3.

16-6b Global Leadership Development

Multinational organizations focus on developing employees who can manage people and operations in diverse environments. Competencies needed for global leadership are more complex than those focused on only one country. In addition to core leadership skills such as future orientation, empathy and concern for others, ethics and integrity, and team development, the global leader must also be able to work across cultures and contexts. Managers operating in a global setting need to manage paradoxes, appreciate the unique attributes of each context, and communicate effectively across time and geography.[62]

A series of studies on global leadership, commonly known as the *GLOBE studies*, resulted in the identification of leadership profiles for various societies or cultures. Different leadership styles may be required to successfully lead organizations in various countries. Leaders who recognize and value diverse cultures will be more effective than those who view the world from only one perspective.[63] Global leadership programs seem to fall short of addressing a number of critical competencies. While the programs typically include managing change, critical thinking, and problem solving, they rarely include technology and competencies related to creativity and innovation. Comfort with

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HR COMPETENCIES & APPLICATIONS

Assessing Cultural Competence

To help managers understand their present levels of cultural competence, many organizations use assessment questionnaires. After a manager completes the questionnaire, feedback is provided along with helpful resources and tips for improving areas that are weak. There are a variety of instruments, each with its own framework for elements of cultural competence. HR and training professionals can select the instrument that most appropriately measures what is important to the organization. Here are brief descriptions of four instruments.

One useful tool is the Multicultural Personality Questionnaire, which measures individuals on intercultural sensitivity, intercultural communication, intercultural relationship building, conflict management, leadership, and tolerance of ambiguity. Employees can complete the survey and learn how well suited they are for international assignments. They can then create an action plan to strengthen areas of weakness so that they are better able to handle work in a global setting.

There are alternative assessments that measure cultural awareness and adjustment. The International Profiler measures 10 competencies, including openness, flexibility, perceptiveness, and cultural knowledge. The Profiler is specifically designed as a development tool. With 10 competencies, it can become overwhelming to understand. Therefore, good coaching and interpretation are important for maximum benefit.

The Cultural Intelligence Scale looks at four factors: drive, knowledge, strategy, and action that relate to an individual's ability to manage within diverse cultures. The questions measure "cultural intelligence" or what the developers consider an individual's ability to function effectively in various cultural situations. The Scale helps employees understand how well they would adjust to new situations and function in unfamiliar settings.

Last, the Cross-Cultural Kaleidoscope is an awareness-building tool that helps employees evaluate the internal and external factors that form their cultural understanding. The instrument measures the individual's thoughts, feelings, and emotions related to cultural identity. This is followed with an assessment of the legal, political, economic, geographic, climate, and history factors related to the country where one lives. Reconciling one's personal sense of culture and seeing how it is influenced by outside forces can help employees put culture into perspective.

Clearly, there are many techniques organizations can use to identify the cultural profile of managers and other employees. The costs of assigning an individual who is not culturally ready to deal with diverse employee groups are significant. Training and coaching are important add-ons after an employee has completed an assessment. Assessments are a starting point, not the end of cultural awareness.[64] Consider the following questions about assessing cultural competence:

1. How would you recommend that organization leaders select from among the various assessment choices? What criteria would you use to evaluate each instrument?
2. What steps would you take to get the maximum benefit from cultural assessments? Do you believe that there is more to it than administering the instrument and providing results to each respondent?

KEY COMPETENCIES: Global & Cultural Effectiveness, Consultation; HR Expertise: Workplace/HR in the Global Context, Diversity & Inclusion

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and competence in using social networking technology is crucial in the global enterprise, since most work is done by virtual teams. However, many workers have not been formally trained in how to properly operate in this manner; learning by trial and error is costly and inefficient. Consulting company I4cp recommends incorporating the following elements into a global development plan:

1. Make global cultural fluency an organization-wide priority.
2. Tap into the best minds inside and outside of the organization to share knowledge and stories.
3. Offer a diverse slate of hard and soft skills development.
4. Leverage strategic workforce planning to determine skills gaps and to identify candidates for succession plans from the global workforce.[65]

Leadership development programs for diversified MNEs should include participants from both developed and emerging economies. Managers from developed countries can learn firsthand about distinct cultural attributes from representatives working in less-developed countries. Likewise, those from emerging economies can interact with participants from developed nations and learn about the organization's sophisticated practices. Such cross-fertilization increases knowledge sharing and speeds up the development of all participants.[66]

16-6c Global Career Concerns

Global career management can be even more complicated than domestic talent management. The movement of managers and employees can be challenging because corporate policies and cultural characteristics in different countries are often dissimilar, and individual expectations about the success of global assignments can vary greatly, thus affecting motivation and commitment. Successful companies develop a culture that facilitates the movement of talent globally and improves retention. Further, they create sound mobility programs and processes that organize assignee information, effectively evaluate candidates, and provide coaching support during global assignments and repatriation efforts.[67]

Many global employees experience anxiety about their continued career progression. Therefore, employers should take steps to ensure that the experience gained overseas benefits the employee as well as the firm. Some companies address this issue by bringing expatriates back to the home country for development programs and interaction with other company managers and professionals during the assignment. Another potentially useful approach is to establish a mentoring system that matches an expatriate with a corporate executive at headquarters.

Repatriation The issue of *repatriation* is a process that involves planning and training for the reassignment of global employees back to their home countries. After expatriates return home, they often no longer receive the special compensation packages that had been available to them during their assignments. The result is that they may feel a net decrease in total income, even if they receive promotions and pay increases. In addition to dealing with concerns about personal finances, returning expatriates often must reacclimate to home-country lifestyles, transportation, and other cultural circumstances, especially if they have been living in less-developed countries.

Many expatriates enjoyed a higher degree of flexibility, autonomy, and independent decision making while living overseas than their counterparts in the home country. Back in the home organization, repatriated employees must readjust to closer working and reporting relationships with other corporate staff.

Another major concern focuses on the organizational status of expatriates when they return. Many expatriates wonder what jobs they will have, whether their international experiences will be valued, and how they will be accepted back into the organization. Unfortunately, many global employers do a poor job of repatriation, leading to high turnover (20–50 percent) in this group.[68] To counter this problem, companies should consider providing expatriates flexible assignments, mentoring efforts, meetings with key managers, career support, and guarantees of temporary employment if they complete their foreign assignments early.[69] Repatriation efforts should include some focus on the individual employee's needs and career aspirations and building organizational support to capitalize on the enhanced knowledge base of repatriating workers.[70]

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Global Development Most global firms have learned that it is often a mistake to staff foreign operations with only personnel from headquarters, and they quickly hire local nationals. For this reason, global management development must focus on developing local managers as well as global executives. Global competencies should also be developed early in careers, instead of assigning domestic-based senior executives to international positions.[71] Development areas can include activities such as promoting cultural issues, running an international business, enhancing leadership and management skills, handling problematic people, and building personal qualities. Organizations might also recruit foreign graduate students into fast-track development programs to staff global positions, offer international assignments to leaders to improve their work experience, and utilize social networking to enhance training and development.[72]

SUMMARY

- Advances in telecommunication and increasing economic interdependence have led to greater worldwide trade.
- Population trends and migration patterns impact the workforce availability in many countries.
- Organizations expand globally to access customers, suppliers, and employees.
- The three primary international perspectives are ethnocentric, polycentric, and geocentric.
- Non-equity-based expansions include importing/exporting, licensing/franchising, and piggyback arrangements. These methods require little HR involvement.
- Equity-based expansions include joint ventures, mergers, acquisitions, and foreign direct investment. The methods require substantial HR involvement.
- Offshoring and outsourcing are additional ways in which an organization may expand its global reach.
- The Hofstede framework of country cultures is a useful tool to compare different countries on six cultural dimensions.
- Staffing global operations involves using home-country nationals, parent-country nationals, and third-country nationals.
- Sending an expatriate on overseas assignment requires good preplanning as well as good planning for repatriation upon completion of the assignment.
- Compensating international assignees is complex and depends upon the living standards in both the home country and the country of assignment.
- Employee benefits vary significantly around the world, with the United States mandated the least amount of paid time off.
- Union participation has generally been declining in most developed economies, but some countries still have high levels of union density.
- Intercultural competence includes cognitive, emotional, and behavioral elements.

CRITICAL THINKING CHALLENGES

1. Think of an international company that has completed a merger or acquisition with an organization from a different country. What were the challenges to making the deal successful? Ultimately, was the deal a success or would you consider it a failure? Why?
2. Recently, several international companies have been in the news because of corruption, bribery, or falsifying information (e.g., Samsung, Volkswagen, and Mitsubishi Brazil). Research one of these cases and determine how the headquarters leadership might have prevented the problem from occurring. How might the human resource department have helped to prevent the problem?
3. Discuss how important diversity and inclusion programs would be in companies based in Canada and in Norway. Explain why there might be different approaches to diversity in different countries.
4. What are some key performance indicators (KPIs) that are used by organizations in which you have been employed? How did managers explain the importance of these KPIs, and were any rewards tied to them?
5. You are the HR Director for an insurance company headquartered in the United States. The company's executive team is exploring the possibility of expanding operations to South Korea. Since you expect significant differences in culture, you conduct an analysis of each country.

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A. Go to https://www.hofstede-insights.com/product/compare-countries to find the culture profiles of the United States and South Korea.
B. Determine the best way to use work teams (and team-based rewards) in each country. Then recommend an incentive plan for each country that will motivate the best work performance.
C. What would be the best approach to career planning in each country? How would you suggest that the company handle its talent management process?

CASE Winning at Carlsberg

Danish brewer Carlsberg has grown through numerous acquisitions since its founding in the late nineteenth century to become the fourth largest international beer producer. The company now employs over 40,000 people and sells more than 500 brands of beer. While strongest in European and Scandinavian markets, its presence in Asia is growing, as Carlsberg Group now operates in Asia, both in mainland China and in Malaysia. The Asian market is deemed to be strategically important for the future of the company, and a research project was undertaken to study how corporate values and behaviors were transferred from Denmark to the Asian subsidiaries.

Carlsberg Group is similar to many MNEs in its attempt to strike a balance between standard, corporate-driven practices and customized practices adapted to each local setting. The company leadership team established a corporate culture initiative dubbed "Winning Behaviors," which focused on creating a culture focused on developing staff to constantly take the lead in the market. Since the organization grew primarily by acquiring companies in various countries, there was some initial pushback from some local subsidiary leaders who felt that imposing Danish values on them was not appropriate. Therefore, a planning session was held with leaders from around the company to determine a common culture they could all embrace.

The results of this diverse group's work were a set of five Wining Behaviors that would not only be universal throughout the company, but that would also respect local needs:

- Together we are stronger
- We want to win
- Our customers and consumers are at the heart of every decision we make
- We are each empowered to make a difference
- We are engaged with society

The *glocal* approach involved workshops at various business units and designated "ambassadors" to disseminate the culture throughout the organization. The HR team was actively involved in rolling out the initiative and applying it to recruiting, performance management, and training practices in particular. Ten leadership competencies were identified and embedded in the performance management and compensation systems. Further, the company's leadership academy is built around the ten competencies.

Managers in the Malaysia subsidiary embraced the culture initiative and painted the walls of the headquarters in "Carlsberg green" to demonstrate deep commitment to the parent company. They sponsored a video script contest among the employees to encourage understanding and visual display of each of the five core values. The subsidiary was awarded the "Strongest Winning Culture" as a result. In China, a video starring company leaders was created to showcase the values in action. China's top-down hierarchical culture was better suited to using leaders rather than employees to spread the Winning Behaviors message. They also created two "stories" – one of *losing behaviors* and the other of contrasting *winning behaviors* to appeal to the Chinese employees. Storytelling is common in China, echoing a Confucian tradition.

