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HUMAN RESOURCE MANAGEMENT

Thirteenth
Edition

Gaining a Competitive Advantage



**Mc
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Noe Hollenbeck Gerhart Wright

Human Resource Management

GAINING A COMPETITIVE ADVANTAGE 13e

RAYMOND A. NOE

The Ohio State University

JOHN R. HOLLENBECK

Michigan State University

BARRY GERHART

University of Wisconsin–Madison

PATRICK M. WRIGHT

University of South Carolina

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This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 LWI 27 26 25 24 23 22

ISBN 978-1-265-06401-3

MHID 1-265-06401-6

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To my wife, Caroline, my children, Ray, Tim, and Melissa, and first grandchild, Callie Rae.

—R. A. N.

To my parents, Harold and Elizabeth, my wife, Patty, and my children, Jennifer, Marie, Timothy, and Jeffrey. And to the best plus ones ever—Jonathan, Mariano, Sabrina, and Kelsey.

—J. R. H.

To my parents, Robert and Shirley, my wife, Heather, and my children, Chris and Annie.

—B. G.

To my wife Mary and son Matthew, looking forward to the days ahead, and to my son Michael, who is "... beginning Chapter One of the Great Story which no one on earth has read: which goes on for ever: in which every chapter is better than the one before."

—P. M. W.

ABOUT THE AUTHORS



RAYMOND A. NOE is the Robert and Anne Hoyt Designated Professor of Management at The Ohio State University. He received his BS in psychology from The Ohio State University and his MA and PhD in psychology from Michigan State University. Professor Noe conducts research and teaches undergraduates as well as MHR, MBA and PhD students in human resource management, training and development, and performance management. He has published over 70 articles and invited chapters and authored, co-authored, or edited seven books covering a variety of topics in training and development (training needs, trainee motivation, informal learning, autonomous learning, mentoring), human resource management (recruiting), and organizational behavior (psychological contracts, teams, work and family). Professor Noe has received awards for his teaching and research excellence, including the Ernest J. McCormick Award for Distinguished Early Career Contribution from the Society for Industrial and Organizational Psychology. He is also a fellow of the Society of Industrial and Organizational Psychology and American Psychological Association.

JOHN R. HOLLENBECK holds the positions of University Distinguished Professor at Michigan State University and Eli Broad Professor of Management at the Eli Broad Graduate School of Business Administration. Dr. Hollenbeck received his PhD in Management from New York University in 1984. He served as the acting editor at *Organizational Behavior and Human Decision Processes* in 1995, the associate editor of *Decision Sciences* from 1999 to 2004, and the editor of *Personnel Psychology* from 1996 to 2002. He has published over 100 articles and book chapters on the topics of team decision making and work motivation. According to Google, this body of work has been cited over 30,000 times. Dr. Hollenbeck has been awarded fellowship status in both the Academy of Management and the American Psychological Association. He was also recognized with the Career Achievement Award by the HR Division of the Academy of Management (2011), the Society of Industrial and Organizational Psychology's Distinguished Service Contributions Award (2014) and Early Career Award (1992), as well as the Joseph E. McGrath Award for Lifetime Achievement in the Study of Groups by INGroup. At Michigan State, Dr. Hollenbeck has won several teaching awards including the Michigan State Distinguished Faculty Award, the Michigan State Teacher-Scholar Award, and the Broad MBA Most Outstanding Faculty Member.

BARRY GERHART is Professor of Management and Human Resources and the Bruce R. Ellig Distinguished Chair in Pay and Organizational Effectiveness, Wisconsin School of Business, University of Wisconsin–Madison. He has served as department chair at Cornell and Vanderbilt, as well as department chair, senior associate dean, and interim Albert O. Nicholas Dean at Wisconsin. His research interests include compensation, human resource/human capital strategy, international human resources, and employee retention. Professor Gerhart received his BS in psychology from Bowling Green State University and his PhD in Industrial Relations from the University of Wisconsin–Madison. He has co-authored two books and co-edited a third in the area of compensation. Professor Gerhart is a past recipient of the Heneman Career Achievement Award, the Thomas A. Mahoney Mentoring Award, the Scholarly Achievement Award, and (twice) the International Human Resource Management Scholarly Research Award, all from the Human Resources Division, Academy of Management. He has also received the Michael R. Losey Excellence in Human Resource Research Award, a career achievement award from the Society for Human Resource Management. Professor Gerhart has been elected as a Fellow of the Academy of Management, the American Psychological Association, and the Society for Industrial and Organizational Psychology.

PATRICK M. WRIGHT is Thomas C. Vandiver Bicentennial Chair and the Director of the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina. Prior to joining USC, he served on the faculties at Cornell University, Texas A&M University, and the University of Notre Dame. Professor

Wright teaches, conducts research, and consults in the area of strategic human resource management (SHRM), particularly focusing on how firms use people as a source of competitive advantage, the changing nature of the chief HR officer (CHRO) role, and CEO succession. He served as the lead editor on *The Chief HR Officer: Defining the New Role of Human Resource Leaders*, published by Wiley, and *View from the Top: Leveraging Organizational and Human Capital to Create Value*, published by SHRM. Professor Wright has published more than 60 research articles in journals as well as more than 20 chapters in books and edited volumes. He recently served as the editor at the *Journal of Management*, has co-edited a special issue of *Research in Personnel and Human Resources Management* titled "Strategic Human Resource Management in the 21st Century," and guest edited a special issue of *Human Resource Management Review* titled "Research in Strategic HRM for the 21st Century." He currently serves as a member on the Board of Directors for the National Academy of Human Resources. He is a former board member of SHRM, HRPS, SHRM Foundation, and World at Work (formerly American Compensation Association). He has been named a Fellow in the National Academy of Human Resources and the Academy of Management, has won SHRM's Michael Losey Award for HR Research and the AOM HR Division's Herb Heneman Career Achievement Award, and from 2011 to 2019, was named by *HRM Magazine* as one of the 20 "Most Influential Thought Leaders in HR."

PREFACE



Our intent is to provide students with the background to be successful HRM professionals, to manage human resources effectively, and to be knowledgeable consumers of HRM products. Managers must be able to identify effective HRM practices to purchase these services from a consultant, to work with the HRM department, or to design and implement them personally. *Human Resources Management: Gaining a Competitive Advantage*, 13th edition, emphasizes how a manager can more effectively manage human resources and highlights important issues in current HRM practice.

Human Resources Management: Gaining a Competitive Advantage represents a valuable approach to teaching human resource management for several reasons:

The text draws from the diverse research, teaching, and consulting experiences of four authors who have taught human resource management to undergraduates, traditional day MBA students as a required and elective course, and more experienced managers and professional employees in weekend and evening MBA programs. The teamwork approach gives a depth and breadth to the coverage that is not found in other texts.

Human resource management is viewed as critical to the success of a business. The text emphasizes how the HRM function, as well as the management of human resources, can help companies gain a competitive advantage.

The book discusses current issues such as artificial intelligence and robotics, use of nontraditional employment relationships, big data, talent management, diversity, and the employee experience, all of which have a major impact on business and HRM practice.

Strategic human resource management is introduced early in the book and integrated throughout.

Examples of how new technologies are being used to improve the efficiency and effectiveness of HRM practices are provided throughout.

We provide examples of how companies are evaluating HRM practices to determine their value.

Organization

Human Resource Management: Gaining a Competitive Advantage, 13th edition, includes an introductory chapter ([Chapter 1](#)) and five parts.

[Chapter 1](#) provides a detailed discussion of the global, economic, sustainability, and technology challenges that influence companies' abilities to successfully meet the needs of shareholders, customers, employees, and other stakeholders. We discuss how the management of human resources can help companies meet the competitive challenges.

[Part One](#) includes a discussion of the environmental forces that companies face in attempting to capitalize on their human resources as a means to gain competitive advantage. The environmental forces include the strategic direction of the business, the legal environment, and the type of work performed and physical arrangement of the work.

A key focus of [Chapter 2](#), on strategic human resource management, is to highlight the role that staffing, performance management, training and development, and compensation play in different types of business strategies.

A key focus of [Chapter 3](#), on the legal environment, is to enhance managers' understanding of laws related to sexual harassment, affirmative action, and accommodations for disabled employees. The various types of discrimination and ways they have been interpreted by the courts are discussed.

[Chapter 4](#), on analysis and design of work, emphasizes how work systems can improve company competitiveness by alleviating job stress and by improving employees' motivation and satisfaction with their jobs.

[Part Two](#) deals with the acquisition and preparation of human resources, including human resource planning and recruitment, selection, and training.

[Chapter 5](#), on human resource planning and recruitment, illustrates the process of developing a human resource plan. Also, the strengths and weaknesses of staffing options such as outsourcing, use of contingent workers, and downsizing are discussed. Strategies for recruiting talented employees are emphasized.

[Chapter 6](#), on selection and placement, emphasizes ways to minimize errors in employee selection and placement to improve the company's competitive position. Selection method standards such as validity and reliability are discussed in easily understandable terms without compromising the technical complexity of these issues. The chapter discusses selection methods such as interviews and various types of tests (including personality, honesty, and drug tests) and compares them on measures of validity, reliability, utility, and legality.

[Chapter 7](#) discusses the components of effective training systems and the manager's role in determining employees' readiness for training, creating a positive learning environment, and ensuring that training is used on the job. The advantages and disadvantages of different training methods are described, such as e-learning, serious games, microlearning, virtual reality and augmented reality, and mobile training.

[Part Three](#) explores how companies can determine the value of employees and capitalize on their talents through retention and development strategies.

[Chapter 8](#), on performance management, discusses the evolution of performance management systems to a more continuous process that encourages setting short-and long-term goals, frequent performance conversations between managers and their employees, and peer feedback. The chapter examines the strengths and weaknesses of performance management methods that use ratings, objectives, or behaviors.

[Chapter 9](#), on employee development, introduces the student to how assessment, job experiences, formal courses, and mentoring relationships are used to develop employees.

[Chapter 10](#), on retention and separation, discusses how managers can maximize employee productivity and satisfaction to avoid absenteeism and turnover. The chapter emphasizes the use of employee surveys to monitor job and organizational characteristics that affect satisfaction and subsequently retention.

[Part Four](#) covers rewarding and compensating human resources, including designing pay structures ([Chapter 11](#)), recognizing individual contributions ([Chapter 12](#)), and providing benefits ([Chapter 13](#)).

Here we explore how managers should decide the pay rate for different jobs, given the company's compensation strategy and the worth of jobs. The advantages and disadvantages of merit pay, gainsharing, and skill-based pay are discussed. The benefits chapter highlights the different types of employer-provided benefits and discusses how benefit costs can be contained. International comparisons of compensation and benefit practices are provided.

[Part Five](#) covers special topics in human resource management, including labor–management relations, international HRM, and strategically managing the HRM function.

[Chapter 14](#), on collective bargaining and labor relations, focuses on traditional issues in labor–management relations, such as union structure and membership, the organizing process, and contract negotiations; it also discusses new union agendas and less adversarial approaches to labor–management relations.

[Chapter 15](#) discusses the effect of social and political changes, such as Brexit, on global human resource management. Selecting, preparing, and rewarding employees for foreign assignments are also discussed.

The text concludes with [Chapter 16](#), which emphasizes how HRM practices should be aligned to help the company meet its business objectives. The chapter emphasizes that the HRM function needs to have a customer focus to be effective.

Features

The chapter openers, in-text boxes, and end-of-chapter materials provide questions that give students the opportunity to discuss and apply HR concepts to a broad range of issues including strategic human resource management, HR in small businesses, helping companies achieve sustainability through environment, social, and governance practices, adopting and using technology, adapting to globalization, and ethics and integrity. This should make the HR classroom more interactive and increase students' understanding of the concepts and their application.

Enter the World of Business chapter-opening vignettes provide relevant examples of real business problems or issues that provide background for the issues discussed in the chapter.

Video Conversations with Chief HR Officers (CHROs), created by the Center for Executive Succession at the Darla Moore School of Business, University of South Carolina, feature video conversations with CHROs from top organizations such as Accenture, Bank of America, Boeing, GE, HP, Merck, and others and are tied in to pertinent chapters. In addition, the videos are featured in Connect, along with questions related to chapter content.

Evidence-Based HR sections highlight an evidence-based approach to HR management and focus on people, employees, and human capital.

Competing through Environmental, Social, and Governance Practices boxes show how organizations can engage in HR practices to make a profit without sacrificing the resources of their employees, the community, or the environment.

Competing through Globalization boxes focus on how companies use HR practices to improve their ability to compete in international markets and prepare employees for global assignments.

Competing through Technology boxes highlight how organizations are using social networking, artificial intelligence, robotics, human resource information systems, cloud computing, dashboards, and other tools to enhance the efficiency and effectiveness of HR practices, employees, and the workplace.

Integrity in Action boxes highlight the good (and bad) HR-related decisions made by company leaders and managers that either reinforce (or undermine) the importance of ethical behavior in the company.

A Look Back segments, at the end of the chapters, encourage students to recall the chapters' opening vignettes and apply what they have just learned to the issues raised there.

Self-Assessment Exercises, which are noted at the end of each chapter and can be found in Connect, provide a brief exercise for students to complete and evaluate their own skills related to topics covered in the chapter.

Managing People cases look at incidents and real companies and encourage students to critically evaluate each problem and apply the chapter contents.

Exercising Strategy cases pose strategic questions based on real-life practices.

HR in Small Business cases highlight HR issues and practices in entrepreneurial, family-owned, and emerging businesses. Questions provoke students to think critically about "people practices" in small businesses.

New Features and Content Changes in the 13th Edition

All examples, figures, and statistics have been updated to incorporate the most recently published human resource data. Each chapter was revised to include current examples, research results, and relevant topical coverage. All of the Exercising Strategy, Managing People, and HR in Small Business end-of-chapter cases are either new or updated. Following are the highlights for each chapter:

Chapter 1

New Opening Vignette: Describes the important role of HR practices during the pandemic. Features Kroger, Marriott Hotels, Henry Ford Hospitals, and Postmates.

New Boxes:

SAP's efforts to make employment possible for individuals with autism.

Eastern Bankshares efforts to increase the diversity of its top management positions.

Data on the success of Kimley-Horn's development program to help female engineers prepare to transition from being a team member to a team leader.

Companies' efforts to change the workplace to attract women to manufacturing jobs in India.

BMW's use of Sophia, an artificial intelligence-based benefits specialist.

New Text Material:

Estimate of how many small businesses give HR responsibilities to someone with little or no HR experience or training.

Example of how HR supports Infosys BPM business.

Updated median salaries for HR positions.

Updated projected growth in employment for HR jobs.

Updated discussion of different types of HR certifications.

Example of outsourcing HR practices at ManTech International.

Updated examples of fastest growing occupations projected to 2029.

Updated discussion of skills employers need.

Discussion of the importance of digital literacy.

Discussion of upskilling and reskilling with company examples including The Hershey Company and Tesla.

Example of how CPC Energy values human capital.

Discussion of human capital reporting standards (SEC and International Organization for Standardization) and company examples of data reported from General Electric and Cummins.

Updated discussion of change (VUCA) and example of how CapitalOne is coping with changes in the financial industry.

Updated engagement statistics and company examples of efforts to engage employees.

Discussion and examples of companies' developing the COVID-19 vaccine talent management issues and solutions.

Updated statistics on nontraditional employment.

Updated statistics on flexible workplace and working remotely.

Discussion of companies' remote work during and after the pandemic. Examples include Discover Financial Services, Phillips 66.

Discussion of how companies helped employees deal with their mental health during the pandemic.

Company example of use of balanced scorecard (Phillips).

Updated example of Baldrige Award-winning companies.

Updated discussion of ISO standards (ISO 9000).

Example of Six Sigma training at Walmart.

Discussion of research showing generational differences are not supported.

Updated statistics of gender, race, and nationality composition of the workforce projected to 2029.

Updated statistics on immigration and visas and the importance of immigrants for U.S. companies.

Discussion of capitalizing on diversity, equity, and inclusion.

Example of TD Bank's diversity, inclusion, and equity efforts.

Discussion of President Biden's potential work-related policies and how they will influence HR practices.

Discussion of the ethics of using artificial intelligence in human resource management.

Example of the policies and practices Eaton Corporation uses to help ensure an ethical workplace.

Updated statistics on globalization and international markets.

Discussion of how COVID-19 affected companies' reliance on China.

Examples of companies that offshore and reshore jobs (Nike and Zentech) and the reasons for their decisions.

Updated discussion of the potential of automation at work.

Example of increased role of automation as business models changed during the pandemic (Albertsons).

Example of Johnson Control's use of high-performance work systems.

Chapter 2

New Opening Vignette: Explores why an iconic company, Boeing, faced cultural issues that destroyed its reputation and performance.

New Boxes:

Competing through Globalization explores how a number of U.S. companies may directly or indirectly be supporting slave labor in China.

Integrity in Action examines how BlackRock lives their values by firing employees who violate their code of conduct, even if those employees are high-level executives.

Competing through Technology describes how Nephron Pharmaceuticals, facing an issue of employee absenteeism, partnered with a university to design a robot that can perform the job.

Evidence-Based HR describes how “systems” of HR practices have been shown to be more effective for driving firm performance than single HR practices.

Competing through ESG discusses how the global consulting firm McKinsey’s Global Managing Partner was voted out after he settled a suit regarding the company’s role in the Purdue Pharma OxyContin scandal.

New Text Material:

New content regarding the role of HR in mergers and acquisitions (M&A) based on recent research.

Chapter 3

New Opening Vignette: Explores a number of challenges for McDonald’s which has been accused of discrimination internally against black executives and externally against black franchisees.

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New Boxes:

Competing through ESG describes how the company Audible focused on developing the local community surrounding its company headquarters by providing economic opportunities for those in the community rather than just giving money to charities.

Competing through Technology notes that the increased use of online or virtual assessments for selection can end up discriminating against those with disabilities.

Evidence-Based HR describes a study showing the differences in how overweight female and male executives are discriminated against.

Competing through Globalization discusses the potential conflict between LGBTQ rights and religious rights as an Australian rugby star was fired for expressing his religious beliefs about gay people on Instagram.

Evidence-Based HR reviews the findings of a study on discrimination in employment applications.

Integrity in Action provides a description of how Google, after being accused of being a hotbed of sexual harassment, hopes to model a culture that prevents sexual harassment.

New Text Material:

Updated figures for age discrimination complaints.

Updated figures for disability complaints.

New section explaining how the Supreme Court’s finding to include LGBTQ individuals as falling under Title VII stemmed from its reading of disparate treatment. This is important as it is unclear to some how the court got to their conclusion that LGBTQ status qualifies as discrimination based on sex.

Updated figures on religious discrimination complaints.

Updated figures on sexual harassment charges.

Updated data on workplace illnesses and injuries.

New table on a 10-Step program for reducing eye-related injuries.

Chapter 4

New Opening Vignette: Analyzes the change in the nature of work when more people were working from home during the COVID pandemic and the strategic considerations of whether this is the new normal going forward or will soon be forgotten.

New Boxes:

The role of pilots, systems and human factors engineering that led to the twin Boeing 737 disasters.

The impact of Amazon's treatment of drivers as independent contractors and how this contributes to fatal accidents in the delivery process.

The role of "data labeling" in the process of developing "artificial intelligence" systems and the devastating impact this work has on the humans who must label images as part of the process.

The high cost of cheap meat and the negative impact of lean and cost-efficient job design processes on workers.

The impact of informal work structures beyond the formal organizational chart, especially as this relates to hidden "friendship networks."

New Text Material:

How the use of just-in-time inventory practices and lean operations left many of the nation's hospital systems totally unprepared for the COVID pandemic.

How organizations are leveraging apps and cell phones to redesign their work.

page xii Why the organizational structure and design at Pfizer placed it at a competitive advantage in terms of being the first company to create a COVID vaccine.

How the high rate of turnover attributable to poor job design set nursing homes up for disaster when it came to the spread of COVID within their units.

Why organizations are rebalancing the formula of individual work versus teamwork to reflect the need for collaboration, but also concentration.

Chapter 5

New Opening Vignette: How offshoring of the manufacturing of personal protective equipment left many of the nation's hospital systems totally unprepared for the COVID pandemic.

New Boxes:

Why France is revisiting past strategic decision regarding vocational education and how it is now trying to promote the opposite idea.

How the COVID pandemic increased the use of robots across a number of industries and why these robots are not going away any time soon.

How and why recruitment for military service has become a "family business" and the problems associated with having a military that is not representative of the country as a whole.

How the increased aggressiveness of workplace raids conducted by Immigration and Customs Enforcement (ICE) office is breaking up families and local communities.

Recent evidence shows that immigration results in a loss of U.S. jobs in the short term, but in the long term results in large job gains for the country.

New Text Material:

How the COVID pandemic shifted the demand and supply for certain kinds of labor and how this unanticipated event left many employers scrambling to find enough workers.

How employers are using “Reskilling Bootcamps” to move workers who are in low demand jobs into high demand jobs.

How Boston Dynamics targets certain high demand jobs when it comes to developing commercial robots.

How recent changes in the H-1B Visa Program have created conflict between high tech companies, workers, customers, and the government.

How tariffs affect the supply and demand for labor and why it is so difficult for HR to respond to this type of activity.

Chapter 6

New Opening Vignette: Discusses how Adidas’ response to the Black Lives Matter movement led to an employee revolt at that company, even though it said the exact same things as most other employers.

New Boxes:

How investors who want to put their money in companies committed to Environment, Social, and Governance practices are creating a new way to draw competitive advantage from HR policies.

How the job of CEO restricts the range of certain behaviors, and why one sees far fewer gender differences when it comes to this job versus other jobs.

What goes on inside the “black box” of artificial intelligence hiring systems and why this creates the same subjective biases one sees in humans.

page xiiiThe pros and cons of hiring former criminals, and how to do it right.

How gender integration at the United States Marine Corps improved the tactical decision-making effectiveness of teams.

New Text Material:

How the polarized context of U.S. politics makes it difficult for employers to balance concerns related to discrimination and reverse discrimination in hiring and promotion.

How the lack of background checks for workers who perform gig jobs is becoming a public health concern and why that is beginning to change.

How and why younger workers see and report discrimination in the workplace at much higher rates relative to older workers.

How the “Rooney Rule” invented by the National Football League is being adopted by many businesses in the effort to integrate their leadership ranks.

How the legalization of marijuana in many states and increased use of smart drugs like Adderall are changing the landscape related to drug testing in different industries.

Chapter 7

New Opening Vignette: Describes Amazon's training programs to upskill employees and community members around the world.

New Boxes:

How Verizon used training to keep employees working during the pandemic.

How language training is giving employees opportunities to further their careers.

Describes Kimberly-Clark, Comcast, and Siemens USA efforts to manage diversity, equity, and inclusion.

How artificial intelligence helps employees identify training they need and are interested in.

How PwC uses a post-test comparison group design to evaluate three training methods.

New Text Material:

Example of Hilton's use of knowledge management.

Example of how BMO Financial Group facilitates continuous learning.

Example of how NTT assesses skills as part of its needs assessment process.

Examples of microlearning from Panda Restaurants and CDK Global.

Example of how AARP involves managers to help ensure transfer of training occurs.

Example of how Signature Consultants use mentors and peers to support transfer of training.

Example of how North Highland and Western Southern Financial Group use knowledge management to support transfer of training.

Updated statistics for percentage use of different training methods.

Discussion and company example (Rollins) of use of virtual classrooms during the pandemic.

Examples of Ally Auto's and Aggreko's use of video for training.

Examples of company and joint company community efforts (Dartmouth-Hitchcock Medical Center, Federation for Advanced Manufacturing Education) to train using apprenticeships.

Examples of simulations, virtual reality, augmented reality, serious games (FBI, BNSF Railway, NTPC, PwC, Walmart).

Example of online learning (Apple Federal Credit Union).

page xiv Discussion of security concerns with MOOCs.

Discussion of mobile learning and use by Two Men and a Truck.

Blended learning at Providence St. Joseph Health.

Yum! Brands' use of learning management system.

Updated statistics on expatriate assignments.

Campari Group language training for preparing expatriates.

Discussion of diversity, equity, and inclusion.

Discussion of ally training and Microsoft example.

Unconscious bias training at Kaiser Permanente.

Dominos and C&A Industries onboarding programs.

Chapter 8

New Opening Vignette: How effective performance management at Wipro, Zenefits, and UL supports the business.

New Boxes:

The use of performance contracts at PetroChina Company LTD.

How NetRoll adapted employees' goals during the pandemic.

Effectiveness of Kronos's upward feedback process.

Examining employees' digital exhaust (e-mails) using relationship analytics in performance management.

Companies deciding to keep poor performers during the pandemic.

New Text Material:

Reasons why companies are moving to continuous performance management.

How TD Bank's Personal Performance and Development process contributes to the strategic, developmental, and communication purposes of performance management.

The steps Facebook took to ensure that its performance management system was acceptable by ensuring it was fair, transparent, and focused on development.

Voya Financial and Providence Health use of competency models.

Asana's use of goals and objectives.

Updated best practices in goal setting.

Use of 360 feedback at PwC.

General Electric's performance development app.

Use of electronic monitoring to promote social distancing during the pandemic.

SiteSystems use of monitoring software on employees' computers.

Updated discussion of potential benefits of electronic monitoring.

Discussion of ingroup-outgroup and confirmation bias and how they cause rating errors.

Adobe's Check-In process that facilitates managers giving feedback.

USANA Health Sciences use of questions for self-assessment.

Penn Station East Coast Subs STEAKS model used to help managers provide performance feedback.

Discussion of employee termination process.

EEO cases involving discriminatory use of performance management (MVM and Erickson Living Management).

Chapter 9

New Opening Vignette: Discusses employee-driven development process and development conversations at Danone Turkey.

page xv

New Boxes:

Companies paying employees' entire tuition bill for degrees related to in-demand skills.

Hershey's use of volunteer assignments to develop employees' skills and communities in Africa.

How virtual reality and artificial intelligence are being used in development and career management.

Actions that PlanteMoran, Hershey's, and Bank of America are taking to break the glass ceiling.

New Text Material:

Psychological success: The Florida real estate agent who left her job in real estate to capture pythons.

Updated statistics on job hopping.

How ESL Federal Credit Union career counseling services encourages employees to proactively manage their career growth.

UL NavigateMyCareer approach example for reality check.

Assurion's use of a variety of development approaches.

Discussion of leadership development programs and company examples (MasTech, Deltek).

EY partnership with university to offer a management degree.

Discussion of StrengthFinders assessment and company example (Signature Consultants).

Wipro's use of 360 degree feedback.

Midcontinent Independent System Operator, Inc., use of 360-degree feedback in its career exploration program.

Steelcase and BMO Financial Group use of stretch assignments.

How Atrium Health deals with a potential problem of job rotation.

Promotion of Luz Damaris Rosario who now oversees one of Goya Foods' largest food production plants.

PwC's and BrewDog's use of sabbaticals.

CEO of Allergan volunteer assignment. Benefits of reverse mentoring at BNY Mellon's Pershing.

Coaching at PepsiCo and Kaiser Permanente.

Updated statistics of women and minorities in leadership positions.

Examples of development opportunities that helped two Black women gain leadership positions.

Talent reviews at MediaData Systems.

Commvault's use of a sixteen-box grid for succession planning.

Chapter 10

New Opening Vignette: Discusses how verdict in the Harvey Weinstein case is the “end of the beginning” of the #MeToo Movement and how “defamation” charges are what come next.

New Boxes:

How employees and employers got caught in the crossfire of the Hong Kong protests, and the impact this has had on expatriate employees.

How CEOs who laid off workers during the COVID pandemic treated themselves when it came to pay cuts, raises and bonuses.

How new developments in smartphone technology for measuring stress are changing workplace wellness efforts.

page xviWhy the way hourly and salaried employees are paid results in both sets of workers enduring longer hours for totally different reasons.

New evidence on how “four-10-hour-days work weeks” compare to “five-8-hour-days work weeks” when it comes to employee productivity and satisfaction.

New Text Material:

How rather than being the champion for employees, HR was often the villain when it came to handling sexual harassment charges at some large companies.

How failures to address the numerous past reported police protocol violations connected to Derek Chauvin contributed to death of George Floyd, and the record \$26 million settlement agreed to by the City of Minneapolis.

How toxic work conditions at one French company led to massive suicides and the arrest and imprisonment of senior leaders including the head of HR.

How and why whistleblowing activities reached levels in 2020 that the Securities and Exchange Committee had never seen in previous years.

How and why pay secrecy rules contribute to pay discrimination and why work rules that prohibit the discussion of pay at work are not legal.

Chapter 11

New Opening Vignette: Looks at how many companies, who had been part of a hiring frenzy in 2019 to attract new employees with higher pay, had to make significant cuts to stay afloat during the pandemic.

New Boxes:

How automobile production has shifted to low labor cost countries over time.

How and why two companies in the same industry, Walmart and Costco, pay so differently.

Remote work and its impact on both employees and employers.

How Amazon is using automation and technology to reduce hiring of workers.

Why an increasing number of companies do not ask applicants about their salary histories.

How some companies are helping their lower-income employees deal with financial “precarity” (income insecurity), including helping these employees be less vulnerable to high-interest short-term loans.

Why companies like Foxconn (which assembles Apple products like the iPhone) are looking beyond China for other production locations and how they balance labor costs, production costs, and the need to be close to customers in deciding where to locate.

New Text Material:

How some employers are making major changes to their policies on geographic differences in pay level (e.g., eliminating them in some cases) and use of remote work.

The labor cost and competitiveness implications of the most recent contracts between U.S. automobile manufacturers and the United Automobile Workers Union.

Updated examples of pay and productivity differences, including between companies and countries.

Updated data on executive pay and how it compares to employee pay.

Description of the major change in the salary test used to decide which employees are exempt from the Fair Labor Standards Act (e.g., which includes overtime pay provisions).

Expanded and updated section on developments in pay equity, including the legal framework.

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Chapter 12

New Opening Vignette: Examines how U.S. companies are balancing the goal of avoiding increases to fixed labor costs (salaries and benefits) by using bonuses against the effectiveness of salaries and benefits in attracting and retaining workers as the economy heats back up and the unemployment rate drops.

New Boxes:

New meta-analysis evidence on whether financial incentives, or pay for performance, improves or undermines motivation and performance, especially in intrinsically interesting tasks.

How companies like Apple and Starbucks provide incentives to executives to improve diversity and inclusion.

How financial services firms are increasingly relying on automation to compete.

How Japanese companies are increasingly competing head to head for workers and seeking to better motivate them by paying for performance (rather than seniority, the tradition).

New Text Material:

How pay for performance incentives can “go wrong” when poorly designed and executed (e.g., at Wells Fargo, Volkswagen, and Novartis).

How companies like Novartis are developing ethical standards (including anti-bribery policies/standards) in an effort to head off problems with incentives.

A new example of a balanced scorecard (from American Express).

Update on best practices in governance and executive compensation.

Chapter 13

New Opening Vignette: Discusses how during tough times, employers look for cost savings in employee benefits, as well as how that reduces progress toward building employee financial wellness and security.

New Boxes:

How organizations have implemented and expanded paid family leave practices in an effort to help employees better balance work and family, which also helps to attract and retain new employees.

How employers like Bank of America and Met life help employees with their financial wellness, including planning for retirement.

The rise in telehealth and telemedicine.

Balancing work and personal life, both during the pandemic and beyond.

Managing gig economy workers, including employers' legal obligations.

New Text Material:

Updates on benefits costs and benefits coverage in the United States.

Updates on how companies differentiate themselves by using unique benefits.

Update on the number and percentage of people without health insurance in the United States as compared to other countries.

Update on how hours worked continues to be higher in the United States than in other advanced economies.

Update on health care costs and companies' efforts to control their growth.

New data on which benefits communication methods are seen as most effective.

Update on the employer mandate under the Affordable Care Act.

Chapter 14

New Opening Vignette: Describes union issues (i.e., a union organizing drive and its causes) that have arisen at a nonunion company (Amazon).

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New Boxes:

How Apple's supplier labor standards code is a useful model for other companies in bringing better conditions to workers in their supply chains.

How companies across the world dealt with (and sometimes assisted) contingent workers during the pandemic.

The role of technology in the communication battle between Amazon and the Retail, Wholesale and Department Store Union for worker support leading up to the unionization vote.

New Text Material:

New research on how interested nonunion workers are in joining a union and why.

Updated data on unionization levels in the United States and the largest labor unions.

Update on work stoppages (e.g., strikes) and the number of workers involved.

Updates and new research on union–nonunion differences in wages and benefits (including “threat effects” where union presence influences nonunion worker wages and/or benefits).

New research on the use of alternative dispute resolution mechanisms in nonunion companies.

Updates on international differences in union membership and coverage.

Chapter 15

New Opening Vignette: Describes how after stating they would no longer source cotton from the region of China allegedly holding Uighur Muslims in concentration camps, the European company Hennes & Mauritz (H&M) was effectively disappeared from social media and maps.

New Boxes:

Competing through Technology box describes a challenge to be faced by new Amazon CEO Andy Jassy. The company has been experimenting with more and more robotic technology that could replace people, so Jassy will face a decision regarding whether to use technology to help workers or replace them.

Competing through Globalization box describes a suit that Chevron has faced that started in the 1960s. The suit was about whether or not Texaco (later acquired by Chevron) polluted the air and water in the Amazon, and the various legal machinations that have taken place across countries and time.

Competing through Globalization box describes how Germany has been discussing legally requiring quotas of women on the boards of large German companies.

Integrity in Action box describes how the chair of Harvard’s Chemistry Department was arrested for lying about his relationship with Wuhan University of Technology.

New Text Material:

Updated [Table 15.1](#) with the latest Fortune Global 500 top 25 companies along with updated text describing the shrinking number of U.S. companies on the list.

Updated information on relative manufacturing wages across different countries. Greater discussion of the European Union and the impact and process of Brexit.

Updated information on the United States–Mexico–Canada trade agreement.

Description of the Tax Cut and Jobs Act and how it impacted globalization of U.S. multinational companies.

A whole new section on immigration, explaining some of the U.S. laws regarding the different types of visas, as well as how the new presidential administration has changed the policy regarding undocumented immigrants.

Chapter 16

New Opening Vignette: Robinhood is an investment firm with which most students will be familiar because it caters to people like them who are investing small amounts of money at a time. Although the company has grown successfully, the case describes how their ability to deliver quality customer service is sorely lacking.

New Boxes:

Competing through Technology describes how Microsoft, in particular, but other software firms as well are seeking to develop integrated employee management systems that will enable firms to manage all the ways that

the firm touches employees in an integrated way.

Competing through ESG describes how The North Face declined to fill an oil and gas company's order because they did not want to serve a company in an industry that degrades the environment, only to have it revealed that many of their products contain components that come from oil and gas.

Competing through Globalization describes the challenge Tesla faces in China as it tries to deal with dissatisfied customers in a country with an authoritarian government.

Evidence-Based HR presents the results of the 2021 Human Resource Competency Study, showing how the five competencies identified in the study relate to four measures of effectiveness.

Integrity in Action describes how Hubert Joly took over Best Buy following a scandal and poor performance to turn the company around by focusing on elevating people and doing everything possible to avoid laying them off.

New Text Material:

The "Future of HR Professionals" section is all new. Coming out of the pandemic and the protests for social justice, the 2021 Human Resource Competency Study explored the competencies of approximately 3600 HR professionals around the globe based on over 26,000 ratings of their competencies and their performance. Five competencies are described.

ACKNOWLEDGMENTS



As this book enters its 13th edition, it is important to acknowledge those who started it all. The first edition of this book would not have been possible if not for the entrepreneurial spirit of two individuals. Bill Schoof, president of Austen Press, gave us the resources and had the confidence that four unproven textbook writers could provide a new perspective for teaching human resource management. John Weimiester, our editor for many of editions, worked diligently to get the author team to consider new features to incorporate into the book to keep it interesting and help students learn about HRM. He supported us all along the journey. The success and longevity of textbooks goes far beyond the skills of the author team. For this edition we were grateful to work with a fantastic group of editors, developers, and project managers. We want to thank Mike Ablassmeir for encouraging us to keep the book fresh by introducing current HRM research and effective contemporary practices. Kudos go to Anne Ehrenworth for her diligent work, and to Debbie Clare for her marketing efforts. Many thanks to Mary Powers and Melissa Leick, who shepherded this edition through production.

We would also like to thank the professors who gave of their time to review the text and attend focus groups throughout the life of the product, including the most recent edition. Their helpful comments and suggestions have greatly helped to enhance this learning program:

Vondra Armstrong
Pulaski Technical College

Richard Arvey
National University of Singapore

Steve Ash
University of Akron

Carlson Austin
South Carolina State University

Janice Baldwin
The University of Texas at Arlington

Amy Banta
Central Michigan University

Alison Barber
Michigan State University

Kathleen Barnes
University of Wisconsin, Superior

Brian Bartel
Mid-State Technical College

James E. Bartlett, II
University of South Carolina–Columbia

Chip Baumgardner
Pennsylvania College of Technology

Ron Beaulieu
Central Michigan University

Joan Benek-Rivera
University of Pennsylvania–Bloomsburg

Philip Benson
New Mexico State University

Nancy Bereman
Wichita State University

Chris Berger
Purdue University

Carol Bibly
Triton College

Angela Boston
University of Texas at Arlington

Wendy Boswell
Texas A&M University

Sarah Bowman
Idaho State University

Charles Braun
University of Kentucky

James Browne
University of Southern Colorado

Ronald Brownie
Purdue University–North Central

Jon Bryan
Bridgewater State College

David Calland
Liberty University

Gerald Calvasina
Southern Utah University

Stacy Campbell
Kennesaw State University

Martin Carrigan
University of Findlay

Georgia Chao
Michigan State University

page xxi
Brian Chupp
Purdue University

Fay Cocchiara
Arkansas State University

LeAnne Coder
Western Kentucky University

Walter Coleman
Florida Southern College

Mary Connerley
Virginia Tech University

Donna Cooke
Florida Atlantic University–Davis

Craig Cowles
Bridgewater State College

Susie Cox
McNeese State University

Michael Crant
University of Notre Dame

Shaun W. Davenport
High Point University

Paul Davis
Cornell University

Shannon Davis
North Carolina State University

Roger Dean
Washington & Lee University

John Delery
University of Arkansas

Fred Dorn
University of Mississippi

Jennifer Dose
Messiah College

Tom Dougherty
University of Missouri

Berrin Erdogan
Portland State University

Angela Farrar
University of Nevada–Las Vegas

Dan Farrell
Western Michigan University

Dyanne Ferk
University of Illinois–Springfield

Anne Fiedler
Nova Southeastern University

Robert Figler
University of Akron

Louis Firenze
Northwood University

Art Fischer
Pittsburgh State University

Barry Friedman
State University of New York at Oswego

Cynthia Fukami
University of Denver

Nolan Gaffney
University of North Texas

Daniel J. Gallagher
University of Illinois–Springfield

Donald G. Gardner
University of Colorado at Colorado Springs

Bonnie Fox Garrity
D'Youville College

David Gerth
Nashville State Community College

Sonia Goltz
Michigan Technological University

Bob Graham
Sacred Heart University

Terri Griffith
Washington University

Ken Gross
University of Oklahoma–Norman

John Hannon
University at Buffalo

Todd Harris
Bridgewater State University

Bob Hatfield
Indiana University

Alan Heffner
James Monroe Center

Fred Heidrich
Black Hills State University

Jonathan Hendricks
University of Nebraska--Lincoln

Rob Heneman
Ohio State University

Gary Hensel
McHenry County College

Kim Hester
Arkansas State University

Nancy Higgins
Montgomery College--Rockville

Michael Hill
University of Georgia

Wayne Hockwater
Florida State University

Fred Hughes
Faulkner University

Ning Hou
St. Cloud State University

Denise Tanguay Hoyer
Eastern Michigan University

Natalie J. Hunter
Portland State University

Julie Indvik
California State University, Chico

Sanford Jacoby
University of California--Los Angeles

Frank Jeffries
University of Alaska--Anchorage

Roy Johnson
Iowa State University

Gwen Jones
Fairleigh Dickinson University

Gwendolyn Jones
University of Akron

Samantha Jordan
Florida State University

Hank Karp
Hampton University

page xxiiGundars Kaupins
Boise State University

Marianne Koch
University of Oregon

James Kolacek
Palm Beach Atlantic University

Tom Kolenko
Kennesaw State College

Elias Konwufine
Keiser University

Beth Koufteros
Texas A&M University

Ken Kovach
George Mason University

Loren Kuzuhara
University of Wisconsin--Madison

Chalmer Labig
Oklahoma State University

Patricia Lanier
University of Louisiana at Lafayette

Vonda Laughlin
Carson-Newman College

Helen LaVan
DePaul University

Renee Lerche
University of Michigan

Julia Levashina
Kent State University

Nancy Boyd Lillie
University of North Texas

Beth A. Livingston
Cornell University

Karen Locke
William & Mary

Michael Dane Loflin
York Technical College

Matt Lozykowski
Kent State University

Susan Madsen
Utah Valley University

Larry Mainstone
Valparaiso University

Ann-Marie Majeskey
Mount Olive College

Liz Malatestinic
Indiana University

Shamira Malekar
Borough of Manhattan Community College

Patricia Martina
University of Texas–San Antonio

Nicholas Mathys
DePaul University

Chris McChesney
Indian River State College

Lisa McConnell
Oklahoma State University

Edward Meda
University of Texas–Dallas

Liliana Meneses
University of Maryland University College

Jessica Methot
Rutgers University

Angela Miles
North Carolina A&T State University

Stuart Milne
Georgia Institute of Technology

Barbara Minsky
Troy University

Kelly Mollica
University of Memphis

Jim Morgan
California State University–Chico

Pamela Mulvey
Olney Central College Lake Land College

Gary Murray
Rose State College

David M. Nemi
Niagara County Community College

Millicent Nelson
Middle Tennessee State University

Lam Nguyen
Palm Beach State College

Nhung Nguyen
Towson University

Thomas J. Norman
California State University–Dominguez Hills

Amy Olson
Lakeshore Technical College

Cheri Ostroff
Teachers College Columbia

Teresa Palmer
Illinois State University

Liana Passantino
Michigan State University

Robert Paul
Kansas State University

Tracy Porter
Cleveland State University

Gregory Quinet
Southern Polytechnic State University

Sam Rabinowitz
Rutgers University

David Rahn
California State University–Chico

Jude Rathburn
University of Wisconsin–Milwaukee

Katherine Ready
University of Wisconsin

Herbert Ricardo
Indian River State College

Mike Ritchie
University of South Carolina

Gwen Rivkin
Cardinal Stritch University

Mark Roehling
Michigan State University

Mary Ellen Rosetti
Hudson Valley Community College

Craig J. Russell
University of Oklahoma

page xxiii Sarah Sanders-Smith
Purdue University–North Central

Miyako Schanely
Jefferson Community College

Robert Schappe
University of Michigan–Dearborn

Jack Schoenfelder
Ivy Tech Community College

Machelle K. Schroeder
University of Wisconsin–Platteville

Joshua Schwarz
Miami University–Ohio

Pat Setlik
Harper College

Christina Shalley
Georgia Tech

Richard Shuey
Thomas More College

Amy Simon
University of Minnesota

Richard Simpson
University of Utah

Romila Singh
University of Wisconsin–Milwaukee

Erika Engel Small
Coastal Carolina University

Mark Smith
Mississippi Gulf Coast Community College–Gulfport

Scott Snell
University of Virginia

Kris Sperstad
Chippewa Valley Technical College

Howard Stanger
Canisius College

Carol S. Steinhaus
Northern Michigan University

Gary Stroud
Franklin University

Cynthia Sutton
Indiana University–South Bend

Peg Thomas
Pennsylvania State University–Behrend

Steven L. Thomas
Missouri State University

Tom Timmerman
Tennessee Technology University

George Tompson
University of Tampa

J. Bruce Tracey
Cornell University

K. J. Tullis
University of Central Oklahoma

Dan Turban
University of Missouri–Columbia

Linda Turner
Morrisville State College

Linda Urbanski
University of Toledo

William Van Lente
Alliant International University

Charles Vance
Loyola Marymount University

John Varlaro
Johnson & Wales University

Kim Wade
Washington State University

Carlotta Walker
Lansing Community College

Gang Wang
Florida State University

Sheng Wang
University of Nevada–Las Vegas

Renee Warning
University of Central Oklahoma

Marc Weinstein
Florida International University

Bruce Western
Western Illinois University

Lynn Wilson
Saint Leo University

Jenell Wittmer
University of Toledo

George Whaley
San Jose State University

Steve Woods
University of Baltimore

Lin Xiu
University of Minnesota–Duluth

Daniel Yazak
Montana State University–Billings

Ryan D. Zimmerman
Texas A&M University

Raymond A. Noe

John R. Hollenbeck

Barry Gerhart

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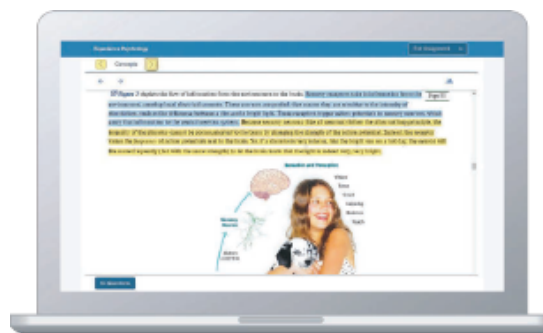
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CHAPTER 1

Human Resource Management: Gaining a Competitive Advantage



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO1-1 Discuss the roles and activities of a company's human resource management function.](#)

[LO1-2 Discuss the implications of the economy, the makeup of the labor force, and ethics for company sustainability.](#)

[LO1-3 Discuss how human resource management affects a company's balanced scorecard.](#)

[LO1-4 Discuss what companies should do to compete in the global marketplace.](#)

[LO1-5 Identify how social networking, artificial intelligence, and robotics are influencing human resource management.](#)

[LO1-6 Describe how automation using artificial intelligence and robotics has the potential to change jobs.](#)

[LO1-7 Discuss human resource management practices that support high-performance work systems.](#)

[LO1-8 Provide a brief description of human resource management practices.](#)

ENTER THE WORLD OF BUSINESS



HRM Practices Take Center Stage During the Pandemic

Human resource management practices have an important role in companies but their visibility and importance increased even more so during the COVID-19 pandemic. Companies had to quickly pivot from business as usual to a focus on keeping employees physically safe and mentally healthy, figuring out how to work remotely, and making sure employees were able to pay their bills. Companies carefully considered their current human resource management practices, and when necessary, modified them in order to operate during the pandemic.