The Winning Behaviors culture initiative has generally been successful, but some challenges persist in terms of adopting empowerment in Chinese operations where long-standing hierarchies are more customary. However, expatriate managers from Denmark have reported that many of the elements of the Winning Behaviors framework are alive and working well in Asian subsidiaries. As with most culture changes, Carlsberg Group's Winning Behaviors is a work in progress.[73]

QUESTIONS

1. What role should leaders at headquarters play in establishing the preferred culture for an organization with diverse locations/subsidiaries? What is the role of headquarters and local HR professionals in such an initiative?
2. Why is it important to include the cultural tenets in the company's performance management and compensation programs? How successful would you expect a culture change to be if these HR practices are not updated to reflect the new culture approach? Why?
3. What actions did Carlsberg group take to ensure buy-in from various stakeholders and operations?

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APPENDIX A

Sample HR-Related Job Descriptions and Job Specifications

Sample Job Description and Job Specification for Human Resource Manager

Identification Section:
Position Title: Human Resource Manager
Department: Human Resources — EEOC Class: O/M
Reports to: President — FLSA Status: Exempt

General Summary: Directs HR activities of the firm to ensure compliance with laws and policies, and assists President with overall HR planning

Essential Job Functions:

1. Manages compensation and benefits programs for all employees, resolves compensation and benefits questions from employees, and negotiates with benefits carriers (20%)
2. Ensures compliance with both internal policies and applicable state and federal regulations and laws, including EEO, OSHA, and FLSA (20%)
3. Identifies HR planning issues and suggests approaches to President and other senior managers (15%)
4. Assists managers and supervisors to create, plan, and conduct training and various development programs for new and existing employees (15%)
5. Recruits candidates for employment over telephone and in person; interviews and selects internal and external candidates for open positions (10%)
6. Reviews and updates job descriptions, assisted by department supervisors, and coordinates performance appraisal process to ensure timely reviews are completed for all employees (10%)
7. Administers various HR policies and procedures and helps managers resolve employee performance and policy issues (10%)
8. Performs other duties as needed and directed by President

Knowledge, Skills, and Abilities:

- Knowledge of HR policies, HR practices, and HR-related laws and regulations
- Knowledge of company products, services, policies, and procedures
- Knowledge of management principles and practices
- Skill in operating equipment such as personal computer, software, and IT systems
- Skill in oral and written communication
- Ability to communicate with employees and various business contacts in a professional and courteous manner
- Ability to organize multiple work assignments and establish priorities
- Ability to negotiate with others and resolve conflicts, particularly in sensitive situations
- Ability to pay close attention to detail and to ensure accuracy of reports and data
- Ability to make sound decisions using available information while maintaining confidentiality
- Ability to create a team environment and sustain employee commitment

Education and Experience: Bachelor's degree in HR management or equivalent, plus 3–5 years' experience

Physical Requirements:	**Percentage of Work Time Spent on Activity**			
	0%–24%	**25%–49%**	**50%–74%**	**75%–100%**
Seeing: Must be able to read computer screen and various reports				X
Hearing: Must be able to hear well enough to communicate with employees and others				X
Standing/walking	X			
Climbing/stooping/kneeling	X			
Lifting/pulling/pushing	X			
Fingering/grasping/feeling: Must be able to write, type, and use phone system				X

Working Conditions: Good working conditions with the absence of disagreeable conditions

Note: The statements herein are intended to describe the general nature and level of work performed by employees, are not a complete list of responsibilities, duties, and skills required of personnel so classified. Furthermore, they do not establish a contract for employment and are subject to change at the discretion of the employer.

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Sample Job Description and Job Specification for Compensation Manager

Job Title: Compensation Manager
Supervisor's Title: Vice President of Human Resources
Department: Human Resources

JOB CODE: _____
GRADE: _____
FLSA STATUS: Exempt
EEOC CLASS: O/M

General Summary: Responsible for the design and administration of all cash compensation programs, ensures proper consideration of the relationship of compensation to performance of each employee, and provides consultation on compensation administration to managers and supervisors

Essential Duties and Responsibilities:

1. Prepares and maintains job descriptions for all jobs and periodically reviews and updates them; responds to questions from employees and supervisors regarding job descriptions (25%)
2. Ensures that Company compensation rates are in line with pay structures; obtains or conducts pay surveys as necessary and presents recommendations on pay structures on an annual basis (20%)
3. Develops and administers the performance appraisal program and monitors the use of the performance appraisal instruments to ensure the integrity of the system and its proper use (20%)
4. Directs the job evaluation process by coordinating committee activities and resolves disputes over job values; conducts initial evaluation of new jobs prior to hiring and assigns jobs to pay ranges (15%)
5. Researches and provides recommendations on executive compensation issues; assists in the development and oversees the administration of all annual bonus payments for senior managers and executives (15%)
6. Coordinates the development of an integrated HR information system and interfaces with the Management Information Systems Department to achieve departmental goals for information needs (5%)
7. Performs related duties as assigned or as the situation dictates

Required Knowledge, Skills, and Abilities:

1. Knowledge of compensation and HR management practices and approaches
2. Knowledge of effective job analysis methods and survey development and interpretation practices and principles
3. Knowledge of performance management program design and administration
4. Knowledge of federal and state wage and hour regulations
5. Skill in writing job descriptions, memorandums, letters, and proposals
6. Skill in use of word processing, spreadsheet, and database software
7. Ability to make presentations to groups on compensation policies and practices
8. Ability to plan and prioritize work

Education and Experience: Equivalent of a college degree in Business Administration, Psychology, or related field plus 3–5 years' experience in HR management, 2–3 of which should include compensation administration experience. An advanced degree in Industrial Psychology, Business Administration, or HR Management preferred, but not required.

Physical Requirements:	**Rarely (0%–12%)**	**Occasionally (12%–33%)**	**Frequently (34%–66%)**	**Regularly (67%–100%)**
Seeing: Must be able to read reports and use computers				X
Hearing: Must be able to hear well enough to communicate with coworkers				X
Standing/walking	X			
Climbing/stooping/kneeling	X			
Lifting/pulling/pushing	X			
Fingering/grasping/feeling: Must be able to write, type, and use phone system				X

Working Conditions: Normal office working conditions with the absence of disagreeable elements

Note: The statements herein are intended to describe the general nature and level of work being performed by employees, and are not to be construed as an exhaustive list of responsibilities, duties, and skills required of personnel so classified. Furthermore, they do not establish a contract for employment and are subject to change at the discretion of the employer.

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APPENDIX B

PHR® and SPHR® Exam Eligibility Requirements[1]

The Professional in Human Resources (PHR®) and Senior Professional in Human Resources (SPHR®) exams are designed for HR practitioners with different levels of education and experience. Here are the eligibility criteria for the exams.

PHR®

- A minimum of one year of experience in a professional-level HR position with a master's degree or higher, OR
- A minimum of two years of experience in a professional-level HR position with a bachelor's degree, OR
- A minimum of four years of experience in a professional-level HR position with less than a bachelor's degree

SPHR®

- A minimum of four years of experience in a professional-level HR position with a master's degree or higher, OR
- A minimum of five years of experience in a professional-level HR position with a bachelor's degree, OR
- A minimum of seven years of experience in a professional-level HR position with less than a bachelor's degree

PHR® and SPHR® Exam Content Domains[2]

The exams are created using the PHR and SPHR Body of Knowledge, which outlines the responsibilities of and knowledge needed by today's HR professionals. The PHR and SPHR Bodies of Knowledge are created by HR subject matter experts through a rigorous practice analysis study and validated by HR professionals working in the field through an extensive survey instrument. It is updated periodically to ensure it is consistent with current practices in the HR field.

PHR Functional Areas:

Functional Area 01 | Business Management (20 percent)
Functional Area 02 | Talent Planning and Acquisition (16 percent)
Functional Area 03 | Learning and Development (10 percent)
Functional Area 04 | Total Rewards (15 percent)
Functional Area 05 | Employee and Labor Relations (39 percent)

[1] Information taken from HRCI®, "Which Certification Is Right for You," https://www.hrci.org/our-programs/which-certification-is-right-for-you.

[2] Information taken from HRCI®, "HRBoK—A Guide to the Human Resource Body of Knowledge," https://www.hrci.org/how-to-get-certified/preparation-overview/human-resource-body-of-knowledge.

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SPHR Functional Areas:

Functional Area 01 | Leadership and Strategy (40 percent)
Functional Area 02 | Talent Planning and Acquisition (16 percent)
Functional Area 03 | Learning and Development (12 percent)
Functional Area 04 | Total Rewards (12 percent)
Functional Area 05 | Employee Relations and Engagement (20 percent)

PHR CONTENT DOMAINS WITH ASSOCIATED RESPONSIBILITIES

01: Business Management and Strategy (20 percent)

Using information about the organization and business environment to reinforce expectations, influence decision making, and avoid risk.

Responsibilities:

01 Interpret and apply information related to general business environment and industry best practices.
02 Reinforce the organization's core values and ethical and behavioral expectations through modeling, communication, and coaching.
03 Understand the role of cross-functional stakeholders in the organization and establish relationships to influence decision making.
04 Recommend and implement best practices to mitigate risk (e.g., lawsuits and internal/external threats).
05 Determine the significance of data for recommending organizational strategies (e.g., attrition rates, diversity in hiring, time to hire, time to fill, return on investment, and success of training).

02: Talent Planning and Acquisition (16 percent)

Identifying, attracting, and employing talent while following all federal laws related to the hiring process.

Responsibilities:

01 Understand federal laws and organizational policies to adhere to legal and ethical requirements in hiring (e.g., Title VII, nepotism, disparate impact, Fair Labor Standards Act, and independent contractors).
02 Develop and implement sourcing methods and techniques (e.g., employee referrals, diversity groups, and social media).
03 Execute the talent acquisition lifecycle (e.g., interviews, extending offers, background checks, and negotiation).

03: Learning and Development (10 percent)

Contributing to the organization's learning and development activities by implementing and evaluating programs, providing internal consultation, and providing data.

Responsibilities:

01 Provide consultation to managers and employees on professional growth and development opportunities.
02 Implement and evaluate career development and training programs (e.g., career pathing, management training, and mentorship).
03 Contribute to succession planning discussions with management by providing relevant data.

04: Total Rewards (15 percent)

Implementing, promoting, and managing compensation and benefit programs in compliance with federal laws.

Responsibilities:

01 Manage compensation-related information and support payroll issue resolution.
02 Implement and promote awareness of noncash rewards (e.g., paid volunteer time, tuition assistance, workplace amenities, and employee recognition programs).
03 Implement benefit programs (e.g., health plan, retirement plan, employee assistance plan, and other insurance).
04 Administer federally compliant compensation and benefit programs.

05: Employee and Labor Relations (39 percent)

Manage, monitor, and/or promote legally compliant programs and policies that impact the employee experience throughout the employee lifecycle.

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Responsibilities:

01 Analyze functional effective at each stage of the employee lifecycle (e.g., hiring, onboarding, development, retention, exit process, and alumni program) and identify alternate approaches as needed.
02 Collet, analyze, summarize, and communicate employee engagement data.
03 Understand organizational culture, theories, and practices; identify opportunities and make recommendations.
04 Understand and apply knowledge of programs, federal laws, and regulations to promote outreach, diversity, and inclusion (e.g., affirmative action, employee resource groups, community outreach, and corporate responsibility).
05 Implement and support workplace programs relative to health, safety security, and privacy following federal laws and regulations (e.g., OSHA, workers' compensation, emergency response, workplace violence, substance abuse, and legal postings).
06 Promote organizational policies and procedures (e.g., employee handbook, standard operating procedures, time and attendance, and expenses).
07 Manage complaints or concerns involving employment practices, behavior, or working conditions and escalate by providing information to appropriate stakeholders.
08 Promote techniques and tools for facilitating positive employee and labor relations with knowledge of applicable federal laws affecting union and nonunion workplaces (e.g., dispute/conflict resolution, antidiscrimination policies, and sexual harassment).
09 Support and consult with management in performance management process (e.g., employee reviews, promotions, and recognition programs).
10 Support performance activities (e.g., coaching, performance improvement plans, and involuntary separations) and employment activities (e.g., job eliminations, and reductions in force) managing corresponding legal risks.

SPHR CONTENT DOMAINS WITH ASSOCIATED RESPONSIBILITIES

01: Leadership and Strategy (40 percent)

Leading the HR function by developing HR strategy, contributing to organizational strategy, influencing people management practices, and monitoring risk.

Responsibilities:

01 Develop and execute HR plans that are aligned to the organization's strategic plan (e.g., HR strategic plans, budgets, business plans, service delivery plans, HRIS, and technology).
02 Evaluate the applicability of federal laws and regulations to organizational strategy (e.g., policies, programs, practices, and business expansion/reduction).
03 Analyze and assess organizational practices that impact operations and people management to decide on the best available risk management strategy (e.g., avoidance, mitigation, and acceptance).
04 Interpret and use business metrics to assess and drive achievement of strategic goals and objectives (e.g., key performance indicators, financial statements, and budgets).
05 Design and evaluate HR data indicators to inform strategic actions within the organization (e.g., turnover rates, cost per hire, and retention rates).
06 Evaluate credibility and relevance of external information to make decisions and recommendations (e.g., salary data, management risks, published surveys and studies, and legal/regulatory analysis).
07 Contribute to the development of the organizational strategy and planning (e.g., vision, mission, values, and ethical conduct).
08 Develop and manage workplace practices that are aligned with the organization's statements of vision, values, and ethics to shape and reinforce organizational culture.
09 Design and manage effective change strategies to align organizational performance with the organization's strategic goals.
10 Establish and manage effective relationships with key stakeholders to influence organizational behavior and outcomes.

02: Talent Planning and Acquisition (16 percent)

Forecast organizational talent needs and develop strategies to attract and engage new talent.

Responsibilities:

01 Evaluate and forecast organizational needs throughout the business cycle to create or develop workforce plans (e.g., corporate restructuring, workforce expansion, or reduction).

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02 Develop, monitor, and assess recruitment strategies to attract desired talent (e.g., labor market analysis, compensation strategies, selection process, onboarding, and sourcing and branding strategy).
03 Develop and evaluate strategies for engaging new employees and managing cultural integrations (e.g., new employee acculturation, downsizing, restructuring, mergers and acquisitions, divestitures, and global expansion).

03: Learning and Development (12 percent)

Develop training, development, and employee retention strategies.

Responsibilities:

01 Develop and evaluate training strategies (e.g., modes of delivery, timing, and content) to increase individual and organizational effectiveness.
02 Analyze business needs to develop a succession plan for key roles (e.g., identify talent and outline career progression, coaching, and development) to promote business continuity.
03 Develop and evaluate employee retention strategies and practices (e.g., assessing talent, developing career plans, and managing job movement within the organization).

04: Total Rewards (12 percent)

Monitor the effectiveness of compensation and benefit strategies for attracting, rewarding, and retaining talent.

Responsibilities:

01 Analyze and evaluate compensation strategies (e.g., philosophy, classification, direct, indirect, incentives, bonuses, equity, and executive compensation) that attract, reward, and retain talent.
02 Analyze and evaluate benefit strategies (e.g., health, welfare, retirement, recognition programs, work–life balance, and wellness) that attract, reward, and retain talent.

05: Employee Relations and Engagement (20 percent)

Develop and/or monitor strategies impacting employee satisfaction and performance management, including diversity and inclusion, safety, security, and labor strategies.

Responsibilities:

01 Design and evaluate strategies for employee satisfaction (e.g., recognition and career path) and performance management (e.g., performance evaluation, corrective action, and coaching).
02 Analyze and evaluate strategies to promote diversity and inclusion.
03 Evaluate employee safety and security strategies (e.g., emergency response plan, building access, and data security/privacy).
04 Develop and evaluate labor strategies (e.g., collective bargaining, grievance program, concerted activity, staying union free, and strategically aligning with labor).

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	Professional in Human Resources (PHR®)	Senior Professional in Human Resources (SPHR®)	Global Professional in Human Resources (GPHR®)
Exam Eligibility Requirements	Minimum of one year of experience with a Master's degree or higher, OR two years of experience with a Bachelor's degree, OR four years of experience with less than a Bachelor's degree.	Minimum of four years of experience with a Master's degree or higher, OR five years of experience with a Bachelor's degree, OR seven years of experience with less than a Bachelor's degree.	Minimum of two years global experience with a Master's degree, OR three years experience with a Bachelor's degree, OR four years experience with a less than a Bachelor's degree.
Profile of a Successful Candidate	Has one to four years of professional (exempt-level) generalist experience.	Has four to seven years of progressive professional (exempt-level) experience.	Responsible for HR activities in more than one country.
	Focuses on program implementation rather than creation.	Designs and plans rather than implementation.	Establishes HR policies and practices to support organizational's global growth and reputation.
	Focuses within the HR function rather than organization-wide.	Makes decisions that have an impact within and outside the organization.	Develops and implements international HR strategies that affect international HR assignments and operations.

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APPENDIX C

Human Resource Management Resources

Students should be familiar with the professional resources and literature in their areas of study. Four groups of resources are listed in this appendix.

A. Research-Oriented Journals

In the field of HR management, academic journals are often a communication link between researchers and practicing managers. These journals contain articles that report on original research studies that expand the discipline. They often contain quantitative verifications of the author's findings or conceptual models and literature reviews of previous research.

Academy of Management Journal
Academy of Management Review
Administrative Science Quarterly
American Behavioral Scientist
American Journal of Health Promotion
American Journal of Psychology
American Journal of Sociology
American Psychologist
American Sociological Review
Annual Review of Psychology
Applied Psychology: An International Review
British Journal of Industrial Relations
British Journal of Management
Business Ethics Quarterly
Career Development Quarterly
Decision Sciences
Dispute Resolution Quarterly
Employee Relations
Employee Responsibilities and Rights Journal
Entrepreneurship Theory and Practice
Ethics and Critical Thinking Journal
Group & Organization Management
Human Organization
Human Relations
Human Resource Development Quarterly
Human Resource Development Review
Human Resource Management
Human Resource Management Journal
Human Resource Management Review
Human Resources Abstracts
Industrial and Labor Relations Review
Industrial Relations
Industrial Relations Journal
Industrial Relations Law Journal
International Journal of Entrepreneurial Behavior and Research
International Journal of Human Resource Management Education
International Journal of Management Reviews
International Journal of Selection and Assessment
International Journal of Training and Development
Journal of Abnormal Psychology
Journal of Applied Behavioral Science
Journal of Applied Business Research
Journal of Applied Psychology
Journal of Applied Social Psychology
Journal of Business and Industrial Marketing
Journal of Business and Psychology
Journal of Business Communication
Journal of Business Ethics
Journal of Business Research
Journal of Business Strategy
Journal of Collective Negotiations
Journal of Comparative International Management
Journal of Compensation and Benefits
Journal of Counseling Psychology
Journal of Employment Counseling
Journal of Experimental Social Psychology
Journal of Human Resources
Journal of Industrial Relations
Journal of International Business Studies
Journal of International Management
Journal of Knowledge Management
Journal of Labor Economics
Journal of Labor Research
Journal of Leadership and Organizational Studies
Journal of Management
Journal of Management Development
Journal of Management Education
Journal of Management Studies
Journal of Managerial Psychology
Journal of Occupational and Organizational Psychology
Journal of Organizational Behavior

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Journal of Organizational Change Management
Journal of Organizational Excellence
Journal of Personality and Social Psychology
Journal of Personal Selling & Sales Management
Journal of Quality and Participation
Journal of Social Issues
Journal of Social Psychology
Journal of Vocational Behavior
Journal of Workplace Learning
Journal of Workplace Rights
Management Communication Quarterly
New Technology, Work, and Employment
Organization Behavior and Human Decision Processes
Personnel Psychology
Personnel Review
Psychological Bulletin
Psychological Review
Public Personnel Management
Quarterly Review of Distance Education
Small Group Research
Social Forces
Social Science Research
Work and Occupations

B. Selected Professional/ Managerial Journals

These journals generally cover a wide range of applied topics. Articles in these publications are often aimed at HR professionals, organizational managers, and other business leaders. Most articles in these publication outlets are written to interpret, summarize, or discuss the implications of research. They also provide operational and administrative ideas.

Academy of Management Perspectives
Australian Journal of Management
Benefits and Compensation Solutions
Berkeley Journal of Employment and Labor Law
Business Horizons
Business Journal
Business Week
California Management Review
Columbia Journal of World Business
Compensation and Benefits Review
Corporate Governance
Directors and Boards
Economist
Employee Benefit Plan Review
Employee Benefits News
Employee Relations
Employment Relations Today
Forbes
Fortune
Global HR
Harvard Business Review
Health Resources and Services Administration
HR Magazine
Human Capital Management
Human Resource Development International
Human Resource Executive
Human Resource Management International Digest
IHRIM Link
INC.
Industry Week
International Management
Journal of Network and Systems Management
Labor Law Journal
Long Range Planning
Management Research News
Management Review
Management Today
Managers Magazine
Monthly Labor Review
Nation's Business
Occupational Health and Safety
Occupational Outlook Quarterly
Organizational Dynamics
Pension World
People & Strategy Journal
Personnel Management
Psychology Today
Public Administration Review
Public Manager
Public Opinion Quarterly
SAM Advanced Management Journal
Security Management
Sloan Management Review
TD Magazine
Training
Training and Development
Workforce Management
Working Woman
Workplace Visions
Workspan
WorldatWork Journal

C. Selected Human Resource Associations/Organizations

Academy of Management
www.aom.pace.edu
American Arbitration Association
www.adr.org
American Federation of Labor/Congress of Industrial Organizations (AFL-CIO)
www.aflcio.org

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American Institute for Managing Diversity
www.aimd.org
American Management Association
www.amanet.org
American Payroll Association
www.americanpayroll.org
American Psychological Association
www.apa.org
American Society for Industrial Security
www.asisonline.org
Association for Talent Development
www.td.org
Australian Human Resource Institute
www.ahri.com.au
Chartered Institute of Personnel and Development (UK)
www.cipd.co.uk
CPR International Institute for Conflict Prevention and Resolution
www.cpradr.org
Employee Benefit Research Institute
www.ebri.org
Foundation for Enterprise Development
www.fed.org
Hong Kong Institute of Human Resource Management
www.hkihrm.org
HR People & Strategy
www.hrps.org
Human Resource Certification Institute
www.hrci.org
International Association for Human Resource Information Management
www.ihrim.org
International Association of Industrial Accident Boards and Commissions
www.iaiabc.org
International Foundation of Employee Benefit Plans (IFEBP)
www.ifebp.org
International Institute of Human Resource Management
www.iihrm.org
International Personnel Assessment Council
www.ipacweb.org
International Personnel Management Association
www.ipma-hr.org
Labor and Employment Relations Association
www.lera.uiuc.edu
National Center for Employee Ownership
www.nceo.org
National Health Information Resource Center
www.nhirc.org
Social Media Policies
Society for Industrial and Organizational Psychology
www.socialmediagovernance.com
Society for Human Resource Management
www.shrm.org
Union Resource Network
www.unions.org
WorldatWork
www.worldatwork.org
World Federation of People Management Associations
www.wfpma.com