Kroger, the supermarket chain with over 400,000 employees, had been considering giving employees access to the wages they had earned ahead of receiving their scheduled paycheck. When the pandemic started many employees experienced financial difficulties due to layoffs, furloughs, and reduced hours. Kroger's Vice President of Total Rewards recognized the need to quickly help employees get access to their pay. The grocer partnered with a developer and rolled out an app (DailyPay) that employees can use to see how much they have earned since their last pay period. This gives them the ability to access their wages if they want to rather than waiting until their next paycheck. It also provides information they can use to decide if they need to pick up additional work shifts.

Employees like having access to the app even if they don't need to withdraw their earned pay.

When COVID-19 hit, Henry Ford Health System in Detroit needed more ICU nurses and environmental services staff responsible for infection control. To address the need Henry Ford quickly built a cross-training program. The training program helped quickly train other staff to take on important, but mundane tasks (such as running errands and getting supplies) for ICU nurses so they could devote all of their attention to saving lives. The program also includes employees in environmental services, food service, and transportation so they can be shifted to help out other areas of the hospital when needed. The program helps Henry Ford fill staffing shortages during a crisis. It also gives employees the opportunity to consider different career paths.

Due to the pandemic Marriott and its HR leaders experienced the greatest challenge in the company's ninety-year history. With both business and pleasure travel curtailed Marriott properties experienced major losses in occupancy and revenues. As a result Marriott had to furlough thousands of employees. But the leadership team decided to be open and transparent in its communications about what it knew and didn't know about future plans. It didn't pretend it had all the answers. Also, the company recognized that the health and safety measures it adopted, including mask mandates, created challenges for employees. For example, it made it difficult for employees who were used to engaging with guests by smiling or who had to tell customers they had to wear a mask. To stay in contact with employees and support them they held frequent Zoom meetings.

Postmates, the food-delivery company, partnered with online education provider edX to provide workers with free access to education certificates and virtual career guidance. The benefit was offered to Postmates Fleet, independent contractors who deliver on behalf of Postmates. Workers can enroll in over 2500 courses covering a variety of topics. The company's goal was to give these workers the opportunity to learn the skills they need to help ensure their future employability especially given the uncertain economy.

SOURCES: Based on K. Mayer, "Why Postmates Is Turning to Education Perks for Covid Relief," June 25, 2020, hrexecutive.com, accessed March 19, 2021; K. Mayer, "Marriott HR Exec Talks COVID-19: 'It's Been a Grueling Year,'" March 17, 2021, hrexecutive.com, accessed March 19, 2021; K. Mayer, "One of Kroger's COVID-19 Strategies: Access to Earned Pay," March 18, 2021, hrexecutive.com, accessed March 19, 2021; T. Agovino, S. Ladika, L. Roepe, J. Sammer, and R. Zeidner, "How the Coronavirus Pandemic Will Change the Way We Work," *HR Magazine* (Summer 2020), May 29, 2020, shrm.org, accessed March 18, 2021; T. Harbert, "Workforce Planning in the Age of COVID-19," *HR Magazine* (Winter 2020), December 1, 2020, shrm.org, accessed March 19, 2021.

Introduction

The chapter opener illustrates the key role that human resource management plays in determining the survival, effectiveness, and competitiveness of U.S. businesses. [Competitiveness](#) refers to a company's ability to maintain and gain market share in its industry. Competitiveness is related to company effectiveness, which is determined by whether the company satisfies the needs of stakeholders (groups affected by business practices). Important stakeholders include stockholders, who want a return on their investment; customers, who want a high-quality product or service; and employees, who desire interesting work and reasonable compensation for their services. The community, which wants the company to contribute to activities and projects and minimize pollution of the environment, is also an important stakeholder. Companies that do not meet stakeholders' needs are unlikely to have a competitive advantage over other firms in their industry.

[Competitiveness](#)

A company's ability to maintain and gain market share in its industry.

[Human resource management \(HRM\)](#) refers to the policies, practices, and systems that influence employees' behavior, attitudes, and performance. Many companies refer to HRM as involving "people practices." [Figure 1.1](#)

emphasizes that there are several important HRM practices. The strategy underlying these practices needs to be considered to maximize their influence on company performance. As the figure shows, HRM practices include analyzing and designing work, determining human resource needs (HR planning), attracting potential employees (recruiting), choosing employees (selection), teaching employees how to perform their jobs and preparing them for the future (training and development), rewarding employees page 3(compensation), evaluating their performance (performance management), and creating a positive work environment (employee relations). The HRM practices discussed in this chapter’s opening highlighted how effective HRM practices supported the business and its employees during the pandemic. Effective HRM practices are strategic! Effective HRM has been shown to enhance company performance by contributing to employee and customer satisfaction, innovation, productivity, and development of a favorable reputation in the firm’s community.¹

Human resource management (HRM)

The policies, practices, and systems that influence employees’ behavior, attitudes, and performances.



Figure 1.1 Human Resource Management Practices

We begin by discussing the roles and skills that a human resource management department and/or managers need for any company to be competitive. The second section of the chapter identifies the competitive challenges that U.S. companies currently face, which influence their ability to meet the needs of shareholders, customers, employees, and other stakeholders. We discuss how these competitive challenges are influencing HRM. The chapter concludes by highlighting the HRM practices covered in this book and the ways they help companies compete.

What Responsibilities and Roles Do HR Departments Perform?

LO 1-1

Discuss the roles and activities of a company’s human resource management function.

[Table 1.1](#) shows the responsibilities of human resource departments. How much should companies budget for HR and how many HR professionals should a company employ? One study estimates that HR budgets on average are \$2,936 per employee.²

Table 1.1 Responsibilities of HR Departments

FUNCTION	RESPONSIBILITIES
Analysis and design of work	Job analysis, work analysis, job descriptions

Recruitment and selection	Recruiting, posting job descriptions, interviewing, testing, coordinating use of temporary employees
Training and development	Orientation, skills training, development programs, career development
Performance management	Performance measures, preparation and administration of performance appraisals, feedback and coaching, discipline
Compensation and benefits	Wage and salary administration, incentive pay, insurance, vacation, retirement plans, profit sharing, health and wellness, stock plans
Employee relations/labor relations	Attitude surveys, employee handbooks, labor law compliance, relocation and outplacement services
Personnel policies	Policy creation, policy communications
Employee data and information systems	Record keeping, HR information systems, workforce analytics, social media, intranet and Internet access
Legal compliance	Policies to ensure lawful behavior; safety inspections, accessibility accommodations, privacy policies, ethics
Support for business strategy	Human resource planning and forecasting, talent management, change management, organization development

SOURCES: Based on Bureau of Labor Statistics, U.S. Department of Labor, “Human Resources Specialists,” *Occupational Outlook Handbook*, www.bls.gov/ooh/business-and-financial/human-resources-specialists.htm, accessed February 17, 2019; SHRM-BNA Survey No. 66, “Policy and Practice Forum: Human Resource Activities, Budgets, and Staffs, 2000–2001,” *Bulletin to Management*, Bureau of National Affairs Policy and Practice Series, June 28, 2001 (Washington, DC: Bureau of National Affairs).

High-impact HR teams have one staff person per 64 employees, spend more than the average HR budget per employee (\$4,434 on average per employee), and employ a higher percentage of HR specialists than more compliance-driven and basic HR organizations.

High-impact HR functions are more integrated with the business and skilled at helping managers in attracting, building, engaging, and retaining talented employees. They can adapt quickly to business needs and workforce changes, identify and promote talent from within the company, and are continuously trying to identify what motivates employees to help them grow and develop. Also, high-impact HR functions ensure that they are continuously building the talent and skills of HR professionals necessary to help the company meet new competitive challenges. The greater cost-per-employee of high-impact HR functions is offset by the greater savings resulting from reduced turnover and increased levels of employee engagement.

The HR department is solely responsible for outplacement, labor law compliance, record keeping, testing, unemployment compensation, and some aspects of benefits administration. The HR department is most likely to

collaborate with other company functions on employment interviewing, performance management and discipline, page 4 and efforts to improve quality and productivity. Large companies are more likely than small ones to employ HR specialists, with benefits specialists being the most prevalent. Other common specializations include recruitment, compensation, and training and development.³

Many different roles and responsibilities can be performed by the HR department, depending on the size of the company, the characteristics of the workforce, the industry, and the value system of company management. The HR department may take full responsibility for human resource activities in some companies, whereas in others it may share the roles and responsibilities with managers of other departments such as finance, operations, or information technology. In some companies the HR department advises top-level management; in others the HR department may make decisions regarding staffing, training, and compensation after top managers have decided relevant business issues.

Some companies that want managers to have more accountability for employees believe that traditional HR departments are unnecessary because they inhibit innovation by creating unnecessary and inefficient policies and procedures.⁴ In these companies, important payroll, benefits, and other HR processes are automated or outsourced. Also, at smaller companies HR responsibilities are often handled by the owner. They do so for many possible reasons, including not wanting to incur the costs of having an HR manager or outsourcing HR services and being unwilling or unable to delegate HR responsibilities or share information with others. One estimate is that 45% of business owners spend one day each week or more on HR administration. However, less than 50% of small-business owners are very confident about the way their companies handle HR. There are many advantages to having HR professionals and an HR department. Managers often lack the specialized knowledge necessary to understand employment laws and how to identify potential employees, determine skills and salaries for positions, and develop current employees. It is estimated that page 570% of businesses with less than fifty employees give HR responsibilities to employees with little to no experience in workforce issues.⁵ HR professionals can create systems to avoid legal liability, counsel employees, and coach managers on how to identify, retain, and develop talent. For example, the founder and chief executive officer of ChartHop, a software company with nine employees, also serves as the company's HR manager.⁶ Since employees had to work remotely due to the pandemic, he has been involved in trying to help ensure they stay in touch and experience as little personal stress as possible. He moved his typical once-a-week staff meetings to twice weekly over Zoom. The meetings include discussions of company projects and work plans but he encourages employees to discuss their health, child care, and other family matters. He also implemented FlexFridays which encourages employees to take off every other Friday from work. He intends to hire a dedicated HR leader within the next year based on his belief that the HR role is critical for the success of any new company.

One way to think about the roles and responsibilities of HR departments is to consider HR as a business within the company with three product lines. [Figure 1.2](#) shows the three product lines of HR. The first product line, administrative services and transactions, is the traditional product that HR has historically provided. The newer HR products—business partner services and the strategic partner role—are the HR functions that top managers want HR to deliver.



Figure 1.2 HR as a Business with Three Product Lines

SOURCE: Adapted from Figure 1, “HR Product Lines” in E. E. Lawler, “From Human Resource Management to Organizational Effectiveness,” *Human Resource Management* 44 (2005), pp. 165–69.

Infosys BPM is a company that provides integrated information technology and business process solutions.⁷ Infosys believes that HR can best support the needs of the business by taking a talent management approach. This means that HR provides services including talent strategy and planning, talent acquisition, talent engagement, and talent development. These services are supported by organizational development and compensation and benefits.

Strategic Role of the HRM Function

The amount of time that the human resource management function devotes to administrative tasks is decreasing, and its roles as a strategic business partner, change agent, and employee advocate are increasing.⁸ HR managers face two important challenges: shifting their focus from current operations to strategies for the future and preparing non-HR managers to develop and implement HR practices.⁹ To ensure that HRM contributes to the company's competitive advantage, many HR departments are reorganized on the basis of a shared service model. The shared service model can help control costs and improve the business relevance and timeliness of HR practices. A [shared service model](#) is a way to organize the HR function that includes centers of expertise or excellence, service centers, and business partners.¹⁰ Centers of expertise or excellence include HR specialists in areas such as staffing or training who provide their services companywide. Service centers are a central place for administrative and transactional tasks such as enrolling in training programs or changing benefits that employees and managers can access online. Business partners are HR staff members who work with business-unit managers on strategic issues such as creating new compensation plans or development programs for preparing high-level managers. Walgreens provides employee relations, recruiting, and HR data services through a shared services team.¹¹ Walgreens introduced a website, myHR, that employees can access to get answers to their questions about benefits, HR policies, and talent management. It provides confidential personalized information that is easy for employees to access. We will discuss the shared service model in more detail in [Chapter 16](#).

[Shared service model](#)

A way to organize the HR function that includes centers of expertise or excellence, service centers, and business partners.

The role of HRM in administration is decreasing as technology is used for many administrative purposes, such as managing employee records and allowing employees to get information about and enroll in training, benefits, and other programs. The availability of the Internet has decreased the HRM role in maintaining records and providing self-service to employees.¹² [Self-service](#) refers to giving employees online access to, or apps that provide, information about HR issues such as training, benefits, compensation, and contracts; enrolling online in programs

and services; and completing online attitude surveys. The shift to self-service means that HR can focus more time on consulting with managers on important employee issues and less time on day-to-day transactional tasks. For example, U.S. Bancorp implemented the PeopleSoft human capital management system, which allows managers to review or approve basic personnel actions such as terminations, relocations, and salary changes.¹³ As managers became more comfortable with the system, they were given control over transactions such as approving bonuses, reviewing résumés, and evaluating job candidates. Managers were initially resistant to take on duties that previously were handled by HR staff, but they accepted the change because it enabled them to execute transactions more quickly and gave them more access to workforce data they could use for decision making. HR professionals now have more time to work with managers on ensuring the right employee development plans are in place, evaluating workforce needs due to retirements or growth, and ensuring their organizational structures are efficient and effective.

Self-service

Giving employees online access to human resources information.

Many companies are also contracting with HR service providers to conduct important but administrative HR functions such as payroll processing, as well as to provide expertise in strategically important practice areas such as recruiting. Outsourcing refers to the practice of having another company (a vendor, third party, or consultant) provide services. The most commonly outsourced activities include those related to benefits administration (e.g., flexible spending accounts, health plan eligibility status), relocation, and payroll. The major reasons that company executives choose to outsource HR practices include cost savings, increased ability to recruit and manage talent, improved HR service quality, and protection of the company from potential lawsuits by standardizing processes such as selection and recruitment.¹⁴ ADP, Zenefits, Skillsoft, Paychex, and Accenture HR Services are examples of outsource providers.

Outsourcing

An organization's use of an outside organization for a broad set of services.

ManTech International, a defense company specializing in cybersecurity and information technology decided to outsource training.¹⁵ ManTech partnered with Skillsoft to offer training that is relevant for the wide variety of jobs and types of work its employees engage in. Employees find the training attractive because it allows them to receive training in skill sets they are interested in such as machine learning and page 7artificial intelligence. From the company's perspective the availability of training is valuable because it supports the company's digital transformation and gives employees the opportunity to take ownership for developing the skills they need to advance their careers. Also, ManTech could not possibly develop and provide training in all of the skills its employees need.

Traditionally, the HRM department (also known as "personnel" or "employee relations") was primarily an administrative expert and employee advocate. The department took care of employee problems, made sure employees were paid correctly, administered labor contracts, and avoided legal problems. The HRM department ensured that employee-related issues did not interfere with the manufacturing or sales of products or services. Human resource management was primarily reactive; that is, HR issues were a concern only if they directly affected the business. That still remains the case in many companies that have yet to recognize the competitive value of HRM, or among HR professionals who lack the competencies and skills or understanding needed to anticipate problems and contribute to the business strategy. However, other companies believe that HRM is important for business success and therefore have expanded the role of HRM as a change agent and strategic partner.

A discussion group of company HR directors and academic thought-leaders reported that increasingly HR professionals are expected to lead efforts focused on talent management and performance management in order to create the global work-forces that companies need to be successful.¹⁶ HR professionals have to be able to use and analyze data to make a business case for ideas and problem solutions. In many companies, top HR managers

report directly to the CEO, president, or board of directors to answer questions about how people strategies drive value for the company. For example, the vice president of human resources for Lawson Products, a company that distributes industrial maintenance and repair products, meets weekly with the operations committee which includes the CEO, chief financial officer, general legal council, and company vice presidents.¹⁷ She also has monthly meetings with the CEO and is involved in Lawson's annual budgeting process and strategy meetings.

This also means that HR professionals have to be prepared to use their people management skills across the business. For example, the top business executives at Honeywell International gave its chief HR executive the responsibility for leading a cost-cutting strategy.¹⁸ To do so the HR executive worked with business leaders from finance and other departments to identify more than 100 ways to cut costs and gain efficiencies in operations. Because of his success leading the cost-cutting strategy he was given the responsibility of managing Honeywell's procurement business, which has more than 100,000 employees and earned more than \$40 billion in revenue for the company. He still had to perform his regular duties managing HR and communications. He found his HR skills useful for developing strategies to recruit and train managers to run the procurement operation. After a corporate reorganization he lost his procurement responsibilities but was given a new role in security management.

Consider how HRM has supported the business at Juniper Networks and Abbott.¹⁹ Juniper Networks, a networking technology company that had become successful by introducing a new router, was a major innovator in the computer network industry. But Juniper found that, despite its success, it needed to reinvent its business strategy and grow. To help reinvent its business strategy and structure, Juniper's HR team had conversations with 150 senior company leaders, including the company chairman, and 100 other managers located around the world. During these conversations, the HR team asked the leader or manager questions about important environmental challenges facing Juniper, how the challenges affected the leader's or manager's team, what most excited them about Juniper's business strategy and execution of that strategy, and key business concerns. The conversations helped identify that Juniper had too many business priorities, leaders tended to avoid conflict, and work was overly complex, making it difficult to provide customers with the best solutions. As a result of the conversations, product lines have been streamlined and the company adopted a simpler and more integrated business structure. For example, across the company, any decision can be made by six people.

Abbott spun off a new company, AbbVie, which focuses on pharmaceutical research and development, while keeping consumer-oriented health care products such as Ensure nutrition shakes. Spin-offs are new companies that are created from the parent company with a specialized focus on one aspect of the business market. They are expected to be worth more as independent businesses than as part of a larger business. Human resource issues such as retaining talent, making sure employees are enthusiastic and motivated, and making sure employees are in the right roles in the new company are important for the success of spin-offs. The chief human resource officer (CHRO) for AbbVie, who worked for Abbott, was faced with the challenging and complex assignment of helping to get the new company established. Specifically, he worked with other executives to create the new organizational structure, logo, and branding campaign. Also, he worked on people issues such as making sure the reasons for the spin-off were communicated, to reduce employees' fear and anxiety; deciding which employees would join the new company and determining their job assignments; and developing a new compensation and benefits plan.

Table 1.2 provides several questions that managers can use to determine if HRM is playing a strategic role in the business. If these questions have not been considered, it is highly unlikely that (1) the company is prepared to deal with competitive challenges or (2) HRM is being used strategically to help a company gain a competitive advantage. The bottom line for evaluating the relationship between HRM and the business strategy is to consider this question: "What is HRM doing to ensure that the right people with the right skills are doing the right things in the jobs that are important for the execution of the business strategy?"²⁰ We will discuss strategic HRM in more detail in **Chapter 2**.

Table 1.2 Questions to Ask: Is HRM Playing a Strategic Role in the Business?

What is HRM doing to provide value-added services to internal clients?

Do the actions of HRM support and align with business priorities?

How are you measuring the effectiveness of HRM?

How can we reinvest in employees?

What HRM strategy will we use to get the business from point A to point B?

From an HRM perspective, what should we be doing to improve our marketplace position?

What's the best change we can make to prepare for the future?

Do we react to business problems or anticipate them in advance?

SOURCES: Based on S. Milligan, "HR 2025: Reach New Heights By Becoming A Trusted Advisor," *HR Magazine*, November/December 2018, pp. 30-38; D. Ulrich, D. Kryscynski, M. Ulrich, and W. Brockbank, *Victory Through Organization* (New York: McGraw-Hill Education, 2017); P. Wright, *Human Resource Strategy: Adapting to the Age of Globalization* (Alexandria, VA: Society for Human Resource Management Foundation, 2008).

Consider how the structure and responsibilities of HR departments are changing to ensure that they have a strategic role. One strategic area of emphasis in many companies is improving the employee and customer experience. Airbnb recognizes that the employee experience is critical for keeping employees happy and committed to the company. Happier employees are more likely to work hard to satisfy customers, which helps the company grow and prosper.²¹ To maximize the employee experience, Airbnb combined three separate HR groups (talent, recruiting, and "Ground Control") into one group. Airbnb's top HR officer's title is chief employee experience officer (CEEEO). At Airbnb, human resources involves marketing, communications, real estate, and social responsibility, in addition to traditional HR functions. The CEEEO's page 9 responsibilities go beyond the traditional HR functions such as talent management and compensation to include workplace design and facilities, food, global citizenship, and the network of community managers who interact daily with Airbnb employees. For example, Airbnb's airy, open workplace includes small lockers for employees to charge their devices, which provides more room for a conference room, couches, nap spaces, communal tables, and small spaces for employees to have conversations with their peers. Numerous cafes are available where employees can eat or collaborate on projects. Also, human resources helps employees give back to the communities where Airbnb operates by encouraging four hours a month of individual volunteering as well as by participating in larger events such as painting a homeless shelter or cooking meals for hospital patients' families.

At Adobe, the chief human resource officer is also the company's first chief customer service officer who oversees all of the functions related to the customer experience.²² She has been working on tying pay and bonuses more closely to measures related to servicing and building customer relations rather than to traditional measures like sales. The goal is to make sure every employee has an incentive based on the customer's experience. Employees can access examples of what they can do to improve the customer experience on Adobe's intranet. Online or physical listening stations have been provided to employees so they can hear conversations with Adobe customers to understand what they like or don't like about Adobe's products.

HRM may be the most important lever for companies to gain a competitive advantage over both domestic and foreign competitors. We believe this is because HRM practices are directly related to companies' success in meeting competitive challenges. These challenges and their implications for HRM are discussed later in the

Demonstrating the Strategic Value of HRM: HR Analytics and Evidence-Based HR

For HRM to contribute to business goals, there is increasing recognition that data must be used to answer questions such as “Which practices are effective?” and “Which practices are cost effective?” and to project the outcomes of changes in practices on employees’ attitudes, behavior, and company profits and costs. This helps show that time and money invested in HR programs are worthwhile and that human resources is as important to the business as finance, marketing, and accounting. [Evidence-based HR](#) refers to the demonstration that HR practices have a positive influence on the company’s bottom line or key stakeholders (employees, customers, community, shareholders). Evidence-based HR requires the use of HR or workforce analytics. [HR or workforce analytics](#) refers to the practice of using quantitative methods and scientific methods to analyze data (often big data) to understand the role of talent in executing the business strategy and achieving business goals.²³

[Evidence-based HR](#)

Demonstrating that HR practices have a positive influence on the company’s bottom line or key stakeholders (employees, customers, community, shareholders).

[HR or workforce analytics](#)

The practice of using data from HR databases and other data sources to make evidence-based HR decisions.

[Big data](#) refers to information merged from HR databases, corporate financial statements, employee surveys, and other data sources to make evidence-based HR decisions and show that HR practices influence the organization’s bottom line, including profits and costs.²⁴ Several companies have used workforce analytics to analyze big data to help improve HR practices.²⁵ Google was one of the first companies to use analytics to improve its workforce. Google created algorithms or equations to identify which job candidates were most likely to succeed. It also produced algorithms to review applications that were rejected. This helped Google hire engineers who its normal application screening process would have missed.

[Big data](#)

Information merged from a variety of sources, including HR databases, corporate financial statements, and employee surveys, to make evidence-based HR decisions and show that HR practices can influence the organization’s bottom line.

Sonic Automotive, an automobile retailer, uses big data to help determine which training programs have a positive ROI and are helping to meet the company’s strategic goals. Big data is used for several purposes. Sonic University tracks the usage rates of its hundreds of learning modules by individual learner. A recruiting dashboard provides information about the number of applicants for a position, applicants screened, interviewed, and open and filled positions. This information can be used by its training team to identify who is struggling to find candidates and fill positions, which may suggest they need training in the recruiting tools and processes the company uses. Data from new hire and exit surveys have been used to identify managers who need training in coaching skills.

Credit Suisse has a department of HR analysts who specialize in using workforce data to help reduce turnover. This can provide substantial cost savings to the company. For example, if the turnover rate for the company’s 46,600 employees could be reduced by 1% per year, it could save \$100 million! Each year, eight different pieces of data, including employees’ performance ratings, their bosses’ performance ratings, their yearly changes in compensation, and the length of time they have been in a job without a promotion, are used to identify who is likely to leave. The analysis provides reports for managers showing the turnover risk of their employees, which they can

use to decide how to prevent them from leaving. For example, managers can use this information to recommend a raise, a promotion, or access to development training or opportunities for high-performing employees they don't want to lose.

Because evidence-based HR and analytics are important for showing the value of HR practices and how they contribute to business strategy and goals, throughout each chapter of the book we provide examples of companies' use of workforce analytics to make evidenced-based HR decisions or to evaluate HR practices.

The HRM Profession: Positions and Jobs

There are many different types of jobs in the HRM profession. [Table 1.3](#) shows various HRM positions and their salaries. A survey conducted by the Society for Human Resource Management (SHRM), to better understand what HR professionals do, found that the primary activities involve performing the HR generalist role (providing a wide range of HR services); fewer HR professionals are involved in the HR function at the executive level of the company, training and development, HR consulting, and administrative activities.²⁶ Projections suggest that overall employment in HR-related positions is expected to increase 7% between 2019 and 2029, faster than the average for all occupations in the United States.²⁷

Table 1.3 Median Salaries for HRM Positions

POSITION	SALARY
Chief human resource officer (CHRO)	\$251,000
Global HR manager	133,000
Management development manager	129,300
Health and safety manager	112,328
Employee benefits manager	104,760
HR manager	105,554
Mid-level labor relations specialist	87,700
Campus recruiter	71,161
Entry-level HRIS specialist	59,300
HR generalist	58,495
Entry-level compensation analyst	61,764
Entry-level employee training specialist	53,100

SOURCE: Based on data from [Salary.com](https://www.salary.com), www.salary.com, accessed March 16, 2021.

Salaries for HR professionals vary according to position, level of experience, training, location, and firm size. As you can see from [Table 1.3](#), some positions involve work in specialized areas of HRM, like recruiting, training, or labor and industrial relations. HR generalists usually make between \$49,000 and \$63,000 depending on their experience and education level. HR generalists perform a wide range of activities including recruiting, selection, training, labor relations, and benefits administration. HR specialists work in one specific functional area such as training or compensation. Although HR generalists tend to be found in smaller companies, many mid- to large-size companies employ HR generalists at the plant or business levels and HR specialists at the corporate, product, or regional levels. Most HR professionals chose human resources as a career because they found it appealing, they wanted to work with people, or they were asked by chance to perform HR tasks and responsibilities.²⁸



Visit your instructor's Connect® course and access your eBook to view this video.



“HR is literally the core to every organization.”

—Johnny C. Taylor Jr., President and CEO, SHRM

Video produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Filmworks

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Education and Experience

The HR profession will likely continue to be in transition in the near future.²⁹ A large number of HR professionals who will be retiring soon have held mainly administrative roles with little previous formal education in HRM. As is currently the case for many HR professionals, the new generation of HR professionals will likely have a four-year college degree and many will have completed a graduate HR degree. Business is typically the field of study (human resources or industrial relations), although some HR professionals have degrees in the social sciences (economics or psychology), the humanities, or law. Those who have completed graduate work have master's degrees in HRM, business management, industrial organizational psychology, or a similar field. Human resource professionals can be expected to have both strategic and tactical roles. For example, a senior HR role will likely involve developing and supporting the company culture, employee recruitment, retention and engagement, succession planning, and designing the company's overall HR strategy. Junior HR roles will handle all of the transactions related to paperwork, benefits and payroll administration, answering employee questions, and data management.

Professional certification demonstrating that an individual has gained foundational knowledge in human resources is available through the Human Resources Certification Institute (HRCI) or SHRM.³⁰ Thirty-four percent of all HR

professionals have at least one certification. The most popular are the Professional in Human Resources (PHR) certification from HRCI, SHRM's Certified Professional certificate (SHRMCP), and The Senior Professional in Human Resources (SPHR). A well-rounded educational background will likely serve a person well in an HRM position. As one HR professional noted, "One of the biggest misconceptions is that it is all warm and fuzzy communications with the workers. Or that it is creative and involved in making a more congenial atmosphere for people at work. Actually it is both of those some of the time, but most of the time it is a big mountain of paperwork which calls on a myriad of skills besides the 'people' type. It is law, accounting, philosophy, and logic as well as psychology, spirituality, tolerance, and humility."³¹

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Competencies and Behaviors

Many experts acknowledge that top-level HR professionals are generalists who have expertise in benefits, compensation, and labor relations and focus on important issues such as employee engagement and managing company culture.³² However, they lack business acumen, the expertise in relating human resources to real-world business needs. That is, they don't know how key decisions are made and are unable to determine why employees or parts of the company fail to meet performance goals. This is congruent with the belief of companies' top HR leaders that developing the skills of professionals working in human resources is an urgent need.³³ Less than 10% of HR leaders believe that their functional teams have the skills needed to help companies meet their current competitive challenges. Consider the requirements that Netflix wanted when it was looking for a new HR director.³⁴ Netflix wanted someone who puts business first, customers second, and talent third. It did not want a change agent, organizational development practitioner, an SHRM certificate, or a people person. HR professionals should consider themselves as business people, not morale boosters. They need to be able to consider key questions, such as "What's good for the company?" "How do we communicate that to employees?" and "How can we help every employee understand what is meant by high performance?"

HR professionals need to have the nine competencies shown in [Figure 1.3](#). These are the most recent competencies developed by SHRM, based on a literature review, input from over 1,200 HR professionals, and a survey of over 32,000 respondents.³⁵ The full version of the competency model, which can be found on the SHRM website (www.shrm.org), provides more detailed information on the competencies, behaviors, and standards for proficiency for HR professionals at entry, mid, senior, and executive career stages. Demonstrating these competencies can help HR professionals show managers that they are capable of helping the HR function create value, contribute to the business strategy, and shape the company culture. They also help the HR department effectively and efficiently provide the three HR products discussed earlier and shown in [Figure 1.2](#). These competencies and behaviors show that although the level of expertise required may vary by career level, all HR professionals need to have a working knowledge of strategic business management, HR planning, development, compensation and benefits, risk management (safety, quality, etc.), labor relations, HR technology, evidence-based decision making, and global human resources. HR professionals need to be able to interact and coach employees and managers, yet engage in ethical practice through maintaining confidentiality and acting with integrity. Providing support for the usefulness and validity of the SHRM competency model, research shows that HR professionals who have a higher level of proficiency on the SHRM competencies do perform better in their jobs.³⁶



Figure 1.3 Competencies and Example Behaviors for HR Professionals

SOURCE: Based on "SHRM Competency Model," from [shrm.org](https://www.shrm.org), accessed March 16, 2021.

Many top-level managers and HR professionals believe that the best way to develop employees who have the competencies needed to be effective in an HR role is to train them or ensure they have on-the-job experiences that help them understand the business and the role of HRM in it. For example, an HR leader at Rivermark Community Credit Union developed skills in reading and interpreting financial data by spending time with the CFO.³⁷ This has allowed her to contribute more in senior-level leader meetings.

Both Garden City Group and General Motors use job experiences for ensuring that current and aspiring HR professionals have the competencies they need to meet both employees' and managers' needs.³⁸ Also, these opportunities help build relationships both in the HR department and across locations. Garden City rotates HR professionals through each of its office locations and encourages its staff to shadow other HR professionals working in different functional areas. To develop future HR leaders General Motors has two specialized HR career paths: a manufacturing path and a corporate path. In the manufacturing path, employees who already work for General Motors but want to work in HR spend a year each working in labor relations, as page 13a business partner, and in a production group. Similarly, the corporate path offered for HR interns includes a labor relations assignment as well as a year assignment in global compensation and benefits and either talent acquisition or talent management. Participants in both career paths are matched with mentors who can provide personal insight and advice. Also, participants in both tracks have opportunities to attend training, presentations from speakers outside the company, and forums with senior leaders.

The primary professional organization for HRM is the Society for Human Resource Management. SHRM is the world's largest HRM association, with more than 300,000 professional and student members throughout the world. If you are interested in human resources, you should join SHRM. The organization provides education and information services, conferences and seminars, government and media representation, certification, and online services and publications (such as *HR Magazine*). You can visit SHRM's website at www.shrm.org.

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Competitive Challenges Influencing Human Resource Management

Three competitive challenges that companies now face will increase the importance of human resource management practices: the challenge of sustainability, the global challenge, and the technology challenge. These challenges are shown in [Figure 1.4](#).

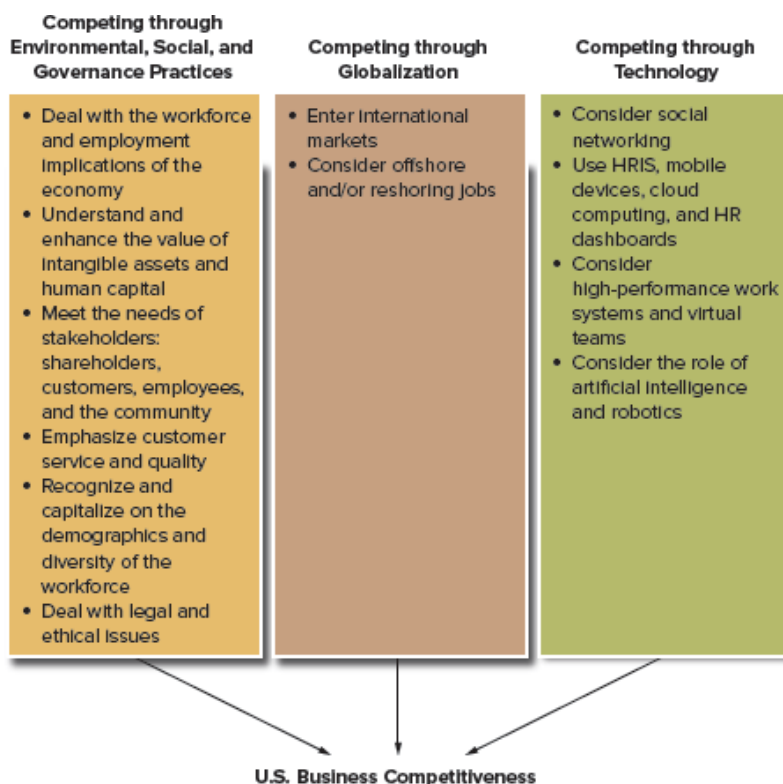


Figure 1.4 Competitive Challenges Influencing U.S. Companies

As you will see in the following discussion, these competitive challenges are directly linked to the HR challenges that companies are facing, including developing, attracting, and retaining talented employees; finding employees with the necessary skills; and breaking down cultural barriers to create a global company.³⁹

Competing through Environmental, Social, and Governance (ESG) Practices

[Sustainability](#) refers to the company's ability to meet its needs without sacrificing the ability of future generations to meet their needs.⁴⁰ This includes the ability to deal with economic and social changes, practice environmental

responsibility, engage in responsible and ethical business practices, provide high-quality products and services, and put in place methods to determine if the company is meeting stakeholders' needs. The results of companies' focus on sustainability is often referred to as "the triple bottom line"—the simultaneous delivery of positive results for people, planet, and profit.

[Sustainability](#)

The ability of a company to make a profit without sacrificing the resources of its employees, the community, or the environment. Based on an approach to organizational decision making that considers the long-term impact of strategies on stakeholders (e.g., employees, shareholders, suppliers, community).

To positively influence the "triple bottom line," companies need to focus on environment, social, and governance (ESG) practices. ESG practices should be part of a company's business model to help gain a competitive advantage and reduce legal risks.⁴¹ Environment practices include a company's use of energy, physical resources such as water and natural gas, and the waste and pollution it generates. Social practices relate to the company's relationships with other businesses and the communities in which it operates. Governance practices include the company's relationship with its stakeholders. [Stakeholders](#) refer to shareholders, the community, customers, page 15employees, and all of the other parties that have an interest in seeing that the company succeeds. In fact, companies' stakeholders are increasingly paying attention to its ESG practices.⁴² Shareholders and potential investors consider ESG practices as a potential source for competitive advantage. For current and potential employees, customers, and consumers, ESG practices help create a positive impression of the company and its products and services. Many companies such as Goldman Sachs publish a yearly report highlighting their ESG practices and accomplishments. For example, one of Goldman Sachs's accomplishments was related to clean energy.⁴³ The firm entered into an agreement with NextEra Energy Resources that will enable the development of a new wind project providing renewable energy. The wind project will reduce the use of 200,000 greenhouse gas emissions each year. Another accomplishment was providing \$10 million to Sixup, an organization that provides college loans to gifted youth from low income families that would not normally qualify for loans.

[Stakeholders](#)

The various interest groups who have relationships with and, consequently, whose interests are tied to the organization (e.g., employees, suppliers, customers, shareholders, community).

From an HR perspective, this means creating HR systems and engaging in practices that create the skills, motivation, values, and culture that help the company and ensure long-term benefits for the organization's stakeholders. If company HR or other practices have an adverse impact on ESG factors, stakeholders will usually pursue lawsuits and financial compensation. For example, Volkswagen has paid billions of dollars to cover the costs of its emissions scandal that polluted the environment.

Deal with the Workforce and Employment Implications of the Economy

LO 1-2

Discuss the implications of the economy, the makeup of the labor force, and ethics for company sustainability.

The economy has important implications for HRM. Some key statistics about the economy and the workforce are shown in [Table 1.4](#), and we will discuss their implications in greater detail. These include the structure of the economy, aging of the work-force, and growth in professional and service occupations. Growth in professional and service occupations means that skill demands for jobs have changed, with knowledge becoming more valuable. Not only have skill demands changed, but remaining competitive in a global economy requires demanding work

hours and changes in traditional employment patterns. The creation of new jobs, aging employees leaving the workforce, slow population growth, and a lack of employees who have the skills needed to perform the high-demand jobs means that companies need to give more attention to HR practices that influence their ability to attract and retain employees.

Table 1.4 Highlights of Employment Projections to 2029

An increase of 6 million jobs is expected between 2019 and 2029. This results from employment growing from 162.8 million to 168.8 million by 2029.

The labor force is expected to increase by 8.0 million (from 163.5 million in 2019 to 171.5 million in 2029).

Today, 93% of U.S. jobs are nonagriculture wage and salary jobs: 13% are in goods-producing industries (mining, construction, manufacturing); 80% are in service-providing industries; and 1.4% in agriculture, forestry, fishing, and hunting. The distribution of jobs across industries is projected to be similar in 2029.

46.5 million job openings are expected, with more than three-fourths resulting from the need to replace workers who retire or leave an occupation.

Most new jobs added between 2019 and 2029 will be in service-providing occupations.

Of the 30 fastest-growing occupations, almost half are related to health care and related occupations (such as home health-care aid, personal care aids, physicians assistants, and nurse practitioners). Other occupations are energy-related or in computer and information technology.

SOURCES: Bureau of Labor Statistics, U.S. Department of Labor, "Table 2.1, Employment by Major Industry Sector," <https://www.bls.gov/emp/tables/employment-by-major-industry-sector.htm>, accessed March 18, 2021; Bureau of Labor Statistics, U.S. Department of Labor, "Employment Projections: 2019-2029," September 20, 2020, www.bls.gov/emp, accessed March 18, 2021.

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The global pandemic caused by COVID-19 caused the creation of a "new normal."⁴⁴ The "new normal" meant businesses had to quickly adapt their business models, supply chains, and ways to engage consumers or risk going out of business. Many companies retooled to provide products and services needed during the pandemic. For example, Dyson started to build ventilators and medical equipment and LVMH transformed its perfume production to produce hand sanitizer. Home became the place where we worked, studied, and ordered food, groceries, and other products and services we needed. Video conferencing technology such as Zoom became the way we interacted for work, school, and to socialize with friends and family. Curfews, stay-at-home orders, wearing masks, washing our hands, and social distancing became the norm.

Economic data show the devastating impact the pandemic has had on the economy.⁴⁵ The U.S. economy in 2020 shrank for the first time since 2008. Consumer spending which accounts for two-thirds of U.S. economic output slowed to 2.5%. Due to the pandemic the unemployment rate increased from a fifty-year low of less than 4% in February 2020 to 15% or more than 17 million workers in April 2020. Job losses in 2020 were the worst since 1939. The hardest hit industries were hotels, restaurants, and related industries, which drove up unemployment among minorities, young, and less educated workers. Jobless claims—a proxy for layoffs—have remained above the pre-coronavirus pandemic peak of 695,000 since the start of the pandemic last March. The labor force participation rate (the share of Americans 16 years or older working or seeking work) which was at its lowest level in twenty years in March 2000 has slightly rebounded to above 61%.⁴⁶ Overall, the labor force participation rate decreased

most significantly for women with children. This is likely because of women taking responsibility for providing child care due to the pandemic closing day care centers and forcing school age children to attend classes online from home.

The U.S. government, workers themselves, and companies all took actions to lessen the impact of the pandemic and prepare for post-pandemic employment. The government passed several pieces of legislation designed to aid workers and businesses. This legislation included increasing unemployment payments and extending unemployment benefits for an additional 13 weeks; providing \$350 billion for loans for small business owners to cover expenses and loan forgiveness if they keep employees on payroll during the crisis; tax relief to businesses and individual taxpayers; and unemployment eligibility for independent contractors and the self-employed.⁴⁷

Many workers who were furloughed, had their hours cut during the pandemic, or were laid off but took a job paying less and requiring fewer skills than their previous position are involved in learning new skills needed for in-demand jobs.⁴⁸ For example, the pandemic will likely cause increased demand and opportunities in fields such as cybersecurity, health care, and supply chain management. To learn new skills workers are using online learning platforms. At LinkedIn Learning downloads of classes in accounting, project management, and information technology increased more than 600% during the pandemic. Enrollment in professional certificate and microdegree programs at EdX, an online learning provider, also increased over six times during the pandemic. Merit America, which provides online training and support for individuals without a college degree has seen increased demand for classes in technology support, software development, and advanced manufacturing. Microsoft is providing free online classes available to anyone to help train digital skills. The training will help prepare individuals for high-demand and high-paying jobs such as help-desk technician, digital marketing, and data analyst. Companies are also providing opportunities for their workers to learn new skills to help insure their future employability and economic security.⁴⁹ Postmates, the food delivery company, is partnering with EdX to give employees the opportunity to receive free virtual career guidance and access to more than 2800 online courses. Postmates plans to continue to offer the educational benefit after the pandemic is over.

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There has been some promising news that suggests the economy is recovering.⁵⁰ The stock market set record highs and continues to climb despite the pandemic. The unemployment rate—still above the pre-pandemic level—dropped to 5.9 percent in June 2021 but remains well above its February 2020 pre-pandemic level (3.5 percent). However, it remains to be seen if unemployment will return to its pre-pandemic levels. Surveys suggest that some adults can not or are not interested in returning to work due to fears of getting COVID-19, the lack of child care, earning more in unemployment benefits than they would earn in available jobs, and not having the skills for available jobs or unwilling to switch careers. In the recession of 2008 long-term unemployment remained high for many years. Manufacturing, leisure, hospitality, and retail have added back many but not all of employees laid off due to the pandemic. Employment in blue-collar jobs such as construction, package, delivery, residential housing, and warehousing is exceeding pre-pandemic levels. In fact, companies are facing a shortage of qualified workers with the skills needed for these jobs. The need for workers with skills for these jobs is due to increased online shopping during the pandemic which is expected to continue, ramping up of business openings, and low mortgage rates which are predicted to remain low. To attract and match workers with open jobs, companies are raising pay, touting career opportunities, flexible schedules, increasing the scope of the labor markets they recruit from, and utilizing employment alliances across industries.⁵¹ For example, during the pandemic, companies needing workers in industries including health care and grocery stores formed alliances with companies in industries such as airlines, hospitality, and retail to recruit workers who had been laid off. Walgreens, the pharmacy store chain, hired over 6000 employees from fifty other employers including Kohls, Hilton, Gap, and the Chicago Cubs baseball organization. Also, to attract workers companies are raising wages.