D. Selected Government Agencies Related to HR

Bureau of Labor Statistics
www.bls.gov
Census Bureau
www.census.gov
Department of Labor
www.dol.gov
Employment and Training Administration
www.doleta.gov
Equal Employment Opportunity Commission
www.eeoc.gov
FedStats
www.fedstats.gov
National Institute of Environmental Health Sciences
www.niehs.nih.gov
National Institute for Occupational Safety and Health (NIOSH)
www.cdc.gov/niosh
National Labor Relations Board
www.nlrb.gov
Occupational Safety and Health Administration
www.osha.gov
Office of Personnel Management
www.opm.gov
Pension and Welfare Benefits Administration
www.dol.gov/ebsa
Pension Benefit Guaranty Corporation
www.pbgc.gov
Small Business Administration
www.sba.gov
Social Security Administration
www.ssa.gov
U.S. House of Representatives
www.house.gov
U.S. Senate
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APPENDIX D

Major Federal Equal Employment Opportunity Laws and Regulations

Act	Year	Key Provisions	Covered Employers
Broad-Based Discrimination			
Title VII, Civil Rights Act of 1964	1964	Prohibits employment discrimination on the basis of race, color, religion, sex, or national origin	Employers with 15+ employees
Executive Orders 11246 and 11375	1965 1967	Require federal contractors and subcontractors to eliminate employment discrimination and prior discrimination through affirmative action	Federal contractors with 50+ employees and a government contract of $50,000 or more
Civil Rights Act of 1991	1991	Overturns several past Supreme Court decisions and changes damage claims provisions	Employers with 15+ employees
Congressional Accountability Act	1995	Extends EEO and Civil Rights Act provisions to U.S. congressional staff	U.S. Congress
Military Status			
Vietnam Era Veterans' Readjustment Assistance Act	1974	Prohibits discriminations against Vietnam-era veterans; requires affirmative action and annual reporting of veteran employment	Federal contractors and subcontractors with a contract of $25,000 or more
Uniformed Services Employment and Reemployment Rights Act	1994	Protects members of the uniformed services from discrimination in employment and provides for reinstatement to their job upon return from active duty	All employers
National Origin Discrimination			
Immigration Reform and Control Act	1986 1990 1996	Establishes penalties for employers who knowingly hire illegal aliens/immigrants; prohibits employment discrimination on the basis of national origin or citizenship	Employers with 15+ employees
Gender/Sex Discrimination			
Equal Pay Act	1963	Requires equal pay for men and women performing substantially the same work	All employers
Pregnancy Discrimination Act	1978	Prohibits discrimination against women affected by pregnancy, childbirth, or related medical conditions; requires that they be treated as all other employees for employment-related purposes, including benefits	Employers with 15+ employees

(*Continued*)

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Act	Year	Key Provisions	Covered Employers
Age Discrimination			
Age Discrimination in Employment Act (as amended in 1978 and 1986)	1967	Prohibits discrimination against persons over age 40 and restricts mandatory retirement requirements, except where age is a bona fide occupational qualification	Employers with 20+ employees
Older Workers Benefit Protection Act of 1990	1990	Prohibits age-based discrimination in early retirement and other benefit plans	Employers with 20+ employees
Disability Discrimination			
Vocational Rehabilitation Act and Rehabilitation Act of 1974	1973 1974	Prohibits federal contractors from discriminating against individuals with disabilities	Federal contractors and subcontractors with a contract of $25,000 or more
Americans with Disabilities Act	1990	Requires employer accommodations for individuals with disabilities	Employers with 15+ employees
Genetic Information Nondiscrimination Act	2009	Prohibits employers and health insurers from using genetic information in employment and insurance coverage decisions	Employers with 20+ employees

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APPENDIX E

Uniform Guidelines on Employee Selection

The 1978 Uniform Guidelines on Employee Selection Procedures are used by the U.S. Equal Employment Opportunity Commission (EEOC), the U.S. Department of Labor's Office of Federal Contract Compliance Programs (OFCCP), the U.S. Department of Justice, and the U.S. Office of Personnel Management. These guidelines explain how an employer should deal with decisions and actions related to hiring, retention, promotions, transfers, demotions, dismissals, and referrals. Under the Uniform Guidelines, if sued, employers can choose one of two routes to prove they are not illegally discriminating against employees: no disparate impact and job-related validity.

No Disparate Impact Approach

In general, the most important issue regarding discrimination in organizations is the *effect* of employment policies and procedures, regardless of the *intent* of the employer. *Disparate impact* occurs when members of a protected class are substantially underrepresented in employment decisions. Under the guidelines, disparate impact is determined with the *4/5ths rule.* If the selection rate for a protected group is less than 80 percent (4/5ths) of the selection rate for the majority group or less than 80 percent of the majority group's representation in the relevant labor market, discrimination exists. Thus, the guidelines have attempted to define discrimination in statistical terms. The use of the statistical means has been researched, and some methodological issues have been identified. However, the guidelines continue to be used because disparate impact is checked by employers both internally and externally.

Internal Metrics for Disparate Impact Internal disparate impact metrics compare the results of employer actions involving by protected-class members with those involving nonprotected-class members within the organization. HR activities that can be checked most frequently for internal disparate impact include the following:

- Selection of candidates for interviews from those recruited
- Pass rates for various selection tests
- Performance appraisal ratings as they affect pay increases
- Promotions, demotions, and terminations
- Identification of individuals for layoffs

The calculation that follows computes the internal disparate impact for men and women who were interviewed for jobs at a firm. In this case, the figure indicates that the selection process does have a disparate impact internally. The practical meaning of these calculations is that statistically women have less chance of being selected for jobs than men do. Thus, illegal discrimination may exist unless the firm can demonstrate that its selection activities are specifically job related.

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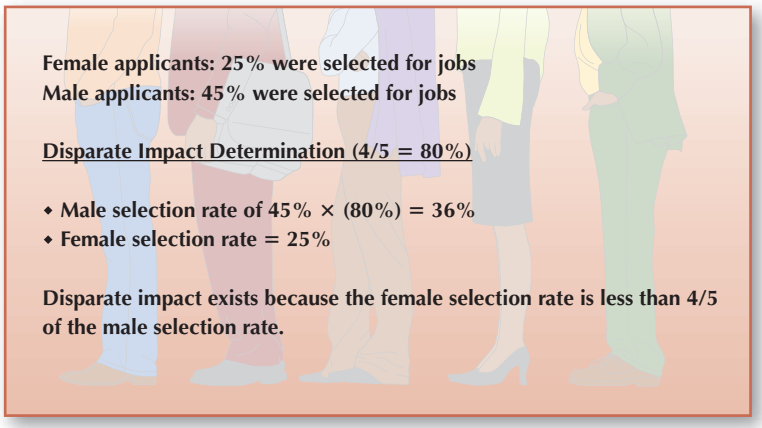
Internal Disparate Impact (Example)



External Metrics for Disparate Impact Employers can check for disparate impact externally by comparing the percentage of protected-class members in their workforces with the percentage of protected-class members in the relevant labor markets. The relevant labor markets consist of the areas where the firm attempts to recruit workers, not just where those who are employed live. External comparisons can also consider the percentage of protected-class members who are recruited and who apply for jobs to ensure that the employer has drawn a "representative sample" from the relevant labor markets. Although employers are not required to maintain exact proportionate equality, they must be "close." Courts have applied statistical analyses to determine if any disparities that exist are too high.

The following example illustrates external disparate impact metrics using analyses for a sample metropolitan area, Valleyville. Assume that a firm in that area, Acme Company, has 500 employees, including 50 African Americans and 75 Latinos/Hispanics. To determine if the company's workforce reflects external disparate impact, it is possible to make the following comparisons:

Protected Class	% of Total Employees at Acme Company	4/5 of Group in the Population	Disparate Impact?
African American	10% (50/500)	13.6%	Yes (10% < 13.6%)
Latino/Hispanic	15% (75/500)	14.4%	No (15% > 14.4%)

At Acme, external disparate impact exists for African Americans because the company employs fewer of them than the 4/5ths threshold of 13.6 percent. However, because Acme has more Latino/Hispanic employees than the 4/5ths threshold of 14.4 percent, there is no disparate impact for this group.

Statistical comparisons for determining disparate impact may use more complex methods. HR professionals need to know how to perform such calculations because external disparate impact must be computed and reported in affirmative action plans that government contractors submit to regulatory agencies.

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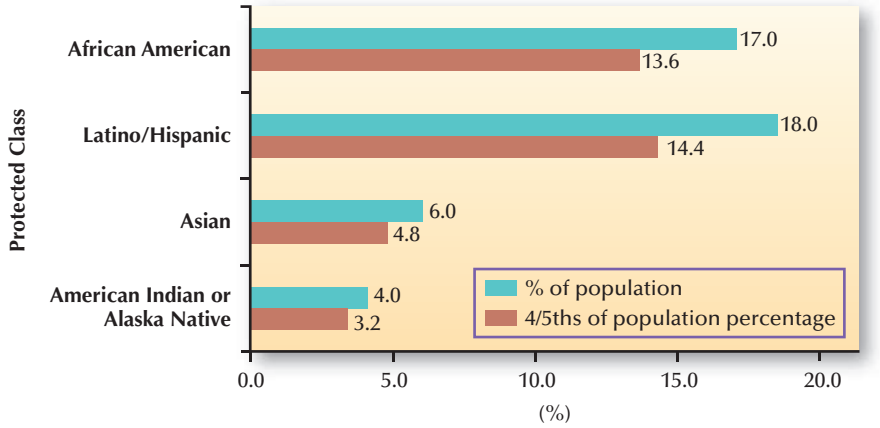
Racial Distribution in Valleyville (Example)



Job-related Validation Approach

Under the job-related validation approach, virtually every factor used to make employment-related decisions is considered an employment "test." Such activities as recruiting, selection, promotion, termination, discipline, and performance appraisal all must be shown to be job related. Hence, two basic concepts, reliability and validity, affect many of the common means used to make HR decisions. Ideally, employment-related tests will be both reliable and valid.

Reliability and Validity *Reliability* refers to the consistency with which a test measures an item. For a test to be reliable, an individual's score should be about the same every time the individual takes the test (allowing for the effects of practice). Unless a test measures a factor consistently (reliably), it is of little value in predicting job performance.

Validity is simply the extent to which a test actually measures what it says it measures. The concept relates to inferences made from tests. For instance, it may be valid to assume that performance on a mechanical knowledge test may predict performance of a machinist in a manufacturing plant. However, it is probably not valid to assume that the same test scores indicate general intelligence or promotability for a manufacturing sales representative. Another example would be a general intelligence test; for it to be valid, it must actually measure intelligence, not just a person's vocabulary. Therefore, an employment test that is valid must measure the person's ability to perform the job for which she or he is being hired.

Validity and Equal Employment If a charge of discrimination is brought against an employer on the basis of disparate impact, a *prima facie* case must be established. The employer then must be able to demonstrate that its employment procedures are valid and job related. A key element in establishing job-relatedness is conducting a *job analysis* to identify the *knowledge, skills, and abilities (KSAs)* along with other characteristics needed to perform a job satisfactorily. In one sense, then, current requirements have done management a favor by forcing employers to use job-related employment procedures.

There are two categories of validity in which employment tests attempt to predict how well an individual will perform on the job. In measuring *criterion-related validity,* a test is the *predictor,* and the measures for job performance are the *criterion variables.* Job analysis determines as exactly as possible what KSAs and behaviors are needed for each task in the job. Two types of criterion-related validity are *predictive validity* and *concurrent validity.*

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Content validity is validity measured by a logical, nonstatistical method to identify the KSAs and other characteristics necessary to perform a job. Managers, supervisors, and HR specialists must then identify the most important KSAs needed for the job. Finally, a "test" is devised to determine if individuals have the necessary KSAs. The test may be an interview question about previous supervisory experience, an ability test in which someone types a letter using a word-processing software program or a knowledge test about consumer credit regulations.

A test has content validity if it reflects an actual sample of the work done on the job in question. For example, an arithmetic test for a retail cashier might contain problems about determining amounts for refunds, purchases, and merchandise exchanges. Content validity is especially useful if the workforce is not large enough to allow other, more complex statistical approaches.

Many practitioners and specialists see content validity as a commonsense standard for validating staffing and other employment dimensions and as more realistic than other means. Research and court decisions have shown that content validity is consistent with the Uniform Guidelines. Consequently, content validity approaches are growing in use.

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APPENDIX F

Pre-Employment Inquiries

Many equal employment opportunity (EEO) complaints occur because of inappropriate pre-employment inquiries. Questions asked of applicants may be viewed as discriminatory or biased against applicants based on a protected class or characteristic. This appendix identifies pre-employment inquiries that may or may not be discriminatory. Based on the findings of court cases, the pre-employment inquiries labeled "may be discriminatory" should be avoided in almost all cases. Those labeled "may not be discriminatory" are legal but only if they reflect a business necessity or are job related. Once an employer tells an applicant that he or she is hired (the "point of hire"), inquiries that were prohibited earlier may be made. After hiring, medical examination forms, group insurance cards, and other enrollment cards containing inquiries related directly or indirectly to sex, age, or other bases may be requested.

Guidelines to Lawful and Unlawful Pre-Employment Inquiries

Subject of Inquiry	It May Not Be Discriminatory to Inquire about …	It May Be Discriminatory to Inquire about …
1. Name	a. Whether applicant has ever worked under a different name	a. The original name of applicant whose name has been legally changed b. The ethnic association of applicant's name
2. Age	a. If applicant is over the age of 18 b. If applicant is under the age of 18 or 21 if that information is job related (e.g., for selling liquor in a retail store)	a. Date of birth b. Date of high school graduation
3. Residence	a. Applicant's place of residence b. Alternative contact information	a. Previous addresses b. Birthplace of applicant or applicant's parents c. Length lived at current and previous addresses
4. Race or color		a. Applicant's race or color of applicant's skin
5. National origin and ancestry		a. Applicant's lineage, ancestry, national origin, parentage, or nationality b. Nationality of applicant's parents or spouse
6. Sex and family composition		a. Sex of applicant b. Marital status of applicant c. Dependents of applicant or child care arrangements d. Whom to contact in case of emergency

(*Continued*)

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Subject of Inquiry	It May Not Be Discriminatory to Inquire about …	It May Be Discriminatory to Inquire about …
7. Creed or religion		a. Applicant's religious affiliation b. Applicant's church, parish, mosque, or synagogue c. Holidays observed by applicant
8. Citizenship	a. Whether the applicant is a U.S. citizen or has a current permit/visa to work in the United States	a. Whether applicant is a citizen of a country other than the United States b. Date of citizenship
9. Language	a. Language applicant speaks and/or writes fluently, if job related	a. Applicant's native language b. Language used at home
10. References	a. Names of persons willing to provide professional and/or character references for applicant b. Previous work contacts	a. Name of applicant's religious leader b. Political affiliation and contacts
11. Relatives	a. Names of relatives already employed by the employer	a. Name and/or address of any relative of applicant b. Whom to contact in case of emergency
12. Organizations	a. Applicant's membership in any professional, service, or trade organization	a. All clubs or social organizations to which applicant belongs
13. Arrest record and convictions	a. Convictions, if related to job performance (disclaimer should accompany)	a. Number and kinds of arrests b. Convictions, unless related to job requirements and performance
14. Photographs		a. Photographs with application, with résumé, or before hiring
15. Height and weight		a. Any inquiry into height and weight of applicant, except where a bona fide occupational qualification (BFOQ) exists
16. Physical limitations	a. Whether applicant has the ability to perform job-related functions with or without accommodation	a. The nature or severity of an illness or physical condition b. Whether applicant has ever filed a workers' compensation claim c. Any recent or past operations, treatments, or surgeries and dates
17. Education	a. Training applicant has received, if related to the job b. Highest level of education applicant has attained, if validated that having certain educational background (e.g., high school diploma or college degree) is needed to perform the specific job	a. Date of high school graduation
18. Military	a. Branch of the military applicant served in and ranks attained b. Type of education or training received in military	a. Military discharge details b. Military service records
19. Financial status		a. Applicant's debts or assets b. Garnishments

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APPENDIX G

Equal Employment Opportunity Enforcement

Enforcement of equal employment opportunity (EEO) laws and regulations in the United States is often viewed as a work in progress that can be inconsistent, confusing, and challenging for managers. The court system is left to resolve the disputes and interpret the laws, but the lower courts often issue conflicting rulings and interpretations. The ultimate interpretation rests on decisions by the U.S. Supreme Court, although those rulings have also been interpreted differently.

EEO Enforcement Agencies

Government agencies at several levels can investigate illegal discriminatory practices. At the federal level, the two most prominent agencies are the Equal Employment Opportunity Commission (EEOC) and the Office of Federal Contract Compliance Programs (OFCCP).

Equal Employment Opportunity Commission The EEOC has enforcement authority for charges brought under a number of federal laws. Further, the EEOC issues policy guidelines on many topics that influence EEO. Although the policy statements are not "law," they are "persuasive authority" in most cases.

Office of Federal Contract Compliance Programs While the EEOC is an independent agency, the OFCCP is part of the U.S. Department of Labor and ensures that federal contractors and subcontractors use nondiscriminatory practices. A major goal of the OFCCP efforts is to ensure that covered employers take affirmative action to counter prior discriminatory practices.

State and Local Agencies In addition to federal laws and orders, many states and municipalities have enacted their own laws prohibiting discrimination on a variety of bases, and state and local enforcement bodies have been established. Compared with federal laws, state and local laws sometimes provide greater remedies, require different actions, or prohibit discrimination in more areas.

EEO Compliance

Employers must comply with a variety of EEO regulations and guidelines, and to do so, it is essential that they have a written EEO policy statement. Employers should widely communicate this policy by posting it on bulletin boards, printing it in employee handbooks, reproducing it in organizational newsletters, and reinforcing it in training programs. The contents of the policy should clearly state the organization's commitment to equal employment and incorporate a list of the appropriate protected classes.

Additionally, organizations that have 15 or more employees may be required to keep certain records that can be requested by the EEOC, the OFCCP, or numerous other state and local enforcement agencies. Under various laws, employers are also required to post an "officially approved notice" in a prominent place for employees. The notice must state that the employer is an equal opportunity employer and does not discriminate.

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EEO Records Retention All employment records must be maintained as required by the EEOC. Such records include application forms and documents concerning hiring, promotion, demotion, transfer, layoff, termination, rates of pay or other terms of compensation, and selection for training and apprenticeship. Even application forms or test papers completed by unsuccessful applicants may be requested. The length of time documents must be kept varied, but generally three years is recommended as a minimum. Complete records are necessary to enable an employer to respond should a charge of discrimination be made.

EEOC Reporting Forms Many private-sector employers must file a basic report annually with the EEOC. Slightly different reports must be filed biennially by state/local governments, local unions, and school districts. The following private-sector employers must file the EEO-1 report annually:

- All employers with 100 or more employees, except state and local governments
- Subsidiaries of other companies if the total number of all combined employees equals 100 or more
- Federal contractors with at least 50 employees and contracts of $50,000 or more
- Financial institutions with at least 50 employees, in which government funds are held or saving bonds are issued

Details on employees must be reported by gender, race/ethnic group, and job levels. Employees may be classified as belonging to two or more races which reflects the diverse nature of a growing proportion of the workforce.

Applicant-Flow Data Under EEO laws and regulations, employers may be required to show that they do not discriminate when recruiting and selecting members of protected classes. Because employers are not allowed to collect such data on application forms and other pre-employment records, the EEOC allows them to do so with a separate applicant-flow form that is not used in the selection process. Applicants voluntarily complete *applicant-flow forms*, and the data must be maintained separately from other selection-related materials. Since many applications are submitted online, employers must collect this data electronically to comply with regulations on who is an applicant. Analyses of the data collected in applicant-flow forms may help to show whether an employer has underutilized a protected class because of an inadequate flow of applicants from that class, in spite of special efforts to recruit them. Also, these data are reported as part of affirmative action plans that are filed with the OFCCP.

EEOC Compliance Investigation Process When a discrimination complaint is received by an employer, it must be processed, whether it is made internally by a disgruntled employee or by an outside agency. The following chart shows the steps required in an employer's response to an EEO complaint.

Notice that the employer should have a formal complaint process in place and should be sure that no retaliatory action occurs. Internal investigations can be conducted by HR staff, but HR departments often utilize outside legal counsel to provide expert guidance when dealing with agency investigations. Internal investigations should also occur when employees make complaints without filing them with outside agencies. Once the employer has completed the investigation, the decision must be made whether to negotiate and settle the complaint or oppose the complaint.

EEOC Complaint Process To handle the growing number of complaints, the EEOC and other agencies have instituted a system that puts complaints into three categories: *priority*, *needing further investigation*, and *immediate dismissal*. If the EEOC decides to pursue a complaint, the process outlined here is used, and the employer must determine how to respond.