The economy is slowly recovering as businesses fully reopen and consumers become comfortable going out in public. Economic recovery and growth depends on four factors. First is the vaccine's ability to contain the original virus and its variants. Second is whether consumer spending will increase. Consumer spending may be

encouraged by The American Rescue Plan Act, which provides \$1.9 trillion including aid to small business, extended unemployment benefits, and stimulus checks to eligible citizens.⁵² Also, the economy will benefit if American households decide to spend some of the \$1.8 trillion in savings it is estimated they have accumulated due to lack of spending during the pandemic.⁵³ A key consideration is whether factories can meet anticipated demand and bottlenecks in the supply chain can be smoothed out (you may have experienced the lack of products and empty shelves in many retailers and the difficulties of getting replacement parts). Third, workers need to return to the labor force with the skills needed to fill available jobs. Fourth is the economic impact of recent trade agreements and policies which resulted in tariffs placed on the products in many different industries. To fulfill the promise he made to bring jobs back to the U.S., during his presidency Donald Trump renegotiated the North American Free Trade Agreement. He imposed tariffs on imports from China and the European Union.⁵⁴ Tariffs can make it easier for American-made goods to compete with cheaper foreign goods. However, the tariffs started a trade war and raised the prices of imports from those countries. President Joe Biden is also trying to keep American jobs from going overseas. In his campaign he proposed a tax credit for U.S. companies that bring jobs back to the U.S. and a tax on profits for companies that build factories overseas. The U.S. and Europe recently agreed to suspend tariffs on products worth \$11 billion including those imposed on jetlines, wine, luggage, produce and other food items.⁵⁵ However, Biden is still planning to use tariffs to fight alleged unfair trade practices by China (such as using forced labor), which harm U.S. workers, and pressure companies to share cutting-edge technologies.⁵⁶ Imposing laws and tariffs to artificially restrict job outsourcing could make U.S. companies less competitive. If they are forced to hire expensive U.S. workers, they would raise prices and increase costs for consumers. However, the relationship between trade, economic growth, and employment is complex, and it is influenced by factors such as currency exchange rates and government spending and taxation. In fact, the United States has had trade deficits during periods of economic expansion and recession, and under high and low employment. If the United States continues to enact tariffs and tough trade policies, other countries may retaliate by placing tariffs on U.S. imports. This could actually hurt and not help U.S. businesses. For example, U.S. manufacturers and suppliers, food and agribusiness, retailers, technology and technology communications, and footwear have all been negatively impacted by the retaliatory tariffs China placed on U.S. businesses in response to President Trump's actions.⁵⁷ This includes companies such as Rockwell Automation, Johnson Controls, Dollar Tree, Best Buy, Macys, Deere and Company, and Del Monte foods. The tariffs have caused these companies to pass on increased costs to consumers and close plants due to lack of demand as China purchases products from countries which did not impose a tariff. One estimate is that the tariffs imposed by President Donald Trump have cost American companies \$46 billion since 2018 and the exports of goods affected by retaliatory tariffs have fallen sharply.

Labor Force and Employment Characteristics

Look again at [Table 1.4](#) which highlights employment projections to 2029. Approximately 46.5 million job openings are expected, with more than three-fourths resulting from the need to replace workers who retire or leave an occupation.⁵⁸ Most new jobs added between 2019 and 2029 will be in service-providing occupations, particularly health care and social assistance. The occupations with the most new jobs projected between 2019 and 2029 include home health and personal care aids, software developers and software quality assurance analysts and testers, fast food and counter workers, registered nurses, and restaurant cooks. Health care support occupations are projected to be the fastest-growing occupational groups and contribute the most new jobs (one out of four new jobs) from 2019 to 2029. From 2019 to 2029 employment in goods-producing occupations is expected to decline.

[Table 1.5](#) shows 10 of the 30 fastest-growing occupations projected between 2019 and 2029. Of the 30 fastest-growing occupations, 13 are related to health care and related occupations (such as home health care aid, personal care aids, physicians assistants, and nurse practitioners). Other occupations in the top 30 are energy-related or computer and information technology occupations. The growth in health care reflects the inpatient and outpatient medical care that is needed for the aging U.S. population. Computer and math-related occupations

are expected to see job growth as the demand increases for cybersecurity, software to operate mobile and other technologies, and increased use of data-based decision making. The expected increased demand for alternative energy sources such as solar and wind will drive growth for energy occupations.

Table 1.5 Examples of the Fastest-Growing Occupations

Occupation	Employment Change 2019–2029			Median Annual Wages, May 2019
	Number (rounded to nearest thousands)	Percent	Most Significant Education or Training	
Wind turbine service technicians	4	61	Post-secondary non-degree; long-term on the job training	\$52,900
Nurse practitioners	111	57	Master's degree	\$109,820
Solar photovoltaic installers	6	35	High school diploma or equivalent; short-term, on-the-job training	\$44,890
Statisticians	15	35	Master's degree equivalent	\$91,160
Occupational therapy assistants	16	34	Associate's degree	\$61,510
Home health and personal care aids	1159	33	High school diploma or equivalent; short-term	\$25,280
Physical therapy assistants	32	34	Associate's degree	\$58,790
Medical and health services managers	133	32	Bachelor's degree	\$100,980
Physician assistants	39	31	Master's degree	\$112,260
Information security analysts	41	31	Bachelor's degree	\$99,730

SOURCE: Based on Bureau of Labor Statistics, U.S. Department of Labor, “Employment Projections: 2019-2029,” September 20, 2020, www.bls.gov/emp.

Skill Requirements

Several studies illustrate how jobs are changing, the influence this is having on skill requirements, and the difficulty companies are having finding qualified workers.⁵⁹ A recent survey shows that nine out of ten executives and managers say their organizations either face skill gaps already or expect gaps to develop within the next five years.⁶⁰ Nearly three-quarters expect their organizations to invest more in learning and development over the next five years. Skills shortages are occurring in manufacturing and service jobs and are expected to continue into the future. One estimate is that there will be 4.6 million U.S. manufacturing jobs, ranging from technician to researcher, to fill by 2028. But 2.4 million of them will go unfilled because of a shortage in skilled workers. One reason for this is the increased use of advanced technology to automate tasks and digital tools in work processes. The pace of adoption of advanced technology and digital tools was accelerated by the pandemic. Fifty percent of the manufacturers in the study have adopted technologies such as robots, machine learning, and artificial intelligence (AI). This has created a mismatch between the available workers and the skills necessary to fill open jobs. Manufacturing executives reported the skill sets they need now and in the future are technology/computer skills, digital skills, programming skills for robots/ automation, and skills working with tools and technology. These skills are considered part of STEM skills which are in short supply. [STEM skills](#) refer to skills in science, technology, engineering, and math. One estimate is that manufacturers spent at least \$26 billion in 2019 on training programs for new and existing manufacturing employees to combat the skills gap.

[STEM skills](#)

Science, technology, engineering, and math skills that U.S. employers need and value, but employees lack.

In addition to STEM skills, workers need to develop skills necessary to work together with technology or that are needed to perform jobs that are uniquely human and can't be replaced with technology. These skills include critical thinking, creativity and originality, attention to detail, problem solving, working with others and self-management skills (such as active learning, resilience, stress tolerance, and flexibility). They also need digital literacy. [Digital literacy](#) refers to the skills needed to interpret, create, and strategically use digital information.⁶¹ Digital literacy will be required of most jobs even those not considered as technology jobs. For example, it used to be sufficient for auto mechanics to know how to fix an out of tune engine. Today, they need to understand the software and apps built into modern cars. In the future they will need to know how to service and maintain electric cars and autonomous vehicles.

[Digital literacy](#)

The ability to interpret, create, and strategically use digital information.

In addition to manufacturing, skill shortages are also occurring in three service industries that together employ almost one-third of all U.S. workers: retail; health and social assistance; and leisure and hospitality.⁶² Roughly 6 in 10 service-sector workers page 20in high-demand industries have only limited literacy skills. Limited skill levels are even more common in the areas of numeracy (understanding and working with numbers) and digital problem solving. Despite the workers' limited skills, jobs in these industries require them to use these skills In fact, the demand for low-skill jobs is low; about half of the jobs being filled require moderate skills—equivalent to education beyond high school but not a college degree. Many are expected to read directions and write e-mail, for example.

This shortage of qualified workers means that employers are faced with the undesirable option of leaving jobs unfilled, which can limit their production and growth. This also means the market for knowledge workers who have in-demand skills is much more competitive. [Knowledge workers](#) are employees who contribute to the company not through manual labor, but through what they know, perhaps about customers or a specialized body of knowledge. Rather than leaving jobs unfilled or trying to aggressively compete for knowledge workers, companies are relying on several different training options. First, they are upskilling or reskilling their current employees. [Upskilling](#) refers to training employees to improve or expand their current skills. [Reskilling](#) refers to training employees to acquire new knowledge or skills. For example, Nationwide Mutual Insurance Company has committed \$160 million over five years toward Future of Work, a new reskilling and upskilling program.⁶³ It hopes the investment will enhance its business outlook and make it more competitive for talent. The Future of Work program's purpose is to help make Nationwide attractive for top talent and prepare the future workforce. The program helps workers improve their digital literacy and give them opportunities to take training on important future skills. Each employee will receive an annual personalized learning curriculum focused on growing their skills. Reskilling opportunities for employees will vary by business unit and will include career path options.

[Knowledge workers](#)

Employees who own the intellectual means of producing a product or service.

[Upskilling](#)

Training employees to improve or expand their current skills.

[Reskilling](#)

Training employees to acquire new knowledge or skills.

A second option that many companies are choosing is to hire employees who lack the complete skill set needed for the job, relying on training to develop the skills. Care-Here will pay for certifications or training to close a skill gap for an in-demand job.⁶⁴ The company recently took over a facility and wanted to continue to employ some of the licensed practical nurses, though it needed them to become registered nurses. So CareHere paid for their training,

which cost almost \$14,000 per person for tuition, books, and certification fees. The firm adjusted the nurses' schedules so they could complete their classwork.

Third, companies are getting involved in training partnerships with local, federal-and state-sponsored and -funded organizations. The Hershey Company has experienced difficulty trying to fill maintenance and manufacturing roles at its plant in Virginia.⁶⁵ So it decided to partner with the Shenandoah Valley Workforce Development Board which works with local high schools to encourage young people to seek careers in manufacturing and develop a future workforce. The facility offers a two-week, paid boot camp to attract high school seniors, individuals from the Wilson Workforce Rehabilitation Center, and other people in the local community who have no manufacturing experience and want to see what working in a manufacturing environment is like. Thirty-six people applied for the boot camp and 15 of were accepted. Graduates are considered for full-time jobs. Tesla has two partnerships with community colleges to train individuals to assemble and service electric vehicles.⁶⁶ Google has partnerships with twenty-five community colleges across the U.S. as well as other companies including Walmart, Hulu, and Sprint to develop an information technology support professional certificate that students can earn in eight months.

Fourth, companies are relying on training of hard-to-employ individuals to provide the skills they need to fill open positions. Cisco hired NPower, a nonprofit organization, to recruit and train their potential hires.⁶⁷ The nonprofit recruits young adults, women, and veterans from jobs in high-poverty, high-crime areas, and trains them in page 21six months to fill tech vacancy roles. More than 80% of graduates are employed full time or enrolled in higher education within one year of completing the six-month tech training program.

Understand and Enhance the Value Placed on Intangible Assets and Human Capital

Today more and more companies are interested in using intangible assets and human capital as a way to gain an advantage over competitors. A company's value includes three types of assets that are critical for the company to provide goods and services: financial assets (cash and securities), physical assets (property, plant, equipment), and intangible assets. [Table 1.6](#) provides examples of intangible assets. [Intangible assets](#) include human capital, customer capital, social capital, and intellectual capital. Intangible assets are equally or even more valuable than financial and physical assets, but they are difficult to duplicate or imitate.⁶⁸ By one estimate, up to 75% of the source of value in a company is in intangible assets.⁶⁹

[Intangible assets](#)

A type of company asset that includes human capital, customer capital, social capital, and intellectual capital.

Table 1.6 Examples of Intangible Assets

Human capital
Tacit knowledge
Education
Work-related know-how
Work-related competence

Customer capital

Customer relationships

Brands

Customer loyalty

Distribution channels

Social capital

Corporate culture

Management philosophy

Management practices

Informal networking systems

Coaching/mentoring relationships

Intellectual capital

Patents

Copyrights

Trade secrets

Intellectual property

SOURCES: Based on L. Weatherly, *Human Capital: The Elusive Asset* (Alexandria, VA: SHRM Research Quarterly, 2003); E. Holton and S. Naquin, "New Metrics for Employee Development," *Performance Improvement Quarterly* 17 (2004), pp. 56–80; M. Huselid, B. Becker, and R. Beatty, *The Workforce Scorecard* (Boston: Harvard University Press, 2005).

Intangible assets have been shown to be responsible for a company's competitive advantage. Human resource management practices such as training, selection, performance management, and compensation have a direct influence on human and social capital through influencing customer service, work-related know-how and competence, and work relationships. For CPS Energy, the country's largest public natural gas and electric company, teamwork and empowerment are key drivers of high performance.⁷⁰ The San Antonio, TX–based utility focuses on "people first," both within the community it serves and for the employees who work for the organization. CPS's customer response unit consists of a dedicated group of workers who regularly visit customers during power outages, not only to restore power but to check in and make sure everyone is doing okay. The team also delivers meals to those in need during the holidays. Within the organization, the people-first mentality is evident in the

company's mentorship and learning programs, which include an executive-in-residence program, in which employees spend up to two years working in a business area vastly different from their own and learning about different facets of the energy business. According to the company's CEO, giving employees the flexibility to seek different work experiences helps the entire organization operate at a higher level of performance.

Human capital is increasingly being recognized as a critical indicator of company effectiveness.⁷¹ For example, The International Organization for Standardization published the first-ever "Human Capital Reporting Standards." These standards recommend that all organizations need to publicly report ten human capital measures including the percentage of employees who have completed training on compliance and ethics and development and training costs. Also, the U.S. Security and Exchange Commission (SEC) announced that it has new rules governing disclosure about human capital for publicly traded companies. As a result of the SEC rules companies are providing more detailed disclosures of the gender and race breakdowns of their workforce.⁷² For example, General Electric reported that 75% of its workers were male. Cummins Inc. reported half of its senior executives were women. PepsiCo reported that 43% of its U.S. workers were racially or ethnically diverse.

Emphasize Empowerment and Continuous Learning. To completely benefit from employees' knowledge requires a management style that focuses on developing and empowering employees. [Empowering](#) means giving employees responsibility and authority to make decisions regarding all aspects of product development or customer service.⁷³ Employees are then held accountable for products and services; in return, they share the rewards and losses of the results. For empowerment to be successful, managers must be trained to link employees to resources within and outside the company (people, websites, etc.), help employees interact with their fellow employees and managers throughout the company, and ensure that employees are updated on important issues and cooperate with each other. Employees must also be trained to understand how to use the Web, e-mail, and other tools for communicating, collecting, and sharing information.

[Empowering](#)

Giving employees the responsibility and authority to make decisions.

As more companies become knowledge-based, it's important that they promote continuous learning at the employee, team, and company levels. A [learning organization](#) embraces a culture of lifelong learning, enabling all employees to continually acquire and share knowledge. Improvements in product or service quality do not stop when formal training is completed.⁷⁴ Employees need to have the financial, time, and content resources (courses, experiences, development opportunities) available to increase their knowledge. Managers take an active role in identifying training needs and helping to ensure that employees use training in their work. Also, employees should be actively encouraged to identify problems, make decisions, continuously experiment, and improve.

[Learning organization](#)

An organization whose employees are continuously attempting to learn new things and apply what they have learned to improve product or service quality.

Keller Williams Realty, which focuses on buying and selling residential and commercial real estate, emphasizes continuous learning both to attract new real estate agents and to help all agents boost their sales, which means the company makes profits and they earn more money.⁷⁵ Learning is accessible for agents anywhere and anytime via KW Connect, a learning platform that includes all of the company's training programs and materials, as well as user-generated content from top real-estate professionals. For example, KW Connect includes videos, audio files, and links, a feature that allows learners to follow top executives and agents and receive notifications when they post new content, a question-and-answer forum, user ratings and comments for all content that helps identify the best ideas, and a searchable calendar that allows agents to sign up for over 250,000 instructor-led training classes. Top agents provide videos explaining how they deal with common real estate challenges. Office managers can create custom content for new agents or other groups.

Adapt to Change. [Change](#) refers to the adoption of a new idea or behavior by a company. Change is due to companies experiencing volatility, uncertainty, complexity, and ambiguity (also known as VUCA). Technological advances, changes in the work-force or government regulations, globalization, new competitors, and crises such as the pandemic, are among the many factors that contribute to VUCA.⁷⁶

[Change](#)

The adoption of a new idea or behavior by a company.

HRM plays an important role in helping companies and their employees manage change through coping with VUCA and becoming more agile. [Agility](#) refers to anticipating and causing, adapting, and taking specific actions to support change.⁷⁷

[Agility](#)

Companies' and their employees' ability to anticipate and cause change, adapt to it, and take specific actions to support change.

For example, companies in financial services are experiencing VUCA due to changes including increasingly providing customers with digital services such as mobile banking and the increased use of cryptocurrency.⁷⁸ Capital One, the financial services company, has implemented processes that automate employees' work. This requires employees to change from skills in transactional tasks to being more process-focused and problem solvers. They have also needed to acquire new knowledge necessary to understand machine learning and artificial intelligence as it has been integrated into all aspects of the company's operations.

Change has also played a major role in reshaping the employment relationship.⁷⁹ New or emergent business strategies that result from these changes cause companies to merge, acquire new companies, grow, and in some cases downsize and restructure. This has resulted in changes in the employment relationship. Companies demand excellent customer service and high productivity levels. Employees are expected to take more responsibility for their own careers, from seeking training to balancing work and family. In exchange for top performance and working longer hours without job security, employees want companies to provide flexible work schedules, comfortable working conditions, more autonomy in accomplishing work, training and development opportunities, and financial incentives based on how the company performs. Employees realize that companies cannot provide employment security, so they want employability—that is, they want their company to provide training and job experiences to help ensure that employees can find other employment opportunities. The HRM challenge is how to build a committed, productive workforce in economic conditions that offer opportunity for financial success but can also quickly turn sour, making every employee expendable.

Maximize Employee Engagement. [Employee engagement](#) refers to the degree to which employees are fully involved in their work and the strength of their commitment to their job and the company.⁸⁰ How do we know if an employee is engaged? An engaged employee is passionate about his or her work, is committed to the company and its mission, and works hard to contribute. Engagement survey results show that only 39% of U.S. employees are engaged in their work, 47% are not engaged, and 14% are actively disengaged.⁸¹ Actively disengaged employees cost the United States billions of dollars every year in lost productivity.

[Employee engagement](#)

The degree to which employees are fully involved in their work and the strength of their job and company commitment.

Perhaps the best way to understand engagement is to consider how companies measure employee engagement. Companies measure employees' engagement levels with attitude or opinion surveys. Although the types of questions asked on these surveys vary from company to company, research suggests the questions generally measure 10 common themes shown in [Table 1.7](#). As you probably realize after reviewing the themes shown in [Table 1.7](#), employees' engagement is influenced by how managers treat employees as well as HR practices such

as recruiting, selection, training and development, performance management, work design, and compensation.

Table 1.7 Common Themes of Employee Engagement

Pride in employer
Satisfaction with employer
Satisfaction with the job
Opportunity to perform challenging work
Recognition and positive feedback for contributions
Personal support from manager
Effort above and beyond the minimum
Understanding the link between one's job and the company's mission
Prospects for future growth with the company
Intention to stay with the company

SOURCES: Based on R. Vance, *Employee Engagement and Commitment* (Alexandria, VA: Society for Human Resource Management, 2006); T. Lytle, "The Engagement Challenge," *HR Magazine*, October 2016, pp. 52–58.

Many companies are moving beyond a narrow focus on employee engagement to focus instead on creating a positive employee experience.⁸² [Employee experience](#) refers to everything that influences employees daily life both inside and outside of the work-place. The employee experience is influenced by the company culture, emotional experience, opportunities for personal growth, and the physical work space.⁸³ Some of the factors that contribute to a positive employee experience include doing important work that contributes to a larger purpose, having social connections, open and honest company leaders, flexible work schedules, and availability of private and social work spaces. Also, use of technology such as apps to improve productivity, collaboration, page 24and well-being, clear and transparent performance goals, receiving recognition, and a fair and inclusive environment all contribute to a positive employee experience.

[Employee experience](#)

Everything that influences employees' daily life both inside and outside of the workplace.

At Ultimate Software, three annual surveys help the company assess if it is living up to providing a positive employee experience.⁸⁴ The surveys ask employees questions about their happiness at work, effectiveness of the company's programs, benefits, and communications, the quality of daily interactions with their managers, and leadership development opportunities.

To attract and retain talented employees, companies often use an employee value proposition (EVP) to communicate the experience that employees can expect. An [employee value proposition \(EVP\)](#) is a strategic statement that communicates the company values, how they affect employees, and how the employee experience reflects the values.⁸⁵ For example, Dell's EVP emphasizes an entrepreneurial culture, the freedom to develop a career within or across functions, diversity and inclusion, and a commitment to community and the environment.

[employee value proposition \(EVP\)](#)

A strategic statement that communicates the company values, how they affect employees, and how the employee experience reflects the values.

Manage Talent. [Talent management](#) refers to the systematic planned strategic effort by a company to use bundles of HRM practices—including acquiring and assessing employees, learning and development, performance management, and compensation—to attract, retain, develop, and motivate highly skilled employees and managers. This means recognizing that all HR practices are interrelated, are aligned with business needs, and help the organization manage talent to meet business goals.

[Talent management](#)

Attracting, retaining, developing, and motivating highly skilled employees and managers.

Hitachi Vantara is an information technology company that provides hardware, software, and services to its clients.⁸⁶ Its mission is to recruit, hire, develop and retain the best talent by building the skill and knowledge of its employees, partners, and customers. It needs to continue to do so as cloud computing, artificial intelligence, and the Internet of Things continue to shape information technology products and services. Hitachi encourages lifelong learning through offering courses to technical and sales employees to help them grow personally and professionally by earning certifications in the skills they need. Hitachi also provides customers and partners with technical product training, professional and leadership skills development programs, new hire boot camps, and access to virtual software and hardware labs.

Consider the importance and challenge of talent management for manufacturing companies trying to increase the supply of COVID-19 vaccines.⁸⁷ The pandemic has highlighted the war for talent as companies involved in producing vaccines have thousands of job openings but are competing for a limited number of workers who have pharmaceutical manufacturing or bio-tech degrees or are willing to work overnight shifts on production lines. The CEO and senior executive of Emergent BioSolutions page 25Inc., a COVID-19 vaccine subcontractor, tried to recruit potential hires at a virtual career fair. They were able to attract some employees to join the company. However, the company still needs to fill hundreds of positions including warehouse associates, quality assurance analysts, and a supply-chain management director. Catalent Inc. is running recruiting ads on Pandora to reach potential employees who live close to its manufacturing plants. They are offering \$3000 bonuses to workers willing to work overnight shifts. Avid Bioservices expects to recruit forty new employees next summer. The new employees require six months of training focused on the company's manufacturing process and how it helps its clients.

Consider Nontraditional Employment and the Gig Economy. More companies are moving away from the traditional employment model based on full-time workers to increasingly rely on nontraditional employment. [Nontraditional employment](#) includes the use of independent contractors, freelancers, on-call workers, temporary workers, and contract company workers. One estimate is that almost 4% of workers in the U.S. (almost 6 million people) held contingent jobs, i.e., jobs that were temporary or they did not expect to last.⁸⁸ Studies estimate that between 20% and 35% of the total U.S. workforce is engaged in nontraditional employment, including those who have a full-time job (what is called “moonlighting”).⁸⁹ Companies that rely primarily on nontraditional employment to meet service and product demands are competing in the [gig economy](#).⁹⁰ Although many companies will continue to rely on a traditional employment model using full- and part-time employees, 40% believe they will use a nontraditional model (independent contractors, project-based or freelance need-based work) in the next decade. Survey results suggest that the share of gig workers at U.S. businesses has increased by more than 15% over the last ten years and is expected to continue.⁹¹ Gig workers are typically independent contractors who control when and where they work and often are assigned work through a website or mobile app (for example, a ride-sharing driver). Because these workers do not work for a company, they do not have taxes withheld from their earnings, they do not have to receive minimum wage or overtime pay, and they are not eligible for workers' compensation and unemployment insurance.

[Nontraditional employment](#)

Includes the use of independent contractors, free-lancers, on-call workers, temporary workers, and contract company workers.

Gig economy

Companies who rely primarily on nontraditional employment to meet service and product demands

Examples of companies that rely on the gig economy (and gig workers) include transportation services Uber and Lyft and food-delivery services such as Caviar.

Nontraditional employment has advantages and disadvantages for both individuals and employers.⁹²

More workers in nontraditional employment relationships are choosing these arrangements. Nontraditional employment can benefit both individuals and employers. More and more individuals don't want to be attached to any one company. They want the flexibility to work when and where they choose. They may want to work fewer hours to better balance work and family responsibilities. Also, individuals who have been downsized may choose nontraditional employment while they are seeking full-time employment. From the company perspective, it is easier to add temporary employees when they are needed and easier to terminate their employment when they are not needed. Part-time workers can be a valuable source of skills that current employees may not have or when they are needed for a specific project that has a set completion date. Part-time workers can be less expensive than permanent employees because they do not receive employer health benefits or participate in pension plans. Employing part-time workers such as interns allows the company to determine if the worker meets performance requirements and fits in with the company culture, and if so, the company may then decide to offer the employee a permanent position.

For example, some technology companies such as Honeywell have relied on crowd-sourcing, using services such as Topcoder and Amazon's Mechanical Turk, to find scientists and software engineers who have the skills lacking in their own employees to solve problems, create apps, or write code.⁹³ Google has approximately 121,000 temporary employees and contractors around the world, compared with 102,000 full-time page 26employees. The temporary and contract workers perform a variety of jobs including content moderation and developing software. Nontraditional employment also has potential disadvantages. These include concerns about work quality, inability to maintain the company culture or team environment, and legal liability.⁹⁴

Provide Flexibility to Help Employees Meet Work and Life Demands. The globalization of the world economy and the development of e-commerce have made the notion of a 40-hour work week obsolete. Survey results show that 46% of employees work more than 45 hours per week.⁹⁵ As a result, companies need to be staffed 24 hours a day, seven days a week. Employees in manufacturing environments and service call centers are being asked to move from 8- to 12-hour days or to work afternoon or midnight shifts. Similarly, professional employees face long hours and work demands that spill over into their personal lives. Notebook computers, smartphones, and smartwatches bombard employees with information and work demands. In the car, on vacation, on planes, and even in the bathroom, employees can be interrupted by work demands. More demanding work results in greater employee stress, less satisfied employees, loss of productivity, and higher turnover—all of which are costly for companies.

Prior to the pandemic it is estimated that 29% of wage and salary workers were able to work from home in their primary job and 25% at least occasionally work at home.⁹⁶ Slightly over half of workers had a flexible schedule that allowed them to vary the times they began and stopped work. About one-quarter of workers had a flexible schedule and could also work at home, while one-third had a flexible schedule but could not work at home. Thirty-eight percent of workers could not work at home and did not have a flexible schedule. Employees in managerial, business, and financial operations and professional occupations are most likely to do some or all of their work at home. Both the company and employees can benefit by providing flexible work schedules, allowing work-at-home arrangements, protecting employees' free time, and more productively using employees' work time.⁹⁷ The benefits include the ability to have an advantage in attracting and retaining talented employees, reduced stress resulting in healthier employees, and a rested workforce that can maximize the use of their skills.

It appears that many workers would prefer to continue working remotely after the pandemic is over. At the one-year anniversary of the pandemic, a majority of U.S. workers report they are working remotely all or part of the time in order to avoid catching or spreading the coronavirus.⁹⁸ Twenty-three percent report they want to continue working remotely out of concern about the coronavirus. Forty-four percent of workers want to continue working remotely because they prefer it. They believe they are either just as or more productive working at home than at the office. For example, Discover Financial Services found that one-third of employees wanted to work permanently from home.⁹⁹ Other employees wanted the flexibility of choosing to work remotely, which Discover plans to provide post-pandemic.

Companies' policies on remote work will likely continue to vary. Some companies such as Phillips 66, the oil refiner, recalled employees without preexisting health conditions back to work from the office during the pandemic.¹⁰⁰ They did so because company leaders believed that limiting employee interactions to teleconferences and video meetings made it too difficult to generate the same level of creativity and productivity that occurs during face-to-face meetings in the office. Other companies are considering a hybrid approach involving working remotely as well as at the office. For example, CompuCom Systems Inc., an information technology service provider, is considering adopting core hours when employees would meet to exchange ideas, collaborate, and problem-solve.¹⁰¹ Coursera, an online education provider, expects half of its employees to work blended hours after the pandemic, that is, three days a week in the office and the remainder of the week working remotely.

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Regardless of where they work many employees experience emotional exhaustion, anxiety, and depression due to work demands and these symptoms have been made worse by the pandemic. One estimate is that depression and anxiety disorders cost the global economy \$1 trillion each year in lost productivity.¹⁰² Companies are taking several steps to help employees improve their mental health.¹⁰³ One way is by requiring employees to take time off. For example, employees at [Indeed.com](https://www.indeed.com) receive an extra holiday every month usually on a Friday to create a long weekend.

The use of nontraditional work employment and work-at-home has resulted in the development of co-working sites or shared offices where diverse workers such as designers, artists, freelancers, consultants, and other independent contractors pay a daily or monthly fee for a guaranteed work space.¹⁰⁴ Co-working sites are equipped with desks, Internet, and conferences rooms, and some even provide couches for relaxing and free coffee and beer. Co-working sites help independent contractors and employees who work at home, travel, or telecommute and who have feelings of isolation, enabling them to collaborate and interact, providing a more professional working atmosphere than coffee shops, and helping to decrease traffic and pollution.

Meet the Needs of Stakeholders: Shareholders, Customers, Employees, and Community

As we mentioned earlier, company effectiveness and competitiveness are determined by whether the company satisfies the needs of stakeholders. Stakeholders include stockholders (who want a return on their investment), customers (who want a high-quality product or service), and employees (who desire interesting work and reasonable compensation for their services). The community, which wants the company to contribute to activities and projects and minimize pollution of the environment, is also an important stakeholder.

Demonstrate Performance to Stakeholders: The Balanced Scorecard. The [balanced scorecard](#) gives managers an indication of the performance of a company based on the degree to which stakeholder needs are satisfied; it depicts the company from the perspective of internal and external customers, employees, and shareholders.¹⁰⁵ The balanced scorecard is important because it brings together most of the features that a company needs to focus on to be competitive. These include being customer-focused, improving quality,

emphasizing teamwork, reducing new product and service development times, and managing for the long term.

Balanced scorecard

A means of performance measurement that gives managers a chance to look at their company from the perspectives of internal and external customers, employees, and shareholders.

The balanced scorecard differs from traditional measures of company performance by emphasizing that the critical indicators chosen are based on the company's business strategy and competitive demands. Companies need to customize their balanced scorecards based on different market situations, products, and competitive environments.

LO 1-3

Discuss how human resource management affects a company's balanced scorecard.

The balanced scorecard should be used to (1) link human resource management activities to the company's business strategy and (2) evaluate the extent to which the HRM function is helping the company meet its strategic objectives. Communicating the scorecard to employees gives them a framework that helps them see the company's goals and strategies, how these goals and strategies are measured, and how they influence the critical indicators. Measures of HRM practices primarily relate to productivity, people, and process.¹⁰⁶ Productivity measures involve determining output per employee (such as revenue per employee). Measuring people includes assessing employees' behavior, attitudes, or knowledge. Process measures focus on assessing employees' satisfaction with people systems within the company. People systems can include the performance management system, the compensation and benefits system, and the development system. To show that HRM activities contribute to a company's competitive advantage, managers need to consider the questions shown in [Table 1.8](#) and be able to identify critical indicators or metrics related to human resources. As page 28 shown in the last column of [Table 1.8](#), critical indicators of HR practices primarily relate to people, productivity, and process.

Table 1.8 The Balanced Scorecard

PERSPECTIVE	QUESTIONS ANSWERED	EXAMPLES OF CRITICAL BUSINESS INDICATORS	EXAMPLES OF CRITICAL HR INDICATORS
Customer	How do customers see us?	Time, quality, performance, service, cost	Employee satisfaction with HR department services Employee perceptions of the company as an employer
Internal	What must we excel at?	Processes that influence customer satisfaction, availability of information on service and/or manufacturing processes	Training costs per employee, turnover rates, time to fill open positions
Innovation and learning	Can we continue to improve and create value?	Improve operating efficiency, launch new products, continuous improvement, empowering of workforce, employee satisfaction	Employee/skills competency levels, engagement survey results, change management capability
Financial	How do we look to shareholders?	Profitability, growth, shareholder value	Compensation and benefits per employee, turnover costs, profit per employee, revenue per employee

SOURCES: Based on K. Thompson and N. Mathys, "The Aligned Balanced Scorecard," *Organizational Dynamics* 37 (2008), pp. 378–93; B. Becker, M. Huselid, and D. Ulrich, *The HR Scorecard: Linking People, Strategy, and Performance* (Boston: Harvard Business School Press, 2001).

For example, the balanced scorecard at Phillips, the global electronics company, includes four critical success factors: Competence (knowledge, technology, leadership, teamwork), Processes (performance drivers), Customers (value propositions), and Financial (value, growth, and productivity).¹⁰⁷ Phillips uses these critical success factors

to link short-term goals with long-term goals. The company reviews four levels of goals (strategic, operations, business unit, and employee) to ensure they are aligned. This provides employees and managers with a detailed understanding of how their actions contribute to the company's overall success and how they can help with achieving the operational and strategic goals.

Demonstrate Social Responsibility. Increasingly, companies are recognizing that social responsibility can help boost a company's image with customers, gain access to new markets, and help attract and retain talented employees. Companies thus try to meet shareholder and general public demands that they be more socially, ethically, and environmentally responsible. For example, to improve access to mental health care in Rwanda, Johnson & Johnson launched the first digital mental health training service in the country, which resulted in training approximately 50,000 community health care workers.¹⁰⁸ The [Competing through Environmental, Social, and Governance Practices](#) box highlights how SAP helps people on the autism spectrum obtain jobs that utilize their unique skills.

Emphasize Customer Service and Quality

Companies' customers judge quality and performance. As a result, customer excellence requires attention to product and service features as well as to interactions with customers. Customer-driven excellence includes understanding what the customer wants and anticipating future needs. Customer-driven excellence includes reducing defects and errors, meeting specifications, and reducing complaints. How the company recovers from defects and errors is also important for retaining and attracting customers.

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COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

SAP Makes Employment Possible for Differently Abled People

Autism spectrum disorder is a neurological developmental disability that can cause a person to have significant social, communication, and behavioral challenges. Each individual's experience of autism varies but typically people on the spectrum have unique language and communication, social interaction, motor coordination and sensory processing, and executive functioning abilities. But like all of us, individuals with autism have unique skills and abilities that make them desirable employees. For example, individuals with autism can be detail oriented, analytical, and very focused, making them desirable for jobs or careers that require strong attention to detail. However, employment opportunities, even for individuals with autism who go on to finish college, tend to be in low-skilled jobs in minimum wage positions such as in food service. They end up in these jobs because of their attention to detail but lack of understanding of the subtleties of interpersonal communications. These characteristics are significant obstacles to preparing an attractive resume and cover letter or making a positive impression in a job interview.

SAP and other companies such as Freddie Mac, Hewlett-Packard, Ford and Walgreens have neuro-diversity programs that hire and develop those on the autism spectrum. SAP's Autism at Work Program has more than 175 employees, contractors, interns, and vocational school students. SAP employees on the autism spectrum hold more than 27 different roles across 14 countries. SAP's program has provided more than 375 mentorships for students, internships, apprenticeships, full- and part-time jobs, and contracting opportunities. Recently, the program has placed a special emphasis on opportunities for students to help them develop skills while getting used to working. The emphasis resulted from program leaders discovering that most SAP employees on the autism spectrum did not have exposure to the labor market while they were in school. The Autism at Work program

provides support to job candidates with autism during the hiring process and resources to help them succeed once on the job.

There have been many successes resulting from the program. For example, an engineer who previously had a difficult time finding employment and was homeless now works as a DevNetOps engineer. Nicolas Neumann is another success story. Nicolas won the highest employee recognition award given at SAP (Hasso Plattner Founders' Award). Neumann has the ability to acquire complex knowledge in a short time. As a child he learned basic programming skills. His mentors at SAP, recognizing his potential and intrinsic motivation, allowed him to devote one day per week to developing posting automation. Posting automation simplifies and makes easier the accounting required for company invoices. For Nicolas, social interactions have always been challenging. But the project helped him go beyond himself and get involved in developing which is something he enjoys.

DISCUSSION QUESTION

How does SAP's Autism at Work Program demonstrate the company's commitment to sustainability through impacting the "triple bottom line"? Explain your answer.

SOURCES: Based on J. Romeo, "Neurodiversity: Uncovering Hidden Talent," *Human Resource Executive*, January/February 2020, pp. 43-45; SAP, "Autism at Work Program," [sap.com](https://www.sap.com), accessed March 17, 2021; Office of Disability Employment Policy, U.S. Department of Labor, "Autism," <https://www.dol.gov/agencies/odep/program-areas/autism>, accessed March 17, 2021; E. Woo, "Autism at Work: Encouraging Neurodiversity in the Workplace," October 15, 2019, news.sap.com, accessed March 17, 2021; L. Trunk de Flores, "With Posting Automation Nicolas Neumann Wins 2019 Hasso Plattner Founders' Award," February 4, 2020, news.sap.com, accessed March 17, 2021; N. Pesce, "Most College Grads with Autism Can't Find Jobs. This Group Is Fixing That," April 2, 2019, [marketwatch.com](https://www.marketwatch.com), accessed March 17, 2021.

Due to increased availability of knowledge and competition, consumers are very knowledgeable and expect excellent service. This presents a challenge for employees who interact with customers. The way in which clerks, sales staff, front-desk personnel, and service providers interact with customers influences a company's reputation and financial performance. Employees need product knowledge and service skills, and they need to be clear about the types of decisions they can make when dealing with customers.

To compete in today's economy, whether on a local or global level, companies need to provide a quality product or service. If companies do not adhere to quality standards, their ability to sell their product or service to vendors, suppliers, or customers will be restricted. Some countries even have quality standards that companies must meet to conduct business there. [Total quality management \(TQM\)](#) is a companywide effort to continuously improve the way people, machines, and systems accomplish work.¹⁰⁹ Core values of TQM include the following:¹¹⁰

Methods and processes are designed to meet the needs of internal and external customers.

Every employee in the company receives training in quality.

Quality is designed into a product or service so that errors are prevented from occurring rather than being detected and corrected.

The company promotes cooperation with vendors, suppliers, and customers to improve quality and hold down costs.

Managers measure progress with feedback based on data.

[Total quality management \(TQM\)](#)

A cooperative form of doing business that relies on the talents and capabilities of both labor and management to continually improve quality and productivity.

Malcolm Baldrige National Quality Award. One way that companies can improve the quality of their products or services is through competing for the [Malcolm Baldrige National Quality Award](#) or gaining certification in the [ISO 9000:2015](#) standards. The Baldrige award, created by public law, is the highest level of national recognition for quality that a U.S. company can receive. To become eligible for the Baldrige, a company must complete a detailed application that consists of basic information about the firm as well as an in-depth presentation of how it addresses specific criteria related to quality improvement.¹¹¹ The categories and point values for the Baldrige Award are found in [Table 1.9](#). The award is not given for specific products or services. Organizations can compete for the Baldrige Award in one of several categories, including manufacturing, service, small business, education, health care, and nonprofit. The Baldrige Award is given annually in each of the categories with a total limit each year of 18 awards. All applicants for the Baldrige Award undergo a rigorous examination process that takes from 300 to 1,000 hours. Applications are reviewed by an independent board of about 400 examiners who come primarily from the private sector. One of the major benefits of applying for the Baldrige Award is the feedback report from the examining team noting the company's strengths and areas for improvement.¹¹²

[Malcolm Baldrige National Quality Award](#)

An award established in 1987 to promote quality awareness, to recognize quality achievements of U.S. companies, and to publicize successful quality strategies.

[ISO 9000:2015](#)

A family of standards developed by the International Organization for Standardization that includes 20 requirements for dealing with such issues as how to establish quality standards and document work processes.

Table 1.9 Categories and Point Values for the Malcolm Baldrige National Quality Award Examination

Leadership	120
How senior executives create and sustain vision, values, and mission; promote legal and ethical behavior; create a sustainable company; and communicate with and engage the workforce.	
Measurement, Analysis, and Knowledge Management	90
How the company selects, gathers, analyzes, uses, manages, and improves its data, information, and knowledge assets	
Strategic	85
How the company sets strategic direction, how it determines action plans, how it changes strategy and action plans if required, and how it measures progress	
Workforce	85
How the company develops and utilizes the workforce to achieve high performance; how the company engages, manages, and develops the potential of the workforce in alignment with company goals	
Operations	85

How the company designs, manages, and improves work systems and work processes to deliver customer value and achieve company success and sustainability	
Results	450
How the company performs and improves in key business areas (product, service, and supply quality; productivity; operational effectiveness and related financial indicators; environmental, legal, and regulatory compliance); the company's level of ethical and social responsibility	
Customer	85
The company's knowledge of the customer, customer service systems, current and potential customer concerns, and customer satisfaction and engagement	
Total Points	1,000

SOURCE: Based on National Institute of Standards and Technology (NIST), "2017–2018 Criteria for Performance Excellence and Point Values," Baldrige Excellence Framework, January 2017, www.nist.gov/baldrige.

The Baldrige Award winners usually excel at HR practices. For example, consider MESA a 2020 award winner.¹¹³ MESA provides products and services to control or prevent corrosion of steel pipelines, storage, and processing facilities supporting the U.S. energy infrastructure. MESA's growth relative to its competitors has improved 40% over five years. Both safety and diversity and inclusion are top priorities at MESA. Survey results show that most of MESA's employees believe that safety is a top priority at the company, the company has a culture of respect, and they are contributing to delivering safe and innovative solutions to protect property and the environment. Diversity and inclusion are part of MESA's culture, workforce and leadership processes and policies, and actions. The company's diversity and inclusion initiatives led to changes in communication styles and an increased awareness of the importance of engaging in difficult conversations to shape the desired culture. The company encourages learning through feedback. It does so by conducting employee engagement and supplier satisfaction surveys and encouraging managers and employees to have performance conversation during performance reviews which occur twice each year. In response to the start of the pandemic MESA showed it valued its employees by offering a Pandemic Bonus, Pandemic Pay Program, and generous leave options, as well as committing to no layoffs.

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ISO (International Organization for Standardization) 9000 Standards. The International Organization for Standardization (ISO), a network of national standards institutes that includes 160 countries and has a central governing body in Geneva, Switzerland, is the world's largest developer and publisher of international standards.¹¹⁴ The ISO develops standards related to management as well as a wide variety of other areas, including education, music, ships, and even protecting children. ISO standards are voluntary, though countries may decide to adopt ISO standards in their regulations, in which case they may become a requirement to compete in the market. The ISO 9000 is a family of standards related to quality (ISO 9000, ISO 9001, ISO 9004, and ISO 19011). The ISO 9000 quality standards address what the company does to meet regulatory requirements and the customer's quality requirements while striving to improve customer satisfaction and continuous improvement. The standards represent an international consensus on quality management practices. The quality management standards of the ISO 9000 are based on eight quality management principles, including customer focus, leadership, employee engagement, a process approach, a systems approach to management, continuous improvement, evidence-based decision making, and the establishment of mutually beneficial relationships with suppliers. ISO 9001:2015 is the most comprehensive standard because it provides a set of requirements for a quality management system for all organizations, both private and public. The ISO 9000:2015 has been implemented by more than page 321 million

organizations in 176 countries, meaning that companies have to follow the standards to conduct business in those countries. ISO 9004 provides a guide for companies that want to improve.

Why are standards useful? Customers may want to check that the product they ordered from a supplier meets the purpose for which it is required. One of the most efficient ways to do this is when the specifications of the product have been defined in an International Standard. That way, both supplier and customer are on the same wavelength, even if they are based in different countries, because they are both using the same references. Many products require testing for conformance with specifications or compliance with safety or other regulations before they can be put on many markets. In addition, national legislation may require such testing to be carried out by independent bodies, particularly when the products concerned have health or environmental implications. One example of an ISO standard is on the back cover of this book and nearly every other book. On the back cover is something called an ISBN. ISBN stands for International Standard Book Number. Publishers and booksellers are very familiar with ISBNs because they are the method through which books are ordered and bought. Try buying a book on the Internet, and you will soon learn the value of the ISBN—there is a unique number for the book you want! And it is based on an ISO standard.

Six Sigma. In addition to competing for quality awards and seeking ISO certification, many companies are using the Six Sigma process and lean thinking. The [Six Sigma process](#) refers to a process of measuring, analyzing, improving, and then controlling processes once they have been brought within the narrow Six Sigma quality tolerances or standards. The objective of Six Sigma is to create a total business focus on serving the customer, that is, to deliver what customers really want when they want it. Six Sigma involves highly trained employees known as Champions, Master Black Belts, Black Belts, and Green Belts who lead and teach teams that are focusing on an ever-growing number of quality projects. The quality projects focus on improving efficiency and reducing errors in products and services. Walmart uses Black Belt training in its fresh food departments.¹¹⁵ The program is designed to eliminate product waste, reward excellence, retain talent, and develop a future leaders in the fresh food department. New employees attend a mandatory white belt certification. After completing the program employees can attend training to gain orange, blue, and black belt (the highest level). Each belt requires coursework and gives employees more accountability and expertise. Each belt achieved results in more pay for employees. So far, 97% of new employees have completed white belt training, and over 40% have finished the first part of orange belt training. Meat department employees saved an estimated \$93,000 per year by producing less waste from faulty cuts.

[Six Sigma process](#)

A system of measuring, analyzing, improving, and controlling processes once they meet quality standards.

Lean Thinking and Process Improvement. Training is an important component of quality programs because it teaches employees statistical process control and how to engage in “lean thinking.” [Lean thinking](#) is a way to do more with less effort, time, equipment, and space, but still provide customers what they need and want. Part of lean thinking includes training workers in new skills or how to apply old skills in new ways so that they can quickly take over new responsibilities or use new skills to help fill customer orders. CenturyLink is a telecommunications company that provides communications and data services to residential, business, governmental, and wholesale customers.¹¹⁶ CenturyLink’s lean initiative includes training employees to identify and reduce unneeded steps in business processes. The training includes lectures, activities, business process mapping analysis, and development of cross-functional projects focused on reducing waste. As a result, the time to complete the processes that have been part of the cross-functional projects has been reduced by 45 minutes, thereby saving money and reducing frustrations experienced by employees and customers.

[Lean thinking](#)

A way to do more with less effort, equipment space, and time, but still provide customers what they need and want.

In addition to developing products or providing services that meet customer needs, one of the most important ways to improve customer satisfaction is to improve the quality of employees' work experiences. Research shows that satisfied employees are more likely to provide high-quality customer service. Customers who receive high-quality service are more likely to be repeat customers.

Recognize and Capitalize on the Demographics and Diversity of the Workforce

A company's performance on the balanced scorecard is influenced by the characteristics of its labor force. The labor force of current employees is often referred to as the [internal labor force](#). Employers identify and select new employees from the external labor market through recruiting and selection. The [external labor market](#) includes persons actively seeking employment. As a result, the skills and motivation of a company's internal labor force are influenced by the composition of the available labor market (the external labor market). The skills and motivation of a company's internal labor force determine the need for training and development practices and the effectiveness of the company's compensation and reward systems.

[Internal labor force](#)

Labor force of current employees.

[External labor market](#)

Persons outside the firm who are actively seeking employment.

Several important characteristics of the workforce to consider include its age, diversity, and the extent to which it may be influenced by immigration.

Aging of the Workforce. [Figure 1.5](#) compares the distribution of the age of the work-force in 2019 to that projected for 2029. In 2019, baby boomers were 58 to 71 years old, and this age group will grow significantly by 2029. The labor force will continue to age. The 55-and-older age group is expected to grow by approximately 5 million to 43 million in 2029, representing a 13% increase between 2019 and 2029.¹¹⁷ By 2029 all baby boomers will be 65 or older. As a result, a large number of them will have moved out of the labor force. However, many will continue to work more years because individuals are leading healthier and longer lives than in the past, providing the opportunity to work more years. In addition, the high cost of health insurance and decrease in health benefits will cause many employees to keep working to maintain their employer-based insurance or will prompt them to return to work after retirement to obtain health insurance through their employer. Also, the trend toward pension plans based on individuals' contributions rather than years of service will provide yet another incentive for older employees to continue working.

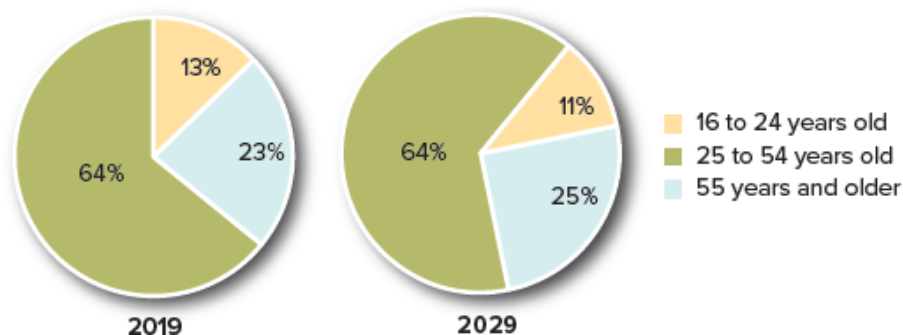


Figure 1.5 Comparison of the Age Distribution of the 2016 and 2029 Labor Forces

SOURCE: U.S. Bureau of Labor Statistics, "Employment Projections, Civilian Labor Force, by Age, Sex, Race, and Ethnicity," <https://www.bls.gov/emp/tables/civilian-labor-force-summary.htm>, accessed February 13, 2021.

The aging labor force means companies are likely to employ a growing share of older workers—many in their second or third career. Older people want to work, and many say they plan a working retirement. Despite myths to the contrary, worker performance and learning in most jobs is not adversely affected by aging.¹¹⁸ Older employees are willing and able to learn new technology. An emerging trend is for qualified older employees to ask to work part-time, or for only a few months at a time, as a means of transitioning to retirement. Employees and companies are redefining what it means to be retired to include second careers, as well as part-time and temporary work assignments. An aging workforce means that employers will increasingly face HRM issues such as career plateauing, retirement planning, and retraining older workers to avoid skill obsolescence. Companies will struggle with how to control the rising costs of benefits and health care. Companies face competing challenges with older workers. Companies will have to ensure that older workers are not discriminated against in hiring, training, and workforce reduction decisions. At the same time, companies will want to encourage retirement and make it financially and psychologically acceptable.

Many companies, such as Herman Miller, a company that makes office furniture, are offering special programs to capitalize on older employees' skills and accommodate their needs.¹¹⁹ At Herman Miller more than 25% of the company's 8,000 employees are over age 55. All employees over age 60 with at least five years of employment are eligible for the company's FlexRetirement program. The program allows them to phase out of the workforce over a six-month to two-year period. Employees who want to begin phasing out of the workforce are required to participate in a meeting with their team leader and HR representative to discuss the impact on the work group. The employee also prepares a transition plan that identifies which job responsibilities they will keep and which will be shifted to another employee. Herman Miller also provides other opportunities which can help retirees ease out of the workforce including job sharing, telecommuting, part-time work, and unpaid leave for different lengths of time.

The Multigenerational Workforce. Popular press suggests that five generations are represented in the workforce, and that each one may have unique and similar characteristics to the others. [Table 1.10](#) shows the year born, nicknames, and ages represented for each generation. Consider some of the attributes that have been suggested to characterize each generation.¹²⁰ For example, Gen Z are supposedly more attached to mobile phones and tablets for learning and connecting with others than are millennials. Baby boomers, the "Me" generation, are characterized as being competitive, hard working, and concerned with the fair treatment of all employees.

Table 1.10 Generations in the Workforce

YEAR BORN	GENERATION	AGES
1925–45	Traditionalists Silent Generation	>76
1946–64	Baby Boomers	57–75
1965–80	Generation X	41–56

1981–95	Millennials Generation Y Echo Boomers	26–40
1996	Generation Z	<25

It is important to note that research does not support the existence of generational differences. That is, generational differences are more fiction than fact.¹²¹ Members of the same generation are no more alike than members of the same gender or race. Also, research suggests that employees from different generations likely have more similarities than differences.¹²² This means that you should not attribute differences in employee behaviors and attitudes to generational differences or expect all employees of a generation to have similar values, interests, or preferences (for example, about what training method they want to use to learn).

A Workforce of Mixed Gender, Race, and Nationality. As [Figure 1.6](#) shows, by 2029 the workforce is expected to be 75% White, 13% Blacks, 12% Asian and all other ethnic or cultural groups, which includes individuals of multiple racial origin, American Indian, Alaskan Native, or Native Hawaiian and other Pacific Islanders.¹²³

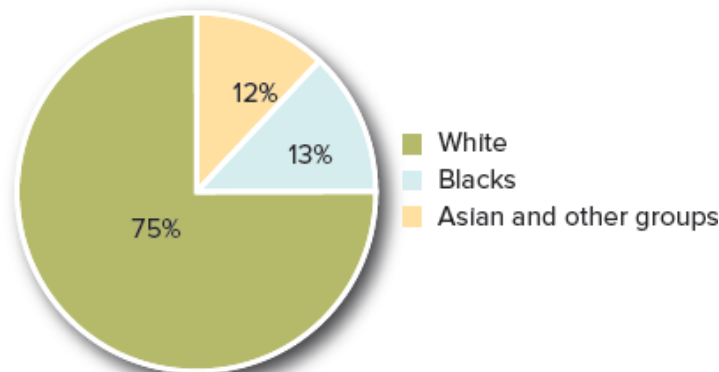


Figure 1.6 The U.S. Work-force, 2029

SOURCE: K. Dubina, J. Kim, E. Rolon, & M. Rieley, "Projections Overview and Highlights, 2019-2029," *Monthly Labor Review*, U.S. Bureau of Labor Statistics, September 2020, <https://doi.org/10.21916/mlr>. 2020.21.

Between 2019 and 2029, the U.S. labor force will continue to grow more ethnically and racially diverse due to immigration, increased participation of members of minority ethnic groups in the workforce, and higher fertility rates among certain ethnic groups. Between 2019 and 2029 the projected annual growth rates are higher for Hispanics (2.2%) than for Blacks and all other groups.¹²⁴ By 2029, the workforce is projected to be 75% White, 13% Black, and 12% Asian and all other ethnic groups. Twenty-one percent of the labor force will consist of individuals with a Hispanic origin. By 2029, 52% of the labor force will be men and 48% will be women.

The Role of Immigration. Immigration contributes to the diversity of the U.S. population and workforce. Over 40 million people living in the United States were born in other countries, and approximately an equal number have a foreign-born parent. page 35The United States has more immigrants than any other country in the world. More than one million immigrants come to the United States each year, and 6 out of 10 are relatives of U.S. citizens.¹²⁵ Immigrants and their descendants are projected to account for 88% of U.S. population growth through 2065, assuming current immigration trends continue. The top country of origin for new immigrants coming into the U.S. was China, followed by India, Mexico, and the Philippines. Nearly half of the nation's immigrants live in California, Texas, or Florida.

Over 75% of immigrants are in the U.S. legally. Mexico, China, and India are the leading countries of birth for lawful permanent residents or “green card” recipients, who may live and work anywhere in the United States. Another 13% come on work-related visas, some of which are available only for workers with exceptional qualifications in science, business, or the arts. The U.S. government also provides temporary visas to a limited number of highly educated workers, allowing them to work in the country for a set period of time but not to remain as immigrants.

In 2019, there were 28 million immigrants in the U.S. labor force, or 17% of the total.¹²⁶ Many U.S. industries, including high-technology, meat-packing, construction, farming, and service, rely on immigrants to perform jobs that U.S. citizens find undesirable because they require physical labor or pay low wages. But the percentage of highly skilled immigrants now exceeds the percentage of low-skilled immigrants. One reason is that U.S. colleges cannot keep up with the demand for employees needed for software development positions and others requiring science, technology, engineering, and math (STEM) skills. To find engineers, companies have to look overseas to China, Japan, Korea, and India to hire them.¹²⁷ The H-1B visa program is for persons in highly skilled and technical occupations requiring completion of higher education. New visas are capped at 65,000 per year, 20,000 of which are reserved for employees with U.S. master’s degrees. There is no cap on H-1Bs for employees page 36 working for the government, universities, and other nonprofit institutions. The largest number of H-1B visas are issued for computer-related occupations such as software development. Top companies for H-1B visas include Infosys Limited, Deloitte Consulting, Tata Consultancy, and IBM.¹²⁸ Indian-owned companies such as Tata Consultancy and Wipro have the most H-1B visa approvals. Other visa programs are available for lower-skilled temporary or seasonal workers (H-2A, H-2B) who are also in short supply. Many of these immigrants will have to be trained to understand the U.S. culture. Likewise, U.S. employees will need skills to improve their ability to communicate with employees from different cultures.

There is an ongoing debate in the U.S. about the role of both legal and illegal immigration. Survey results suggest a majority of Americans have positive views about immigrants.¹²⁹ About two-thirds of Americans say immigrants strengthen the country because of their work ethic and talent, while about a quarter say immigrants burden the country by taking jobs, housing and health care.

American companies will likely continue to struggle to fill jobs despite the recent expiration of restrictions on work visas that occurred due to pandemic and Trump administration policies.¹³⁰ Despite the high unemployment rate because of the pandemic, potential workers are not attracted to low-paying and seasonal jobs typically held by immigrants. Companies that have managed to survive during the pandemic have had to cut back production, reduce hours, or send jobs overseas. For example, jobs in software development or information technology typically would be filled by employees with H-1B visas, but instead they were sent to workers in other countries. The CEO of SevenTablets, an information technology company, wanted to hire software engineers from other countries to work in the U.S. Because H-1B visas were unavailable he hired engineers to work from an India-based location of the company. The labor shortage is also affecting resorts and restaurants that rely on seasonal workers to fill jobs. Duck Donuts has several shops in North Carolina’s Outer Banks. The owner typically hires about 75 foreign workers to staff the stores during peak demand during the summer months. He was only able to hire a few foreign workers. The lack of workers left many of his stores understaffed and he had to reduce store hours despite a large number of summer customers. Ski resorts in Vermont typically employ both American and foreign workers. But the lack of visas has caused the resorts to close retail, lodging, and restaurants because of insufficient number of staff.

Capitalizing on Diversity, Equity, and Inclusion. The death of George Floyd, #MeToo, the Black Lives Matter movement, verbal and physical attacks against Asian Americans, the multigenerational workforce, and the pandemic have intensified the attention to issues of diversity, equity, and inclusion in U.S. companies. What do diversity, equity, and inclusion mean?¹³¹ **Diversity** can be considered any dimension that differentiates one person from another. For example, at Verizon, diversity means embracing differences and variety, including age, ethnicity, education, sexual orientation, work style, race, gender, and more. **Equity** refers to fair treatment, access, equality of opportunity, and advancement for all employees, while at the same time striving to identify and eliminate barriers that have prevented the full participation of some groups. **Inclusion** refers to creating an environment in which

employees share a sense of belonging, mutual respect, and a commitment to others so they can perform their best work. Inclusion allows companies to capitalize on the diversity of employees as well as the diversity of customers, suppliers, and community partners. In an inclusive environment employees feel safe to share their identities, understand and ask about others experiences of inequality. Company leaders in an inclusive company point out instances of inequality, explain their impact, and emphasize the changes that need to occur. They also demonstrate and recognize inclusionary behaviors in both their peers and other employees. Diversity, equity, and inclusion can help companies gain a competitive advantage. Important outcomes expected from diversity practices page 37include improved public image of the company, improved financial bottom line, decreased complaints and litigation, and retention and recruitment of a diverse work-force.¹³²

Diversity

Any dimension that differentiates one person from another.

Equity

Fair treatment, access, equality of opportunity, and advancement for all employees, while at the same time striving to identify and eliminate barriers that have prevented the full participation of some groups.

Inclusion

Creating an environment in which employees share a sense of belonging, mutual respect, and commitment with others so that they can perform their best work.

TD Bank Group is one company that is fully invested in ensuring that its diverse workforce experiences equity and inclusion.¹³³ TD Bank invests in inclusive leadership training for all of its people leaders to minimize the risk of unintentional bias. The training focuses on people leaders understanding their own inclusive behaviors and personal biases, the impact of their biases on others, and how to create an inclusive environment for all employees. Diversity and Inclusion is emphasized in many learning programs. For example, the topic is covered in new employee onboarding. All employees are required to take a course called D&I at TD which discusses how to be an effective employee, team leader, and company leader. TD also has “respectful workplace” training that helps employees understand how to create and maintain a work environment that doesn't include harassment or discrimination. It also reviews what employees should do if they see such behavior (such as report to their manager, HR, or the company's ethics hotline). The interview training for people leaders who recruit new employees emphasizes how to conduct inclusive recruiting.

In addition to training TD engages in other practices to enhance diversity and inclusion. All people leaders' performance evaluations include diversity and inclusion performance goals, the company includes questions related to diversity and inclusion in its engagement survey, and checks are made to ensure that diverse candidates are included in hiring polls and considered in succession planning meetings used to identify current employees with leadership potential. TD's Women in Leadership network gives female employees the chance to connect, encourage and mentor each other. TD offers flexible work options to help all employees achieve work-life balance. Lesbian, Gay, Bisexual, Transgender and Ally (LGBTQA) resource groups enable employees to get involved in awareness and education, recruitment, mentoring, and community out-reach for the LGBTQA community. For employees with disabilities TD tests new technology and partners with employees to ensure that they are comfortable with their accommodations. TD has an employee assistance program that helps veterans and their families move into civilian life, and a leave program for employees fulfilling military service obligations.

To call attention to the important role of legal issues and ethics in the workplace, throughout the book we include Integrity in Action boxes that highlight the good (and bad) decisions related to legal and ethical HR practices made by company leaders and managers. The [Integrity in Action](#) box in this chapter highlights how Eastern Bank-shares is trying to improve the diversity of its top management positions.

The bottom line is that to gain a competitive advantage, companies must harness the power of the diverse workforce. These practices are needed not only to meet employee needs but also to reduce turnover costs and ensure that customers receive the best service possible. The implication of diversity for HR practices will be highlighted throughout this book. For example, from a staffing perspective, it is important to ensure that tests used to select employees are not biased against minority ethnic groups. From a work-design perspective, employees need flexible schedules that allow them to meet nonwork needs. From a training perspective, it is clear that all employees need to be made aware of the potential damaging effects of stereotypes. From a compensation perspective, new benefits such as elder care and day care need to be included in reward systems to accommodate the needs of a diverse workforce. The [Evidence-Based HR](#) box highlights the value of development programs specifically designed to prepare women for key leadership roles.

Consider Legal and Ethical Issues

Legal Issues. There will likely be development and debate of new and current employment laws and regulations, as well as increased emphasis on enforcing specific aspects page 38 of current laws and regulations such as those related to immigrant employment.¹³⁴ There are likely to be more challenges of gender and race discrimination because of lack of access to training and development opportunities that are needed for promotions to better-paying jobs or higher-level management positions. Eliminating discrimination against veterans and people with disabilities, especially among federal contractors, is likely. This is especially likely due to the expanded definition of disability under the Americans with Disabilities Act to include cancer, diabetes, epilepsy, and intellectual disabilities.



INTEGRITY IN ACTION

Advancing Diversity in Top Management Roles at Eastern Bankshares

Eastern Bankshares, a local savings bank, is headquartered in Boston and has over eighty branches in Massachusetts, New Hampshire, and Rhode Island. It is a company with historically White leadership. But Eastern is trying to promote racial diversity in its leadership and positions throughout the bank. Eastern's lead director and president are Black. People of color make up one-third of the bank's board of directors, 17% of its management committee, and 40% of new hires. But Eastern has had difficulty moving employees of color into middle and upper-level jobs. Also, Eastern has no Latino or Latina employees at the senior vice president level or higher. Eastern used to unintentionally categorize Black, Latino/a, and Asian employees as people of color, rather than looking at their placement separately by business unit or position. This made it difficult to see gaps in employment of these employees in certain positions. To remedy this problem Eastern is developing a detailed human resources dashboard that shows its work-force hiring, promotions, and turnover by race and gender and department and position.

The company is trying to create a diverse and inclusive environment to support innovation, enhance its ability to serve a broader group of customers, and support efforts to build strong ties in the communities in which it operates. It has done so in several ways. For the eighth consecutive year, Eastern Bank received a perfect score on the Human Rights Campaign Foundation's Corporate Equality Index (CEI). The Index is a benchmarking survey that measures company policies and practices related to lesbian, gay, bisexual, transgender, and queer (LGBTQ) workplace equality. After George Floyd's killing the CEO held meetings with Black employees who told them their business units lacked diversity. The CEO also sent a letter to all customers supporting Black Lives Matter and asked one of the bank's advisory board members to speak to the board of directors on the history of racism. The company also put up signs supporting Black Lives Matter at the request of Black employees. The bank's hiring team attends a number of events each year, such as diversity specific career and networking events, to try to find

diverse talent. Eastern's foundation also provides donations to community groups and grants targeted to specific issues. The company collaborated with other businesses and organizations to encourage the state government to dedicate the second Sunday of June each year as a day to reflect on and celebrate the diverse cultural backgrounds of the people of Massachusetts and to build understanding across races. To enhance its diversity and inclusion efforts Eastern is hiring a diversity consultant.

DISCUSSION QUESTIONS

Do you think that Eastern Bankshares' actions will help it accelerate the movement of Black, Latina/o, and Asian employees into middle and upper-level positions? Explain.

What other actions should Eastern Bankshares consider to address this issue?

SOURCES: Based on R. Simon, "‘There Was a Piece Missing’: One Bank Targets Racial Inequity," *The Wall Street Journal*, December 30, 2020, pp. A1, A8; Eastern Bank, "Embracing Diversity," eastern-bank.com, accessed February 28, 2021; The Tech Connection, "Eastern Bank Highlights Their Commitment to Diversity and Inclusion by Getting Their Inclusive Innovation Certification," April 12, 2019, techconnection.medium.com, accessed February 28, 2021; AP, "Eastern Bank Earns 100 for 8th Consecutive Year in Human Rights Campaign Foundation's 2021 Corporate Equality Index," February 4, 2021, apnews.com/press-release/business-wire, accessed February 28, 2021.

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EVIDENCE-BASED HR

Kimley-Horn, a planning and engineering design firm, created a development program to help female engineers prepare to transition from being a team member to a team leader. The program was created to help retain female engineers who were leaving after four to eight years with the company. The program includes workshops that occur about four months apart. The company holds the workshops approximately every two years. Participants in the workshops include women from across the company to aid in networking. Senior female leaders also attend the workshop to share their career stories, answer questions and serve as mentors. The workshops include discussions about the challenges women face and how to overcome them. The female engineers also are coached on skills such as self-promotion, creating their personal brand, and having conversations with clients. Time is also spent helping the women identify their professional goals and a plan to attain them. Kimley-Horn has found that the women who participate in the program bring in more engineering projects and their retention rate is similar to male engineers.

SOURCE: Based on S. Gale, "The Future Is Female at Kimley-Horn," *Chief Learning Officer*, May/June 2020, pp. 48–49; "Women at Kimley-Horn," kimley-horn.com, accessed March 17, 2021.

The increased awareness of sexual assault and harassment in the workplace due to the #MeToo movement will continue. The phrase "Me Too" originated in 2006 from Tarana Burke who had personally experienced sexual assault and wanted to help other women survivors.¹³⁵ The brave women who overcame their fear and embarrassment to speak out about these incidents helped spur the #MeToo movement. The #MeToo movement gave millions of women worldwide the chance to publicly share their experiences of sexual assault or harassment on social media. Today, we have a greater awareness of sexual harassment and violence toward both men and women because of incidents involving high-profile men in sports, media, entertainment, and business. Employees, like those at Google who staged a series of walkouts to protest what they felt promotes and protects individuals who engage in sexual harassment, are becoming more vocal in insisting change is necessary.¹³⁶ As a result, companies are reviewing their policies and practices to ensure they are not either ignoring or somehow

encouraging sexual harassment or assault in the workplace. We are also likely to see increased scrutiny of the scope of arbitration agreements that employees voluntarily sign when they are hired prohibiting them from suing the company for a variety of employment-related claims including sexual harassment.¹³⁷

President Joe Biden favors a number of different proposals that with the support of a Democrat-led House and Senate could result in changes to compensation practices, family and medical leave policies, how employees are classified, and restrictions on foreign workers.¹³⁸ For example, Biden supports increasing the federal minimum wage to \$15 per hour.¹³⁹ He also supports the Paycheck Fairness Act, which would require employers to demonstrate the reason for disparities in pay between men and women. Biden supports paid family and medical leave based on proposals such as the Family and Medical Insurance Leave Act (FAMILY). The FAMILY Act provide workers two-thirds of their salary (subject to a cap) for up to 12 weeks of qualifying leave. He also supports the Healthy Families Act, under which employees would earn an hour of paid sick leave for every 30 hours worked, up to seven paid sick days per year. Biden also supports making it harder for employers to misclassify workers as independent contractors. Such a case was brought against ride-sharing services Uber and Lyft in California.¹⁴⁰ Uber won that case meaning it didn't have to reclassify its employees as eligible for employment benefits. Uber did decide to offer some drivers new benefits including health insurance. However, federal legislation and cases in other states are likely. Biden will also likely support changes to the Trump's policies that made it harder for workers to get H-1B visas and made companies pay higher salaries to those who did get them.¹⁴¹

The publication of classified documents by WikiLeaks, Wall Street insider trading probes, and data breaches of employee data have resulted in companies more carefully scrutinizing data-security practices and increased concerns about protecting intellectual property. For example, a Boeing employee who could not format a spreadsheet sent it to his spouse for help, causing a security breach that could have exposed ID numbers, accounting codes, and Social Security numbers for 36,000 employees.¹⁴² In fact, data security and protection is now required for companies that handle the data of an individual in the European Union due to the General Data Protection Regulation.¹⁴³ Similar types of regulations and laws are likely to be considered at a state level in the United States. Data-security and privacy concerns will likely influence HR practices related to performance management, such as the use of electronic monitoring and surveillance of knowledge workers. We may see more litigation related to employee privacy rights and intellectual property rights as a result of companies terminating employees or taking disciplinary action against them for data-security breaches, discussing employment practices using social media, or sharing or stealing intellectual property for personal gain. Also, issues regarding the confidentiality and security of employees' health care information will receive more attention as companies provide employees with wearables (such as Fitbits) and apps as part of wellness initiatives to track what they eat and drink, their heart rate, and physical activity. Employers who provide employees with wearables as part of wellness programs are not allowed by health privacy laws to view any single employee's health statistics.

Ethical Issues. Many organizations have engaged in serious ethical misconduct, including Equifax (failure to notify investors and customers of a data breach), Wells Fargo (employees created fake credit card accounts), and Takata (installed faulty airbags). Many decisions related to managing human resources are characterized by uncertainty. **Ethics** can be considered the fundamental principles of right and wrong by which employees and companies interact.¹⁴⁴ These principles should be considered in making business decisions and interacting with clients and customers. Ethical, successful companies can be characterized by four principles shown in **Figure 1.7**.¹⁴⁵ First, in their relationships with customers, vendors, and clients, these companies emphasize mutual benefits. Second, employees assume responsibility for the actions of the company. Third, such companies have a sense of purpose or vision that employees value and use in their day-to-day work. Finally, they emphasize fairness; that is, another person's interests count as much as their own. HR and business decisions should be ethical, but that is not always the case. One survey of employees found that only 21% believe they work in a company with a strong ethical culture.¹⁴⁶ This probably helps explain public perception of business ethics: 32% rated business executives' honesty and ethics standards as low or very low.¹⁴⁷ It is important to note that *ethics* may refer to behavior that is not clearly right or wrong in a legal sense. *Compliance* means that the company is not violating legal regulations. But a company can be compliant and still have employees engaging in unethical practices.

Ethics

The fundamental principles of right and wrong by which employees and companies interact.

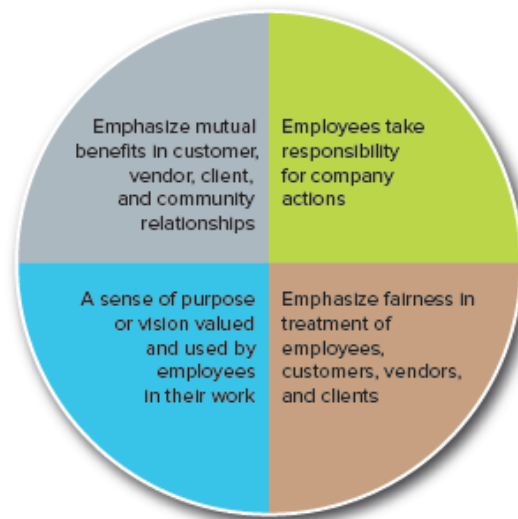


Figure 1.7 Principles of Ethical Companies

The [Sarbanes-Oxley Act of 2002](#) (SOX Act) sets strict rules for corporate behavior and sets heavy fines and prison terms for noncompliance: Organizations are spending millions of dollars each year to comply with regulations under the SOX Act, which imposes criminal penalties for corporate governing and accounting lapses, including retaliation against whistle-blowers who report violations of Securities and Exchange Commission (SEC) rules.¹⁴⁸ Due to SOX and SEC regulations that impose stricter standards for disclosing executive pay, corporate boards are paying more attention to executive pay as well as issues such as leadership development and succession planning.¹⁴⁹ This has resulted in an increase in the number of HR executives and page 41 individuals with HR expertise who are being asked to serve on corporate boards to provide data and analysis. For example, a CEO or chief financial officer (CFO) who falsely represents company finances may be fined up to \$1 million and/or imprisoned for up to 10 years. The penalty for willful violations is up to \$5 million and/or 20 years of imprisonment. SOX requires CEOs and CFOs to certify corporate financial reports, prohibits personal loans to officers and directors, and prohibits insider trading during pension fund blackout periods.¹⁵⁰ A “blackout” is any period of more than three consecutive business days during which the company temporarily stops 50% or more of company plan participants or beneficiaries from acquiring, selling, or transferring an interest in any of the company’s equity securities in the pension plan. The law also requires retention of all documents relevant to a government investigation.

Sarbanes-Oxley Act of 2002

A congressional act passed in response to illegal and unethical behavior by managers and executives. The act sets stricter rules for business, especially related to accounting practices—including requiring more open and consistent disclosure of financial data and the CEO’s assurance that the data are completely accurate—and provisions that affect the employee– employer relationship (e.g., development of a code of conduct for senior financial officers).

SOX has a number of provisions that directly affect the employer–employee relationship.¹⁵¹ Whistle-blowers are individuals who have turned in the company or one or more of its officers for an illegal act. The act prohibits retaliation against whistle-blowers and government informants. The act also requires that publicly traded companies disclose whether they have a code of ethics.¹⁵² Other federal guidelines such as the Federal Acquisition Regulation also require or provide incentives to encourage all businesses to adopt codes of conduct, train employees on these codes, and create effective ways to audit and report ethical and unethical behavior. This means that companies, with human resources taking the lead, should develop codes of conduct that clearly define ethics and professional responsibility. HR professionals, along with other top-level managers, usually play a key role in helping conduct ethics audits, develop ethical codes of conduct, and respond to ethics violations. Guidelines

for disciplinary actions for employees guilty of unethical behavior and conduct need to be developed. Managers and employees will need to be trained on ethics policies to ensure that business processes and procedures are correctly followed. HR professionals will need to document the fact that employees have received these policies and have attended training to ensure their compliance with the law. Because of the potential liability for retaliation in the context of discrimination and harassment, policies should include assurances that an employee will not be retaliated against for making a complaint or for serving as a witness. Executive compensation programs will need to be monitored to ensure that the program is in compliance with provisions related to personal loans and the sale of pension funds during blackout periods.

Several issues about the ethics of using artificial intelligence in human resource management are beginning to be discussed.¹⁵³ One ethical issue is whether AI is accessible and understandable to all employees regardless of disability, race, gender, page 42sexual orientation, or cultural background. Algorithms used in AI need to be developed with the input of a diverse group of employees to ensure they are not biased and everyone can benefit. Other important ethical issues are data security and transparency. Employees' data should be only accessible by authorized users and secure from cyberattacks. Employees should also have permission to review, update, and edit personal training data that the company holds.

Consider the policies and practices that Eaton Corporation uses to help ensure an ethical workplace.¹⁵⁴ Eaton Corporation includes its ethics principles on its website. Examples of the company's principles include obeying the law, not making political contributions on behalf of the company, avoiding conflicts of interest, acting with integrity, protecting assets and information, and respecting human rights. Eaton Corporation's employees receive regular training on how to apply ethical principles to their daily work. The Global Ethics and Compliance Office provides ethics training programs and communications designed to ensure that Eaton's ethics and values are integrated into its business practices on a consistent basis around the world. Eaton provides employees with a Help Line, a resource they can use to ask a question, raise a concern or report questionable conduct or business practices. The Help Line is always available and accessible in every language and country where Eaton conducts business.

Human resource managers must satisfy three basic standards for their practices to be considered ethical.¹⁵⁵ First, HRM practices must result in the greatest good for the largest number of people. Second, employment practices must respect basic human rights of privacy, due process, consent, and free speech. Third, managers must treat employees and customers equitably and fairly.

Competing Through Globalization

LO 1-4

Discuss what companies should do to compete in the global marketplace.

Every business must be prepared to deal with the global economy. Companies are finding that to survive they must compete in international markets as well as fend off foreign corporations' attempts to gain ground in the United States. To meet these challenges, U.S. businesses must develop global markets, use their practices to improve global competitiveness, and better prepare employees for global assignments.

Globalization is not limited to any particular sector of the economy, product market, or company size.¹⁵⁶ Companies without international operations may buy or use goods that have been produced overseas, hire employees with diverse backgrounds, or compete with foreign-owned companies operating within the United States.

Businesses around the world are attempting to increase their competitiveness and value by increasing their global presence, often through mergers and acquisitions.

Entering International Markets

Many companies are involved in international markets by exporting their products overseas, building manufacturing facilities or service centers in other countries, entering into alliances with other companies, and engaging in e-commerce. One estimate is that developing economies and emerging markets such as those found in the BRIC nations (Brazil, Russia, India, and China) are responsible for 18% of global trade.¹⁵⁷ Other countries such as Indonesia, Malaysia, South Korea, Nigeria, and Poland, which have a growing middle class, strong infrastructure, business-friendly regulations, and stable governments, are likely new emerging markets. It is important to note that global trade and investment has been slowed due to the pandemic, an increase in nationalistic policies around the world such as “Buy American” or “Made in India,” concerns about national security threats from purchasing and selling technology, and countries’ dependence on others for essential products and resources.¹⁵⁸ Globalization is not going to disappear. But the rate of globalization in the future is likely to depend on how soon the world can resolve the pandemic and the types of trade policies and practices enacted by countries around the world.

The importance of globalization can be seen in the recent investments U.S. multinational corporations have made in China.¹⁵⁹ China’s developed infrastructure and huge consumer market make it an essential market for many companies. General Motors now sells more cars in China than in the U.S. In 2019, Tesla realized revenue of almost \$3 billion in China, an increase of over 69%. Due to attractive government incentives coupled with broad demand for electric vehicles in China, Tesla decided to expand its Shanghai factory and realized huge benefits. Yum Brands including KFC, Pizza Hut, and Taco Bell restaurants is China’s largest fast-food company. Yum has over 84,000 restaurants in China and is opening about two new stores per day. One hundred and eighty million Chinese belong to the KFC and Pizza Hut customer loyalty program! The menu in China is based on local tastes. For example, at KFC fried chicken is sold by the piece so it can be part of a meal that includes rice rolls, egg tarts, and lotus soup. Pizza Hut includes the option to add Peking Duck to a pizza. Yum has opened an innovation center in Shanghai to better understand customer preferences and develop new offerings for the Chinese market. Today, China is Starbucks’ second largest and fastest-growing market, with more than 4,200 stores in 177 cities in mainland China, employing more than 57,000 employees.¹⁶⁰ Despite the economic fallout from COVID-19 in China, Starbucks continued to pay its employees there during the crisis, as well as offered mental health and sick day benefits, child care support, and more.

One of the lessons learned from the pandemic has been the danger of overreliance on China. After the coronavirus was discovered all factories located in China had to shut down. Some companies, like Hyundai and Fiat Chrysler, had no choice but to cease production outside of China too because they couldn’t obtain essential components from China. While COVID-19 has exposed the overreliance of the Western world on China, reshoring jobs and factories to the U.S. comes with huge costs: underdeveloped infrastructure; higher labor, health, and training costs; and more complex government regulations.¹⁶¹ However, most U.S. companies manufacture in China for the China market. Although there is some shifting of manufacturing away from China, this is mainly to Southeast Asia and India and not back to the United States.

Global companies are struggling to find and retain talented employees, especially in emerging markets, because the demand for them exceeds the supply. Also, companies often place successful U.S. managers in charge of overseas operations, but these managers lack the cultural understanding necessary to attract, motivate, and retain talented employees. To cope with these problems, companies are taking actions to better prepare their managers and their families for overseas assignments and to ensure that training and development opportunities are available for global employees. Cross-cultural training prepares employees and their families to understand the culture and norms of the country they are being relocated to and to return to their home country after the assignment. Cross-cultural training is discussed in [Chapter 7](#). For example, McDonald’s has over 39,000 locations in at least 100 countries.¹⁶² To train future managers in the store operations, leadership, and staff management skills needed for global expansion to be successful, McDonald’s has seven Hamburger Universities in the United States and abroad, including campuses in Oak Brook, Illinois; Sydney; Munich; London; Tokyo; São Paulo; and Shanghai. All

provide training materials and tools in different languages and cultures.

The [Competing through Globalization](#) box discusses how companies are encouraging women in India to fill factory-floor jobs in manufacturing.

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COMPETING THROUGH GLOBALIZATION

Providing Manufacturing Jobs for Women in India

Twenty percent of women do not work but stay at home due to societal and cultural mindsets that are prevalent in small towns and rural India. However, the women who do work are in short supply, especially for manufacturing jobs. One reason is that there is a strong demand for women to work on assembly lines at electronics companies. Because companies believe that women have superior motor skills and dexterity, they want as much as 70% of their assembly line workers to be women. Another reason is that women who have chosen to work have traditionally taken jobs in the garment and textile factories.

But manufacturing companies in India are offering new career opportunities for women. For example, Schwing Stetter hired women to work on the shop floor for the first time in its new factory in Cheyyar in Tamil Nadu. They are helping make machinery used for construction. The company has found that the women they hire are very serious about the work they do which makes the men pay closer attention to their jobs. Daimler India Commercial Vehicles hired its first female factory-floor employees as part of its diversity and inclusion initiative. The women are working building engines and transmissions, in quality management, and in the paint shop. Daimler's goal is for women to make up 20% of factory employees by 2022. This not only benefits the women hired but it expands the hiring talent pool for Daimler. Also, Daimler believes that adding women to the factory floor provides a new perspective which can produce new ideas and innovations.

Not only are they hiring women but India companies are taking steps to make them feel welcome and accommodate their needs. For example, Schwing Stetter has arranged a hostel to accommodate female employees who are mainly new graduates in their early 20s. The company also offers opportunities to learn, and in turn, earn more money. They offer an after-work training program which after five years can lead to a bachelor's degree in engineering. At Daimler India, before hiring the first female employees the company built women's restrooms and changing rooms and gave gender sensitivity training to male staff.

DISCUSSION QUESTION

What concerns might women in India have about working in manufacturing jobs? Which HRM practices would you recommend that India manufacturing companies consider to help ease their concerns?

SOURCES: Based on S. Anand, "Bringing More Women to the Factory Floor in India," March 9, 2021, shrm.org, accessed March 16, 2021; The World Bank, "Working for Women in India," March 8, 2019, world-bank.org, accessed March 16, 2021.

Offshoring and Reshoring

[Offshoring](#) refers to the exporting of jobs from developed countries, such as the United States, to other countries where labor and other costs are lower. Argentina, Poland, Vietnam, Ukraine, Mexico, the Philippines, and China are some of the destination countries for offshored jobs. [Reshoring](#), or the return of jobs to the United States, is

becoming more common. Whether to offshore or reshore is a complex decision based on a number of factors including labor and shipping costs, the availability of a skilled workforce, and potential supply chain disruptions due to natural disasters and political instability. Also considered are quality concerns, local standards for safety, health and working conditions, tariffs imposed on imported products, and customer preference for U.S.-made products.¹⁶³

[Offshoring](#)

A special case of outsourcing, in which the jobs that move leave one country and go to another.

[Reshoring](#)

Moving jobs from overseas to the United States.

For example, Nike has no manufacturing plants of its own but chooses to offshore the work to contractors in the Philippines, Vietnam, China, Indonesia, and Taiwan.¹⁶⁴ There are 500,000 people worldwide involved in the production of Nike footwear. The company's employees maintain stringent quality checks on these factories and Nike realizes cost savings in the process. Zentech, an electronics company, began to notice that the cost of living and wages in China were rising.¹⁶⁵ They also began to receive cheap counterfeit products, a risk most companies live with when they manufacture in other nations. With these two notable factors it no longer made sense to have such a long difference between where the products were manufactured and distributed. By transitioning all of their manufacturing to Baltimore, Maryland, it increased jobs and made a higher quality product.

Competing Through Technology

Technology shapes the way we play, communicate, purchase products and services, plan our lives, and work. Consider that in the United States one estimate is that 94% of adults reported having Internet access in 2019.¹⁶⁶ Globally that number drops to 56% of adults. There are twice as many households with a computer per 100 people in developed countries, compared to those in developing nations. Survey results show that during the pandemic we used technology to engage in activities and connect in ways we previously did face-to-face. For example, we attended virtual parties or social gatherings (32%), ordered food online (32%), watched a play or concert (20%), and participated in an online fitness class (18%).¹⁶⁷

Artificial intelligence (AI) and robotics are transforming how we live and work.¹⁶⁸ Artificial intelligence has provided us with personal assistants such as Apple's Siri and Amazon's Alexa that we can give orders to, such as to make a purchase, play our favorite music, or turn on our kitchen lights.¹⁶⁹

Consider Applications of Social Networking, Artificial Intelligence, and Robotics

LO 1-5

Identify how social networking, artificial intelligence, and robotics are influencing human resource management.

Advances in sophisticated technology along with reduced costs for the technology are changing many aspects of human resource management. Specifically, companies are using or considering using social networking, artificial intelligence, and robotics.

Social Networking. Technological advances in electronics and communications software have made possible mobile technology such as personal digital assistants (PDAs), iPads, and iPods and have enhanced the Internet by developing enhanced capability for social networking. [Social networking](#) refers to websites such as Face-book,

Twitter, and LinkedIn, as well as wikis and blogs that facilitate interactions between people usually around shared interests. In general, social networking facilitates communication, decentralized decision making, and collaboration.¹⁷⁰ Social networking can be useful for connecting to customers. It is also valuable for busy employees to share knowledge and ideas and receive feedback, recognition, mentoring, and coaching from their peers and managers with whom they may not have much time to interact face-to-face on a daily basis. Companies can also use social networking for identifying and connecting with potential job candidates.

Social networking

Websites and blogs that facilitate interactions between people.

Despite the potential advantages of social networking, many companies are uncertain whether they should embrace it.¹⁷¹ They fear that social networking will result in employees wasting time or offending or harassing their co-workers. Other companies believe that the benefits of using social networking for HR practices and allowing employees to access social networks at work outweigh the risks. They trust employees to use social networking productively and are proactive in developing policies about personal use and training employees about privacy settings and social network etiquette. They realize that employees will likely check their Twitter, Facebook, or LinkedIn accounts but ignore it unless it is interfering with completing their work. In some ways, social networking has become the electronic substitute for daydreaming at one’s desk or walking to the break room to socialize with co-workers.

Artificial Intelligence and Robotics. Artificial intelligence is a technology that simulates human thinking. It works through queries that allow it to learn from data over time so that it can identify trends and patterns that influence future searches and suggestions. Due to advances in AI and robotics, the use of automation to perform work previously done by employees is expected to increase quickly in the next decade. One survey found that robots and AI are currently doing 12% of work, but respondents page 46report that their use will increase to 22% in just the next three years!¹⁷² Over 60% of companies today do not use automation to complete work; rather, they use it to support employees in their work by helping to avoid mistakes and errors and perform tasks that can be automated, freeing employees time for more important high-value work. Table 1.11 highlights some of the ways automation might affect work.

Artificial intelligence

Technology that can think like a human.

Table 1.11 The Potential Impact of Automation on Work

Six out of ten current occupations have more than 30% of work activities that can be automated using technology.
By 2030, 15% of the global workforce representing over 400 million workers could be potentially displaced by the adoption of automation. Three percent (75 million workers) of the workforce will need to change their occupation.
By 2030, up to one-third of the workforce in the United States and Germany and nearly 50% of the workforce in Japan may need to learn new skills and find jobs in new occupations. Worldwide 400 million jobs could be automated by 2030. But projected productivity gains and consumer demand would result in creating 890 million new jobs.

SOURCES: Based on M. Totty, “The Worlds That AI Might Create,” *The Wall Street Journal*, October 14, 2019, pp. R1-R3; J. Manyika, S. Lund, M. Chui, J. Bughin, J. Woetzel, P. Batra, R. Ko, and S. Sanghvi, “Jobs Lost, Jobs Gained: Workforce Transitions in a Time of Automation,” McKinsey Global Institute, December 2017,

LO 1-6

Describe how automation using artificial intelligence and robotics has the potential to change jobs.

The use of AI and robots can affect jobs in several different ways. One way is that they can provide skills that are difficult to find.¹⁷³ For example, bricklaying contractors are unable to find enough bricklayers. But a semi-automated mason (SAM) can help perform some, but not all, of the human mason's tasks. SAM can't read blueprints, or lay brick on corners or curves, and other workers have to load and refill its mortar and bricks and clean up the joints on the bricks it lays. SAM helps alleviate the shortage of bricklayers but at a cost of \$400,000 each.

Another way robots can affect jobs is to perform some job tasks previously completed by employees. These could include tasks that the robot can perform with equal if not more precision and consistency than humans (such as some forms of surgery), tasks that are potentially harmful to humans (e.g., painting and welding robots) and simple, repetitive tasks, which enable employees to spend more time on higher-value tasks. Robots (known as "cobots") can also work collaboratively with humans.¹⁷⁴ For example, BeeHex Inc. is building 3-D food printers that can decorate cookies or cakes. This means that pastry chefs can devote their time and energy to developing new flavors of cookies rather than spending their time icing dozens of cookies the same way. At the Mercedes-Benz automobile plant in South Carolina, a robot arm that acts like an extension of a human limb gives employees the needed strength to pick up and place heavy parts. Humans still need to monitor the robots to ensure they are performing as expected, provide necessary maintenance, and refine their skills through reprogramming.

Finally, robots may eliminate some jobs.¹⁷⁵ Jobs involving physical activities in predictable environments such as operating equipment and machinery and preparing food are likely to be automated. Also, jobs that involve collecting and processing data that occur in banking, finance, accounting, and legal work (such as preparing mortgages and computing taxes) can be done more efficiently and effectively through automation. Consider how the pandemic increased the popularity of online grocery shopping and pick-up and delivery. As consumers have realized the convenience of online grocery shopping its popularity is expected to continue even when the pandemic is over. To meet consumer demand Albertsons and several other grocers are using robots to fill online grocery orders.¹⁷⁶ The automated system consists of a series of tote boxes, rails and conveyors built into the back of a grocery store. When an online order comes in, the robots taxi each item to a human who packs them all up page 47for delivery or pick-up. The use of robots allows for orders to be filled and ready for pick-up or delivery more quickly than if all human workers were used.

However, there are several activities where automation cannot replace human performance, including jobs where work activities are unpredictable; involve managing other people, exercising creativity, and applying expertise; and involve social interactions such as in jobs like plumbers, child care workers, artists, performers, builders, engineers, and scientists. And AI is also creating new jobs in data science, robotics, cybersecurity experts, and in training machine learning algorithms and is predicted to continue to do so.

Automation using AI and robotics is impacting human resource practices.¹⁷⁷ About one-third of human resource functions have started to change their activities to prepare for increases in automation by identifying new skill requirements and matching talent to them. Twenty-five percent are planning to identify skill gaps in the future. However, 38% report they are unprepared to identify how to reskill employees whose jobs are affected by automation. The [Competing through Technology](#) box highlights the advantages of using artificial intelligence in benefits services at BMW.