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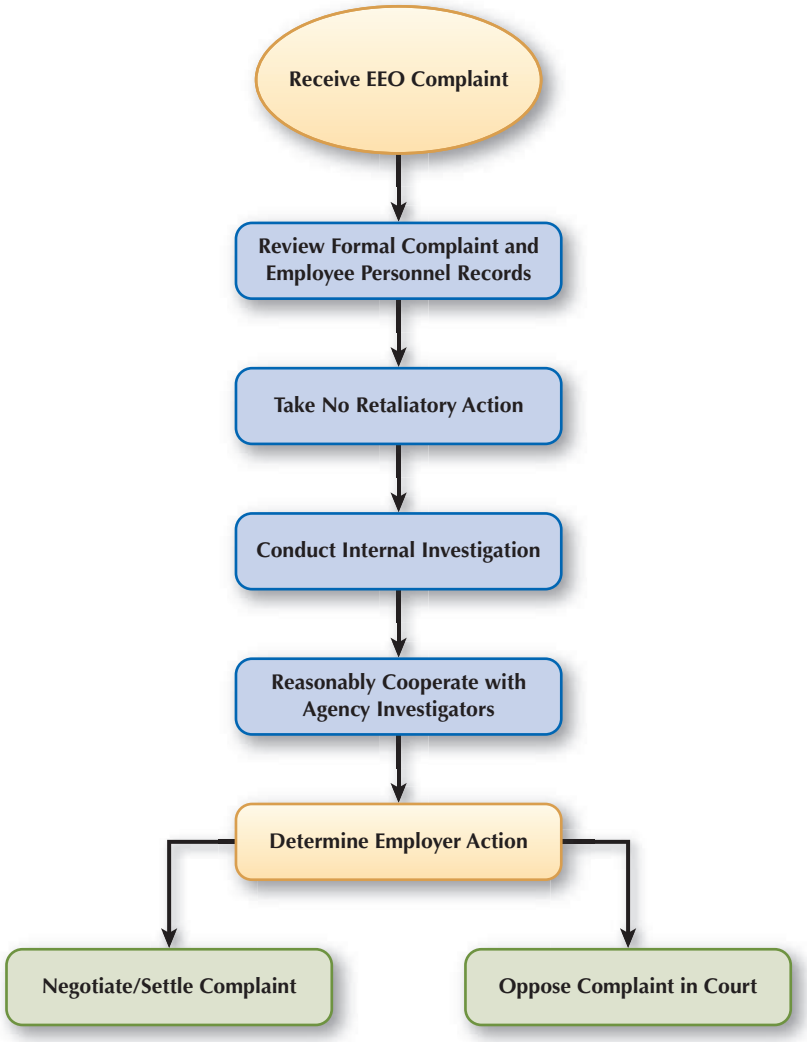
Stages in the Employer's Response to an EEO Complaint



A typical EEO complaint goes through several stages before the compliance process is completed. On average, a complaint takes 182 days to resolve. First, the charges are filed by an individual, a group of individuals, or a representative. A charge must be filed within 180 days of the alleged discriminatory action. Then the EEOC staff reviews the specifics of the charge to determine if it has *jurisdiction*, which means that the agency is authorized to investigate that type of charge. If the EEOC has jurisdiction, it must serve a notice of the charge on the employer within 10 days of the filing. Then the employer is asked to respond. Following the charge notification, the major effort of the EEOC turns to investigating the complaint.

Prior to undertaking its investigation, the EEOC will attempt to resolve the charge through mediation or settlement. This voluntary process must be agreed to by both parties, and it can greatly reduce the documentation burden on the company and save time. However, electing to mediate or settle is a business decision that the company should consider carefully before choosing a course of action.

If the parties elect not to mediate or settle, then the EEOC will begin its investigation. The investigation may involve interviews with the complainants, other employees, company managers, and supervisors. The agency may also request additional records and documents from the employer

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and ask for a position statement detailing the employer's side of the story. In some cases, EEOC investigators will conduct an on-site visit to gather additional information. After all information has been collected and evaluated, the EEOC investigator will come to a conclusion on the merits of the charge.

The EEOC may determine that there is no reasonable cause to believe that illegal discrimination has occurred. In such a case, the charging party is issued a dismissal and notice of rights letter. The charging party may then file a lawsuit in federal court within 90 days of receiving the letter.

If sufficient cause is found to support charges that alleged discrimination occurred, then both parties are invited to resolve the complaint through a voluntary conciliation process. The EEOC strongly encourages the use of conciliation, and 47 percent of charges were resolved in this manner in 2014. If the employer agrees that discrimination has occurred and accepts the proposed settlement, then the employer posts a notice of relief within the company and takes the agreed-on actions.

In cases where the EEOC determines that illegal discrimination has occurred, but the parties cannot resolve the matter in conciliation, then the agency will file a lawsuit in federal court and prosecute the issue. In the litigation stage, a trial takes place in the appropriate state or federal court. At that point, both sides retain lawyers and rely on the court to render a decision. The Civil Rights Act of 1991 provides for jury trials in most EEO cases. If either party disagrees with the court ruling, an appeal can be filed with a higher court. The U.S. Supreme Court becomes the ultimate adjudication body.

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GLOSSARY

401(k) plan Plan in which a percentage of an employee's pay is withheld and invested in a tax-deferred account

A

Absenteeism Any failure by an employee to report for work as scheduled or to stay at work when scheduled

Acceptance rate Percentage of applicants hired divided by total number of applicants offered jobs

Acquisition One company being bought by another, which typically results in the acquired company being folded into the acquirer's business

Active practice Trainees perform job-related tasks and duties during training

Adult learning (also known as andragogy) Ways in which adults learn differently than do younger people

Adverse selection Situation in which only higher-risk employees select and use certain benefits

Affinity groups Groups for employees with a common interest or characteristic

Affirmative action Proactive employment practices to make up for historical discrimination against women, minorities, and individuals with disabilities

Affirmative action program (AAP) A document that outlines proactive steps the organization will take to attract and hire members of underrepresented groups

Alternate work arrangements Nontraditional schedules that provide flexibility to employees

Applicant pool All persons who are actually evaluated for selection

Applicant population A subset of the labor force population that is available for selection using a particular recruiting approach

Arbitration Process that uses a neutral third party to make a binding decision, thereby eliminating the need to involve the court

Assessment centers Collections of test instruments and exercises designed to diagnose an individual's development needs

Attitude survey A survey that focuses on employees' feelings and beliefs about their jobs and the organization

Attraction-selection-attrition (ASA) theory Job candidates are attracted to and selected by firms where similar types of individuals are employed, and individuals who are very different quit their jobs to work elsewhere

Auto-enrollment Process by which employee contributions to a 401(k) plan are started automatically when an employee is eligible to join the plan

Auto-escalation Automatic increases of 1 percent a year to a 401(k) plan

Autonomy Extent of individual freedom and discretion in the work and its scheduling

B

Balanced scorecard A framework organizations use to report on a diverse set of performance measures

Bargaining unit Employees eligible to select a single union to represent and bargain collectively for them

Base pay Basic compensation that an employee receives, often as an hourly wage or salary

Behavioral interview Interview in which applicants give specific examples of how they have performed a certain task or handled a problem in the past

Behaviorally anchored rating scale Scale that describes specific examples of job behavior, which are then "anchored" or measured against a scale of performance levels

Behavioral modeling Copying someone else's behavior

Benchmarking The process of comparing an organization's business results to industry standards or best practices

Benchmark jobs Jobs that are found in many other organizations that can be used for the purposes of comparison

Benefit A tangible indirect reward given to an employee or group of employees as part of membership in the organization, regardless of performance

Blended learning Learning approach that combines short, fast-paced, interactive computer-based lessons and teleconferencing with traditional classroom instruction and simulation

Bona fide occupational qualification (BFOQ) Characteristic providing a legitimate reason an employer can exclude persons on otherwise illegal bases of consideration

Bonus One-time payment that does not become part of the employee's base pay

Bring your own device (BYOD) The practice of employees using their own mobile devices such as smartphones and digital tablets in the workplace

Broadbanding Practice of using fewer pay grades with much broader ranges than in traditional compensation systems

Bullying Behavior that the target perceives as oppressive, humiliating, threatening, or infringing on the target's human rights and that occurs over an extended period of time

Burden of proof What individuals who file suit against employers must prove to establish that illegal discrimination has occurred

Business necessity A practice that is necessary for safe and efficient organizational operations

C

Career Series of work-related positions a person occupies throughout his or her life

Career paths Represent employees' movements through opportunities over time

Central tendency error Occurs when a rater gives all employees a score within a narrow range in the middle of the scale

Churn Hiring new workers while laying off others

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Clawback provision Provision which permits the organization to require an employee to return rewards obtained through unethical or negligent actions

Closed shop Employer that requires individuals to join a union before they can be hired

Coaching A collaborative process focused on improving individual performance

Codetermination Practice in which union or worker representatives are given positions on a company's board of directors.

Cognitive ability tests Tests that measure an individual's thinking, memory, reasoning, verbal, and mathematical abilities

Collective bargaining Process whereby representatives of management and workers negotiate over wages, hours, and other terms and conditions of employment

Commission A percentage of the revenue generated by sales that is given to an agent or salesperson

Compa-ratio Pay level divided by the midpoint of the pay range

Compensable factor Job dimension commonly present throughout a group of jobs within an organization that can be rated for each job

Competencies Individual capabilities that can be linked to enhanced performance by individuals or teams

Competency-based pay Rewards individuals for the capabilities they demonstrate and acquire

Complaint Indication of employee dissatisfaction

Compressed workweek A workweek in which a full week's work is accomplished in fewer than five days of eight working hours each

Conciliation Process by which a third party facilitates the dialogue between union and management negotiators to reach a voluntary settlement

Concurrent validity Measured when an employer tests current employees and correlates the scores with their performance ratings

Constructive discharge Process of deliberately making conditions intolerable to get an employee to quit

Consumer-driven health (CDH) plan Health plan that provides employer financial contributions to employees to help cover their health-related expenses

Contingent worker Someone who is not a full-time employee but is a temporary or freelance worker for a specific period of time and type of work

Contractual rights Rights based on a specific contract between an employer and an employee

Contrast error Tendency to rate people relative to others rather than against performance standards

Copayments The portion of medical expenses paid by the insured individual for medical treatment

Core competency A unique capability that creates high value for a company

Core workers Employees who are foundational to the business

Cost–benefit analysis Comparison of costs and benefits associated with training

Coworking space Communal space shared by freelancers and remote workers

Critical success factors Variables that have a strong influence on the results of the organization

Cross-training Training people to do more than one job

Culture Shared mind-set of a group of people that distinguished them from others

Cumulative trauma disorders (CTDs) Musculoskeletal injuries that occur when workers repetitively use the same motions when performing tasks

D

Decertification Process whereby a union is removed as the representative of a group of employees

Deductible Money paid by an insured individual before a health plan pays for medical expenses

Defined benefit plan Retirement program in which employees are promised a pension amount based on age and years of service

Defined contribution plan Retirement program in which the employer and/or employee makes an annual payment to an employee's retirement account

Development Efforts to improve employees' abilities to handle a variety of assignments and to cultivate their capabilities beyond those required by the current job

Discipline A process of corrective action used to enforce organizational rules

Disparate impact Occurs when an employment practice that does not appear to be discriminatory adversely affects individuals with a particular characteristic so that they are substantially underrepresented as a result of employment decisions that work to their disadvantage

Disparate treatment Occurs when individuals with particular characteristics that are not job related are treated differently from others

Distributive justice Perceived fairness of how rewards and other outcomes are distributed

Dual-career ladder System that allows a person to advance through either a management or a technical/professional ladder

Due diligence A comprehensive assessment of all aspects of the business being acquired

Due process Occurs when an employer is determining if there has been employee wrongdoing and uses a fair process to give an employee a chance to explain and defend his or her actions

Dues checkoff clause Provides for the automatic deduction of union dues from the payroll checks of union members, thus enabling employers to transfer dues to unions through one comprehensive payment

Duty Larger work segment comprised of several tasks that are performed by individuals

E

Effectiveness The ability of a program, project, or task to produce a specific desired effect or result that can be measured

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Efficiency The degree to which operations are carried out in an economical manner

E-learning Use of web-based technology to conduct training online

Emotional intelligence The ability to recognize and manage our own feelings and the feelings of others

Employee assistance program (EAP) Program that provides counseling and other help to employees having emotional, physical, or other personal problems

Employee engagement The extent to which an employee's thoughts and behaviors are focused on his or her work and their employer's success

Employee handbook A physical or electronic manual that explains a company's essential policies, procedures, and employee benefits