Consider High-Performance Work Systems and Virtual Teams

The use of AI, robots, and other technology to automate work provides the opportunity to create high-performance work systems. [High-performance work systems](#) maximize the fit between the company’s social system (employees) and its technical system.¹⁷⁸ For example, computer-integrated manufacturing uses robots and computers to automate the manufacturing process. The computer allows the production of different products simply by reprogramming the computer. As a result, laborer, material handler, operator/assembler, and maintenance jobs may be merged into one position. Computer-integrated manufacturing requires employees to monitor equipment and troubleshoot problems with sophisticated equipment, share information with other employees, and understand the relationships between all components of the manufacturing process.¹⁷⁹

[High-performance work systems](#)

Work systems that maximize the fit between employees and technology.

Human resource management practices that support high-performance work systems are shown in [Table 1.12](#). The HRM practices involved include employee selection, work design, training, compensation, and performance management. These practices are designed to give employees skills, incentives, knowledge, and autonomy. Research studies suggest that high-performance work practices are usually associated with increases in productivity and long-term financial performance.¹⁸⁰ Research also suggests that it is more effective to improve HRM practices as a whole, rather than focus on one or two isolated practices (such as the pay system or selection system).¹⁸¹ There may be a best HRM system, but whatever the company does, the practices must be aligned with each other and be consistent with the system if they are to positively affect company performance.¹⁸² We will discuss this alignment in more detail in [Chapters 2](#) and [16](#).

LO 1-7

Discuss human resource management practices that support high-performance work systems.

Table 1.12 How HRM Practices Support High-Performance Work Systems

Staffing	Employees participate in selecting new employees, for example, peer interviews.

Work design	Employees understand how their jobs contribute to the finished product or service. Employees participate in planning changes in equipment, layout, and work methods. Work may be organized in teams. Job rotation is used to develop skills. Equipment and work processes are structured and technology is used to encourage flexibility and interaction between employees. Work design allows employees to use a variety of skills. Decentralized decision making, reduced status distinctions, information sharing. Increased safety.
Training	Ongoing training emphasized and rewarded. Training in finance and quality control methods.
Compensation	Team-based performance pay. Part of compensation may be based on company or division financial performance.
Performance management	Employees receive performance feedback and are actively involved in the performance improvement process.

SOURCES: Based on K. Birdi, C. Clegy, M. Patterson, A. Robinson, C. Stride, T. Wall, and S. Wood, "The Impact of Human Resource and Operational Management Practices on Company Productivity: A Longitudinal Study," *Personnel Psychology* 61 (2008), pp. 467–501; A. Zacharatos, J. Barling, and R. Iverson, "High Performance Work Systems and Occupational Safety," *Journal of Applied Psychology* 90 (2005), pp. 77–93; S. Way, "High Performance Work Systems and Intermediate Indicators of Performance within the U.S. Small Business Sector," *Journal of Management* 28 (2002), pp. 765–85; M. A. Huselid, "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," *Academy of Management Journal* 38 (1995), pp. 635–72.

Employees often have responsibility for hiring and firing team members and can make decisions that influence profits. As a result, employees must be trained in principles of employee selection, quality, and customer service. They need to understand financial data so that they can see the link between their performance and company performance.

In high-performance work systems, previously established boundaries between managers and employees, employees and customers, employees and vendors, and the various functions within the company are abandoned. Employees, managers, vendors, customers, and suppliers work together to improve service and product quality and to create new products and services. Line employees are trained in multiple jobs, communicate directly with suppliers and customers, and interact frequently with engineers, quality experts, and employees from other functions.

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COMPETING THROUGH TECHNOLOGY

Meet Sofia the Benefits Specialist

If you have ever had to choose health care or retirement benefits you know that there are many options and it is often difficult to figure out which ones best fit your personal needs. Understanding when and how to enroll can be challenging. And trying to get your questions answered from benefits specialists within the HR department using the phone can involve long wait times to get through or if you send an e-mail a lengthy back and forth to verify your identity and get a response. What you wish you had was a personal benefits assistant!

Meet Sofia. Sofia is a personal benefits assistant. But she is not a person, although she acts like one. Sofia was created by benefits experts using artificial intelligence and machine learning to provide personalized, empathetic support for employees' benefits questions and concerns. Sofia can answer employees' benefits questions 24/7 and there is no waiting to reach her. She understands policies, phrases, and definitions that are specific to the company's benefit plans.

BMW uses Sofia to answer workers' benefits questions through chat and voice. She can be contacted using a desktop computer or an app. Sofia can answer employees' questions ranging from dependent verification to explaining what a copay is or how a health-savings account works. The benefits specialists in HR at BMW don't resent her. Rather, they treat her as a valued team member who reduces their workload.

Before Sofia was allowed to take her role as a benefits specialist, employees had the opportunity to review how she worked and what she could do. BMW helped employees understand how to use Sofia including her voice feature. BMW found that older workers were the most reluctant to use Sofia but they liked how they could interact with her using their voice rather than through accessing multiple screens using the app or their computer. BMW made sure Sofia understood each of its benefits plans so she could answer questions that would help employees decide which plan was best for their personal situation. In the first few months after she took on her role Sofia had engaged in over 4000 chats and calls and reviewed over 1100 cases. Sofia was especially helpful for BMW's employees who work afternoon and evening shifts which makes it difficult to get a quick response to their benefits questions. Sofia is a valued member of BMW's HR team but she doesn't replace personal interaction with benefits specialists. They still hold benefits seminars, answer more complicated benefits questions, and if needed or requested will meet with employees.

DISCUSSION QUESTIONS

How has Sofia likely changed the jobs of benefits specialists at BMW? Do you think that Sofia will eventually replace benefit specialists at BMW? Why or why not?

What did BMW do to ensure that Sofia would be effective in her role?

SOURCES: Based on K. Meyer, "Benefitting from AI," *Human Resource Executive* (January/February 2020), pp. 28-30; "Sofia Personal Benefits Assistant," businesssolver.com, accessed March 17, 2021; CIO Review, "Businesssolver's Assistant Sophia Brings a Breath of Fresh Air for Employees," June 10, 2020, cioreview.com, accessed March 17, 2021.

Consider the high-performance work systems at Johnson Controls.¹⁸³ Johnson Controls sells products and related technology and services to provide heating and cooling, humidity control, ventilation, and security in all kinds of buildings. To help customers meet their needs for energy consumption and cost control, the company's 105,000 employees must be constantly innovating and improving quality. Team work in manufacturing is the key to Johnson Control's success.

At the company's Norman, Oklahoma, facility 700 employees produce equipment for heating, ventilation, and air condition (HVAC). They are assigned to 20-member high-performance teams. The company provides information technology including a manufacturing execution system, which provides teams with up-to-the-minute data about inputs needed from inventory and progress against the schedule for equipment in production. Operators use scanners to track the movement of components and get information about what items will be made next. The teams meet once a week to evaluate and solve problems they have identified. For example, when a team noticed that coils in its products were being damaged, the team investigated the production process and traced the problem to removing and replacing a screw on a panel. The team identified a simple solution: they asked workers at an earlier manufacturing station to leave the screw loose, which ended up saving the company thousands of dollars. The high-performance teams also address safety issues. The company credits the continuous-improvement process in the Norman plant for a 25% increase in productivity, cost savings of \$5 million, zero accidents, and a decline in product defects.

Besides changing the way that products are built or services are provided within companies, technology has allowed companies to form partnerships with one or more other companies. [Virtual teams](#) refer to teams that are separated by time, geographic distance, culture, and/or organizational boundaries and that rely almost exclusively on technology (e-mail, Internet, videoconferencing) to interact and complete their projects. Virtual teams can be formed within one company whose facilities are scattered throughout the country or the world. A company may also use virtual teams in partnerships with suppliers or competitors to pull together the necessary talent to complete a project or speed the delivery of a product to the marketplace. For example, Art & Logic software developers all work remotely from across the United States and Canada from home offices, rented office space, or at a co-working facility.¹⁸⁴ Their clients represent a diverse set of industries, including education, aerospace, music technology, consumer electronics, entertainment, and financial services. The project teams work on the most unusual and difficult problems, which developers at other companies have failed to solve. Art & Logic tries to accommodate the unique schedule and work-style requirements of its developers, but its work is highly collaborative within project teams. Every project consists of at least a project manager/developer and has a maximum of five to seven developers. Teams use Google Apps for Business for sharing documents and communicating (both within the team and with clients).

[Virtual teams](#)

Teams that are separated by time, geographic distance, culture, and/or organizational boundaries and rely exclusively on technology for interaction between team members.

Use HRIS, Mobile Devices, Cloud Computing, and HR Dashboards

Companies continue to use human resource information systems to store large quantities of employee data including personal information, training records, skills, compensation rates, absence records, and benefits usages and costs. A [human resource information system \(HRIS\)](#) is a computer system used to acquire, store, retrieve, and distribute information related to a company's human resources.¹⁸⁵ A HRIS can support strategic decision making, help the company avoid lawsuits, provide data for evaluating policies and programs, and support day-to-day HR decisions. Hilton Worldwide is giving managers access to talent data so that they can integrate it with business data to make more effective and strategic decisions about talent and performance.¹⁸⁶ This allows managers to perform workforce planning by seeing the gaps between workforce projections and available supply of staff or projected turnover and modeling different scenarios.

[Human resource information system \(HRIS\)](#)

A system used to acquire, store, manipulate, analyze, retrieve, and distribute information related to human resources.

[Mobile devices](#) refer to smartphones and tablet computers. Mobile devices are increasingly being used to provide employees with anytime, anywhere access to HR applications and other work-related information. For example, at Rackspace, employees can use their devices to check their pay stubs, bonus reports, and time cards, and share knowledge.¹⁸⁷ At Biogen, salespersons can access e-learning modules on their tablets. PepsiCo has a mobile-accessible career site. In the first year of using the recruitment app, the company found 150 job candidates who started an employment application each month.

[Mobile devices](#)

Equipment such as smart-phones and tablet computers that provide employees with anytime, anywhere access to HR applications and other work-related information.

"Cloud computing" allows companies to lease software and hardware. [Cloud computing](#) refers to a computing system that provides information technology infrastructure over a network in a self-service, modifiable, and on-demand model.¹⁸⁸ In fact, many companies have moved their HRIS to the cloud or are considering doing so in the next few years.¹⁸⁹ Clouds can be delivered on-demand via the Internet (public cloud) or restricted to use by a single company (private cloud). Cloud computing gives companies and their employees access to applications and information from mobile devices rather than relying solely on personal computers. It also allows groups to work together in new ways, can make employees more productive by allowing them to more easily share documents and information, and provides greater access to large company databases. This means that tools for conducting workforce analytics using metrics on turnover, absenteeism, and performance, as well as social media and collaboration tools such as Twitter, blogs, Google documents, and YouTube videos will be more easily accessible and available for use. Cloud computing also can make it easier for employees to access training programs from a variety of vendors and educational institutions. Siemens has a cloud computing system for its more than 400,000 employees who work in 190 countries. This allowed Siemens to standardize its global recruitment and development processes into a single system using the cloud.¹⁹⁰

[Cloud computing](#)

A computing system that provides information technology infrastructure over a network in a self-service, modifiable, and on-demand model.

More sophisticated systems extend management applications to decision making in areas such as compensation and performance management. Managers can schedule job interviews or performance appraisals, guided by the system to provide the necessary information and follow every step called for by the procedure.¹⁹¹ One of the most important uses of Internet technology is the development of HR dashboards. page 51An [HR dashboard](#) is a series of indicators or metrics that managers and employees have access to on the company intranet or HRIS. The HR dashboard provides access to important HR metrics for conducting workforce analytics. HR dashboards are important for determining the value of HR practices and how they contribute to business goals. As a result, the use

of dashboards is critical for evidence-based HR discussed earlier in the chapter. For example, Elevations Credit Union has to deal with compliance and risk mitigation requirements that change as the result of new technology or regulations.¹⁹² On a daily basis, the company's training specialists monitor companywide data dashboards to identify performance trends and monitor sensitive financial data and transactions. The dashboard has helped the learning and development team identify trainee needs and develop training interventions before a serious problem occurs. This has led to a reduction of 48% in errors made in the company's branches.

[HR dashboard](#)

HR metrics such as productivity and absenteeism that are accessible by employees and managers through the company intranet or human resource information system.

Meeting Competitive Challenges through HRM Practices

LO 1-8

Provide a brief description of human resource management practices.

We have discussed the sustainability, globalization, and technology challenges U.S. companies are facing. We have emphasized that management of human resources plays a critical role in determining companies' success in meeting these challenges. HRM practices have not traditionally been seen as providing economic value to the company. Economic value is usually associated with equipment, technology, and facilities. However, HRM practices have been shown to be valuable. Compensation, staffing, training and development, performance management, and other HRM practices are investments that directly affect employees' motivation and ability to provide products and services that are valued by customers. Research has shown that companies that attempt to increase their competitiveness by investing in new technology and becoming involved in the quality movement also invest in state-of-the-art staffing, training, and compensation practices.¹⁹³ [Figure 1.8](#) shows examples of HRM practices that help companies deal with the three challenges. For example, to meet the environmental, social, and governance challenge, companies need to identify through their selection processes whether prospective employees value customer relations and have the levels of interpersonal skills necessary to work with fellow employees in teams. To meet all three challenges, companies need to capitalize on the diversity of values, abilities, and perspectives that employees bring to the workplace.

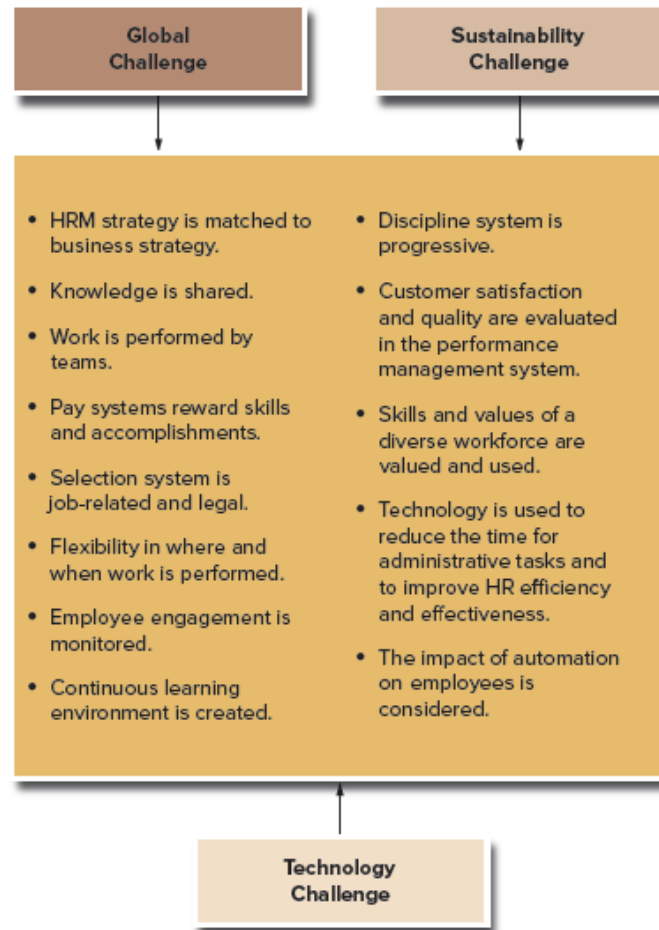


Figure 1.8 Examples of How HRM Practices Can Help Companies Meet Competitive Challenges

HRM practices that help companies deal with the competitive challenges can be grouped into the four dimensions shown in [Figure 1.9](#). These dimensions include the human resource environment, acquiring and preparing human resources, assessment and development of human resources, and compensating human resources. In addition, some companies have special issues related to labor–management relations, international human resource management, and managing the human resource function.



Figure 1.9 Major Dimensions of HRM Practices Contributing to Company Competitiveness

Managing the Human Resource Environment

Managing internal and external environmental factors allows employees to make the greatest possible contribution to company productivity and competitiveness. Creating a positive environment for human resources involves the following:

Linking HRM practices to the company's business objectives—that is, strategic human resource management

Ensuring that HRM practices comply with federal, state, and local laws

Designing work that motivates and satisfies employees as well as maximizes customer service, quality, and productivity

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Acquiring and Preparing Human Resources

Customer needs for new products or services influence the number and type of employees that businesses need to be successful. Terminations, promotions, and retirements also influence human resource requirements. Managers need to predict the number and type of employees needed to meet customer demands for products and services. Managers must also identify current or potential employees who can successfully deliver products and services. This area of HRM deals with the following:

- Identifying human resource requirements—that is, human resource planning, recruiting employees, and selecting employees

- Training employees to have the skills needed to perform their jobs

page 53

Assessment and Development of Human Resources

Managers need to ensure that employees have the necessary skills to perform current and future jobs. As we discussed earlier, because of new technology and the quality movement, many companies are redesigning work so that it is performed by teams. As a result, managers and employees may need to develop new skills to succeed in a team environment. Companies need to create a work environment that supports employees' work and nonwork activities. This area of HRM addresses the following:

- Measuring employees' performance

- Preparing employees for future work roles and identifying employees' work interests, goals, values, and other career issues

- Creating an employment relationship and work environment that benefits both the company and the employee

Compensating Human Resources

Besides interesting work, pay and benefits are the most important incentives that companies can offer employees in exchange for contributing to productivity, quality, and customer service. Also, pay and benefits are used to reward employees' membership in the company and attract new employees. The positive influence of new work designs, new technology, and the quality movement on productivity can be damaged if employees are not satisfied with the level of pay and benefits or believe pay and benefits are unfairly distributed. This area of HRM includes the following:

- Creating pay systems
- Rewarding employee contributions
- Providing employees with benefits

Special Issues

In some companies, employees are represented by a labor union. Managing human resources in a union environment requires knowledge of specific laws, contract administration, and the collective bargaining process.

Many companies are globally expanding their business through joint ventures, mergers, acquisitions, and establishing new operations. Successful global expansion depends on the extent to which HRM practices are aligned with cultural factors as well as management of employees sent to work in another country. Human resource management practices must contribute to organizational effectiveness.

Human resource management practices of both managers and the human resource function must be aligned and contribute to the company’s strategic goals. The final chapter of the book explains how to effectively integrate human resource management practices.

Organization of This Book

The topics in this book are organized according to the four areas of human resource management and special issues. [Table 1.13](#) lists the chapters covered in the book.

Table 1.13 Topics Covered in This Book

Part One	The Human Resource Environment
1	Human Resource Management: Gaining a Competitive Advantage
2	Strategic Human Resource Management
3	The Legal Environment: Equal Employment Opportunity and Safety
4	The Analysis and Design of Work
Part Two	Acquisition and Preparation of Human Resources
5	Human Resource Planning and Recruitment
6	Selection and Placement
7	Training

Part Three	Assessment and Development of Human Resources
8	Performance Management
9	Employee Development
10	Employee Separation and Retention
Part Four	Compensation of Human Resources
11	Pay Structure Decisions
12	Recognizing Employee Contributions with Pay
13	Employee Benefits
Part Five	Special Topics in Human Resource Management
14	Collective Bargaining and Labor Relations
15	Managing Human Resources Globally
16	Strategically Managing the HRM Function

The content of each chapter is based on academic research and examples of effective company practices. Each chapter includes examples of how the HRM practice covered in the chapter helps a company gain a competitive advantage by addressing sustainability, global, and technological challenges. Also, each chapter includes an example of a company that demonstrates how HR practices add value (evidence-based HR).

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A LOOK BACK

HRM Practices Take Center Stage

The chapter opener highlighted how companies created or modified HRM practices during the pandemic.

QUESTIONS

Choose one of company's highlighted and explain how their HRM practice supported the business.

Which of the competencies needed by HR professionals were the most important during the pandemic?

SUMMARY

This chapter introduced the roles and activities of a company's human resource management function and emphasized that effective management of human resources can contribute to a company's business strategy and competitive advantage. Human resources can be viewed as having three product lines: administrative services,

business partner services, and strategic services. To successfully manage human resources, individuals need personal credibility, business knowledge, understanding of the business strategy, technology knowledge, and the ability to deliver HR services. Human resource management practices should be evidence-based, that is, based on data showing the relationship between the practice and business outcomes related to key company stakeholders (customers, shareholders, employees, community). In addition to contributing to a company's business strategy, HR practices are important for helping companies deal with environmental, social, and governance (ESG) challenges, global challenges, and technology challenges. The ESG challenges are related to the economy, the characteristics and expectations of the labor force, how and where work is done, the value placed on intangible assets and human capital, and meeting stakeholder needs (ethical practices, high-quality products and services, return to shareholders, and social responsibility). Global challenges include entering international markets, immigration, and offshoring. Technology challenges include using new technologies to support flexible and virtual work arrangements; high-performance work systems; and implementing and using social networks, human resource information systems, mobile devices, and considering the role of artificial intelligence and robotics on jobs.

The chapter concludes by showing how the book is organized. The book includes five topical areas: the human resource environment (strategic HRM, legal, analysis and design of work), acquisition and preparation of human resources (HR planning and recruitment, selection, training), assessment and development of human resources (performance management, development, separation and retention), compensation of human resources (pay structures, recognizing employee contributions with pay, benefits), and special topics (collective bargaining and labor relations, managing human resources globally, and strategically managing the HR function). All of the topical areas are important for companies to deal with the competitive challenges and contribute to business strategy.

KEY TERMS

[Competitiveness, 2](#)

[Human resource management \(HRM\), 2](#)

[Shared service model, 6](#)

[Self-service, 6](#)

[Outsourcing, 6](#)

[Evidence-based HR, 9](#)

[HR or workforce analytics, 9](#)

[Big data, 9](#)

[Sustainability, 14](#)

[Stakeholders, 14](#)

[STEM skills, 19](#)

[Digital literacy, 19](#)

[Knowledge workers, 20](#)

[Upskilling, 20](#)

[Reskilling, 20](#)

[Intangible assets, 21](#)

[Empowering, 22](#)

[Learning organization, 22](#)

[Change, 22](#)

[Agility, 23](#)

[Employee engagement, 23](#)

[Employee experience, 23](#)

[Employee value proposition \(EVP\), 24](#)

[Talent management, 24](#)

[Nontraditional employment, 25](#)

[Gig economy, 25](#)

[Balanced scorecard, 27](#)

[Total quality management \(TQM\), 30](#)

[Malcolm Baldrige National Quality Award, 30](#)

[ISO 9000:2015, 30](#)

[Six Sigma process, 32](#)

[Lean thinking, 32](#)

[Internal labor force, 33](#)

[External labor market, 33](#)

[Diversity, 36](#)

[Equity, 36](#)

[Inclusion, 36](#)

[Ethics, 40](#)

[Sarbanes-Oxley Act of 2002, 40](#)

[Offshoring, 44](#)

[Reshoring, 44](#)

[Social networking, 45](#)

[Artificial intelligence, 45](#)

[High-performance work systems, 47](#)

[Virtual teams, 49](#)

[Human resource information system \(HRIS\), 50](#)

[Mobile devices, 50](#)

[Cloud computing, 50](#)

[HR dashboard, 51](#)

DISCUSSION QUESTIONS

Traditionally, human resource management practices were developed and administered by the company's human resource department. Some companies are abandoning or don't have HR departments. Why is this occurring? Is it a good idea for companies not to have an HR department or HR professionals? Explain your position.

Staffing, training, compensation, and performance management are important HRM functions. How can each of these functions help companies succeed in meeting the environmental, social, and governance challenge, the global challenge, and the technology challenge?

How has the pandemic influenced the workplace and HRM practices? What changes in HRM practices as a result of the pandemic will continue after it is over? Explain your rationale.

page 56 What are intangible assets? How are they influenced by HRM practices?

What is evidence-based HR? Why might an HR department resist becoming evidence based?

What types of big data would you collect and analyze to understand why an employer was experiencing a high turnover rate?

What is digital literacy and how is it related to upskilling and reskilling?

Which HR practices can benefit by the use of social collaboration tools like Twitter and Facebook? Identify the HR practices and explain the benefits gained.

Do you agree with the statement "Employee engagement is something companies should be concerned about only if they are making money"? Explain.

How does employee engagement relate to the employee experience? Explain.

This book covers four HRM practice areas: managing the human resource environment, acquiring and preparing human resources, assessment and development of human resources, and compensating human resources. Which area do you believe contributes most to helping a company gain a competitive advantage? Which area do you believe contributes the least? Why?

What is the balanced scorecard? Identify the four perspectives included in the balanced scorecard.

How can HRM practices influence the four perspectives?

Is HRM becoming more strategic? Explain your answer.

What is sustainability? How can HR practices help a company become more socially and environmentally conscious?

Explain the implications of each of the following labor force trends for HRM: (1) aging workforce, (2) diverse workforce, (3) skill deficiencies.

Can a company be diverse but employees believe it is not inclusive or equitable? Explain.

What role do HRM practices play in a business decision to expand internationally?

What might a quality goal and high-performance work systems have in common in terms of HRM practices?

What disadvantages might result from outsourcing HRM practices? From employee self-service? From increased line manager involvement in designing and using HR practices?

What factors should a company consider before reshoring? What are the advantages and disadvantages of reshoring?

Discuss the different ways automation using AI and robots can affect jobs.

SELF-ASSESSMENT EXERCISES



Do You Have What It Takes to Work in HR?

If you have been assigned this Self-Assessment in Connect, you will gain a better understanding of the skills and expertise needed for a career in HR.

Corporate Social Responsibility and Human Resource Management

If you have been assigned this Self-Assessment in Connect, you will identify both your own and managers' attitudes toward Corporate Social Responsibility.

EXERCISING STRATEGY

New HRM Practices at IBM

IBM has moved from a business that primarily focused on manufacturing, and selling computer hardware and managing clients on-site data centers to becoming a key player in cloud-based services, artificial intelligence-based products, and blockchaining (a security system for Bitcoin and cryptocurrencies). The business focus at IBM today is speed, innovation, and a focus on the client experience.

To attract and retain talented employees, to support change, and to facilitate the creative and innovative thinking that IBM needed to transition to new businesses required adopting new HRM practices. Innovative page 57 products and services often result from employees with diverse backgrounds working together. Recognizing this, as well as wanting to be an inclusive employer, IBM has taken several steps to develop a pipeline of skilled and diverse tech employees. The company's New Collar program helps identify and hire individuals from nontraditional backgrounds who have the potential to master technical skills but might otherwise get ignored because they don't have the necessary education background, such as a college education. IBM provides opportunities for women who have not been working for an extended period of time to develop the skills needed for tech jobs. The company has also been recognized for its efforts in hiring graduates of historically Black colleges and universities.

Many of the IBM's HR practices involve using state-of-the-art AI applications and data analytics. IBM's learning management system provides many training and development opportunities customized to match employees' interests and needs. AI is used to review employees' skills, current position, and career path and to provide personal learning recommendations including specific courses, webinars, YouTube videos, and TED talks. Learning opportunities are organized on the learning management system by channels, similar to what you have experienced on Netflix or Amazon. Employees can get answers to their questions about the learning opportunities by accessing a live-chat adviser. They can also see how their peers have evaluated the various learning opportunities. Since the redesign of the learning management system, employees are using it over one-third more than in previous years and course completion rates have increased. IBM's Blue Matching tool helps employees identify new opportunities within the company. It identifies jobs that match employees' skills, experiences, current location where they work or their location preferences, and historical job performance. IBM employees interact with Myca (My Personal Career Advisor) to answer questions about their career, get job recommendations, identify new career paths, and identify training programs that fit their interests. Myca has artificial intelligence and uses natural language processing and machine learning to have a conversation with employees. Myca becomes acquainted with each employee through reviewing their resume, job history at IBM, and any other important work and

educational experiences they submit in their personal profile. CogniPay helps managers make better compensation decisions by evaluating data on performance, what other employers pay for similar jobs, and what the demand is for similar skills. The analysis also includes internal forecasted demand for their expertise and voluntary attrition of employees with the same skills.

IBM estimates that CogniPay, Blue Matching and Myca have saved the company more than \$100 million dollars. These savings are based on considering the expenses IBM avoided in recruiting for new talent, hiring and training new employees, and the value of employees who would have likely left the company because of a lack of career advancement opportunities.

QUESTIONS

Does IBM's use of AI applications in HRM practices support and align with the business priorities? Explain your answer.

What are the advantages and disadvantages of using CogniPay, Blue Matching, and Myca for HR practices?

IBM is a successful, well-known company. So why does it need to provide programs such as New Collar? Explain.

SOURCES: Based on N. Lewis, "IBM Transforms Its Approach to Human Resources with AI," May 21, 2019, [shrm.org](https://www.shrm.org), accessed March 16, 2021; S. Castellano, "Artificial Intelligence, Genuine Learning," *TD*, October 2019, pp. 92–95; "Welcome to IBM Watson Career Coach," https://www.ibm.com/support/knowledgecenter/en/SSLLJN/IBM_Watson_Career_Coach_Client_Guide/clientwelcome.html, accessed January 27, 2021; A. McIlvaine, "Transforming Big Blue," *Human Resource Executive*, October 2018, pp. 14–16; L. Burrell, "Co-Creating the Employee Experience," *Harvard Business Review*, March–April 2018, pp. 54–58; O. Louissaint, "Diversity Without Inclusion Is a Missed Opportunity," *TD*, December 2018, pp. 32–37; T. Bingham and P. Galagan, "AI is Coming for Everyone," *TD*, December 2018, pp. 26–31.

MANAGING PEOPLE

Zappos Faces Competitive Challenges

Zappos, based in Las Vegas, is an online retailer with the initial goal of trying to be the best website for buying shoes by offering a wide variety of brands, styles, colors, sizes, and widths. The [Zappos.com](https://www.zappos.com) brand has grown to offer shoes, handbags, eyewear, watches, and accessories for online purchase. Zappos strives to deliver happiness through four Cs: Commerce, Customer Service, Company Culture, and Community. The company wants to offer customers more clothing styles and variety, exceed customer expectations, protect and sustain its company culture, and serve communities in which it operates. Zappos has received many awards for its workplace culture page 58 and practices, including being recognized by *Fortune* magazine on its annual Best Company to Work For list. The company's culture, brand, and business strategy are influenced by 10 core values:

Deliver WOW Through Service

Embrace and Drive Change

Create Fun and a Little Weirdness

Be Adventurous, Creative, and Open-Minded

Pursue Growth and Learning

Build Open and Honest Relationships with Communication

Build a Positive Team and Family Spirit

Do More with Less

Be Passionate and Determined

Be Humble

“Deliver WOW through service” means that call center employees need to provide excellent customer service. Call center employees encourage callers to order more than one size or color because shipping and return shipping is free. They are also encouraged to use their imaginations to meet customer needs.

The job of human resources at Zappos is more than just a rule enforcer. HR’s job is to protect the culture and to educate employees. HR focuses on interactions with managers and employees to understand what they need from HR (HR is even invited to attend work teams’ happy hours). Zappos’s employment practices help perpetuate its company culture. Only about 1 out of 100 applicants passes a hiring process that is equally weighted on job skills and on the potential to work in Zappos’s culture. Some managers at Zappos believe that if you want to get a job the most important value to demonstrate is “be humble” including a focus on “we” instead of “I.” Job candidates are interviewed for cultural fit and a willingness to change and learn. For example, they observe whether job candidates talk at lunch with others or just the person they think is making the hiring decision. The HR team uses unusual interview questions—such as, “How weird are you?” and “What’s your theme song?”—to find employees who are creative and have strong individuality. Zappos provides free lunch in the cafeteria (cold cuts) and a full-time life coach (employees have to sit on a red velvet throne to complain), managers are encouraged to spend time with employees outside of the office, and any employee can reward another employee a \$50 bonus for good performance. Call center employees can use an online scheduling tool that allows them to set their own hours, and they can earn more pay if they work during hours with greater customer demand. Most of the over 1,500 employees at Zappos are hourly. Every new hire undergoes four weeks of training, during which the company culture must be committed to memory, and spends two weeks dealing with customers by working the telephones. New recruits are offered \$3,000 to leave the company during training to weed out individuals who will not be happy working at the company. Zappos provides free breakfast, lunch, snacks, coffee, tea, and vending machine snacks. Employees participate in more than 25 parades every year. Work is characterized by constant change; a loud, open office environment; and team interactions. Employees at Zappos move around. For example, call center employees can bid for different shifts every month.

To reinforce the importance of the 10 core values, Zappos’s performance management system asks managers to evaluate how well employees’ behaviors demonstrate the core values such as being humble or expressing their personalities. To evaluate task performance, managers are asked to regularly provide employees with status reports on such things as how much time they spend on the telephone with customers. The status reports and evaluations of the core values are informational or used to identify training needs. Zappos also believes in helping others understand what inspired the company culture. The company created the Zappos.com library, which provides a collection of books about creating a passion for customer service, products, and local communities. These books can be found in the front lobby of Zappos offices and are widely read and discussed by company employees.

Corporate culture is more than a set of values, and it is maintained by a complex web of human interactions. At Zappos, the liberal use of social media including blogs and Twitter facilitates the network that links employees with one another and with the company’s customers. Zappos takes the pulse of the organization monthly, measuring the health of the culture with a happiness survey. Employees respond to such unlikely questions as whether they believe that the company has a higher purpose than profits, whether their own role has meaning, whether they feel in control of their career path, whether they consider their co-workers to be like family and friends, and whether they are happy in their jobs. Results from the survey are broken down by department, and opportunities for development are identified and acted upon. For example, when it was clear from the survey that one department had veered off course and felt isolated from the rest of the organization, a program was instituted that enabled individuals in the group to learn more about how integral their work was.

Zappos uses a management philosophy, holacracy, which gives employees the freedom and responsibility to decide how to get their work done and eliminates people managers. Holacracy allows employees to act more like entrepreneurs and help stimulate new ideas, bring their full selves to work, and have a purpose beyond making money, all of which can benefit the business. Employees work in teams or “circles” rather than as individuals, and team membership can change. To encourage employees page 59 to expand their role within their teams or accept a permanent or temporary role on another team that could benefit from their skills Zappos created an internal job board. Teams can post specific skills or tasks they need completed on the The Role Marketplace. Employees earn badges that recognize their experience and skills they have acquired in their team as well as assisting other teams. The badges make it easy to identify and choose employees who have the qualifications the teams need.

Zappos provides other companies with the opportunity to learn from their practices. Zappos Insights is a department within Zappos created to share the Zappos culture with other companies. Zappos Insights provides programs about building a culture (3-Day Culture Camp), its WOW service philosophy (School of WOW), the power of a coaching-based culture (Coaching Event), how the HR function protects the culture and how its programs support it (People Academy), and custom programs. The cost to attend these programs ranges from \$2,000 to \$6,000 for each attendee.

Tony Hsieh, Zappos CEO who retired in August of 2020, is credited for establishing Zappos’s unique culture and business success. He unexpectedly died in November 2020 in a house fire in Connecticut.

QUESTIONS

Zappos seems to be well-positioned to have a competitive advantage over other online retailers. What challenges discussed in [Chapter 1](#) pose the biggest threat to Zappos’s ability to maintain and enhance its competitive position? How can HRM practices help Zappos meet these challenges?

Do you think that employees of Zappos typically have high levels of engagement? Do you think their level of engagement remained high even during the pandemic? Justify your position.

Which of Zappos’s 10 core values do you believe that HR practices can influence the most? The least? Why? Identify the HR practices that Zappos uses that are related to the core values. Explain how the HR practices you identified are related to the core values.

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HR IN SMALL BUSINESS

Lob Aims High in Employee Retention

The software company called Lob is co-founder and CEO Leore Avidar’s attempt to create a workplace that is the opposite of what he experienced in his first job. Avidar started his career at a Wall Street firm trading mortgage-backed securities. He felt that he and his co-workers were going through the motions each day without any meaningful collaboration. He had expected to feel a sense of mutual loyalty between himself and his organization, but instead he felt insignificant. So Avidar decided to start his own company, which he could run

consistently with his values. That company, Lob, provides the systems and software to automate the creation and delivery of direct mail, bringing that form of marketing into the Internet age.

Most important to Avidar are Lob's values, beginning with the idea that people are the company's foundation. In particular, the company values diversity; it recently won Tech in Motion's Timmy Award for the Best Tech Workplace for Diversity. The criteria were that it hires for diversity, promotes collaboration and diverse thinking in support of innovation, and gives employees the resources they need to value diversity.

Avidar's key HR goal for Lob is that employees will want to stay for 30 years. This is a startling goal for the high-tech industry, where employee turnover is over 13% and the giant companies typically keep an employee for an average of just one year. To achieve this, Lob emphasizes career growth. Employees have access to off-site development programs, industry conferences, and regular feedback from their managers, with the expectation that the work of pursuing a career path is the employee's personal responsibility. For Avidar, this focus is personal. He says coaching employees and seeing their development are what make him the most excited and proud as a business owner. Lob also offers attractive benefits, including an open policy for time off. When the page 60COVID-19 pandemic shifted work to employees' homes, Avidar himself communicated directly with employees, citing his company's core value of drawing the "blue-print" to lay out the details of how employees, suppliers, and customers would be protected as they continued to enable customers' ability to stay in touch with their customers.

Avidar's values seem to be working well for Lob, which before the 2020 economic downturn caused by COVID-19 was aiming to pass the 100-employee mark. Lob's revenues grew more than sevenfold between 2015 and 2018, placing it on some lists of the fastest-growing companies. As the company has grown, it has been able to keep recruiting and hiring focused on filling new jobs, not replacing workers who cycle out after a couple of years. It even helps Avidar attract the best investors, the ones focused on long-term value.

QUESTIONS

Describe Avidar's experience of his psychological "contract" with his first employer. How does it compare with the psychological contract he seeks with employees at Lob?

How do Avidar's values and approach to human resource management support Lob's business success?

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PART ONE The Human Resource Environment

CHAPTER 2

Strategic Human Resource Management



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO2-1 Describe the differences between strategy formulation and strategy implementation.](#)

[LO2-2 List the components of the strategic management process.](#)

[LO2-3 Discuss the role of the HRM function in strategy formulation.](#)

[LO2-4 Describe the linkages between HRM and strategy formulation.](#)

[LO2-5 Discuss the more popular typologies of generic strategies and the various HRM practices associated with each.](#)

[LO2-6 Describe the different HRM issues and practices associated with various directional strategies.](#)

ENTER THE WORLD OF BUSINESS

Boeing's Reputation and Performance Crash

Boeing has been an iconic company, known and respected by all ... at least until recently. Over the past few years the company has experienced more than its share of stumbles, and the pandemic nearly wiped out their market for commercial airplanes.



Thiago B Trevisan/Shutterstock

Their troubles began with the Boeing 737 MAX, an updated version of the traditional 737 that fit more passengers and had greater fuel efficiency than the older models. Both of these characteristics prompted airlines across the world to place orders, until two of the aircraft crashed in separate incidents that claimed 346 lives. Investigators discovered that flaws in the page 72 automated flight-control system, known as MCAS, were the ultimate cause of the crashes. Boeing had to ground all of the 737 Max airplanes, forcing the airlines to scramble their fleets. In fact, Southwest Airlines, which flies only Boeing 737s, was forced to cancel hundreds of flights every day because of the grounding. Probes have revealed safety gaps in the design of the plane and a culture that discouraged employees

from speaking up about safety concerns.

Problems existed within Boeing's culture, which had become far from functional. Many suggested that Boeing's leadership focused solely on delivering financial results to shareholders, even if it meant cutting some corners. This focus on meeting deadlines and reducing costs might provide short-term financial results, but at the expense of safety and quality. One employee described the numbers and deadline focused mentality in this way: "I don't know how to fix these things ... it's systematic. It's culture. It's the fact that we have a senior leadership team that understand very little about the business and yet are driving us to certain objectives."

Then the pandemic came and by March 2020, the airline industry itself essentially crashed. Few could or would travel, putting airlines under financial stress, and thus unable to purchase new planes or have as much need for service to existing planes. While the 737 Max has now been cleared to fly again, Boeing's reputation still remains grounded. Dave Calhoun became the new CEO in December 2019 and has had to wrestle with a new strategy to take Boeing back to its previous heights, while changing a culture that seemed to have failed the company.

SOURCES: Seattle Times Editorial Board, "Boeing Needs Massive Culture Change," January 15, 2020, <https://www.seattletimes.com/opinion/editorials/boeing-needs-a-massive-culture-change/>; D. Gelles, "I Honestly Don't Trust Many People at Boeing': A Broken Culture Exposed," February 10, 2020, <https://www.nytimes.com/2020/01/10/business/boeing-737-employees-messages.html>.

Introduction

As the Boeing example illustrates, business organizations exist in an environment of competition. They can use a number of resources to compete with other companies. These resources are physical (such as plant, equipment, technology, and geographic location), organizational (the structure; planning, controlling, and coordinating systems; and group relations), and human (the experience, skill, and intelligence of employees). It is these resources under the control of the company that provide competitive advantage.¹

The goal of strategic management in an organization is to deploy and allocate resources in a way that gives it a competitive advantage. As you can see, two of the three classes of resources (organizational and human) are directly tied to the human resource management function. As [Chapter 1](#) pointed out, the role of human resource management is to ensure that a company's human resources provide a competitive advantage. [Chapter 1](#) also pointed out some of the major competitive challenges that companies face today. These challenges require companies to take a proactive, strategic approach in the marketplace.

To be maximally effective, the HRM function must be integrally involved in the company's strategic management process.² This means that human resource managers should (1) have input into the strategic plan, both in terms of people-related issues and in terms of the ability of the human resource pool to implement particular strategic alternatives; (2) have specific knowledge of the organization's strategic goals; (3) know what types of employee skills, behaviors, and attitudes are needed to support the strategic plan; and (4) develop programs to ensure that employees have those skills, behaviors, and attitudes.

We begin this chapter by discussing the concepts of business models and strategy and by depicting the strategic management process. Then, we discuss the levels of integration between the HRM function and the strategic management process in strategy formulation. Next, we explore the role of culture and talent as critical levers in the strategy implementation process. Then we review some of the more common strategic models and, within the context of these models, discuss the various types of employee skills, behaviors, and attitudes, and the ways HRM practices aid in implementing the strategic plan. Finally, we discuss the role of HR in creating competitive advantage.

What Is a Business Model?

A business model is a story of how the firm will create value for customers and, more important, how it will do so profitably. We often hear or read of companies that have “transformed their business model” in one way or another, but what that means is not always clear. To understand this, we need to grasp a few basic accounting concepts.



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“As an HR professional, you have to be able to understand how the HR initiatives impact the business.”

—Tim Hourigan, Executive Vice President, Human Resources, The Home Depot

Video produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Film-works

First, fixed costs are generally considered the costs that are incurred regardless of the number of units produced. For instance, if you are producing widgets in a factory, you have the rent you pay for the factory, depreciation of the machines, the utilities, the property taxes, and so on. In addition, you generally have a set number of employees who work a set number of hours with a specified level of benefits, and although you might be able to vary these over time, on a regular basis you pay the same total labor costs whether your factory runs at 70% capacity or 95% capacity.

Second, you have a number of variable costs, which are those costs that vary directly with the units produced. For instance, all of the materials that go into the widget might cost a total of \$10, which means that you have to charge at least \$10 per widget, or you cannot even cover the variable costs of production.

Third is the concept of “contribution margins,” or margins. Margins are the difference between what you charge for your product and the variable costs of that product. They are called contribution margins because they are what contributes to your ability to cover your fixed costs. So, for instance, if you charged \$15 for each widget, your contribution margin would be \$5 (\$15 price – \$10 variable cost).

Fourth, the gross margin is the total amount of margin you made and is calculated as the number of units sold times the contribution margin. If you sold 1,000,000 units, your gross margin would then be \$5,000,000. Did you make a profit? That depends. Profit refers to what is left after you have paid your variable costs and your fixed costs. If your gross margin was \$5,000,000, and your fixed costs were \$6,000,000, then you lost \$1,000,000.

GM’s Attempt to Survive

Let's look at how a business model plays out with the challenges faced by General Motors (GM) over the past 10 years. Critics of GM talk about the fact that GM has higher labor costs than its foreign competitors. This is true, but misleading. GM's average hourly wage for its existing workforce is reasonably competitive. However, the two aspects that make GM uncompetitive are its benefit costs (in particular, health care) and, most important, the cost of its legacy workforce.

A legacy workforce describes the former workers (i.e., those no longer working for the company) to whom the firm still owes financial obligations. GM and the United Automobile Workers (UAW) union have negotiated contracts over the years that provide substantial retirement benefits for former GM workers. In particular, retired GM workers have defined benefit plans that guarantee a certain percentage of their final (preretirement) salary as a pension payment as long as they live; in addition, the company pays for their health insurance. The contract specifies that workers are entitled to retire at full pension after 30 years of service.

This might have seemed sustainable when the projections were that GM would continue growing its sales and margins. However, since the 1970s, foreign competitors have been eating away at GM's market share to the extent that GM's former 50% of the market has shrunk to closer to 20%. Since the 2008 economic crisis, the market itself has been shrinking, leaving GM with a decreasing percentage of a decreasing market. For instance, in December of 2005, GM sold 26% of the cars in the global market, but by 2015 that market share had shrunk to 11.2%.³ Thus, in addition to the legacy work-force, GM had a significant number of plants with thousands of employees that were completely unnecessary, given the volume of cars GM can produce and sell.⁴

If you look at [Figure 2.1](#), you'll see that the solid lines represent the old GM business model, which was based on projections that GM would be able to sell 4 million units at a reasonably high margin, and thus completely cover its fixed costs to make a strong profit. However, the reality was that its products didn't sell at the higher prices, so to try to sell 4 million vehicles, GM offered discounts, which cut into its margins. When GM ended up selling only 3.5 million vehicles, and those were sold at a lower margin, the company could not cover its fixed costs, resulting in a \$9 billion loss in 2008 (this is illustrated by the dotted blue line in the figure). So, when GM refers to the "redesigned business model," what it is referring to is a significant reduction in fixed costs (through closing plants and cutting workers) to get the fixed-cost base low enough (the dotted brown line) to remain profitable while selling fewer cars at lower margins (again, the dotted blue line).

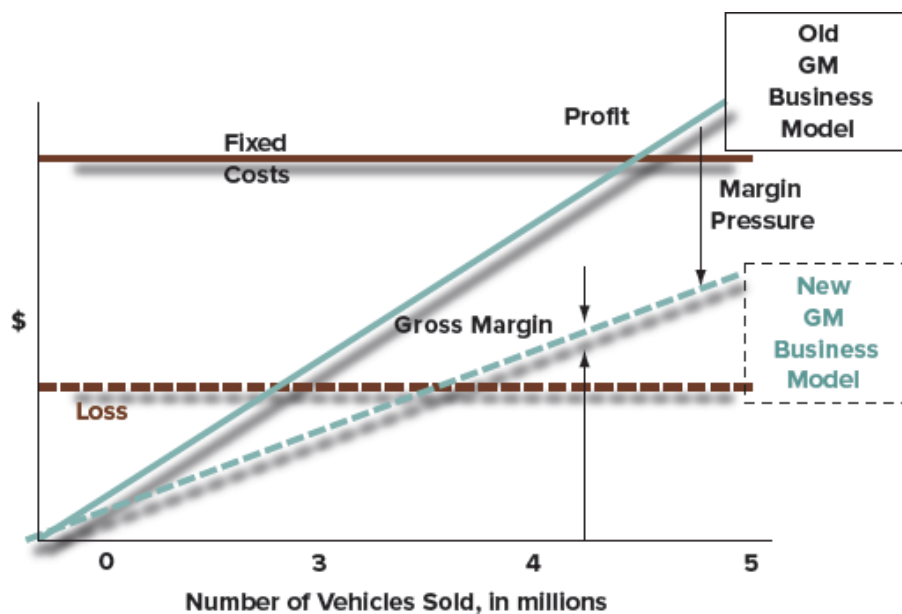


Figure 2.1 An Illustration of a Business Model for GM

One can easily see how, given the large component that labor costs are to most companies, reference to business models almost inevitably leads to discussions of labor costs. These can be the high cost associated with current unionized employees in developed countries within North America or Europe or, in some cases, the high costs

associated with a legacy workforce. For instance, the Big Three automakers have huge numbers of retired or laid-off workers for whom they still have the liability of paying pensions and health care benefits. This is a significant component of their fixed-cost base, which makes it difficult for them to compete with other automakers that either have fewer retirees to cover or have no comparable costs because their home governments provide pensions and health care. In fact, this changing business model at GM has driven it to locate more manufacturing outside of the United States.

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What Is Strategic Management?

LO 2-1

Describe the differences between strategy formulation and strategy implementation.

Many authors have noted that in today's competitive market, organizations must engage in strategic planning to survive and prosper. Strategy comes from the Greek word *strategos*, which has its roots in military language. It refers to a general's grand design behind a war or battle. In fact, *Webster's New American Dictionary* defines *strategy* as the "skillful employment and coordination of tactics" and as "artful planning and management."

Strategic management is a process, an approach to addressing the competitive challenges an organization faces. It can be thought of as managing the "pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole."⁵ These strategies can be either the generic approach to competing or the specific adjustments and actions taken to deal with a particular situation.

First, business organizations engage in generic strategies that often fit into some strategic type. One example is "cost, differentiation, or focus."⁶ Another is "defender, analyzer, prospector, or reactor."⁷ Different organizations within the same industry often have different generic strategies. These generic strategy types describe the consistent way the company attempts to position itself relative to competitors.

However, a generic strategy is only a small part of strategic management. The second aspect of strategic management is the process of developing strategies for achieving the company's goals in light of its current environment. Thus, business organizations engage in generic strategies, but they also make choices about such things as how to scare off competitors, how to keep competitors weaker, how to react to and influence pending legislation, how to deal with various stakeholders and special interest groups, how to lower production costs, how to raise revenues, what technology to implement, and how many and what types of people to employ. Each of these decisions may present competitive challenges that have to be considered.

Strategic management is more than a collection of strategic types. It is a process for analyzing a company's competitive situation, developing the company's strategic goals, and devising a plan of action and allocation of resources (human, organizational, and physical) that will increase the likelihood of achieving those goals. This kind of strategic approach should be emphasized in human resource management. HR managers should be trained to identify the competitive issues the company faces with regard to human resources and think strategically about how to respond.

[Strategic human resource management \(SHRM\)](#) can be thought of as "the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals."⁸ For example, many firms have developed integrated manufacturing systems such as advanced manufacturing technology, just-in-time inventory control, and total quality management in an effort to increase their competitive position. However, these systems must be run by people. SHRM in these cases entails assessing the employee skills required to run these systems and engaging in HRM practices, such as selection and training, that develop these skills in employees.⁹ To take a strategic approach to HRM, we must first understand the role of HRM in the strategic management process.

Strategic human resource management (SHRM)

A pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.

Components of the Strategic Management Process

LO 2-2

List the components of the strategic management process.

The strategic management process has two distinct yet interdependent phases: strategy formulation and strategy implementation. During [strategy formulation](#), the strategic planning groups decide on a strategic direction by defining the company's mission and goals, its external opportunities and threats, and its internal strengths and weaknesses. They then generate various strategic alternatives and compare those alternatives' ability to achieve the company's mission and goals. During [strategy implementation](#), the organization follows through on the chosen strategy. This consists of structuring the organization, allocating resources, ensuring that the firm has skilled employees in place, and developing reward systems that align employee behavior with the organization's strategic goals. Both of these strategic management phases must be performed effectively. This process does not happen sequentially. As we will discuss later with regard to emergent strategies, this process entails a constant cycling of information and decision making. [Figure 2.2](#) presents the strategic management process.

Strategy formulation

The process of deciding on a strategic direction by defining a company's mission and goals, its external opportunities and threats, and its internal strengths and weaknesses.

Strategy implementation

The process of devising structures and allocating resources to enact the strategy a company has chosen.

In recent years organizations have recognized that the success of the strategic management process depends largely on the extent to which the HRM function is involved.¹⁰

Linkage Between HRM and the Strategic Management Process

The strategic choice really consists of answering questions about competition—that is, how the firm will compete to achieve its mission and goals. These decisions consist of addressing the issues of where to compete, how to compete, and with what to compete, which are described in [Figure 2.3](#).

Although these decisions are all important, strategic decision makers often pay less attention to the “with what will we compete” issue, resulting in poor strategic decisions. For example, PepsiCo in the 1980s acquired the fast-food chains of Kentucky Fried Chicken, Taco Bell, and Pizza Hut (“where to compete” decisions) in an effort to increase its customer base. However, it failed to adequately recognize the differences between its existing workforce (mostly professionals) and that of the fast-food industry (lower-skilled people and high schoolers) as well as its ability to manage such a workforce. This was one reason that PepsiCo, in 1998, spun off the fast-food chains. In essence, it had made a decision about where to compete without fully understanding what resources would be needed to compete in that market.

Boeing illustrates how failing to address the “with what” issue resulted in problems in its “how to compete” decisions. When the aerospace firm's consumer products division entered into a price war with Airbus Industrie, it

was forced to move away from its traditional customer service strategy toward emphasizing cost reduction.¹¹ The strategy was a success on the sales end as Boeing received large numbers of orders for aircraft from firms such as Delta, Continental, Southwest, and Singapore Airlines. However, it had recently gone through a large workforce reduction (thus, it didn't have enough people to fill the orders) and did not have the production technology to enable the necessary increase in productivity. The result of this failure to address “with what will we compete” in making a decision about how to compete resulted in the firm's inability to meet delivery deadlines and the ensuing penalties it had to pay to its customers. The end result is that after all the travails, for the first time in the history of the industry, Airbus sold more planes than Boeing in 2003. Luckily, Boeing was able to overcome this stumble, in large part because of a number of stumbles on the part of its chief rival, Airbus. However, Boeing faced difficulties as its new Dream-liner was grounded because of fires starting in the wiring.

Role of HRM in Strategy Formulation

LO 2-3

Discuss the role of the HRM function in strategy formulation.

As the preceding examples illustrate, often the “with what will we compete” question presents ideal avenues for HRM to influence the strategic management process. This might be through either limiting strategic options or forcing thoughtfulness among the executive team regarding how and at what cost the firm might gain or develop the human resources (people) necessary for such a strategy to be successful. For example, HRM executives at PepsiCo could have noted that the firm had no expertise in managing the workforce of fast-food restaurants. The limiting role would have been for these executives to argue against the acquisition because of this lack of resources. Alternatively, they might have influenced the decision by educating top executives as to the costs (of hiring, training, and so on) associated with gaining people who had the right skills to manage such a workforce.

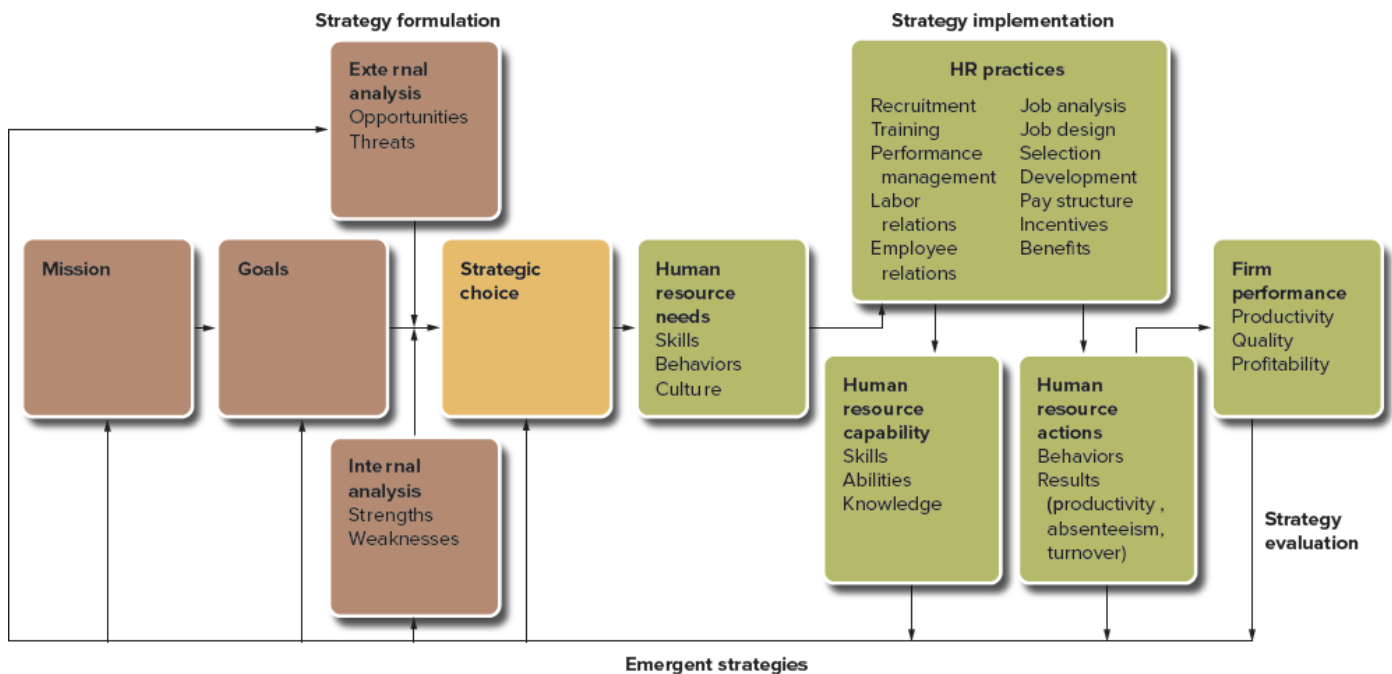


Figure 2.2 A Model of the Strategic Management Process

Where to compete?

In what market or markets (industries, products, etc.) will we compete?

How to compete?

On what criterion or differentiating characteristic(s) will we compete? Cost?

Quality? Reliability? Delivery?

With what will we compete?

What resources will allow us to beat our competition?

How will we acquire, develop, and deploy those resources to compete?

A firm's strategic management decision-making process usually takes place at its top levels, with a strategic planning group consisting of the chief executive officer, the chief financial officer, the president, and various vice presidents. However, each component of the process involves people-related business issues. Therefore, the HRM function needs to be involved in each of those components. One recent study of 115 strategic business units within *Fortune* 500 corporations found that 49 to 69% of the companies had some link between HRM and the strategic planning process.¹² However, the level of linkage varied, and it is important to understand these different levels.

Four levels of integration seem to exist between the HRM function and the strategic management function: administrative linkage, one-way linkage, two-way linkage, and integrative linkage.¹³ These levels of linkage will be discussed in relation to the different components of strategic management. The linkages are illustrated in [Figure 2.4](#).



Figure 2.4 Linkages of Strategic Planning and HRM

SOURCE: Adapted from K. Golden and V. Ramanujam, "Between a Dream and a Nightmare: On the Integration of the Human Resource Function and the Strategic Business Planning Process," *Human Resource Management* 24 (1985), pp. 429–51.

Administrative Linkage

LO 2-4

Describe the linkages between HRM and strategy formulation.

In administrative linkage (the lowest level of integration), the HRM function's attention is focused on day-to-day activities. The HRM executive has no time or opportunity to take a strategic outlook toward HRM issues. The company's strategic business planning function exists without any input from the HRM department. Thus, in this level of integration, the HRM department is completely divorced from any component of the strategic management process in both strategy formulation and strategy implementation. The department simply engages in administrative work unrelated to the company's core business needs.

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One-Way Linkage

In one-way linkage, the firm's strategic business planning function develops the strategic plan and then informs the HRM function of the plan. Early in the history of SHRM, people believed this level of integration constituted strategic HRM—that is, the role of the HRM function is to design systems and/or programs that implement the strategic plan. Although one-way linkage does recognize the importance of human resources in implementing the strategic plan, it precludes the company from considering human resource issues while formulating the strategic plan. This level of integration often leads to strategic plans that the company cannot successfully implement.

Two-Way Linkage

Two-way linkage allows for consideration of human resource issues during the strategy formulation process. This integration occurs in three sequential steps. First, the strategic planning team informs the HRM function of the various strategies the company is considering. Then HRM executives analyze the human resource implications of the various strategies, presenting the results of this analysis to the strategic planning team. Finally, after the strategic decision has been made, the strategic plan is passed on to the HRM executive, who develops programs to implement it. The strategic planning function and the HRM function are interdependent in two-way linkage.

Integrative Linkage

Integrative linkage is dynamic and multifaceted, based on continuing rather than sequential interaction. In most cases the HRM executive is an integral member of the senior management team. Rather than using an iterative process of information exchange, companies with integrative linkage have their HRM functions built in to the strategy formulation and implementation processes. It is this role that we will discuss throughout the rest of this chapter.

Thus, in strategic HRM, the HRM function is involved in both strategy formulation and strategy implementation. The HRM executive gives strategic planners information about the company's human resource capabilities, and these capabilities are usually a direct function of the HRM practices.¹⁴ This information about human resource capabilities helps top managers choose the best strategy because they can consider how well each strategic alternative would be implemented. Once the strategic choice has been determined, the role of HRM changes to the development and alignment of HRM practices that will give the company employees having the necessary skills to implement the strategy.¹⁵ In addition, HRM practices must be designed to elicit actions from employees in the company.¹⁶ One recent study found that strategic HR functions were positively related to firm performance, but only when those firms had structures and systems in place to leverage the input of their employees.¹⁷ In the next two sections of this chapter, we show how HRM can provide a competitive advantage in the strategic management process.

Strategy Formulation

Five major components of the strategic management process are relevant to strategy formulation.¹⁸ These components are depicted in [Figure 2.5](#). The first component is the organization's mission. The mission is a statement of the organization's reason for being; it usually specifies the customers served, the needs satisfied and/or the values received by the customers, and the technology used. The mission statement is often accompanied by a statement of a company's vision and/or values. For example, [Table 2.1](#) illustrates the values or principles that are supposed to guide people at Boeing.

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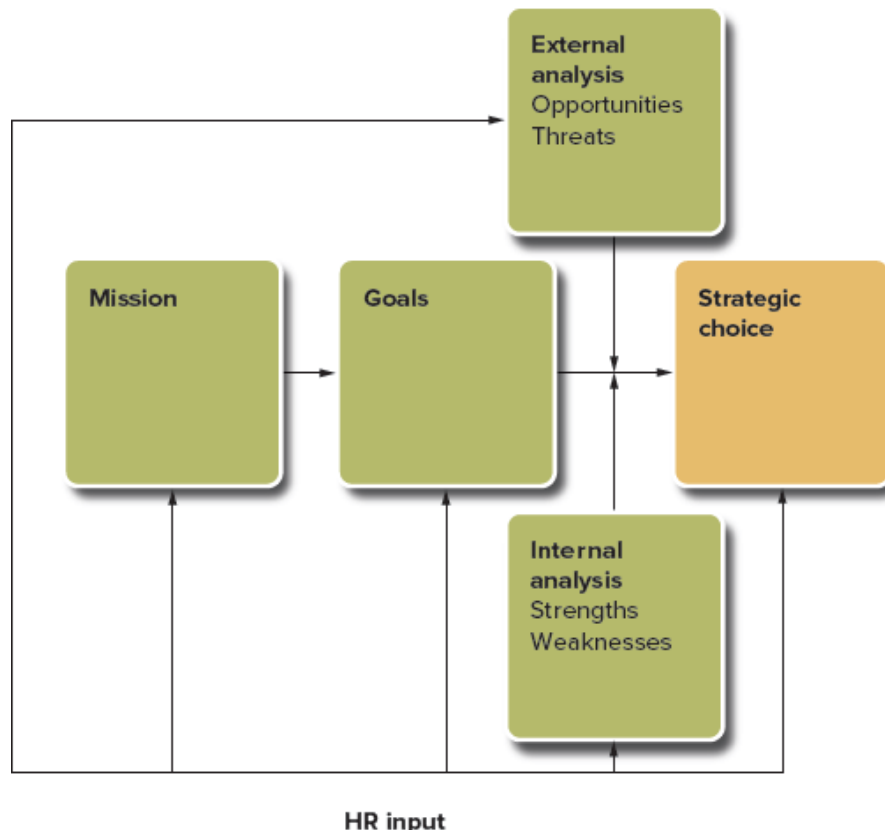


Figure 2.5 Strategy Formulation

SOURCE: Adapted from K. Golden and V. Ramanujam, "Between a Dream and a Nightmare," *Human Resource Management* 24 (1985), pp. 429–51.

An organization's [goals](#) are what it hopes to achieve in the medium- to long-term future; they reflect how the mission will be operationalized. The overarching goal of most profit-making companies in the United States is to maximize stockholder wealth. But companies have to set other long-term goals in order to maximize stockholder wealth.

[Goals](#)

What an organization hopes to achieve in the medium- to long-term future.

[External analysis](#) consists of examining the organization's operating environment to identify the strategic opportunities and threats. Examples of opportunities are customer markets that are not being served, technological advances that can aid the company, and labor pools that have not been tapped. Threats include potential labor shortages, new competitors entering the market, pending legislation that might adversely affect the company, and

competitors' technological innovations. Currently, most companies use what is known as PESTEL analysis. This entails focusing on the trends likely to impact the firm or the industry in six areas: Political, Economic, Socio-Cultural, Technological, Environmental, and Legal. In search of low-cost labor many multinational companies have suppliers in China and the [Competing through Globalization](#) box describes how the Chinese government has allegedly engaged in unethical actions with the Uighur Muslim people who may be forced to work for these suppliers.

[External analysis](#)

Examining the organization's operating environment to identify strategic opportunities and threats.

[Internal analysis](#) attempts to identify the organization's strengths and weaknesses. It focuses on the quantity and quality of resources available to the organization—financial, capital, technological, and human resources. Organizations have to honestly and accurately assess each resource to decide whether it is a strength or a weakness. Many companies today examine their strengths and weaknesses through value chain analysis. This entails breaking the firm's entire process from R&D to after-sales service into sets of "capabilities." Then, these capabilities can be examined to determine which currently or potentially provides a competitive advantage. We will explore this more later in the chapter with regard to identifying talent.

[Internal analysis](#)

The process of examining an organization's strengths and weaknesses.

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Table 2.1 Boeing's Statement of Values

Our Values
At Boeing, we are honored to serve all the people who rely on our products and services every day. That's why we hold ourselves to the highest standards in our work, how we do it and how we treat one another.
Across our global enterprise, Boeing employees are united by a shared commitment to our values, which serve as the guiding principles for all we do. As we innovate and operate to make the world better, each one of us takes personal accountability for living these values and leading the way forward for our teams, our customers, our stakeholders, and the communities in which we live and work.
How we operate
Start with engineering excellence
A strong engineering foundation enables us to build and maintain our products with safety, quality and integrity in the factory and in service. Our customers expect it. That's why we will always take the time to get the engineering right.
Be accountable — from beginning to end
At every stage of every program — from design and manufacturing to sales and marketing, and everything beyond and between — we will know who is responsible for every aspect of the work. Each of us, including our supplier partners, will understand our individual responsibilities and be personally accountable for the work we do.

Apply Lean principles

These principles have served many businesses well, including our own, so we will commit to them across the board. We will encourage continuous improvement in every aspect of our business, working to maximize the value we provide to customers while minimizing waste.

Eliminate traveled work

Rework has a negative effect on productivity and first-time quality, so we will strive to eliminate it in all aspects of our business, from engineering design to the factory floor to the office environment. Let's do things right the first time, every time.

Reward predictability and stability — everywhere in our business

While it's important to acknowledge extraordinary efforts to overcome unplanned obstacles to our work, it's even more important to establish and celebrate the everyday planning, execution and discipline that set us up for success. Instituting predictability and stability across our business will support our priorities and prepare us to face the unexpected.

How we act

Lead on safety, quality and integrity

In everything we do and in all aspects of our business, we will make safety our top priority, strive for first-time quality, and hold ourselves to the highest ethical standards.

Collaborate with humility, inclusion and transparency

Together we will co-create an open, candid and respectful environment in which we seek out one another's perspectives, encourage healthy debate, and go out of our way to make others feel welcome and included.

Import best leadership practices

As we strive for continuous improvement in ourselves and our company, we will seek insights from one another, as well as external thought leaders and companies with demonstrated excellence. Discovery and assimilation of these best practices will empower us to solve our most difficult problems.

Earn stakeholder trust and preference

By committing fully to our values, communicating with transparency, and delivering results with excellence, we will earn and retain the confidence of our customers, suppliers and investors; our team members; and everyone who uses our products and services.

Respect one another and advance a global, diverse team

We will incorporate and amplify a wide range of ideas and global perspectives while building diverse teams, appreciating one another's differences as assets, and holding ourselves accountable to equitable processes that promote trust and transparency.

SOURCE: Boeing.

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COMPETING THROUGH GLOBALIZATION

Multinational Companies Supporting Slavery?

Everyone condemns the atrocities of the Holocaust and the genocide of Jews and others by the Nazi regime. Yet the discriminatory laws were known to all at the time. The persecution was known to most. The concentration camps were known, and what was going on was suspected. In spite of that a number of U.S. companies continued to do business with the Nazi regime. They either knowingly participated or turned a blind eye to the evil that was occurring in Germany, Poland, Austria, etc. Certainly, the CEOs of most companies concerned about ESG would say that they never would have done business with the Nazis. But is that true?

Should companies do business in a country where the government commits outright atrocities against certain groups? If a government is actively taking away rights from its people, should companies help to build its economy? If government officials funnel millions of people onto trains to take them to "re-education" camps and use them as slave labor, should companies continue to contract with companies controlled by that government? These may seem like easy questions to answer, but note that all of these things are currently happening in China, and yet almost every large multinational company continues to do business there.

When the United Kingdom entered into an agreement with the Chinese government to hand over Hong Kong in 1997, the agreement stipulated that Hong Kong would remain a part of the "one country, two systems" arrangement where economic and political freedoms in Hong Kong would be maintained. However, since 2003, China has increasingly encroached on political and voting rights, causing massive protests.

Even more concerning has been China's treatment of the Uyghur Muslims in the Xinjiang province. Experts estimate that between 1 million and 3 million Uyghurs have been forced into over 380 "reeducation centers." The "reeducation" involves psychological indoctrination, propaganda study, and even giving thanks to President Xi Jinping. Those who have been following the persecution of the Uyghurs suggest that the government has engaged in various forms of torture including waterboarding and sexual abuse. They allege that Uyghurs have been used for organ harvesting and slave labor.

In spite of multiple documented abuses of Uyghurs and the public crackdowns on freedom in Hong Kong, multinational companies continue to maintain significant links to and operations in China, providing the economic fuel necessary to support the government.

Companies such as Adidas, Nike, and Apple have suppliers located in the Xinjiang province. They say that none of their suppliers are involved with these activities. Disney filmed its new version of *Mulan* in the Xinjiang province, not far from some of the "reeducation centers."

DISCUSSION QUESTIONS

What does or should corporate social responsibility look like for firms doing business in China?

If your company was doing lots of business with or in China, what would you suggest they should do?

Should multinational companies ensure that they maintain a pure business focus, and not get involved in cross-country governmental issues? Why or why not?

SOURCES: B. Pancevski and N. Ojewska, "Polish Ex-Security Official Charged with Spying for China During Government Service," *The Wall Street Journal*, January 15, 2019, <https://www.wsj.com/articles/polish-ex-security-official-charged-with-spying-for-china-during-government-service-1154757522>, accessed January 18, 2019; N. Khan, D. Strumpf, and W. Fan, "The Public Face of Huawei's Global Fight," *The Wall Street Journal*, January 19, 2019, https://www.wsj.com/articles/the-public-face-of-huaweis-global-fight-11547874008?mod=hp_lead_pos5, accessed January 19, 2019.

External analysis and internal analysis combined constitute what has come to be called the SWOT (strengths, weaknesses, opportunities, threats) analysis. [Table 2.2](#) shows an example of a SWOT analysis for Google. After going through the SWOT analysis, the strategic planning team has all the information it needs to generate a number of strategic alternatives. The strategic managers compare the ability of each page 83alternative to attain the organization's strategic goals; then they make their [strategic choice](#). The strategic choice is the organization's strategy; it describes the ways the organization will attempt to fulfill its mission and achieve its long-term goals.

[Strategic choice](#)

The organization's strategy; the ways an organization will attempt to fulfill its mission and achieve its long-term goals.

Table 2.2 SWOT Analysis for Google Inc.

STRENGTHS	WEAKNESSES
Expanding liquidity	Issues with Chinese government
Operational efficiency	Dependence on advertising segment
Broad range of services portfolio	Losses at YouTube
OPPORTUNITIES	THREATS
Growing demand for online video	Weak economic outlook
Growth in Internet advertising market	Invalid clicks
Inorganic growth	Microsoft–Yahoo! deal

SOURCE: GlobalData.

Many of the opportunities and threats in the external environment are people related. With fewer and fewer highly qualified individuals entering the labor market, organizations compete not just for customers but also for employees. It is HRM's role to keep close tabs on the external environment for HR-related opportunities and threats, especially those directly related to the HRM function: potential labor shortages, competitor wage rates, government regulations affecting employment, and so on. For example, as discussed in [Chapter 1](#), U.S. companies are finding that more and more high school graduates lack the basic skills needed to work, which is one source of the "human capital shortage."¹⁹ However, not recognizing this environmental threat, many companies

have encouraged the exit of older, more skilled workers while hiring less-skilled younger workers who require basic skills training.²⁰

An analysis of a company's internal strengths and weaknesses also requires input from the HRM function. Today companies are increasingly realizing that their human resources are one of their most important assets. A company's failure to consider the strengths and weaknesses of its workforce may result in choosing strategies it is not capable of pursuing.²¹ However, some research has demonstrated that few companies have achieved this level of linkage.²² For example, one company chose a strategy of cost reduction through technological improvements. It built a plant designed around a computer-integrated manufacturing system with statistical process controls. Although this choice may seem like a good one, the company soon learned otherwise. It discovered that its employees could not operate the new equipment because 25% of the workforce was functionally illiterate.²³

Thus, with an integrative linkage, strategic planners consider all the people-related business issues before making a strategic choice. These issues are identified with regard to the mission, goals, strengths, weaknesses, opportunities, and threats, leading the strategic planning team to make a more intelligent strategic choice. Although this process does not guarantee success, companies that address these issues are more likely to make choices that will ultimately succeed.

Recent research has supported the need to have HRM executives integrally involved in strategy formulation. One study of U.S. petrochemical refineries found that the level of HRM involvement was positively related to the refinery manager's evaluation of the effectiveness of the HRM function.²⁴ A second study of manufacturing firms found that HRM involvement was highest when top managers viewed employees as a strategic asset and associated them with reduced turnover.²⁵ However, both studies found that HRM involvement was unrelated to operating unit financial performance.

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Research has indicated that few companies have fully integrated HRM into the strategy formulation process.²⁶ As we've mentioned before, companies are beginning to recognize that in an intensely competitive environment, managing human resources strategically can provide a competitive advantage. Thus, companies at the administrative linkage level will either become more integrated or face extinction. In addition, companies will move toward becoming integratively linked in an effort to manage human resources strategically.

It is of utmost importance that all people-related business issues be considered during strategy formulation. These issues are identified in the HRM function. Mechanisms or structures for integrating the HRM function into strategy formulation may help the strategic planning team make the most effective strategic choice. Once that strategic choice is determined, HRM must take an active role in implementing it. This role will be discussed in the next section.

Strategy Implementation

LO 2-5

Discuss the more popular typologies of generic strategies and the various HRM practices associated with each.

After an organization has chosen its strategy, it has to execute that strategy—make it come to life in its day-to-day workings. The strategy a company pursues dictates certain HR needs. For a company to have a good strategy foundation, certain tasks must be accomplished in pursuit of the company's goals, individuals must possess certain skills to perform those tasks, and these individuals must be motivated to perform their skills effectively.

The basic premise behind strategy implementation is that “an organization has a variety of structural forms and organizational processes to choose from when implementing a given strategy,” and these choices make an

economic difference.²⁷ Five important variables determine success in strategy implementation: organizational structure; task design; the selection, training, and development of people; reward systems; and types of information and information systems.

As we see in [Figure 2.6](#), HRM has primary responsibility for three of these five implementation variables: task, people, and reward systems. In addition, HRM can directly affect the two remaining variables: structure and information and decision processes. First, for the strategy to be successfully implemented, the tasks must be designed and grouped into jobs in a way that is efficient and effective.²⁸ In [Chapter 4](#) we will examine how this can be done through the processes of job analysis and job design. Second, the HRM function must ensure that the organization is staffed with people who have the necessary knowledge, skill, and ability to perform their part in implementing the strategy. This goal is achieved primarily through recruitment, selection and placement, training, development, and career management—topics covered in [Chapters 5, 6, 7, and 9](#). In addition, the HRM function must develop performance management and reward systems that lead employees to work for and support the strategic plan. The specific types of performance management systems are covered in [Chapter 8](#), and the many issues involved in developing reward systems are discussed in [Chapters 11, 12, and 13](#). In other words, the role of the HRM function becomes one of (1) ensuring that the company has the proper number of employees with the levels and types of skills required by the strategic plan²⁹ and (2) developing “control” systems that ensure that those employees are acting in ways that promote the achievement of the goals specified in the strategic plan.³⁰



Figure 2.6 Variables to Be Considered in Strategy Implementation

As we explore how firms implement their strategies, we need to address two of the major components: culture and talent.

Organizational Culture

Organizational culture can be defined as “a complex set of values, beliefs, assumptions, and symbols that define the way in which a firm conducts its business.”³¹ page 85 Thus culture helps to define its relevant stakeholders (employees, customers, suppliers, and competitors) and how it interacts with them. You experience organizational culture whenever you go shopping at a store, have dinner at a restaurant, or stay in a hotel. The interactions you have with the employees in these settings reflect the values and beliefs regarding how the organizations want to deal with you, the customer. Recent scandals such as creating fake customer accounts at Wells Fargo or sex-based discrimination at Uber have considerably damaged those firms’ reputations, driving increased focus on culture for both CEOs and boards. Culture has moved up to becoming the number 3–ranked deliverable demanded by CEOs according to a recent survey of chief HR officers.³² In addition, the National Academy of Corporate

Directors recently developed a report for board members. These scandals, while representing the consequences of a dysfunctional culture, do not adequately represent the full potential for culture to help drive organizational success.

Earlier we noted that one of the key questions in strategy is “how we compete” in terms of the value that we offer to customers. Because culture helps define how the firm interacts with customers, when cultural values align with the customer value, the firm has a better chance of actually delivering that customer value.³³ If a firm such as Marriott tries to differentiate itself through customer service, it will do so much more effectively if service represents one of the most important and well-defined cultural values.

In addition, “with what do we compete” represents another strategic question focused on the people, technologies, and processes that create the capability to deliver that value to customers. Culture serves as the conduit to help attract and retain the right people for these capabilities, as well as guide their behavior to help maximally deliver the customer value. The [Integrity in Action](#) box describes how one of the leading money management firms, BlackRock, enforces the values it has deemed important to reinforce their culture.

Leading HR Guru Dave Ulrich argues that effective cultures are the ones where the values internally relate directly to the value that customers seek from that company.³⁴ For example, he notes a negative *New York Times* story about Amazon’s practices (some of which, if true, are unethical), and the demanding, rigorous, and driven culture. He then asks why people buy from Amazon, and they cite the low cost, predictable short time frame for delivery, and ease of working with them. Making his point, he asks his audience what type of culture Amazon needs to provide those valued outcomes to their customers. Obviously Amazon needs a culture of discipline, standardization, and rigor and precision in order to meet the expectations customers have that cause them to want to buy from Amazon rather than somewhere else.

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INTEGRITY IN ACTION

What Enforcing Ethics Looks Like: BlackRock

A constant theme running through this book deals with the importance of culture. Every company has a culture, but not all companies know what that culture is, and often that stems from the fact that it has emerged rather than been managed. BlackRock Inc. exemplifies a company that understands how what is tolerated and what is punished sends important messages about the culture.

Larry Fink, the CEO of the world’s largest money manager, has frequently emphasized the importance of the firms they invest in having developed strong purpose statements and values that will guide decisions. He notes the importance of purpose and values for attracting the younger generation of workers. He has said, “More and more people who are entering the workforce think differently from I did when I was young. I think everybody is looking to be part of an organization they want to believe in.”

But requiring that firms live by their values would be an empty gesture if BlackRock did not model what that looked like. In fact, they do. In 2019 they fired two executives who had engaged in romantic relationships with subordinates. While many firms might do that, BlackRock was different in two ways. First, the executives fired were very senior: one a potential successor to Fink as CEO, and the other the head of human resources who was a close confidant of Mr. Fink. Second, when these executives were fired, their firings were announced publicly within the firm. Mr. Fink believes that the public nature of the firings sends the message to all employees that they should feel empowered to speak up about problems in the workplace. It has also enabled managers to speak clearly to their staff about what constitutes inappropriate office behavior.

DISCUSSION QUESTIONS

Are you surprised that a company would be so transparent about the firing of executives and the reasons for those firings? Why or why not?

How important is it to you that the company you work for be one that you can believe in? In what ways is this important and why?

SOURCE: D. Lim, S. Russolillo, and J. Yang, "At BlackRock, Public Firings, Overseas Probe Send Message about Office Misbehavior," February 3, 2020,

<https://www.wsj.com/articles/atblackrock-public-firings-overseas-probe-send-message-about-office-misbehavior-11580725801>

Many have attributed the drifting culture of Boeing as the major cause of their stumbles. Both outsiders and some of their biggest customers perceived that those at the top began to focus too much on cost-cutting in order to meet financial targets and thus, ensure executives got their bonuses. This narrow focus may have caused them to begin to cut safety and quality corners, evidencing a shift from a culture built on innovation and safety to one focused on financials.

So, in order for firms to be maximally effective and efficient, both their strategy and their culture need to be aligned with regard to the value that they will provide to customers.

Talent

Before going too far, it is important to define what we mean by talent. *Talent* is a term thrown around quite a bit, but one that illustrates the problem of people using the same vocabulary, but different dictionaries. For instance, some firms view talent as the current and future leaders in the company. Others view talent widely as anyone who can have a positive impact on the firm's performance. Finally, some firms view talent as those individuals who can have a disproportionate (either positive or negative) impact on the firm. While all of these definitions are valid, we are going to emphasize the latter one as a means of providing a clearer approach to how a strategic approach to HR can be implemented.

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Early on in the field of strategic HRM, many authors sought to develop typologies for what kinds of HR practices might be associated with different strategies. However, more recent attempts to link HR to strategy have focused on integrating the strategy, capabilities, and people through an understanding the value chain of an organization. This entails identifying where a firm seeks to create the greatest value, and the talent necessary to do so. Remember that earlier in this chapter we referred to the major strategic questions as being "Where do we compete?" "How do we compete?" and "With what do we compete?" Linking talent and strategy entails focusing on integrating the "how" and "with what" questions.

The value chain is a model that breaks up all of the different parts of the organization into a variety of capabilities such as research and development (R&D), supply chain, manufacturing, distribution, and service (as shown in [Figure 2.7](#)). The first step for decision makers is to determine where in the value chain they seek to create the most value for customers. The question "How do we compete?" involves understanding what differentiates our product or service in a way that makes customers want to buy from us, rather than our competitors. To link that discussion to this one, if a firm seeks to provide value through innovation, then that means that firm must be world class in its R&D capability. If the firm seeks to be the lowest cost, then it might need to be world class in either its supply chain or manufacturing capabilities. Again, this links the "how" question to the "with what do we compete" question by understanding the capabilities necessary to provide the strategic value to customers. For instance, most readers of this book would love to own a Tesla. Elon Musk's company has been able to design beautiful

electric automobiles. However, it has not been able to make money because it currently does not possess sufficient capability to actually manufacture the cars. In fact, some are beginning to suggest that, like Apple, Tesla would be better off outsourcing the manufacturing of the cars to a company better at manufacturing, and let Tesla focus on innovating in the technological design.³⁵ The [Competing through Technology](#) box describes how Nephron Pharmaceuticals worked with the University of South Carolina to create a robot that would replace people in a high absenteeism/high turnover set of jobs.

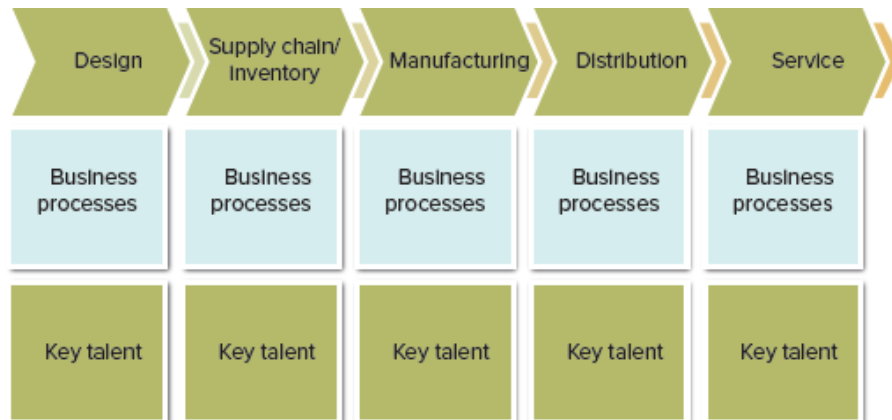


Figure 2.7 Example of a Value Chain, Manufacturing, Distribution, and Service

Next, because capabilities are made up of the combination of people, systems, and processes, firms need to identify which key talent pools (jobs or job families) must be world class in order to build or maintain those capabilities. Note that while all employees are inherently valuable and their performance is necessary for the firm to succeed, certain employees provide more strategic value. The former need to be good, but the latter need to be among the best. Lucien Alziari, the chief HR officer at Prudential, refers to this as knowing which employee groups need to be world class versus those for which “good is good enough.” For instance, if a firm seeks to build innovation capability, then it needs the best R&D scientists or the best software developers working within great business processes and equipped with the best technological systems. page 88While its manufacturing group needs to be good, because that capability does not differentiate the firm, for them good talent is good enough. Thus, companies like Apple seek to hire great software developers to create the operating systems that are easy for customers to use, but as noted above, they outsource their manufacturing to other firms.

This approach treats “talent” as being those that comprise the key groups of employees that are critical to driving value in the part of the value chain that is responsible for driving value to the customer. Again, keep in mind, one of the key strategic questions revolves around choosing what value the firm will offer to customers that will make customers want to buy from them. As we saw in the previous section, one key aspect of culture has to be ensuring that the cultural values align with the value offered to customers. Finally, we think about talent by defining the groups most important to the capabilities from which the value to customers is generated. Thus, the best of all worlds is when the strategy, culture, and talent are completely aligned around customer value, as illustrated in [Figure 2.8](#).

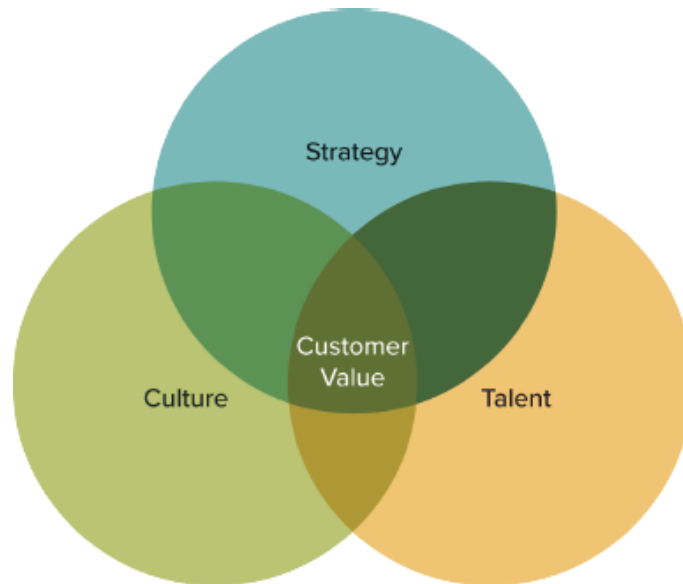


Figure 2.8 Best of All Worlds Is When the Strategy, Culture, and Talent Are Completely Aligned around Customer Value

In essence, this is what has been referred to as the “vertical alignment” of HR with strategy. Vertical alignment means that the HR practices and processes are aimed at addressing the strategic needs of the business. But the link between strategy and HR practices is primarily through people. This means strategically managing the “talent” as previously described, but also managing the larger workforce to be aligned around how the company seeks to create value for customers. For instance, as IBM moved from being a manufacturer of personal computers to being a fully integrated service provider, the types of people it needed changed significantly. Instead of employing thousands of workers in manufacturing or assembly plants, IBM increasingly needed software engineers to help write new “middleware” programs, and an army of consultants who could help their corporate customers to implement these systems. In addition, as IBM increasingly differentiated itself as being the “integrated solutions” provider (meaning it could sell the hardware, software, consulting, and service for a company’s entire information technology needs), employees needed a new mindset that emphasized cooperating across different business divisions rather than running independently. IBM’s more recent transformation into the “smarter planet” increasingly relies on the use of big data to provide insights. Thus, with each change in strategy comes a change in the kinds of skills, employees, and behaviors required to execute that strategy effectively.

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COMPETING THROUGH TECHNOLOGY

Robots to Replace People or to Help Them?

Nephron Pharmaceuticals faced a problem. Part of their business as a medical device manufacturer entails pre-filling sterile syringes with injectable medicines. The process requires precision that can only come from experienced and well-trained technicians. However, when one or more of those technicians called in sick, that meant that the production volume would suffer. To employ an excess number of such employees was not feasible with a relatively low-margin product. So, what was the solution?

Nephron CEO Lou Kennedy reached out to the colleges of Engineering and Pharmacy at the University of South Carolina to explore the creation of a robot that could perform the tasks inherent in the job. The process took time, but after a few different classes of mechanical engineering and pharmacy students, the solution appeared: a robot named Smithers after the Simpsons character. The robot has almost entirely eliminated the human involvement in

the process of pre-filling the sterile syringes.

Kennedy praises the robot, saying, “It just continues to make drugs without, frankly, a bathroom break or other things. So a steady machine, even if it’s slower, is better than people who haven’t shown up for the night and we have orders to fill.”

Kennedy notes that while the automation of this job eliminated most of the people in that job, overall employment continues to grow. “I can’t hire enough sterile pharmacy techs for what I need fast enough because of our growth, so this is just augmenting what we’re already doing—not to replace humans.”

DISCUSSION QUESTION

While CEO Kennedy notes that Nephron’s growth continues to create new jobs, the robot Smithers certainly eliminated some jobs. What should Nephron do with those employees?

Are you concerned that someday your job might be replaced with technology? If so, what can you do to ensure that either that will not happen or that you can find new employment?

SOURCE: L. Salem, “From the Classroom to Large-scale Manufacturing, Nephron and USC Unveil a New Robot,” January 28, 2021, *The State*, <https://www.thestate.com/news/business/article248800120.html>.

How does the HRM function implement strategy through getting the right talent and supporting the right culture? As [Figure 2.9](#) shows, it is through administering HRM practices: job analysis and design, recruitment, selection systems, training and development programs, performance management systems, reward systems, and labor relations programs. The details of each of these HRM practices are the focus of the rest of this book. However, at this point it is important to present a general overview of the HRM practices and their role in strategy implementation. We then discuss the various strategies companies pursue and the types of HRM systems congruent with those strategies. First we focus on how the strategic types are implemented; then we discuss the HRM practices associated with various directional strategies.