Employee stock ownership plan (ESOP) Designed to give employees significant stock ownership in their organizations

Employment at will (EAW) A common-law doctrine states that employers have the right to hire, fire, demote, or promote whomever they choose, unless there is a law or a contract to the contrary, and employees may quit at any time with or without notice

Employment brand Distinct image of the organization that captures the essence of the company to engage employees and outsiders

Employment contract Formal agreement that outlines the details of employment

Entitlement philosophy Assumes that individuals who have worked another year with the company are entitled to pay increases with little regard for performance differences

Environmental scanning The assessment of external and internal environmental conditions that affect the organization

Equal employment opportunity Employment that is not affected by illegal discrimination

Equity The perceived fairness of what the person does compared with what the person receives for doing it

Equity theory States that individuals judge fairness (equity) in compensation by comparing their inputs and outcomes against the inputs and outcomes of referent others

Ergonomics Study and design of the work environment to address physical demands placed on individuals as they perform their jobs

Essential job functions Fundamental job duties

Ethnocentric A strong emphasis on home-country practices

Exclusive remedy Workers' compensation benefits are the only benefits injured workers may receive from the employer to compensate for work-related injuries

Exempt employees Employees who hold positions for which they are not paid overtime

Exit interview An interview in which individuals who are leaving an organization are asked to explain their reasons

Expatriate (or parent-country national) A citizen of one country who is working in a second country and employed by an organization headquartered in the first country

Expectancy theory States that an employee's motivation is based on the probability that his or her efforts will lead to an expected level of performance that is linked to a valued reward

Extrinsic rewards Rewards that are external to the individual

F

Feedback The amount of information employees receive about how well or how poorly they have performed

Flexible benefits plan Program that allows employees to select the benefits they prefer from options established by the employer

Flexible work arrangements Employees perform their jobs independent of time and location

Flexible workers Employees that are hired on an "as-needed" basis

Flextime Employees work a set number of hours a day but vary starting and ending times

Forced distribution Performance appraisal method in which ratings of employees' performance levels are distributed along a bell-shaped curve

Forecasting Using information from the past and present to predict future conditions

Foreign direct investment When a company takes a controlling ownership interest in a business in another country

Franchising Granting the right to use its business model and brand

Free rider A member of the group who contributes little

G

Gainsharing System of sharing with employees greater than expected gains in profits and/or productivity

Games Exercises that entertain and engage

Gamification Using game thinking and software to engage people in solving problems

Garnishment A court order that directs an employer to set aside a portion of an employee's wages to pay a debt owed to a creditor

Geocentric An emphasis on utilizing the best ideas and practices from anywhere in the world

Gig economy An economy where most work is performed by freelance workers rather than full-time employees

Glass ceiling Discriminatory practices that have prevented women and minority status employees from advancing to executive-level jobs

Graphic rating scale Scale that allows the rater to mark an employee's performance on a continuum indicating low to high levels of a particular characteristic

Green-circled employee Incumbent who is paid below the range set for a job.

Grievance Complaint formally stated in writing

Grievance arbitration Means by which a third party settles disputes arising from different or conflicting interpretations of a labor contract

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Grievance procedures Specific steps used to resolve grievances

Gross-up To increase the net amount of what the employee receives to include the taxes owed on the amount

Group interview Several job candidates are interviewed together by a hiring authority

H

Halo effect Occurs when a rater scores an employee high on all job criteria because of performance in one area of the assigned work responsibilities

Headhunters Employment agencies that focus their efforts on executive, managerial, and professional positions

Health General state of physical, mental, and emotional well-being

Health promotion Supportive approach of facilitating and encouraging healthy actions and lifestyles among employees

Health spending account A tax-favored savings plan to provide funds for paying medical expenses

HiPos Individuals who show high promise for advancement in the organization

Home-country-based approach Maintains the standard of living the expatriate had in the home country

Horns effect Occurs when a low rating on one characteristic leads to an overall low rating

Host-country-based approach Compensates the expatriate at the same level as workers from the host country

Host-country national An employee working in their home country for a firm that is headquartered in a different country

Hostile environment Sexual harassment occurs when an individual's work performance or psychological well-being is unreasonably affected by intimidating or offensive working conditions

HR analytics An evidence-based approach to making HR decisions on the basis of quantitative tools and models

HR audit A formal research effort to assess the current state of an organization's HR practices

HR generalist A person who has responsibility for performing a variety of HR activities

HR metrics Specific measures of HR practices

HR specialist A person who has in-depth knowledge and expertise in a specific area of HR

Human capital The collective value of the capabilities, knowledge, skills, life experiences, and motivation of an organization's workforce

Human capital return on investment (HCROI) Directly shows the amount of profit derived from investments in labor

Human capital value added (HCVA) Calculated by subtracting all expenses *except* labor expenses from revenue and dividing by the total full-time head count

Human economic value added (HEVA) Wealth created per employee

Human resource management Designing formal systems in an organization to manage human talent for accomplishing organizational goals

Human resource planning The process of analyzing and identifying the need for and availability of people so that the organization can meet its strategic objectives

I

Illegal issues Collective bargaining issues that would require either party to take illegal action

Immediate confirmation Based on the idea that people learn best if they receive reinforcement and feedback as soon as possible after training

Implied contract An unwritten agreement created by the actions of the parties involved

Importing and exporting Buying and selling goods and services outside the home country

Incentives Tangible rewards that encourage or motivate action

Incivility Rude behavior that offends other employees

Individual-centered career planning Career planning that focuses on an individual's responsibility for a career rather than on organizational involvement in the process or consideration of a company's needs

Informal training Training that occurs through interactions and feedback among employees

Innovation Process whereby new ideas are generated that create value for an organization

Instructional systems design (ISD) A step-by-step process to ensure that the right learning materials are provided to the right people at the right time

Intangible rewards Elements of compensation that cannot be as easily measured or quantified

Integrated talent management (ITM) A holistic approach to leveraging and building human capital

Interactional justice The extent to which a person affected by an employment decision feels treated with dignity and respect

Intrinsic rewards Rewards that are internal to the individual

J

Job Grouping of tasks, duties, and responsibilities that constitutes the total work assignment for an employee

Job analysis Systematic way of gathering and analyzing information about the content, context, and human requirements of jobs

Job description Identifies a job's tasks, duties, and responsibilities

Job design Organizing tasks, duties, responsibilities, and other elements into a productive unit of work

Job duties Important elements in a given job

Job enlargement Broadening the scope of a job by expanding the number of different tasks that are performed

Job enrichment Increasing the depth of a job by adding responsibility for planning, organizing, controlling, and/or evaluating the job

Job evaluation Formal, systematic means to determine the relative worth of jobs within an organization

Job posting System in which the employer provides notices of job

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openings, and employees respond by applying for specific openings

Job redesign Changing existing jobs in different ways to improve them

Job rotation Process of shifting a person from job to job

Job satisfaction The positive feelings and evaluations derived from an individual's employment in a job

Job sharing Scheduling arrangement in which two employees perform the work of one full-time job

Job simplification Breaking a more complex job into relatively small subparts

Job specifications The knowledge, skills, and abilities (KSAs) an individual needs to perform a job satisfactorily

Job-relatedness A qualification or requirement in selection that is significantly related to successful performance of job duties

Joint ventures Two or more partners who share ownership and risk in the investment

Just cause Reasonable justification for taking employment-related action

K

Key performance indicators (KPIs) Scorecard measures that tell managers how well the organization is performing relative to critical success factors

Knowledge management The way an organization identifies and leverages knowledge to be competitive

L

Labor force participation rate The percentage of the population working or seeking work

Labor force population All individuals who are available for selection if all possible recruitment strategies are used

Labor markets The supply pool from which employers attract employees

Learning culture A work environment that encourages employees to share their individual knowledge, skills, and experiences with their coworkers

Leniency error Occurs when ratings of all employees fall at the high end of the scale

Licensing agreement Organization sells the rights to its products or trademarks to producers

Line of sight Idea that employees can clearly see how their actions and decisions lead to desired outcomes

Lockout Management shutdown of company operations to prevent union members from working

Loyalty Being faithful to an institution or employer

Lump-sum increase (LSI) Onetime payment of all or part of a yearly pay increase

M

Make-or-buy Develop competitive human resources or hire individuals who are already developed from somewhere else

Managed care Approaches that monitor and reduce medical costs through restrictions and market system alternatives

Management by objectives (MBO) A specific performance appraisal method that highlights the performance goals that an individual and manager identify together

Management mentoring A relationship in which experienced managers aid individuals in the earlier stages of their careers

Management rights Rights reserved so that the employer can manage, direct, and control its business

Mandatory issues Negotiation topics and collective bargaining issues identified specifically by labor laws or court decisions as subject to bargaining

Marginal job functions Duties that are part of a job but that are incidental or ancillary to the purpose and nature of the job

Market banding Grouping jobs into pay grades based on similar market survey amounts

Market line Graph line that shows the relationship between job value as determined by job evaluation points and job value as determined by pay survey rates

Market pricing Uses market pay data to identify the relative value of jobs based on what other employers pay for similar jobs

Mediation Process by which a third party suggests ideas to help the negotiators reach a settlement

Merger Two companies that combine their businesses together to create a new business entity

Microunit Bargaining unit that includes only one job category or department within a company

M-learning Use of mobile technology to conduct training

Modeling Copying someone else's behavior

MOOCs Massive open online courses

Motivation The desire that exists within a person that causes that individual to act

Multinational corporation (MNC) An organization that has facilities and other assets in at least one country other than its home country

Multinational enterprise (MNE) An organization that has facilities and other assets in at least one country other than its home country

N

Negligent hiring Occurs when an employer fails to check an employee's background and the employee injures someone on the job

Negligent retention Occurs when an employer becomes aware that an employee may be unfit for work but continues to employ the person, and the person injures someone

Nepotism Practice of allowing relatives to work for the same employer

Nine-Box Talent Grid A matrix showing past performance and future potential of all employees

No-fault insurance Injured workers receive benefits even if the accident was their fault

Noncompete agreements Agreements that prohibit individuals who leave an organization from working with an employer in the same line of business for a specified period of time

Nondirective interview Interview that uses questions developed from the answers to previous questions

Nonexempt employees Employees who must be paid overtime

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Nonmonetary incentives Rewards that are not given in cash

No-solicitation policy Policy that restricts employees and outsiders from distributing literature or soliciting union membership on company premises

O

Offshoring A company's relocation of a business process or operation from one country to another

Ombuds Individuals outside the normal chain of command who act as independent problem solvers for both management and employees

O*Net An online database containing information on a wide range of jobs and occupational characteristics

On-the-job training The most common training because it is flexible and relevant

Open-door policy A policy that allows workers with a complaint to talk with someone in management

Open enrollment A time when employees can change their participation level in various benefit plans and switch between benefit options

Open shop Employer in which workers are not required to join or pay dues to a union

Organizational citizenship behavior Occurs when an employee acts in a way that improves the psychological well-being and social environment of an organization

Organizational commitment The degree to which workers believe in and accept organizational objectives and want to remain employed at a company

Organizational core values Principles that create the operating philosophy for organizational decisions

Organizational culture Consists of the shared values and beliefs that give members of an organization meaning and provide them with rules for behavior

Organizational justice The fairness of decisions and resource allocations in an organization

Organizational mission The core reason for the existence of the organization and what makes it unique

Organizational trust An employee's feeling of confidence that the organization will act in a way that benefits rather than harms him or her

Organization-centered career planning Career planning that focuses on identifying career paths that provide the logical progression of people between jobs in an organization