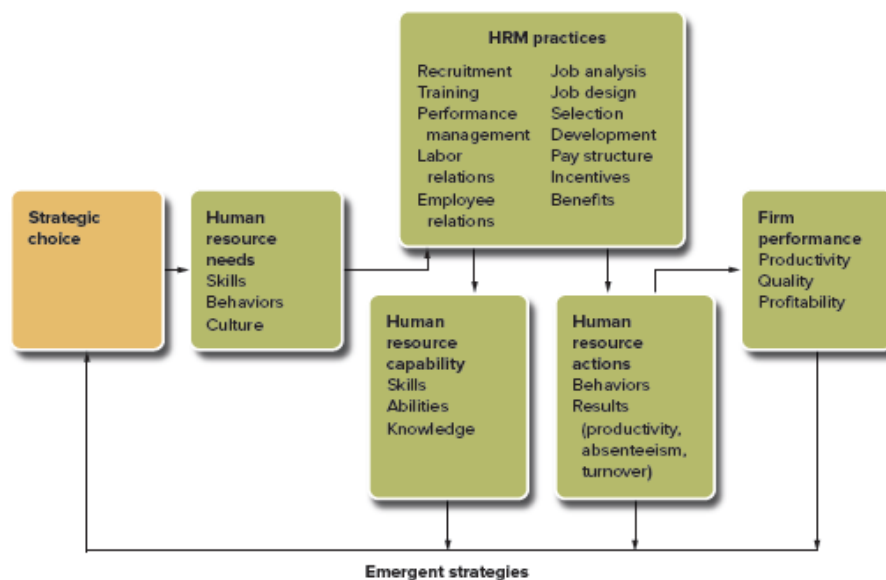


Figure 2.9 Strategy Implementation

HRM Practices

The HRM function can be thought of as having six menus of HRM practices, from which companies can choose the ones most appropriate for implementing their strategy. Each of these menus refers to a particular functional area of HRM: job analysis and design; recruitment and selection; training and development; performance management; pay structure, incentives, and benefits; and labor and employee relations.³⁶ These menus are presented in [Table 2.3](#).

Table 2.3 Menu of HRM Practice Options

Job Analysis and Design		
Few tasks	↔	Many tasks
Simple tasks	↔	Complex tasks
Few skills required	↔	Many skills required
Specific job descriptions	↔	General job descriptions
Recruitment and Selection		
External sources	↔	Internal sources
Limited socialization	↔	Extensive socialization
Assessment of specific skills	↔	Assessment of general skills
Narrow career paths	↔	Broad career paths
Training and Development		
Focus on current job skills	↔	Focus on future job skills
Individual orientation	↔	Group orientation
Train few employees	↔	Train all employees
Spontaneous, unplanned	↔	Planned, systematic
Performance Management		
Behavioral criteria	↔	Results criteria
Developmental orientation	↔	Administrative orientation
Short-term criteria	↔	Long-term criteria

Individual orientation	↔	Group orientation
Pay Structure, Incentives, and Benefits		
Pay weighted toward salary and benefits	↔	Pay weighted toward incentives
Short-term incentives	↔	Long-term incentives
Emphasis on internal equity	↔	Emphasis on external equity
Individual incentives	↔	Group incentives
Labor and Employee Relations		
Collective bargaining	↔	Individual bargaining
Top-down decision making	↔	Participation in decision making
Formal due process	↔	No due process
View employees as expense	↔	View employees as assets

SOURCES: Adapted from R. S. Schuler and S. F. Jackson, "Linking Competitive Strategies with Human Resource Management Practices," *Academy of Management Executive* 1 (1987), pp. 207–19; and C. Fisher, L. Schoenfeldt, and B. Shaw, *Human Resource Management*, 2nd ed. (Boston: Houghton Mifflin, 1992).

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Job Analysis and Design

Companies produce a given product or service (or set of products or services), and the manufacture of these products requires that a number of tasks be performed. These tasks are grouped together to form jobs. [Job analysis](#) is the process of getting detailed information about jobs. [Job design](#) addresses what tasks should be grouped into a particular job. The way that jobs are designed should have an important tie to the strategy of an organization because the strategy requires either new and different tasks or different ways of performing the same tasks. In addition, because many strategies entail the introduction of new technologies, this affects the way that work is performed.³⁷

[Job analysis](#)

The process of getting detailed information about jobs.

[Job design](#)

The process of defining the way work will be performed and the tasks that will be required in a given job.

In general, jobs can vary from having a narrow range of tasks (most of which are simplified and require a limited range of skills) to having a broad array of complex tasks requiring multiple skills. In the past, the narrow design of

jobs has been used to increase efficiency, while the broad design of jobs has been associated with efforts to increase innovation. However, with the advent of total quality management (TQM) methods and a variety of employee involvement programs such as quality circles, many jobs are moving toward the broader end of the spectrum.³⁸

Employee Recruitment and Selection

[Recruitment](#) is the process through which the organization seeks applicants for potential employment. [Selection](#) refers to the process by which it attempts to identify applicants with the necessary knowledge, skills, abilities, and other characteristics that will help the company achieve its goals. Companies engaging in different strategies need different types and numbers of employees. Thus, the strategy a company is pursuing will have a direct impact on the types of employees that it seeks to recruit and select.³⁹

[Recruitment](#)

The process of seeking applicants for potential employment.

[Selection](#)

The process by which an organization attempts to identify applicants with the necessary knowledge, skills, abilities, and other characteristics that will help it achieve its goals.

Employee Training and Development

A number of skills are instilled in employees through training and development. [Training](#) refers to a planned effort to facilitate the learning of job-related knowledge, skills, and behavior by employees. [Development](#) involves acquiring knowledge, skills, and behavior that improve employees' ability to meet the challenges of a variety of existing jobs or jobs that do not yet exist. Changes in strategies often require changes in the types, levels, and mixes of skills. Thus, the acquisition of strategy-related skills is an essential element of the implementation of strategy. For example, many companies have recently emphasized quality in their products, engaging in TQM programs. These programs require extensive training of all employees in the TQM philosophy, methods, and often other skills that ensure quality.⁴⁰

[Training](#)

A planned effort to facilitate the learning of job-related knowledge, skills, and behavior by employees.

[Development](#)

The acquisition of knowledge, skills, and behaviors that improve an employee's ability to meet changes in job requirements and in client and customer demands.

Through recruitment, selection, training, and development, companies can obtain a pool of human resources capable of implementing a given strategy.⁴¹

Performance Management

[Performance management](#) is used to ensure that employees' activities and outcomes are congruent with the organization's objectives. It entails specifying those activities and outcomes that will result in the firm successfully

implementing the strategy. For example, companies that are “steady state” (not diversified) tend to have evaluation systems that call for subjective performance assessments of managers. This stems from the fact that those above the first-level managers in the hierarchy have extensive knowledge about how the work should be performed. By contrast, diversified companies are more likely to use quantitative measures of performance to evaluate managers because top managers have less knowledge about how work should be performed by those below them in the hierarchy.⁴²

Performance management

The means through which managers ensure that employees' activities and outcomes are congruent with the organization's goals.

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Similarly, executives who have extensive knowledge of the behaviors that lead to effective performance use performance management systems that focus on the behaviors of their subordinate managers. However, when executives are unclear about the specific behaviors that lead to effective performance, they tend to focus on evaluating the objective performance results of their subordinate managers.⁴³

An example of how performance management can be aligned with strategy is provided in [Figure 2.10](#). This comes from a firm in the health care industry whose strategy consisted of five “strategic imperatives,” or things that the company was trying to accomplish. In this company all individuals set performance objectives each year, and each of their objectives had to be tied to at least one of the strategic imperatives. The senior VP of HR used the firm's technology system to examine the extent to which each business unit or function was focused on each of the imperatives. The figure illustrates the percentage of objectives that were tied to each imperative across the different units. This analysis allowed the company to determine if the mix of objectives was right enterprisewide as well as within each business unit or function.

Strategic Imperative	Business A	Business B	International	Investment	Finance	Legal	IT	HR&S	Enterprise
Achieve superior medical performance	10.5%	12.5%	2.7%	7.6%	3.1%	2.7%	11.4%	2.1%	10.0%
Effectively serve our customers	24.7%	27.2%	36.7%	12.2%	10.3%	27.2%	18.9%	19.5%	23.7%
Create great products and services	5.6%	6.1%	10.1%	9.8%	5.0%	10.1%	15.3%	8.9%	6.9%
Create a winning environment	27.7%	29.7%	30.1%	29.9%	30.3%	33.7%	22.4%	39.4%	27.7%
Establish a cost advantage	31.5%	24.5%	20.5%	40.5%	51.3%	26.3%	32%	30.0%	31.7%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Figure 2.10 Percentage of Objectives Identified in Individual Performance Plans That Are Tied to Each Strategic Imperative

Pay Structure, Incentives, and Benefits

The pay system has an important role in implementing strategies. First, a high level of pay and/or benefits relative to that of competitors can ensure that the company attracts and retains high-quality employees, but this might have a negative impact on the company's overall labor costs.⁴⁴ Second, by tying pay to performance, the company can elicit specific activities and levels of performance from employees.

In a study of how compensation practices are tied to strategies, researchers examined 33 high-tech and 72 traditional companies. They classified them by whether they were in a growth stage (greater than 20% inflation-adjusted increases in annual sales) or a maturity stage. They found that high-tech companies in the growth

stage used compensation systems that were highly geared toward incentive pay, with a lower percentage of total pay devoted to salary and benefits. By contrast, compensation systems among mature companies (both high-tech and traditional) devoted a lower percentage of total pay to incentives and a higher percentage to benefits.⁴⁵

Labor and Employee Relations

Whether companies are unionized or not, the general approach to relations with employees can strongly affect their potential for gaining competitive advantage.

Companies can choose to treat employees as an asset that requires investment of resources or as an expense to be minimized.⁴⁶ They have to make choices about how much employees can and should participate in decision making, what rights page 93employees have, and what the company's responsibility is to them. The approach a company takes in making these decisions can result in it either successfully achieving its short- and long-term goals or ceasing to exist.

Recent research has begun to examine how companies develop sets of HRM practices that maximize performance and productivity. For example, one study of automobile assembly plants around the world found that plants that exhibited both high productivity and high quality used "HRM best practices," such as heavy emphasis on recruitment and hiring, compensation tied to performance, low levels of status differentiation, high levels of training for both new and experienced employees, and employee participation through structures such as work teams and problem-solving groups.⁴⁷ Another study found that HRM systems composed of selection testing, training, contingent pay, performance appraisal, attitude surveys, employee participation, and information sharing resulted in higher levels of productivity and corporate financial performance, as well as lower employee turnover.⁴⁸ Finally, a recent study found that companies identified as some of the "best places to work" had higher financial performances than a set of matched companies that did not make the list.⁴⁹ Similar results have also been observed in a number of other studies.⁵⁰

In addition to the relationship between HR practices and performance in general, in today's fast-changing environment, businesses have to change quickly, requiring changes in employees' skills and behaviors. In one study the researchers found that the flexibility of HR practices, employee skills, and employee behaviors were all positively related to the firm's financial performance, but only the skill flexibility was related to cost efficiency.⁵¹ Although these relationships are promising, the causal direction has not yet been proved. For instance, effective HR practices should help firms perform better, but it is also true that highly profitable firms can invest more in HR practices.⁵² The research seems to indicate that although the relationship between practices and performance is consistently positive, we should not go too far out on a limb arguing that increasing the use of HRM practices will automatically result in increased profitability.⁵³

Strategic Types

As we discussed earlier, companies can be classified by the generic strategies they pursue. These generic "strategies" are not what we mean by a strategic plan. They are merely similarities in the ways companies seek to compete in their industries. Various typologies have been offered, but we focus on the two generic strategies proposed by Michael Porter of Harvard Business School: cost and differentiation.⁵⁴

According to Porter, competitive advantage stems from a company's being able to create value in its production process. Value can be created in one of two ways. First, value can be created by reducing costs. Second, value can be created by differentiating a product or service in such a way that it allows the company to charge a premium price relative to its competitors. This leads to two basic strategies. According to Porter, the "overall cost leadership" strategy focuses on becoming the lowest cost producer in an industry. This strategy is achieved by constructing

efficient large-scale facilities, by reducing costs through capitalizing on the experience curve, and by controlling overhead costs and costs in such areas as research and development, service, sales force, and advertising. This strategy provides above-average returns within an industry, and it tends to bar other firms' entry into the industry because the firm can lower its prices below competitors' costs.

The "differentiation" strategy, according to Porter, attempts to create the impression that the company's product or service is different from that of others in the industry. The perceived differentiation can come from creating a brand image, from technology, from offering unique features, or from unique customer service. If a company succeeds in differentiating its product, it will achieve above-average returns, and page 94the differentiation may protect it from price sensitivity. For instance, Dell Computer Company built its reputation on providing the lowest cost computers through leveraging its supply chain and direct selling model. However, recently they have seen share eroding as the consumer market grows and HP has offered more differentiated, stylish-looking computers sold through retail outlets where customers can touch and feel them. In addition, Apple has differentiated itself through its own operating system that integrates well with peripheral devices such as the iPad and iPhone. In both cases, these companies can charge a premium (albeit higher for Apple) over Dell's pricing.⁵⁵

HRM Needs in Strategic Types

Although all of the strategic types require competent people in a generic sense, each of the strategies also requires different types of employees with different types of behaviors and attitudes. As we noted earlier, different strategies require employees with specific skills. They also require these employees to exhibit different "role behaviors."⁵⁶ [Role behaviors](#) are the behaviors required of an individual in his or her role as a jobholder in a social work environment. These role behaviors vary on a number of dimensions. Additionally, different role behaviors are required by the different strategies. For example, companies engaged in a cost strategy require employees to have a high concern for quantity and a short-term focus, to be comfortable with stability, and to be risk averse. These employees are expected to exhibit role behaviors that are relatively repetitive and performed independently or autonomously.

[Role behaviors](#)

Behaviors that are required of an individual in his or her role as a jobholder in a social work environment.

Thus, companies engaged in cost strategies, because of the focus on efficient production, tend to specifically define the skills they require and invest in training employees in these skill areas. They also rely on behavioral performance management systems with a large performance-based compensation component. These companies promote internally and develop internally consistent pay systems with high pay differentials between superiors and subordinates. They seek efficiency through worker participation, soliciting employees' ideas on how to achieve more efficient production.

By contrast, employees in companies with a differentiation strategy need to be highly creative and cooperative; to have only a moderate concern for quantity, a long-term focus, and a tolerance for ambiguity; and to be risk takers. Employees in these companies are expected to exhibit role behaviors that include cooperating with others, developing new ideas, and taking a balanced approach to process and results.

Thus, differentiation companies will seek to generate more creativity through broadly defined jobs with general job descriptions. They may recruit more from outside, engage in limited socialization of newcomers, and provide broader career paths. Training and development activities focus on cooperation. The compensation system is geared toward external equity, as it is heavily driven by recruiting needs. These companies develop results-based performance management systems and divisional–corporate performance evaluations to encourage risk taking on the part of managers.⁵⁷ The [Evidence-Based HR](#) box describes some of the most recent research comparing commitment- versus control-oriented HRM systems.

Directional Strategies

LO 2-6

Describe the different HRM issues and practices associated with various directional strategies.

As discussed earlier in this chapter, strategic typologies are useful for classifying the ways different organizations seek to compete within an industry. However, it is also necessary to understand how increasing size (growth) or decreasing it (downsizing) affects the HRM function. For example, the top-management team might decide that they need to invest more in product development or to diversify as a means for growth. With these types of strategies, it is more useful for the HRM function to aid in evaluating the feasibility of the various alternatives and to develop programs that support the strategic choice.

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EVIDENCE-BASED HR

The Relationship Between HR Practices and Business Performance

Since the early to mid-1990s a number of researchers have explored the relationship between how firms or businesses manage their people in terms of HR practices and the financial and other measures of performance.

This plethora of research has been aggregated and synthesized in a few different “meta-analyses,” studies that seek to identify both the average effect and whether or not there are potential situational conditions that make the effect larger or smaller. Often these studies have also explored the effects of single HR practices compared to multiple, or “systems,” of HR practices.

These studies seemingly have revealed some pretty consistent results such as:

1. A significant relationship exists between firms' use of HR practices and their performance, whether operational measures such as productivity or turnover, financial metrics such as Return on Assets, or market-based metrics such as the market value of a firm or stock price.
2. The use of a “system” of HR practices results in stronger effects than the use of single HR practices.

The only problem with these results is that it is currently unclear which direction the causal arrow points. Is it that firms that implement HR systems see higher performance as a result, or that firms that perform well are more able to implement HR systems?

While the causal direction has not yet been unequivocally determined, the implications seem to be that firms are better off implementing a coherent system of HR practices than not doing so.

SOURCE: J. Storey, D. Ulrich, and P. Wright, *Strategic Human Resource Management: A Research Overview* (Routledge Press, 2019).

Companies have used four possible categories of directional strategies to meet objectives.⁵⁸ Strategies emphasizing market share or operating costs are considered “concentration” strategies. With this type of strategy, a company attempts to focus on what it does best within its established markets and can be thought of as “sticking to its knitting.” Strategies focusing on market development, product development, innovation, or joint ventures make up the “internal growth” strategy. Companies with an internal growth strategy channel their resources toward building on existing strengths. Those attempting to integrate vertically or horizontally or to diversify are exhibiting an [external growth strategy](#), usually through mergers or acquisitions. This strategy attempts to expand a company's

resources or to strengthen its market position through acquiring or creating new businesses. Finally, a “divestment,” or downsizing, strategy is one made up of retrenchment, divestitures, or liquidation. These strategies are observed among companies facing serious economic difficulties and seeking to pare down their operations. The human resource implications of each of these strategies are quite different.

[External growth strategy](#)

An emphasis on acquiring vendors and suppliers or buying businesses that allow a company to expand into new markets.

Concentration Strategies

[Concentration strategies](#) require that the company maintain the current skills that exist in the organization. This requires that training programs provide a means of keeping those skills sharp among people in the organization and that compensation programs focus on retaining people who have those skills. Appraisals in this strategy tend to be more behavioral because the environment is more certain, and the behaviors necessary for effective performance tend to be established through extensive experience.

[Concentration strategy](#)

A strategy focusing on increasing market share, reducing costs, or creating and maintaining a market niche for products and services.

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Internal Growth Strategies

[Internal growth strategies](#) present unique staffing problems. Growth requires that a company constantly hire, transfer, and promote individuals, and expansion into different markets may change the necessary skills that prospective employees must have. In addition, appraisals often consist of a combination of behaviors and results. The behavioral appraisal emphasis stems from the knowledge of effective behaviors in a particular product market, and the results appraisals focus on achieving growth goals. Compensation packages are heavily weighted toward incentives for achieving growth goals. Training needs differ depending on the way the company attempts to grow internally. For example, if the organization seeks to expand its markets, training will focus on knowledge of each market, particularly when the company is expanding into international markets. By contrast, when the company is seeking innovation or product development, training will be of a more technical nature, as well as focusing on interpersonal skills such as team building. Joint ventures require extensive training in conflict resolution techniques because of the problems associated with combining people from two distinct organizational cultures.

[Internal growth strategy](#)

A focus on new market and product development, innovation, and joint ventures.

Mergers and Acquisitions

Increasingly, we see both consolidation within industries and mergers across industries. For example, Procter & Gamble’s acquisition of Gillette represented a consolidation, or a reduction in the number of firms within the industry. By contrast, Citicorp’s merger with Travelers Group to form Citigroup represented firms from different

industries (pure financial services and insurance) combining to change the dynamics within both. Whatever the type, one thing is for sure—mergers and acquisitions are on the increase, and HRM needs to be involved.⁵⁹ In addition, these mergers more frequently consist of global mega-mergers, in spite of some warnings that these might not be effective.

According to a report by the Conference Board, “people issues” may be one of the major reasons that mergers do not always live up to expectations. Some companies now heavily weigh firm cultures before embarking on a merger or acquisition. For example, prior to acquiring Value Rx, executives at Express Scripts Inc. interviewed senior executives and middle managers at the potential target firm in order to get a sense of its culture.⁶⁰ In spite of this, fewer than one-third of the HRM executives surveyed said that they had a major influence in how mergers are planned, yet 80% of them said that people issues have a significant impact after the deals are finalized.⁶¹

In addition to the desirability of HRM playing a role in evaluating a merger opportunity, HRM certainly has a role in the actual implementation of a merger or acquisition. Training in conflict resolution is also necessary when companies engage in an external growth strategy. All the options for external growth consist of acquiring or developing new businesses, and these businesses often have distinct cultures. Thus, many HRM programs face problems in integrating and standardizing practices across the company’s businesses. The relative value of standardizing practices across businesses must be weighed against the unique environmental requirements of each business and the extent of desired integration of the two firms. For example, with regard to pay practices, a company may desire a consistent internal wage structure to maintain employee perceptions of equity in the larger organization. In a recent new business developed by IBM, the employees pressured the company to maintain the same wage structure as IBM’s main operation. However, some businesses may function in environments where pay practices are driven heavily by market forces. Requiring these businesses to adhere to pay practices in other environments may result in an ineffective wage structure.

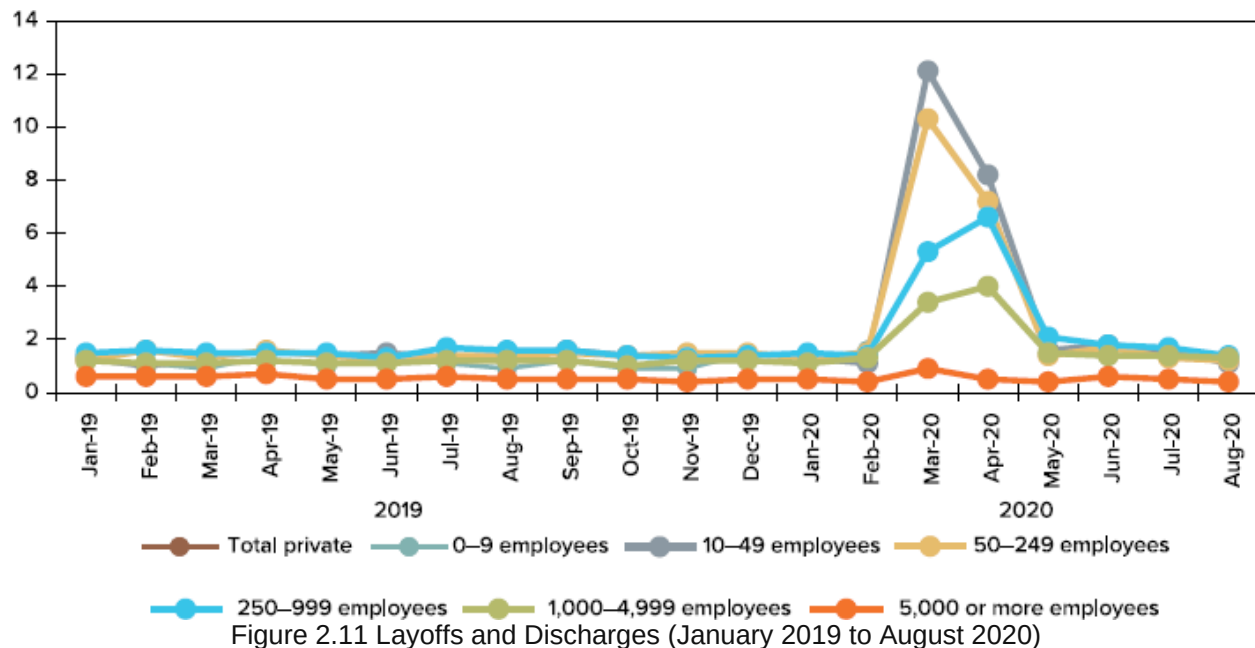
HR executives and the HR function play a critical role in the potential success of a merger or acquisition particularly because “people issues” are often cited as the major reason for failure in M&A. Recent research revealed that some keys to successfully managing the “people” components of M&A focus on creating and communicating to employees a clear vision for the acquisition, focusing on effectively merging the cultures of the two companies, ensuring the retention of the key talent in the acquired or merged company, and involving HR in the early phases when a firm is just beginning to explore the potential acquisition of another firm.⁶²

Downsizing

Of increasing importance to organizations in today’s competitive environment is HRM’s role in [downsizing](#), or “rightsizing.” The number of organizations undergoing downsizing increased significantly during March 2020 due to the lockdown of the economy (see [Figure 2.11](#)).⁶³ In fact, some of these layoffs were due to outright bankruptcies because firms simply did not have sustainable business models. In addition, even as the economy has grown, layoffs continue in companies that face challenging environments. For instance, in 2019 Ford announced layoffs of 7,000 in the U.S. and an additional 12,000 in Europe. Disney, after its acquisition of 21st Century Fox, was expected to lay off 4,000 people in redundant positions. Finally, in a move to conserve cash, Tesla laid off 3,000 employees.⁶⁴ A recent review of the downsizing literature noted that downsizing tends to fall short of meeting companies’ financial and organizational objectives, and has negative effects on employee morale and productivity.⁶⁵

[Downsizing](#)

The planned elimination of large numbers of personnel, designed to enhance organizational effectiveness.



SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, "Layoffs and discharges in small, medium, and large establishments," Oct. 14, 2020, [HYPERLINK](http://www.bls.gov/opub/ted/2020/layoffs-and-discharges-in-small-medium-and-large-establishments.htm)

["http://www.bls.gov/opub/ted/2020/layoffs-and-discharges-in-small-medium-and-large-establishments.htm"](http://www.bls.gov/opub/ted/2020/layoffs-and-discharges-in-small-medium-and-large-establishments.htm)
www.bls.gov/opub/ted/2020/layoffs-and-discharges-in-small-medium-and-large-establishments.htm.

One would have great difficulty ignoring the massive "war for talent" that went on during the late 1990s, particularly with the notable dot-com craze. Firms during this time sought to become "employers of choice," to establish "employment brands," and to develop "employee value propositions" as ways to ensure that they would be able to attract and retain talented employees. The [Competing through Environmental, Social, and Governance Practices](#) box describes how the Global Managing Partner of McKinsey and Company made a number of decisions based in what he thought was the right thing to do, but lost his job as a result.

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COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

The Risk in Recognizing Potential Mistakes

Certainly no company makes perfect decisions all the time, and when you are a consulting firm, a risk always exists that you may take on clients that get in trouble. When that happens your firm may be liable if the people involved should have had an idea there was a problem. When that occurs, you have a choice: you can admit your fault or you can fight in court.

McKinsey, the global consulting firm, faced just such a situation. It had taken on Purdue Pharma and other pharmaceutical companies as clients and advised them regarding how to market their opioid painkilling products such as OxyContin. When thousands of people began to die of opioid overdoses, the manufacturers of those painkillers faced numerous lawsuits. When it became known that McKinsey had helped the manufacturers in marketing those products, they also became a target.

Global Managing Partner Kevin Sneader had to help McKinsey navigate this crisis. First, he negotiated a \$573 million settlement with states to remove any further legal liability. Note that as part of the settlement, McKinsey did not admit to any wrongdoing. Second, to try to ensure that people within the firm did not get the company involved

in activities with clients that might result in future issues, he instituted systems, processes, and rules to limit their decision making. This did not go over well in a firm where partners had previously been vested with extreme latitude.

As a result, when Mr. Sneader was up for a vote to be renewed as the leader, he failed to get enough votes to make it past the first round. This was the first time in decades this had happened. The vote made clear that the partners strongly disapproved of how he handled this and a number of other decisions.

DISCUSSION QUESTIONS

Do you think that Mr. Sneader made the right decision to settle regarding the OxyContin issue, or should he have had McKinsey defend its work in court?

What do you think of the firm's partners not voting to renew him as the Global Managing Partner? Was that the right decision? Why or why not?

SOURCE: J. Scheck and V. Fuhrmans, "McKinsey Partners Vote Out Leader in Wake of Opioid Settlement, Other Crises," February 24, 2021,

<https://www.wsj.com/articles/mckinsey-partners-vote-out-leader-after-opioid-settlement-other-crises-11614187437?mod=busin>

The dynamic economic conditions requiring firms to constantly churn their work-forces means that one important question facing firms is, How can we develop a reputation as an employer of choice, and engage employees to the goals of the firm, while laying off a significant portion of our workforce? How firms answer this question will determine how they can compete by meeting the stakeholder needs of their employees. For example, recent research has focused on understanding the role of staffing during economic downturns, and shown that investing in staffing during economically difficult times has long-term benefits for the organization.⁶⁶

In spite of the increasing frequency of downsizing, research reveals that it is far from universally successful for achieving the goals of increased productivity and increased profitability. For example, one survey by the AMA found that over two-thirds of the companies that downsize repeat the effort a year later.⁶⁷ Also, research by the consulting firm Mitchell & Company found that companies that downsized during the 1980s lagged the industry average stock price in 1991.⁶⁸ Finally, research has shown that downsizing does not apparently present the "cure-all" that some suggest because while it achieves short-term cuts in costs, it often also cuts the critical aspects of the workforce necessary for survival. One study noted that downsizing may cause firms to lose the valuable knowledge held by those laid off, result in increased workloads on the remaining workforce, and create a level of mistrust resulting in reduced engagement and loyalty of the workers who remain. In studying over 4700 firms in 2010, they found that those that engaged in downsizing by reducing their workforce by 3% or more (24% of those firms) were twice as likely to declare bankruptcy in the following five years.⁶⁹ Thus, it is important to understand the best ways of managing downsizings, particularly from the standpoint of HRM.

Downsizing presents a number of challenges and opportunities for HRM.⁷⁰ In terms of challenges, the HRM function must "surgically" reduce the workforce by cutting only the workers who are less valuable in their performance. Achieving this is difficult because the best workers are most able (and often willing) to find alternative employment and may leave voluntarily prior to any layoff. For example, in 1992 General Motors and the UAW agreed to an early retirement program for individuals between the ages of 51 and 65 who had been employed for 10 or more years. The program provided those who agreed to retire their full pension benefits, even if they obtained employment elsewhere, and as much as \$13,000 toward the purchase of a GM car.⁷¹ As mentioned earlier in the chapter, this is part of GM's labor cost problem.

Early retirement programs, although humane, essentially reduce the workforce with a "grenade" approach. This type of reduction does not distinguish between good and poor performers but rather eliminates an entire group of employees. In fact, recent research indicates that when companies downsize by offering early retirement programs, they usually end up rehiring to replace essential talent within a year. Often the company does not achieve its

cost-cutting goals because it spends 50 to 150% of the departing employees' salaries in hiring and retraining new workers.⁷²

Another HRM challenge is to boost the morale of employees who remain after the reduction; this topic is discussed in greater detail in [Chapter 5](#). Survivors may feel guilt over keeping their jobs when their friends have been laid off, or they may envy their friends who have retired with attractive severance and pension benefits. Their reduced satisfaction with and commitment to the organization may interfere with work performance. Thus, the HRM function must maintain open communication with remaining employees to build their trust and commitment rather than withholding information.⁷³ All employees should be informed of the purpose of the downsizing, the costs to be cut, the duration of the downsizing, and the strategies to be pursued. In addition, companies going through downsizing often develop compensation programs that tie the individual's compensation to the company's success. Employee ownership programs often result from downsizing, and gainsharing plans such as the Scanlon plan (discussed in [Chapter 12](#)) as a way to incentivize employees to cut costs because it will benefit them monetarily.

In spite of these challenges, downsizing provides opportunities for HRM. First, it often allows the company to "get rid of dead wood" and make way for fresh ideas. In addition, downsizing is often a unique opportunity to change an organization's culture. In firms characterized by antagonistic labor–management relations, downsizing can force the parties to cooperate and to develop new, positive relationships.⁷⁴ Finally, downsizing can demonstrate to top-management decision makers the value of the company's human resources to its ultimate success. The role of HRM is to effectively manage the process in a way that makes this value undeniable. We discuss the implications of downsizing as a labor force management strategy in [Chapter 5](#).

Strategy Evaluation and Control

A final component to the strategic management process is that of strategy evaluation and control. Thus far we have focused on the planning and implementation of strategy. However, it is extremely important for the firm to constantly monitor the effectiveness of both the strategy and the implementation process. This monitoring makes it possible for the company to identify problem areas and either revise existing structures and strategies or devise new ones. In this process we see emergent strategies appear as well as the critical nature of human resources in competitive advantage.

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The Role of Human Resources in Providing Strategic Competitive Advantage

Thus far we have presented the strategic management process as including a step-by-step procedure by which HRM issues are raised prior to deciding on a strategy and then HRM practices are developed to implement that strategy. However, human resources can provide a strategic competitive advantage in two additional ways: through emergent strategies and through enhancing competitiveness.

Emergent Strategies

Having discussed the process of strategic management, we also must distinguish between intended strategies and emergent strategies. Most people think of strategies as being proactive, rational decisions aimed toward some predetermined goal. The view of strategy we have presented thus far in the chapter focuses on intended strategies.

Intended strategies are the result of the rational decision-making process used by top managers as they develop a strategic plan. This is consistent with the definition of *strategy* as “the pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole.”⁷⁵ The idea of emergent strategies is evidenced by the feedback loop in [Figure 2.2](#).

Most strategies that companies espouse are intended strategies. For example, when Howard Schultz founded Starbucks, he had the idea of creating a third place (between work and home) where people could enjoy traditional Italian-style coffee. He knew that the smell of the coffee and the deeper, darker, stronger taste would attract a new set of customers to enjoy coffee the way he thought it should be enjoyed. This worked, but as Starbucks grew, customers began asking if they could have nonfat milk in their lattes, or if they could get flavor shots in their coffees. Schultz swore that such things would essentially pollute the coffee and refused to offer them. Finally, after repeated requests from his store managers who kept hearing customers demanding such things, Schultz finally relented.⁷⁶

Emergent strategies, by contrast, consist of the strategies that evolve from the grassroots of the organization and can be thought of as what organizations actually do, as opposed to what they intend to do. Strategy can also be thought of as “a pattern in a stream of decisions or actions.”⁷⁷ For example, when Honda Motor Company first entered the U.S. market with its 250-cc and 350-cc motorcycles in 1959, it believed that no market existed for its smaller 50-cc bike. However, the sales on the larger motorcycles were sluggish, and Japanese executives running errands around Los Angeles on Honda 50s attracted a lot of attention, including that of a buyer with Sears, Roebuck. Honda found a previously undiscovered market as well as a new distribution outlet (general retailers) that it had not planned on. This emergent strategy gave Honda a 50% market share by 1964.⁷⁸

The distinction between intended and emergent strategies has important implications for human resource management.⁷⁹ The new focus on strategic HRM has tended to focus primarily on intended strategies. Thus, HRM's role has been seen as identifying for top management the people-related business issues relevant to strategy formulation and then developing HRM systems that aid in the implementation of the strategic plan.

However, most emergent strategies are identified by those lower in the organizational hierarchy. It is often the rank-and-file employees who provide ideas for new markets, new products, and new strategies. HRM plays an important role in facilitating communication throughout the organization, and it is this communication that allows for effective emergent strategies to make their way up to top management. For example, Starbucks' Frappuccino was a drink invented by one of the store employees in page 101California; Starbucks leaders (including Schultz) thought it was a terrible idea. They fought it in a number of meetings, but the employee kept getting more and more information supporting her case for how much customers seemed to like it. The leaders finally gave the go-ahead to begin producing it, and it has become a \$1 billion a year product, and one that has contributed to the Starbucks brand.⁸⁰

Enhancing Firm Competitiveness

A related way in which human resources can be a source of competitive advantage is through developing a human capital pool that gives the company the unique ability to adapt to an ever-changing environment. Recently managers have become interested in the idea of a “learning organization,” in which people continually expand their capacity to achieve the results they desire.⁸¹ This requires the company to be in a constant state of learning through monitoring the environment, assimilating information, making decisions, and flexibly restructuring to compete in that environment. Companies that develop such learning capability have a competitive advantage. Although certain organizational information-processing systems can be an aid, ultimately the people (human capital) who make up the company provide the raw materials in a learning organization.⁸²

Thus, the role of human resources in competitive advantage should continue to increase because of the fast-paced change characterizing today's business environment. It is becoming increasingly clear that even as U.S.

automakers have improved the quality of their cars to compete with the Japanese, these competitors have developed such flexible and adaptable manufacturing systems that they can respond to customer needs more quickly.⁸³ This flexibility of the manufacturing process allows the emergent strategy to come directly from the marketplace by determining and responding to the exact mix of customer desires. It requires, however, that the company have people in place who have the skills to similarly adapt quickly.⁸⁴ As former Starbucks CEO Howard Schultz says, “If people relate to the company they work for, if they form an emotional tie to it and buy into its dreams, they will pour their heart into making it better. When employees have self-esteem and self-respect they can contribute so much more; to their company, to their family, to the world.”⁸⁵ This statement exemplifies the increasing importance of human resources in developing and maintaining competitive advantage.⁸⁶



A LOOK BACK

Boeing's Challenges Going Forward

Boeing has \$12 billion in inventory of planes that it built prior to the pandemic, which could help on the road back to financial stability. However, analysts suggest that they may need to offer deep discounts to regain customers, and these reduced margins will prolong Boeing's recovery.

Tim Clark, the CEO of Emirates Air, diagnosed Boeing's past problems as being due to their culture that emphasized shareholder and executive wealth. “I think this whole notion that the corporation should be subjected to the, what I call the 90s and 2000s ... financial pressures that the pursuit of shareholder value, of course. The pursuit of profit. The pursuit of reduction in costs. The pursuit of bonuses, the bonus culture that drove so much of the thinking and distorted decisions taken at very high levels.”

His solution? “Concentrate on what you and the rest will happen on the upside, not the downside, because your designers, your engineers will do the right thing by you. They'll listen to the client base. They'll look at those emerging technologies. They'll see how they can cross them over. And when you do that, and you've got it all sorted, you will reemerge as a hugely strong consortium. Profitable by virtue of the fact, not because you're worried about shareholder price and bonuses—you will be good because you are good.”

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Boeing has definitely begun to change the culture. In January of 2020 David Calhoun became the new President and CEO with a focus on safety culture, improved transparency and rebuilding trust. Among his initial priorities was a focus on Boeing's values stating: “Every day we will commit to our shared values while further strengthening our culture.” In July the values were updated but retained a focus on safety, quality, and integrity. Then in December they began “Recommitment” training with the aims of strengthening the culture, improving transparency, and ensuring the people at Boeing are always delivering the highest safety and quality standards. The annual training is an opportunity to speak openly and candidly about the values and affirm why they are essential to the company. Finally, in early 2021 they began a program called “Seek, Speak & Listen” (SS&L). SS&L is an integrated effort to drive and sustain behavior change and habit formation that enable the company to live out the Boeing values.

QUESTIONS

What do you think might have led Boeing to make poor strategic decisions? How might an HR executive influence those decisions to be better?

How important do you think culture is to the success of a business? In what ways can getting culture right contribute to the business and getting it wrong hurt the business? How did this play out at Boeing?

Why do you think talent or people are critical to business success? In what ways do they need to be aligned to strategy?

SUMMARY

A strategic approach to human resource management seeks to proactively provide a competitive advantage through the company's most important asset: its human resources. Although human resources are the most important asset, they are also usually the single largest controllable cost within the firm's business model. The HRM function needs to be integrally involved in the formulation of strategy to identify the people-related business issues the company faces. Once the strategy has been determined, HRM has a profound impact on the implementation of the plan by developing and aligning HRM practices that ensure that the company has motivated employees with the necessary skills. Finally, the emerging strategic role of the HRM function requires that HR professionals in the future develop business, professional–technical, change management, and integration competencies. As you will see more clearly in later chapters, this strategic approach requires more than simply developing a valid selection procedure or state-of-the-art performance management systems. Only through these competencies can the HR professional take a strategic approach to human resource management.

KEY TERMS

[Strategic human resource management \(SHRM\), 75](#)

[Strategy formulation, 76](#)

[Strategy implementation, 76](#)

[Goals, 80](#)

[External analysis, 80](#)

[Internal analysis, 80](#)

[Strategic choice, 83](#)

[Job analysis, 91](#)

[Job design, 91](#)

[Recruitment, 91](#)

[Selection, 91](#)

[Training, 91](#)

[Development, 91](#)

[Performance management, 91](#)

[Role behaviors, 94](#)

[External growth strategy, 95](#)

[Concentration strategy, 95](#)

[Internal growth strategy, 96](#)

[Downsizing, 97](#)

DISCUSSION QUESTIONS

Pick one of your university's major sports teams (like football or basketball). How would you characterize that team's generic strategy? How does the composition of the team members (in terms of size, speed, ability, and so on) relate to that strategy? What are the strengths and weaknesses of the team? How do they dictate the team's generic strategy and its approach to a particular game?

Do you think that it is easier to tie human resources to the strategic management process in large or in small organizations? Why?

Consider one of the organizations you have been affiliated with. What are some examples of human resource practices that were consistent with that organization's strategy? What are examples of practices that were inconsistent with its strategy?

How can strategic management within the HRM department ensure that HRM plays an effective role in the company's strategic management process?

What types of specific skills (such as knowledge of financial accounting methods) do you think HR professionals will need in order to have the business, professional–technical, change management, and integrative competencies necessary in the future? Where can you develop each of these skills?

What are some of the key environmental variables that you see changing in the business world today? What impact will those changes have on the HRM function in organizations?

SELF-ASSESSMENT EXERCISE



How Do HR Trends Affect a Company That You Like?

If you have been assigned this Self-Assessment in Connect, you will choose a company (either one you have worked for or one you are interested in working for) and answer questions about HR practices and trends.

EXERCISING STRATEGY

GE: Fall of an Iconic Company

General Electric (GE), the company founded by Thomas Edison and which former CEO Jack Welch turned into one of the world's most admired companies, seemingly possessed an inability to fail ... until it did. Previously one of the most financially successful companies, GE's stock price went from just under \$33 in 2016 to less than \$9 at the beginning of 2019. In addition, the company once known for its strong dividend payouts to shareholders reduced its dividend to 1 cent. Finally, the company once known for being a leadership factory that produced CEOs for companies like Home Depot, 3M, and Boeing ended up firing internally promoted CEO John Flannery after 14 months and brought in outsider Larry Culp.

What caused this fall? Poor strategic and financial decisions. Strategically, GE had long been powered by GE capital, what could at one time have been considered the nation's seventh largest bank, lending to a vast variety of businesses and providing a revenue and profit stream that could cover losses in other areas of the conglomerate. However, in an effort to get out of the regulatory constraints following the financial collapse in 2009, CEO Jeff Immelt sought to sell GE capital, partly to fund acquiring French industrial conglomerate Alstom SA. Additionally, when GE spun off its insurance business as Genworth Financial, it agreed to cover any losses stemming from its long-term-care insurance, that is, expenses like assisted living and nursing homes. However, these losses quickly mounted to between \$3 and \$6 billion. Finally, the acquisition of Alstom was a means to create scale within the power business, but the result was that GE's power business grew just at a time when the industry was shrinking.

It seems that at the core of this was a culture within GE that led few to question or push back on strategic decisions. While after the fact it became clear that many within GE disagreed with these decisions, the culture had become described as “Success Theatre” that rewarded those that did not rock the boat and applauded the CEO’s decisions. However, these poor decisions led to trouble, and as the company cut costs and sold businesses, talent began to flee for more stable companies.

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While GE was known for years as being the role model for other companies, its strategy drifted over time. Part of the strategy entailed being the best in any industry, and if they were not the best, the business leader was to fix it, close it, or sell it. This strategy was supported by a highly disciplined and competitive culture that attracted and retained bright and ambitious people. However, the culture evolved into one that seemed to reinforce conformity. GE’s struggles seemingly stem from a culture that stifled dissent. The lack of dissent led the company into a series of strategic decisions that ended up putting the company at risk. The current financial situation threatens their ability to attract and retain talent. John Flannery took over as CEO in 2017, inheriting a series of difficult challenges. As much as he tried to deal with them, the winds blew too strongly against him, and he was fired 14 months after assuming the helm. He was replaced by Larry Culp, a board member who has served as the CEO of Danaher Corporation. Sadly, the company that was known for building the greatest leaders had to hire its next CEO from outside.

QUESTIONS

What do you think might have led GE to make poor strategic decisions? How might an HR executive influence those decisions to be better?

How important do you think culture is to the success of a business? In what ways can getting culture right contribute to the business and getting it wrong hurt the business?

Why do you think talent or people are critical to business success? In what ways do they need to be aligned to strategy?

SOURCE: T. Gryta and T. Mann, “GE Powered the American Century—Then It Burned Out,” *The Wall Street Journal*, December 14, 2018, <https://www.wsj.com/articles/ge-powered-the-american-century-then-it-burned-out-11544796010>, accessed December 14, 2018.

MANAGING PEOPLE

How Should Dell Respond to the HP Challenge?

Dell Computers was founded by Michael Dell in his college dormitory room. It quickly became one of the fastest growing businesses in history, an almost unparalleled success story. By 2005 Dell had become the largest manufacturer of PCs, primarily focusing on the B2B market. This was achieved by creating a “Direct” model that allowed companies to buy customized computers directly from Dell, cutting out the margins previously captured by middlemen such as CDW. The creation of Dell’s “Premier Pages” website made it easy for corporate customers to easily place orders for large numbers of computers configured exactly as they wanted. The direct model also allowed Dell to better manage its supply chain, reducing both the inventory of components as well as finished products.

However, by 2007 HP had surpassed Dell in PC sales. After having tried to imitate the Dell model, in 2005 HP hired Todd Bradley to turn the business around. Instead of fighting Dell in Internet and phone sales where Dell was strong, Mr. Bradley decided to focus on its strength, retail stores, where Dell was completely absent, and where individual customers, the fastest growing segment, made most of their purchases. He noted that PCs “aren’t just a commodity that you run out and buy on the Internet. People are going to want to touch it and feel it and understand

how it connects.” He also began advertising campaigns using celebrities such as hip-hop mogul Jay-Z to talk about how they used their HP laptops.

In talking with retailers, he found that they complained about late and incomplete deliveries. So, he focused on fixing the logistical problems and consolidated 30 manufacturing plants into 23. This enabled HP to reduce both the time and cost of building PCs, and reduce late deliveries by 30%. HP’s margins grew to 4.8% in the second quarter of 2007 from 3.6% a year earlier while Dell’s fell to 6.5% from 6.7% a year earlier.