Orientation Planned introduction of new employees to their jobs, coworkers, and the organization

Outsourcing Transferring the management and performance of a business function that the business might have done itself to an external third-party service provider

P

Paid-time-off (PTO) plans Plans that combine all sick leave, vacation time, and holidays into a total number of hours or days that employees can take off with pay

Panel interview Interview in which several interviewers meet with the candidate at the same time

Passive job candidates Qualified individuals who aren't actively looking for work but might be interested if the right job comes along

Pay compression Occurs when the pay differences among individuals with different levels of experience and performance become small

Pay equity The idea that pay for jobs requiring comparable levels of knowledge, skill, and ability should be similar, even if actual duties differ significantly

Pay-for-performance philosophy Assumes that compensation decisions reflect performance differences

Pay grades Groupings of individual jobs that have approximately the same value to the organization

Pay survey Collection of data on compensation rates for workers performing similar jobs in other organizations

Performance appraisal Process of determining how well employees do their jobs relative to a standard and communicating that information to them

Performance management Ongoing series of activities designed to ensure that the organization gets the performance it needs from its employees to drive organizational results

Performance standards Indicators of what the job accomplishes and how performance is measured in key areas of the job description

Permissive issues Collective bargaining issues that are not required but might relate to certain jobs or practices

Person with a disability Someone who has a mental or physical challenge that greatly reduces the ability to perform important life functions, who possesses a record of such a challenge, or who is thought to have such a challenge

Person/group fit The congruence between individuals and group or work unit dynamics

Person/job fit Matching the knowledge, skills, abilities, and motivations of individuals with the requirements of the job

Person/organization fit The congruence between individuals and organizational factors

Phased retirement Approach that enables employees to gradually reduce their workloads and pay levels

Physical ability tests Tests that measure an individual's physical abilities such as strength, endurance, and muscular movement

Piece-rate system Pay system in which wages are determined by multiplying the number of units produced by the piece rate for one unit

Piggyback Arrangements when an organization partners with another firm that sells complementary products or services

Placement Fitting a person to the right job

Policies General guidelines that help focus organizational actions

Polycentric A strong emphasis on each country as a unique environment

Portability A pension plan feature that allows employees to move their retirement benefits from one employer to another

Predictive validity Measured when applicants' test results are compared with subsequent job performance

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Predictors of selection criteria Measurable or visible indicators of selection criteria

Presenteeism When employees come to work even when they're not well enough to

Prevailing wage An hourly wage determined by a formula that considers the rate paid for a job by a majority of the employers in the appropriate geographic area

Previous job tenure A measure of how long the applicant has stayed on jobs held in the past

Primacy effect Occurs when a rater gives greater weight to information received first when appraising an individual's performance

Procedural justice Perceived fairness of the process and procedures used to make decisions about employees, including their pay

Procedures Customary methods of handling activities

Productivity Measure of the quantity and quality of work done, considering the cost of the resources used

Profit sharing System to distribute a portion of an organization's profits to employees

Protean career A process whereby an individual makes conscious career plans to achieve self-fulfillment

Protected characteristics Individual attributes that are protected under EEO laws and regulations

Protected concerted activities Actions taken by employees working together to try to improve their pay and working conditions, with or without a union

Psychological contract The unwritten expectations employees and employers have about the nature of their work relationships

Psychomotor tests Tests that measure dexterity, hand–eye coordination, arm–hand steadiness, and other factors

Pulse surveys Frequent, short questionnaires used to solicit anonymous employee feedback

Q

Qualifying event An event that causes a plan participant to lose group health benefits

Quid pro quo Sexual harassment that links employment outcomes to the granting of sexual favors

R

Ranking Performance appraisal method in which employees are listed from highest to lowest based on their performance levels and relative contributions

Rater bias Occurs when a rater's values or prejudices distort the rating

Ratification Process by which union members vote to accept the terms of a negotiated labor agreement

Realistic job previews Process through which a job applicant receives an accurate picture of a job

Reasonable accommodation A modification to a job or work environment that gives a qualified individual an equal employment opportunity to perform

Recency effect Occurs when a rater gives greater weight to recent events when appraising an individual's performance

Recruiting Process of generating a pool of qualified applicants for organizational jobs

Red-circled employee Incumbent who is paid above the range set for a job

Regiocentric Countries are considered as aggregates within a region

Reinforcement Based on the idea that people tend to repeat responses that give them some type of positive reward and to avoid actions associated with negative consequences

Reliability The extent to which a test or measure repeatedly produces the same results over time

Repatriation Process that involves planning and training for the reassignment of global employees (expatriates) back to their home countries

Rerecruiting Seeking out former employees and recruiting them again to work for an organization

Reshoring Firms bring jobs that had been offshored back to the home country

Responsibilities Obligations that individuals have to perform certain tasks and duties within a job

Retaliation Punitive actions taken by employers against individuals who exercise their legal rights

Retirement plan A program established and funded by the employer and/or employees to fund employees' retirement years

Return on investment (ROI) Calculation showing the value of investments in human capital

Rights Powers, privileges, or interests derived from law, nature, or tradition

Right to privacy An individual's freedom from unauthorized and unreasonable intrusion into personal affairs

Right-to-work laws State laws that prohibit requiring employees to join unions as a condition of obtaining or continuing employment

Risk management Involves the responsibility to consider physical, human, and financial factors to protect organizational and individual interests

Rules Specific guidelines that regulate and restrict individuals' behavior

S

Sabbatical Time off the job to develop and rejuvenate

Safety Condition in which people's physical well-being is protected

Salary Consistent payments made each period regardless of the number of hours worked

Salary inversion Occurs when the pay given to new hires is higher than the compensation provided to more senior employees

Salting Practice in which unions hire and pay people to apply for jobs at certain companies to begin organizing efforts

Security Protection of employees and organizational facilities from forces that may harm them

Security audit Comprehensive review of organizational security

Selection The process of choosing individuals with the correct qualifications needed to fill jobs in an organization

Selection criterion Characteristic that a person must possess to successfully perform job duties

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Selection rate Percentage hired from a given group of candidates

Self-directed team Organizational team composed of individuals who are assigned a cluster of tasks, duties, and responsibilities to be accomplished

Self-efficacy People's belief that they can successfully learn the training program content

Self-service Technology that allows employees to change their benefit choices, track their benefit balances, and submit questions to HR staff members and external benefit providers

Seniority Time spent in an organization or working in a particular job

Separation agreement Agreement in which a terminated employee agrees not to sue the employer in exchange for specified benefits

Serious health condition An illness or injury that requires inpatient care or continuing treatment by a health care provider for medical problems that exist beyond three days

Severance benefits Temporary payments made to laid-off employees to ease the financial burden of unemployment

Sexual harassment Unwelcome verbal, visual, or physical conduct of a sexual nature that is severe and affects working conditions or creates a hostile work environment

Simulations Reproduce parts of the real world so that they can be experienced and manipulated, and learning can occur

Situational interview Structured interview that contains questions about how applicants might handle specific job situations

Situational judgment tests Tests that measure a person's judgment in work settings

Skill variety Extent to which the work requires several activities for successful completion

Social media Online communities where users create and share content and participate in networking

Special-purpose team Organizational team formed to address specific problems, improve work processes, and enhance the overall quality of products and services

Status-blind Employment decisions that are made without regard to individuals' personal characteristics

Statutory rights Rights based on laws or statutes passed by federal, state, or local governments

Stay interview An interview that focuses on why employees want to continue working for the organization

Stock option plan Gives employees the right to purchase a fixed number of shares of company stock at a specified price for a limited period of time

Stock purchase plan Plans where employees may buy shares in the company at a discount, or the company pays the brokerage fees

Strategic HR management The appropriate use of HR management practices to gain or keep a competitive advantage

Strategic planning The process of defining organizational strategy, or direction, and allocating resources toward its achievement

Strategic talent management The process of identifying the most important jobs in a company that provide a long-term competitive advantage and then creating appropriate HR policies to develop employees so that they can effectively work in these jobs

Strategy A plan an organization follows for how to compete successfully, survive, and grow

Stress The harmful physical or psychological reaction that occurs when people are subject to excessive demands or expectations

Strictness error Occurs when a manager uses only the lower end of the scale to rate employees

Strike Work stoppage in which union members refuse to work in order to put pressure on an employer

Structured interview Interview that uses a set of prepared job-related questions that are asked of all applicants

Substance abuse Use of illicit substances or misuse of controlled substances, alcohol, or other drugs

Succession planning The process of identifying a plan for the orderly replacement of key employees in the organization hierarchy

T

Talent acquisition Process of finding and hiring high-quality talent needed to meet the organization's workforce needs

Tangible rewards Elements of compensation that can be quantitatively measured and compared between different organizations

Task Distinct, identifiable work activity comprised of motions that employees perform

Task identity Extent to which the job includes a recognizable unit of work that is carried out from start to finish and results in a known consequence

Task significance Impact the job has on other people and the organization as a whole

Team interview Interview in which applicants are interviewed by the team members with whom they will work

Telework Employees complete work through electronic interactions, telecommunications, and Internet technology

Termination Occurs when an employee is removed from a job at an organization

Third-country national A citizen of one country who is working in a second country for an organization that is headquartered in a third country

Third-party administrators (TPAs) Vendors that provide enrollment, recordkeeping, and other administrative services to organizations

Three-legged stool A model showing the three sources of income to fund an employee's retirement

Total cost of workforce (TCOW) A comprehensive measure that takes into account the full cost for all people that contribute work to the organization

Total rewards Monetary and nonmonetary rewards provided by companies to attract, motivate, and retain employees

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Training Process whereby people acquire capabilities to perform jobs

Triangulation Two (or more) methods are used in a study to increase validity of the results

Triple bottom line Considers the organization's impact on three major areas—economic, social, and environmental

Turnover The process in which employees leave an organization and have to be replaced

U

Undue hardship Significant difficulty or expense imposed on an employer when making an accommodation for individuals with disabilities

Unfair labor practices Actions that employers are legally prohibited from taking to prevent employees from unionizing

Union Formal association of workers that promotes the interests of its members through collective action

Union authorization card Card signed by employees to designate a union as their collective bargaining agent

Union security provisions Contract clauses to help the union obtain and retain members and collect union dues

Unit labor cost Computed by dividing the average cost of workers by their average levels of output

V

Validity The extent to which a test measures what it claims to measure

Variable pay Compensation linked directly to individual, team, or organizational performance

Vesting A benefit that cannot be taken away

Virtual team Organizational team that includes individuals who are separated geographically but who are linked by communications technology

VUCA An acronym standing for volatile, uncertain, complex, and ambiguous

W

Wages Payments calculated directly on the basis of time worked by employees

Well-being The overall level of employee physical, mental, financial, and social wellness

Wellness programs Programs designed to maintain or improve employee health before problems arise

Whistle-blowers Individuals who report real or perceived wrongs committed by their coworkers or employers

Work Effort directed toward accomplishing results

Workers' compensation Security benefits provided to workers who are injured on the job

Workflow analysis Study of the way work (inputs, activities, and outputs) moves through an organization

Work–life integration Employer-sponsored programs designed to help employees blend and bring elements of work and life together

Work sample tests Tests that require an applicant to perform a simulated task that is a specified part of the target job

Wrongful discharge Termination of an individual's employment for reasons that are illegal or improper

Y

Yellow dog contracts Pledges by workers not to join a labor union

Yield ratios Comparison of the number of applicants at one stage of the recruiting process with the number at the next stage

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