Finally, he built better relationships with the retailers. He pushed products such as touch-screen PCs that would garner attention from customers. He also helped retailers to design products exclusive to their stores, enabling them to differentiate their products from competitors. He worked with them to be able to create customized imprints. For instance, working with Best Buy, HP created a silver and white laptop, softer colors aimed at female customers.

Thus, in 2007 Dell gave up its title as the largest producer of PCs. In addition, as the consumer market continued to grow at a much faster rate than the corporate market, Dell was ill-positioned to reverse this trend.

QUESTIONS

What are the major competitive and strategic challenges Dell needs to deal with if it is to regain a position of strength within the industry?

What can HR do to help Dell reestablish its position as the leader in PCs? Assume you just got on the elevator with Michael Dell and want to explain how page 105HR will aid him in regaining its pre-eminent position. What will you tell him in the 1 to 2 minutes you have?

SOURCE: C. Lawton, “How HP Regained Its Lead over Dell,” *The Wall Street Journal*, June 4, 2007, http://online.wsj.com/article_print/SB118092117687623314.

HR IN SMALL BUSINESS

Auto Dealers Sold on Employee Satisfaction

Auto dealerships have in recent years had difficulty maintaining a workforce of talented, engaged employees. Turnover rates at some dealerships are as high as 60% or more for salespeople and 50% for service staff. This is especially critical for these companies because people who can build satisfying relationships are central to the success of selling and servicing vehicles. People will not return to buy another car or have their car serviced if they don’t trust the people they dealt with in the past. Intensifying the problem is competition from online car-shopping services. Successful dealerships are able to overcome the hurdles by building engagement through valuable, meaningful work.

High-performance dealerships look for ways to ensure that employees are empowered. At the Penske Automotive Group, executive vice president John Cragg realized that he was delegating assignments without actually empowering his people; that is, they had plenty of work to do but not necessarily the means to make a significant contribution. He began to work more closely with the HR department to identify how to give his employees developmental opportunities. Their satisfaction improved, and employee turnover declined. Mercedes-Benz of Raleigh, North Carolina, adds a weekly dose of empathetic leadership it calls Affirmation Friday. The employees start the day standing in a circle and make a positive statement of their own choosing; often, this includes expressions of appreciation for co-workers. Employees come to understand one another better, and they welcome the positive feedback they receive. The dealership’s general manager, Bonnie Gramling, says employee retention rates are at an all-time high since the company instituted the program.

Empowerment works only insofar as employees have the skills needed to succeed. Therefore, dealers are increasingly considering the need for training. Audi Warwick in Rhode Island set up a “feeder system” akin to baseball’s minor leagues. Entry-level employees get started doing routine tasks while they learn on the job from more experienced co-workers. As they gain skills, they move into their role in sales or service at higher pay. This

process builds positive working relationships along with knowledge of sales and service. It also has lowered turnover to an industry-beating 20%.

Technology plays an essential role in improving performance at auto dealerships. For employees to compete with online competition, they need to have access to the technology their customers are using. Top-performing dealerships provide their employees with both the software and the training necessary to keep up in this area. For many employees, access to high-tech tools and the chance to stay on the leading edge of what's new is not only helpful but also makes work more interesting.

QUESTIONS

How does low employee turnover enable high performance at an auto dealership?

Briefly describe another way, besides the ones given, that human resource management could help make a dealership a high-performance organization. For ideas, you might consider the organizational conditions that contribute to high performance.

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CHAPTER 3

The Legal Environment: Equal Employment Opportunity and Safety



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

LO3-1 Identify the three branches of government and the role each plays in influencing the legal environment of human resource management.

LO3-2 List the major federal laws that require equal employment opportunity and the protections provided by each of these laws.

LO3-3 Discuss the roles, responsibilities, and requirements of the federal agencies responsible for enforcing equal employment opportunity laws.

LO3-4 Identify the three theories of discrimination under Title VII of the Civil Rights Act and apply these theories to different discrimination situations.

LO3-5 Identify behavior that constitutes sexual harassment, and list things that an organization can do to eliminate or minimize it.

LO3-6 Discuss the legal issues involved with preferential treatment programs.

LO3-7 Identify the major provisions of the Occupational Safety and Health Act (1970) and the rights of employees that are guaranteed by this act.

ENTER THE WORLD OF BUSINESS

Is McDonald's Guilty of Discrimination?

McDonald's has long been known as a socially conscious corporation that has done much to support and elevate Black Americans. They have had a strong representation of Black executives and Black franchisees, modeling how to create a diverse organization that provides opportunities to all, regardless of race. However, this reputation has recently come into question, particularly when two Black female executives, Vicki Guster-Hines and Domineca Neal, brought a lawsuit alleging racial discrimination and violations of their civil rights.

When Steve Easterbrook became CEO in 2015, he brought in a new group of executives, including Chris Kempczinski, who became the USA President of McDonald's and now has replaced Easterbrook as CEO. Facing the need to reduce costs he began a restructuring plan that included closing down some locations. The lawsuit alleges that the restructuring negatively impacted Black franchisees and cut back on advertising with Black-owned agencies. The plaintiffs in the lawsuit allege that it de-emphasized racial diversity and that when they raised the

issue page 110 they were subsequently demoted. In addition, they claim they suffered a hostile culture and were referred to as “angry Black women” and even on one occasion called “n---er.” Finally, they said that the company’s African American Diversity Council, which provided career development and a talent pipeline for Black employees, was defunded and then became dormant.

Linda C. Chatham, one of the Chicago-based attorneys representing Neal and Guster-Hines, summarized the case: “The crux of it is that, under Easterbrook and now Kempczinski, McDonald’s is not interested in, or focused upon, Black customers, Black franchisees or Black executives, as evidenced by how they decimated their ranks at the corporate level.” The lawsuit alleges: “In shocking ways difficult to overstate, McDonald’s under Easterbrook and Kempczinski declared a war against the African American community.”

SOURCES: T. Coleman and T. Coleman II, “Former McDonald’s Execs Strike Back in Explosive Race Discrimination Lawsuit,” August 6, 2020,

<https://tntribune.com/former-mcdonalds-execs-strike-back-in-explosive-race-discrimination-lawsuit/>; H. Haddon,

“Two McDonald’s Executives Allege Racial Discrimination,” January 7, 2020,

<https://www.wsj.com/articles/two-mcdonalds-executives-allege-race-discrimination-11578441939>; S. Nassauer,

“Walmart Likely Discriminated against Female Store Workers, EEOC Finds,” September 17, 2019,

<https://www.wsj.com/articles/walmart-likely-discriminated-against-female-store-workers-eeoc-finds-11568723935>.

Introduction

In [Chapter 1](#), we discussed the environment of the human resource management function, and we noted that several environmental factors affect an organization’s HRM function. One is the legal environment, particularly the laws affecting the management of people. As the potential troubles at McDonald’s suggest, legal issues can cause serious problems for a company’s success and survival. In this chapter, we first present an overview of the U.S. legal system, noting the different legislative bodies, regulatory agencies, and judicial bodies that determine the legality of certain HRM practices. We then discuss the major laws and executive orders that govern these practices.

One point to make clear at the outset is that managers often want a list of “dos and don’ts” that will keep them out of legal trouble. They rely on rules such as “Don’t ever ask a female applicant if she is married” without understanding the “why” behind these rules. Clearly, certain practices are illegal or inadvisable, and this chapter will provide some valuable tips for avoiding discrimination lawsuits. However, such lists are not compatible with a strategic approach to HRM and are certainly not the route to developing a competitive advantage. They are simply mechanical reactions to the situations. Our goal is to provide an understanding of how the legislative, regulatory, and judicial systems work to define equal employment opportunity law. Armed with this understanding, a manager is better prepared to manage people within the limits imposed by the legal system. Doing so effectively is a source of competitive advantage. Doing so ineffectively results in competitive disadvantage. Rather than viewing the legal system as a constraint, firms that embrace the concept of diversity can often find that they are able to leverage the differences among people as a tremendous competitive tool.

The Legal System in the United States

LO 3-1

Identify the three branches of government and the role each plays in influencing the legal environment of human resource management.

The foundation for the U.S. legal system is set forth in the U.S. Constitution, which affects HRM in two ways. First, it delineates a citizen's constitutional rights, on which the government cannot impinge.¹ Most individuals are aware of the Bill of Rights, the first 10 amendments to the Constitution; but other amendments, such as the Fourteenth Amendment, also influence HRM practices. The Fourteenth Amendment, called the equal protection clause, states that all individuals are entitled to equal protection under the law.

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Second, the Constitution established three major governing bodies: the legislative, executive, and judicial branches. The Constitution explicitly defines the roles and responsibilities of each of these branches. Each branch has its own areas of authority, but these areas have often overlapped, and the borders between the branches are often blurred.

Legislative Branch

The legislative branch of the federal government consists of the House of Representatives and the Senate. These bodies develop laws that govern many HRM activities. Most of the laws stem from a perceived societal need. For example, during the civil rights movement of the early 1960s, the legislative branch moved to ensure that various minority groups received equal opportunities in many areas of life. One of these areas was employment, and thus Congress enacted Title VII of the Civil Rights Act. Similar perceived societal needs have brought about labor laws such as the Occupational Safety and Health Act, the Employee Retirement Income Security Act, the Age Discrimination in Employment Act, and, more recently, the Americans with Disabilities Act of 1990 and the Civil Rights Act of 1991.

Executive Branch

The executive branch consists of the president of the United States and the many regulatory agencies the president oversees. Although the legislative branch passes the laws, the executive branch affects these laws in many ways. First, the president can propose bills to Congress that, if passed, would become laws. Second, the president has the power to veto any law passed by Congress, thus ensuring that few laws are passed without presidential approval—which allows the president to influence how laws are written.

Third, the regulatory agencies, under the authority of the president, have responsibility for enforcing the laws. Thus, a president can influence what types of violations are pursued. For example, many laws affecting employment discrimination are enforced by the Equal Employment Opportunity Commission under the Department of Justice. During President Donald Trump's administration, the Department of Justice brought a lawsuit against Yale University for discriminating against Asian applicants. However, soon after taking office, the administration of President Joe Biden dropped the lawsuit.²

Fourth, the president can issue executive orders, which sometimes regulate the activities of organizations that have contracts with the federal government. For example, Executive Order 11246, signed by President Lyndon Johnson, required all federal contractors and subcontractors to engage in affirmative action programs designed to hire and promote women and members of visible minority groups within their organizations. Fifth, the president can influence the Supreme Court to interpret laws in certain ways. When particularly sensitive cases come before the Court, the attorney general's office, representing the executive branch, argues for certain preferred outcomes. For example, one court case involved a white female schoolteacher who was laid off from her job in favor of retaining a Black schoolteacher with equal seniority and performance with the reason given as "diversity." The white woman filed a lawsuit in federal court and the George H. W. Bush administration filed a brief on her behalf, arguing that diversity was not a legitimate reason to use race in decision making. She won in federal court, and the school

district appealed. The Bill Clinton administration, having been elected in the meantime, filed a brief on behalf of the school district, arguing that diversity was a legitimate defense.

Finally, the president appoints all the judges in the federal judicial system, subject to approval from the legislative branch. This affects the interpretation of many laws.

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Judicial Branch

The judicial branch consists of the federal court system, which is made up of three levels. The first level consists of the U.S. District Courts and quasi-judicial administrative agencies. The district courts hear cases involving alleged violations of federal laws. The quasi-judicial agencies, such as the National Labor Relations Board (or NLRB, which is actually an arm of the executive branch, but serves a judicial function), hear cases regarding their particular jurisdictions (in the NLRB's case, disputes between unions and management). If neither party to a suit is satisfied with the decision of the court at this level, the parties can appeal the decision to the U.S. Courts of Appeals. These courts were originally set up to ease the Supreme Court's caseload, so appeals generally go from the federal trial level to one of the 13 appellate courts before they can be heard by the highest level, the Supreme Court. The Supreme Court must grant certiorari before hearing an appealed case. However, this is not usually granted unless two appellate courts have come to differing decisions on the same point of law or if the case deals with an important interpretation of constitutional law.

The Supreme Court serves as the court of final appeal. Decisions made by the Supreme Court are binding; they can be overturned only through legislation. For example, Congress, dissatisfied with the Supreme Court's decisions in certain cases such as *Wards Cove Packing v. Atonio*, overturned those decisions through the Civil Rights Act of 1991.³

Having described the legal system that affects the management of human resources, we now explore some laws that regulate HRM activities, particularly equal employment opportunity laws. We first discuss the major laws that mandate equal employment opportunity in the United States. Then we examine the agencies involved in enforcing these laws. This leads us into an examination of the four theories of discrimination, with a discussion of some relevant court cases. Finally, we explore some equal employment opportunity issues facing today's managers.

Equal Employment Opportunity

LO 3-2

List the major federal laws that require equal employment opportunity and the protections provided by each of these laws.

[Equal employment opportunity \(EEO\)](#) refers to the government's attempt to ensure that all individuals have an equal chance for employment, regardless of race, color, religion, sex, age, disability, or national origin. Sex includes sex assigned at birth (biological sex), gender identity, including transgender status, or sexual orientation. To accomplish this, the federal government has used constitutional amendments, legislation, and executive orders, as well as the court decisions that interpret these laws. (However, equal employment laws are not the same in all countries.) The major EEO laws we discuss are summarized in [Table 3.1](#).

[Equal employment opportunity \(EEO\)](#)

The government's attempt to ensure that all individuals have an equal opportunity for employment, regardless of race, color, religion, sex, age, disability, or national origin.

Constitutional Amendments

Thirteenth Amendment

The Thirteenth Amendment of the Constitution abolished slavery in the United States. Though one might be hard-pressed to cite an example of race-based slavery in the United States today, the Thirteenth Amendment has been applied in cases where the discrimination involved the “badges” (symbols) and “incidents” of slavery.

Fourteenth Amendment

The Fourteenth Amendment forbids the states from taking life, liberty, or property without due process of law and prevents the states from denying equal protection of the laws. Passed immediately after the Civil War, this amendment originally applied only to discrimination against Blacks. It was soon broadened to protect other groups^{page 113} such as immigrants and Asian Americans, and more recently it has been applied to the protection of whites in allegations of reverse discrimination. In *Bakke v. California Board of Regents*, Alan Bakke alleged that he had been discriminated against in the selection of entrants to the University of California at Davis medical school.⁴ The university had set aside 16 of the available 100 places for “disadvantaged” applicants who were members of racial minority groups. Under this quota system, Bakke was able to compete for only 84 positions, whereas a minority applicant was able to compete for all 100. The Court ruled in favor of Bakke, noting that this quota system had violated white individuals’ right to equal protection under the law.

Table 3.1 Summary of Major EEO Laws and Regulations

ACT	REQUIREMENTS	COVERS	ENFORCEMENT AGENCY
Thirteenth Amendment	Abolished slavery	All individuals	Court system
Fourteenth Amendment	Provides equal protection for all citizens and requires due process in state action	State actions (e.g., decisions of government organizations)	Court system
Civil Rights Acts (CRAs) of 1866 and 1871 (as amended)	Grants all citizens the right to make, perform, modify, and terminate contracts and enjoy all benefits, terms, and conditions of the contractual relationship	All individuals	Court system
Equal Pay Act of 1963	Requires that men and women performing equal jobs receive equal pay	Employers engaged in interstate commerce	Equal Employment Opportunity Commission (EEOC)
Title VII of the CRA of 1964	Forbids discrimination based on race, color, religion, sex, or national origin	Employers with 15 or more employees working 20 or more weeks per year; labor unions; and employment agencies	EEOC
Age Discrimination in Employment Act of 1967	Prohibits discrimination in employment against individuals 40 years of age and older	Employers with 15 or more employees working 20 or more weeks per year; labor unions; employment agencies; federal government	EEOC
Rehabilitation Act of 1973	Requires affirmative action in the employment of individuals with disabilities	Government agencies; federal contractors and subcontractors with contracts greater than \$2,500	Office of Federal Contract Compliance Programs (OFCCP)
Vietnam Veteran's Readjustment Assistance Act of 1974	Prohibits discrimination against veterans	Employers with federal contracts greater than \$100,000	OFCCP
Pregnancy Discrimination Act	Prohibits discrimination on the basis of pregnancy, childbirth, or related medical conditions	Employers with more than 15 employees	EEOC
Americans with Disabilities Act of 1990	Prohibits discrimination against individuals with disabilities	Employers with more than 15 employees	EEOC
Civil Rights Act of 1991	Prohibits discrimination (same as Title VII)	Same as Title VII, plus applies Section 1981 to employment discrimination cases	EEOC
Executive Order 11246	Requires affirmative action in hiring women and minorities	Federal contractors and subcontractors with contracts greater than \$10,000	OFCCP
Executive Order 11478	Requires the federal government base its employment policies on merit and fitness, not race, color, sex, religion, or national origin	Federal contractors and subcontractors with contracts greater than \$10,000	U.S. Office of Personnel Management (OPM)

One important point regarding the Fourteenth Amendment is that it is applicable only to “state actions.” This means that only the decisions or actions of the government or of private groups whose activities are deemed state actions

can be construed as violations of the Fourteenth Amendment. Thus, one could file a claim under the Fourteenth Amendment if one were fired from a state university (a government organization) but not if one were fired by a private employer.

Congressional Legislation

Reconstruction Civil Rights Acts (1866 and 1871)

The Thirteenth Amendment eradicated slavery in the United States, and the Reconstruction Civil Rights Acts were attempts to further this goal. The Civil Rights Act passed in 1866 was later broken into two statutes. Section 1982 granted all persons the same property rights as white citizens. Section 1981 granted other rights, including the right to enter into and enforce contracts. Courts have interpreted Section 1981 as granting individuals the right to make and enforce employment contracts. The Civil Rights Act of 1871 granted all citizens the right to sue in federal court if they felt they had been deprived of some civil right. Although these laws might seem outdated, they are still used because they allow the plaintiff to recover both compensatory and punitive damages.

In fact, these laws came to the forefront in a Supreme Court case: *Patterson v. McLean Credit Union*.⁵ The plaintiff had filed a discrimination complaint under Section 1981 for racial harassment. After being hired by McLean Credit Union, Patterson failed to receive any promotions or pay raises while she was employed there. She was also told that “blacks work slower than whites.” Thus, she had grounds to prove discrimination and filed suit under Section 1981, arguing that she had been discriminated against in the making and enforcement of an employment contract. The Supreme Court ruled that this situation did not fall under Section 1981 because it did not involve the making and enforcement of contracts. However, the Civil Rights Act of 1991 amended this act to include the making, performance, modification, and termination of contracts, as well as all benefits, privileges, terms, and conditions of the contractual relationship.

Equal Pay Act of 1963

The Equal Pay Act, an amendment to the Fair Labor Standards Act, requires that men and women in the same organization who are doing equal work must be paid equally. The act defines *equal* in terms of skill, effort, responsibility, and working conditions. However, the act allows for reasons why men and women performing the same job might be paid differently. If the pay differences are the result of differences in seniority, merit, quantity or quality of production, or any factor other than sex (such as shift differentials or training programs), then differences are legally allowable.

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Title VII of the Civil Rights Act of 1964

Title VII is the major legislation regulating equal employment opportunity in the United States. It was a direct result of the civil rights movement of the early 1960s, led by such individuals as Dr. Martin Luther King Jr. To ensure that employment opportunities would be based on character or ability rather than on race, Congress wrote and passed Title VII, which President Lyndon Johnson signed into law.

Title VII states that it is illegal for an employer to “(1) fail or refuse to hire or discharge any individual, or otherwise discriminate against any individual with respect to his compensation, terms, conditions, or privileges of employment

because of such individual's race, color, religion, sex, or national origin, or (2) to limit, segregate, or classify his employees or applicants for employment in any way that would deprive or tend to deprive any individual of employment opportunities or otherwise adversely affect his status as an employee because of such individual's race, color, religion, sex, or national origin." The act applies to organizations with 15 or more employees working 20 or more weeks a year that are involved in interstate commerce, as well as state and local governments, employment agencies, and labor organizations. The [Competing through Environmental, Social, and Governance Practices](#) box describes how Audible has tried to provide career development opportunities for many visible minority community members in Newark.



COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Audible Listens to the Needs of Newark

Don Katz founded Audible, a company that sells audible versions of written books to its customers, in 1995. He moved the company to downtown Newark in 2007 when it employed 125 people without any government incentives, but he soon began to solve problems the government seemingly could not.

Newark is a city characterized by high crime and corruption and often appears on "murder capital" lists. But rather than simply give money away to charities and hope they do good work, Mr. Katz sought to use his company to help address some of the more serious problems in Newark. For example, in a city with high unemployment and a lack of career-oriented job opportunities, he set up the Audible Interns program to hire Newark residents, a community composed of one-half Black and one-third Hispanic individuals. The program requires that interns be residents of Newark, and many of those hired came from a residence for abused and neglected youth. They were, according to Katz, "people without high school or college degrees for these really high-tech jobs. I wanted to expose them to the vocabulary of the workplace." He also incentivized employees to move to Newark by offering to pay employees an after-tax \$500 for monthly rent if they moved.

The company now employs 1700 employees, 10% of whom came through their "Audible Scholars" program which offers aid and work over summer breaks for those who pursue a college degree. These are people hired because they were "gregarious and bright" rather than because they had the right credentials and experience.

Audible is a small company that has had an extremely positive effect on the limited number of people that they have hired. But more importantly, they have provided a better role model for other companies to follow by having a hands-on approach to building lives through which they can help build communities.

DISCUSSION QUESTION

What do you think is different in Audible's approach to helping to build the community relative to many other companies? Which do you think is better and why?

SOURCE: A. Kessler, "How a Company Can Help a City," *The Wall Street Journal*, March 21, 2021, https://www.wsj.com/articles/how-a-company-can-help-a-city-11616345641?mod=opinion_featst_pos1.

Age Discrimination in Employment Act of 1967

Passed in 1967 and amended in 1986, the Age Discrimination in Employment Act (ADEA) prohibits discrimination against employees over the age of 40. The act almost exactly mirrors Title VII in terms of its substantive provisions

and the procedures to be followed in pursuing a case.⁶ As with Title VII, the Equal Employment Opportunity Commission (EEOC) is responsible for enforcing this act.

The ADEA was designed to protect older employees when a firm reduces its workforce through layoffs. By targeting older employees, who tend to have higher pay, a firm can substantially cut labor costs. Recently, firms have often offered early retirement incentives, a possible violation of the act because of the focus on older employees. Early retirement incentives require employees to sign an agreement waiving their rights to sue under the ADEA. Courts have tended to uphold the use of early retirement incentives and waivers as long as the individuals were not coerced into signing the agreements, the agreements were presented in a way that the employees could understand, and the employees were given enough time to make a decision.⁷

However, age discrimination complaints make up a large percentage of the complaints filed with the EEOC, and the number of complaints continues to grow whenever the economy is slow. For example, as we see in [Figure 3.1](#), the number of cases increased during the early 1990s, when many firms were downsizing, but then decreased as the economy expanded. The number of complaints increased again as the economy began slowing in 2000 and with the recession in 2008. These trends often stem from firms seeking to lay off older (and thus higher-paid) employees when they are downsizing.

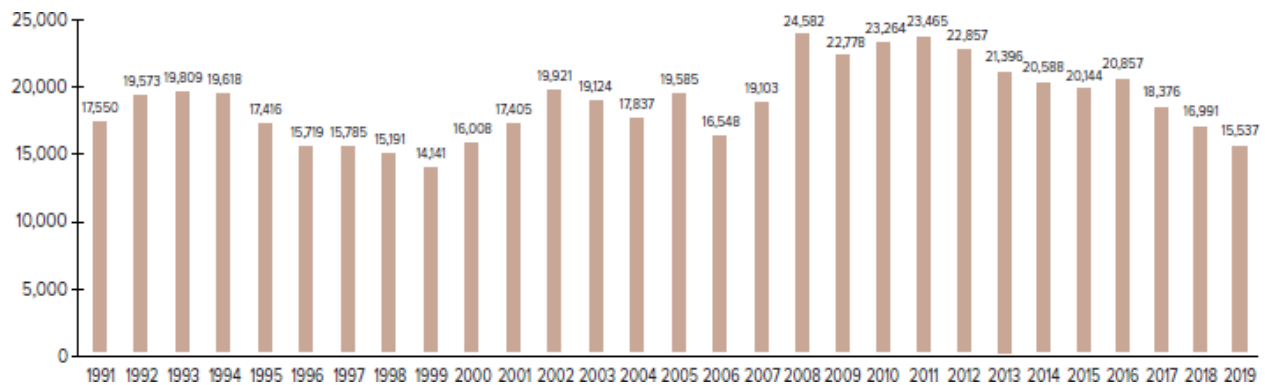


Figure 3.1 Age Discrimination Complaints, 1991–2019

SOURCE: Equal Employment Opportunity Commission, “Age Discrimination in Employment Act (Charges Filed with EEOC),” <https://www.eeoc.gov/eeoc/statistics/enforcement/adea.cfm>.

These cases can be costly; most are settled out of court, but settlements run from \$50,000 to \$400,000 per employee.⁸ In one case, Schering-Plough Corporation fired 35-year employee Fred Maiorino after he twice failed to accept an early retirement offer made to all sales representatives. After hearing testimony that Maiorino’s boss had plastered his file with negative paperwork aimed at firing him, rather than trying to help him improve his performance, the jurors unanimously decided he had been discriminated against because of his age. They awarded him \$435,000 in compensatory damages and \$8 million in punitive damages.⁹

Rehabilitation Act of 1973

The Rehabilitation Act covers executive agencies and contractors and subcontractors that receive more than \$2,500 annually from the federal government. It requires them to engage in affirmative action for individuals with disabilities. Congress designed this act to encourage employers to actively recruit qualified individuals with disabilities page 117and to make reasonable accommodations to allow them to become active members of the labor market. The Employment Standards Administration of the Department of Labor enforces this act.

Vietnam Era Veteran’s Readjustment Assistance Act of 1974

Similar to the Rehabilitation Act, the Vietnam Veteran's Readjustment Assistance Act requires federal contractors and subcontractors to take affirmative action toward employing Vietnam veterans (those serving between August 5, 1964, and May 7, 1975). In addition, in 1994 (and amended in 2005) the Uniformed Services Employment and Reemployment Act was passed to prohibit discrimination against veterans, and while both acts cover more than disabilities, they are both aimed at increasing employment opportunities for veterans with disabilities. The Office of Federal Contract Compliance Programs (OFCCP), discussed later in this chapter, has authority to enforce these acts.

Pregnancy Discrimination Act

The Pregnancy Discrimination Act is an amendment to Title VII of the Civil Rights Act of 1964. It makes illegal discrimination on the basis of pregnancy, childbirth, or related medical conditions as a form of unlawful sex discrimination. An employer cannot refuse to hire a pregnant woman because of her pregnancy; a pregnancy-related condition; or the prejudices of co-workers, clients, or customers. For instance, the retail store Motherhood Maternity, a Philadelphia-based maternity clothes retailer, settled a pregnancy discrimination and retaliation lawsuit brought by the EEOC. The EEOC had charged that the company refused to hire qualified female applicants because they were pregnant. As a result of the settlement, Motherhood Maternity agreed to a three-year consent decree requiring them to pay plaintiffs \$375,000, adopt and distribute an antidiscrimination policy specifically prohibiting discrimination on the basis of pregnancy, train its Florida employees on the new policy, post a notice of resolution of the lawsuit, and provide twice-a-year reports to the EEOC on any pregnancy discrimination complaints.^{[10](#)}

In addition, regarding pregnancy and maternity leave, employers may not single out pregnancy-related conditions for special procedures to determine an employee's ability to work, and if an employee is temporarily unable to perform during her pregnancy, the employer must treat her the same as any employee with a temporary disability. The act also requires that any health insurance must cover expenses for pregnancy-related conditions on the same basis as costs for other medical conditions. Finally, pregnancy-related benefits cannot be limited to married employees, and if an employer provides any benefits to workers on leave, they must also provide the same benefits for those on leave for pregnancy-related conditions.

Recently the EEOC filed suit against HCS Medical Staffing Inc. for allegedly discriminating against a pregnant employee and then firing her while she was on maternity leave. According to the EEOC's suit, owner Charles Sisson engaged in escalating negative comments about the upcoming maternity leave of HCS bookkeeper Roxy Leger. He allegedly insisted that Leger's pregnancy was a joke, described her maternity leave as "vacation," and insisted that maternity leave should be no longer than two days. Sisson then allegedly terminated Leger, who had no prior negative comments on her work performance, seven days after she gave birth by cesarean section.^{[11](#)}

Civil Rights Act of 1991

The Civil Rights Act of 1991 (CRA 1991) amends Title VII of the Civil Rights Act of 1964, Section 1981 of the Civil Rights Act of 1866, the Americans with Disabilities Act, and the Age Discrimination in Employment Act of 1967. One major change in EEO law under CRA 1991 has been the addition of compensatory and punitive damages in cases of discrimination under Title VII and the Americans with Disabilities Act. Before CRA 1991, Title VII limited damage claims to equitable relief such as back pay, lost benefits, front pay in some cases, and attorneys' fees and costs. CRA 1991 allows compensatory and punitive damages when intentional or reckless discrimination is proven. Compensatory damages include such things as future pecuniary loss, emotional pain, suffering, and loss of enjoyment of life. Punitive damages are meant to discourage employers from discriminating by providing for payments to the plaintiff beyond the actual damages suffered.

Recognizing that one or a few discrimination cases could put an organization out of business, thus adversely affecting many innocent employees, Congress has put limits on the amount of punitive damages. [Table 3.2](#) depicts these limits. As can be seen, damages range from \$50,000 to \$300,000 per violation, depending on the size of the organization. Punitive damages are available only if the employer intentionally discriminated against the plaintiff(s) or if the employer discriminated with malice or reckless indifference to the employee's federally protected rights. These damages are excluded for an employment practice held to be unlawful because of its disparate impact.¹²

Table 3.2 Maximum Punitive Damages Allowed under the Civil Rights Act of 1991

EMPLOYER SIZE	DAMAGE LIMIT
14 to 100 employees	\$ 50,000
101 to 200 employees	100,000
201 to 500 employees	200,000
More than 500 employees	300,000

The addition of damages to CRA 1991 has had two immediate effects. First, by increasing the potential payoff for a successful discrimination suit, it has increased the number of suits filed against businesses. Second, organizations are now more likely to grant all employees equal opportunity for employment, regardless of their race, sex, religion, or national origin. Many organizations have felt the need to make the composition of their workforce mirror the general population to avoid costly lawsuits. This act adds a financial incentive for doing so.

Americans with Disabilities Act of 1990

One of the most far-reaching acts concerning the management of human resources is the [Americans with Disabilities Act \(ADA\)](#). This act protects individuals with disabilities from being discriminated against in the workplace. It prohibits discrimination based on disability in all employment practices such as job application procedures, hiring, firing, promotions, compensation, and training—in addition to other employment activities such as advertising, recruitment, tenure, layoff, leave, and fringe benefits. We will cover its various stipulations individually.

[Americans with Disabilities Act \(ADA\)](#)

A 1990 act prohibiting individuals with disabilities from being discriminated against in the workplace.

The ADA defines a disability as a physical or mental impairment that substantially limits one or more major life activities, a record of having such an impairment, or being regarded as having such an impairment. The first part of the definition refers to individuals who have serious disabilities—such as epilepsy, blindness, deafness, or paralysis—that affect their ability to perform major life activities such as walking, seeing, performing manual tasks, learning, caring for oneself, and working. The second part refers to individuals who have a history of disability, such as someone who has had cancer but is currently in remission, someone with a history of mental illness, and someone with a history of heart disease. The third part of the definition, “being regarded as having a disability,” refers, for example, to an individual who is severely disfigured and is denied employment because an employer fears negative reactions from others.¹³

Thus, the ADA covers specific physiological disabilities such as cosmetic disfigurement and anatomical loss affecting the neurological, musculoskeletal, sensory, respiratory, cardiovascular, reproductive, digestive, genitourinary, hemic, or lymphatic systems. In addition, it covers mental and psychological disorders such as intellectual disability, organic brain syndrome, emotional or mental illness, and learning disabilities. However, conditions such as obesity, substance abuse, eye and hair color, and left-handedness are not covered.¹⁴

In addition, the Americans with Disabilities Act Amendments Act (ADAAA), effective January 1, 2009, broadened the scope of who is considered to be an individual with a disability. It states that the definition of disability should be broadly construed and that the “question of whether an individual’s impairment is a disability under the ADA should not demand extensive analysis.” The Supreme Court had interpreted the term “substantially limited” in a major life activity to require the individual to be “significantly restricted,” but the ADAAA states that this is too high a standard and directs the EEOC to revise its regulations to set a lower standard. Also, regarding the term “regarded as disabled,” previously employers could avoid liability by showing that the impairment did not substantially limit a major life activity. However, the ADAAA states that an employee can prove he or she was subjected to an illegal act “because of an actual or perceived physical or mental impairment whether or not the impairment limits or is perceived to limit a major life activity.” In fact, in response to the ADAAA, the EEOC has clarified and somewhat redefined *disability*. According to their most recent guidelines, a disability is defined along three so-called prongs: a physical or mental impairment that “substantially limits one or more major life activity”; a record or past history of such an impairment; and/or being “regarded as” having a disability by an employer whether you have one or not, usually in terms of hiring, firing, or demotion. In essence, a person is considered to have a disability if he or she cannot *do* something but also if he or she has a medical condition, whether or not it impairs functioning.¹⁵ The [Competing through Technology](#) box describes how new technology-based hiring assessments can be unfair to applicants with disabilities.

Executive Orders

Executive orders are directives issued and amended unilaterally by the president. These orders do not require congressional approval, yet they have the force of law. Two executive orders directly affect HRM.

Executive Order 11246

President Johnson issued this executive order, which prohibits discrimination based on race, color, religion, sex, and national origin. Unlike Title VII, this order applies only to federal contractors and subcontractors. Employers receiving more than \$10,000 from the federal government must take affirmative action to ensure against discrimination, and those with contracts greater than \$50,000 must develop a written affirmative action plan for each of their establishments within 120 days of the beginning of the contract. The OFCCP enforces this executive order.

Although this order requires contractors to take affirmative action, many companies seek, on their own, to develop more diverse workforces. When they do so, they are proud to broadcast this. However, creating a diverse workforce is often difficult, particularly in the science, technology, engineering, and mathematics (STEM) fields.

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COMPETING THROUGH TECHNOLOGY

Modern Selection Tools; Same Old Effects?

The COVID crisis moved more employees to work from home, and one might suspect that this would make hiring those with disabilities easier. Employers would not have to make physical accommodations to the workplace, as these individuals would be working in their own already accommodating home environment.

However, a number of obstacles still exist, and one of those deals with the hiring practices used by organizations. For instance, many employers use algorithm-based resume screening programs and 76% of firms with more than 100 employees use personality and/or aptitude tests. They use these because they believe they are “neutral” practices. However, each has its own set of problems when it comes to hiring individuals with disabilities.

For instance, algorithmic programs often simply mimic the already discriminatory hiring practices that existed before. “The reality is, as we know, anytime we create an algorithm which learns from the environment in which it is deployed, that algorithm will necessarily replicate—and then amplify at scale—the very same structural and systemic discrimination that occurs at the interpersonal level,” says Lydia X. Z. Brown. For instance, according to the Bureau of Labor Statistics, in 2019 only 19% of people with disabilities were employed, compared to 66% of people without disabilities. In addition, those with disabilities often have to take part-time and temporary employment, often leaving large employment gaps that the algorithms may flag as a reason to reject the applicant.

And with testing, whether done via paper-and-pencil or automated on a computer, these tests take longer for many people with disabilities. If they do not reveal the disability, they will likely perform less well on the test, but if they do reveal it, they may be passed over in the hiring process.

Disability rights activist Keah Brown summarizes what can be done in the future. “My hope is that when we eventually come out of this crisis, the remote work model will be seen under a whole new lens, one that allows companies to confront their own ableism and consider hiring those of us who can and do work remotely. We have the necessary abilities to be an asset to their companies if they let us.”

DISCUSSION QUESTIONS

Do you think that persons with disabilities are likely to be discriminated against if they reveal their disabilities during the hiring process? Why or why not?

If you were advising a company on the use of algorithmic-based resume screening tools, what would you suggest they do to minimize the obstacles such tools create for persons with disabilities? Do you think firms should do this for business (i.e., higher productivity) or ethical reasons (safety and health of employees)?

SOURCE: P. Mohan, “How Algorithm-based Hiring Tools Can Increase Disability Discrimination,” *Fast Company*, January 14, 2021, <https://www.fast-company.com/90593541/how-algorithm-based-hiring-tools-can-increase-disability-discrimination?ctl=488927>

Executive Order 11478

President Richard Nixon issued Executive Order 11478, which requires the federal government to base all its employment policies on merit and fitness, and specifies that race, color, sex, religion, and national origin should not be considered. (The U.S. Office of Personnel Management is in charge of enforcement.) The order also extends to all contractors and subcontractors doing \$10,000 worth of business with the federal government. (The relevant government agencies are responsible for ensuring that contractors and subcontractors comply with the order.)

Enforcement of Equal Employment Opportunity

LO 3-3

Discuss the roles, responsibilities, and requirements of the federal agencies responsible for enforcing equal employment opportunity laws.

As discussed previously, the executive branch of the federal government bears most of the responsibility for enforcing all EEO laws passed by the legislative branch. In addition, the executive branch must enforce the executive orders issued by the president. The two agencies responsible for the enforcement of these laws and executive orders are the [Equal Employment Opportunity Commission \(EEOC\)](#) and the Office of Federal Contract Compliance Programs, respectively.

[Equal Employment Opportunity Commission \(EEOC\)](#)

The government commission established to ensure that all individuals have an equal opportunity for employment, regardless of race, color, religion, sex, age, disability, or national origin.

Equal Employment Opportunity Commission (EEOC)

An independent federal agency, the EEOC is responsible for enforcing most of the EEO laws, such as Title VII, the Equal Pay Act, and the Americans with Disabilities Act. The EEOC has three major responsibilities: investigating and resolving discrimination complaints, gathering information, and issuing guidelines.

Investigation and Resolution

Individuals who feel they have been discriminated against must file a complaint with the EEOC or a similar state agency within 180 days of the incident. Failure to file a complaint within the 180 days results in the case being dismissed immediately, with certain exceptions, such as the enactment of a seniority system that has an intentionally discriminatory purpose. For instance, the Lilly Ledbetter Fair Pay Act signed by President Barack Obama was crafted in direct response to the 180-day window. Ledbetter had been an area manager at the Goodyear Tire and Rubber plant in Alabama from 1979 to 1998, during which time she received lower pay raises than male employees. The differences were such that by the end of her career she was making \$6,700 less per year than her male counterparts, and because pension payments were related to the salary at the time of retirement, she received smaller pension payments. When she filed the lawsuit, the Supreme Court ruled that the illegal acts were the pay raise decisions themselves (which fell far outside the 180-day window); Ledbetter wanted to argue that every time she received a pension check lower than her peers it served as an act of discrimination. Thus, Congress passed the act specifying that an “illegal act” occurs when (1) a discriminatory compensation decision is adopted; (2) an employee becomes subject to the decision; or (3) an employee is affected by its application, including each time compensation is paid.

Once the complaint is filed, the EEOC takes responsibility for investigating the claim of discrimination. The complainant must give the EEOC 60 days to investigate the complaint. If the EEOC either does not believe the complaint to be valid or fails to complete the investigation, the complainant may sue in federal court. If the EEOC determines that discrimination has taken place, its representatives will attempt to provide a reconciliation between the two parties without burdening the court system with a lawsuit. Sometimes the EEOC enters into a consent decree with the discriminating organization. This decree is an agreement between the agency and the organization that the organization will cease certain discriminatory practices and possibly institute additional affirmative action practices to rectify its history of discrimination.

If the EEOC cannot come to an agreement with the organization, it has two options. First, it can issue a “right to sue” letter to the alleged victim, which certifies that the agency has investigated and found validity in the victim’s allegations. Second, although less likely, the agency may aid the alleged victim in bringing suit in federal court.

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Information Gathering

The EEOC also plays a role in monitoring the hiring practices of organizations. Each year, organizations with 100 or more employees must file a report (EEO-1) with the EEOC that provides the number of women and visible minorities employed in nine different job categories. The EEOC computer analyzes these reports to identify patterns of discrimination that can then be attacked through class-action suits.

Issuance of Guidelines

A third responsibility of the EEOC is to issue guidelines that help employers determine when their decisions are violations of the laws enforced by the EEOC. These guidelines are not laws themselves, but the courts give great deference to them when hearing employment discrimination cases.

For example, the *Uniform Guidelines on Employee Selection Procedures* is a set of guidelines issued by the EEOC, the Department of Labor, the Department of Justice, and the U.S. Civil Service Commission.¹⁶ This document provides guidance on the ways an organization should develop and administer selection systems so as not to violate Title VII. The courts often refer to the *Uniform Guidelines* to determine whether a company has engaged in discriminatory conduct or to determine the validity of the procedures it used to validate a selection system. Another example: Since the passage of the ADA, employers have been somewhat confused about the act’s implications for their hiring procedures. Therefore, the EEOC issued guidelines in the *Federal Register* that provided more detailed information regarding what the agency will consider legal and illegal employment practices concerning individuals with disabilities. Although companies are well advised to follow these guidelines, it is possible that courts will interpret the ADA differently from the EEOC. Thus, through the issuance of guidelines, the EEOC gives employers directions for making employment decisions that do not conflict with existing laws.

Office of Federal Contract Compliance Programs (OFCCP)

The OFCCP is the agency responsible for enforcing the executive orders that cover companies doing business with the federal government. Businesses with contracts for more than \$50,000 cannot discriminate in employment based on race, color, religion, national origin, or sex, and they must have a written affirmative action plan on file.

These plans have three basic components.¹⁷ First, the [utilization analysis](#) compares the race, sex, and ethnic composition of the employer’s workforce with that of the available labor supply.¹⁸ For each job group, the employer must identify the percentage of its workforce with a given characteristic (e.g., female) and identify the percentage of workers in the relevant labor market with that characteristic. If the percentage in the employer’s workforce is much less than the percentage in the comparison group, then that minority group is considered to be “underutilized.”

[Utilization analysis](#)

A comparison of the race, sex, and ethnic composition of an employer’s workforce with that of the available labor supply.

Second, the employer must develop specific [goals and timetables](#) for achieving balance in the workforce concerning these characteristics (particularly where under-utilization exists). Goals and timetables specify the percentage of women and under-represented minorities that the employer seeks to have in each job group and the date by which that percentage is to be attained. These are not to be viewed as quotas, which entail setting aside a specific number of positions to be filled only by members of the protected class. Goals and timetables are much more flexible, requiring only that the employer have specific goals and take steps to achieve those goals. In fact, one study that examined companies with the goal of increasing Black employment found that only 10% of them actually achieved their goals. Although this may sound discouragingly low, it is important to note that these companies increased their Black employment more than companies that set no such goals.¹⁹

[Goals and timetables](#)

The part of a written affirmative action plan that specifies the percentage of women and minorities that an employer seeks to have in each job group and the date by which that percentage is to be attained.

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Third, employers with federal contracts must develop a list of [action steps](#) they will take toward attaining their goals to reduce underutilization. The company's CEO must make it clear to the entire organization that the company is committed to reducing underutilization, and all management levels must be involved in the planning process. For example, organizations can communicate job openings to women and ethnic and racial minority groups through publishing the company's affirmative action policy, recruiting at schools with predominantly female or visible minority students, participating in programs designed to increase employment opportunities for underemployed groups, and removing unnecessary barriers to employment. Organizations must also take affirmative steps toward hiring Vietnam veterans and individuals with disabilities.

[Action steps](#)

The part of a written affirmative action plan that specifies what an employer plans to do to reduce under-utilization of protected groups.

The OFCCP annually audits government contractors to ensure that they actively pursue the goals in their plans. These audits consist of (1) examining the company's affirmative action plan and (2) conducting on-site visits to examine how individual employees perceive the company's affirmative action policies. If the OFCCP finds that the contractors or subcontractors are not complying with the executive order, then its representatives may notify the EEOC (if there is evidence that Title VII has been violated), advise the Department of Justice to institute criminal proceedings, request that the secretary of labor cancel or suspend any current contracts, and forbid the firm from bidding on future contracts. This last penalty, called debarment, is the OFCCP's most potent weapon.

Having discussed the major laws defining equal employment opportunity and the agencies that enforce these laws, we now address the various types of discrimination and the ways these forms of discrimination have been interpreted by the courts in a number of cases.

Types of Discrimination

LO 3-4

Identify the three theories of discrimination under Title VII of the Civil Rights Act and apply these theories to different discrimination situations.

How would you know if you had been discriminated against? Assume that you have applied for a job and were not hired. How do you know if the organization decided not to hire you because you are unqualified, because you are

less qualified than the individual ultimately hired, or simply because the person in charge of the hiring decision “didn’t like your type”? Discrimination is a multifaceted issue. It is often not easy to determine the extent to which unfair discrimination affects an employer’s decisions.

Legal scholars have identified three theories of discrimination: disparate treatment, disparate impact, and reasonable accommodation. In addition, there is protection for those participating in discrimination cases or opposing discriminatory actions. In the act, these theories are stated in very general terms. However, the court system has defined and delineated these theories through the cases brought before it. A comparison of the theories of discrimination is given in [Table 3.3](#).

Table 3.3 Comparison of Discrimination Theories

	TYPES OF DISCRIMINATION		
	DISPARATE TREATMENT	DISPARATE IMPACT	REASONABLE ACCOMMODATION
Show intent?	Yes	No	Yes
Plaintiff's Allegation?	Individual is a member of a protected group, was qualified for the job, and was turned down for the job, and the job remained open	Statistical disparity in the effects of a facially neutral employment practice	Individual has a belief or disability, provided the employer with notice (request to accommodate), and was adversely affected by a failure to be accommodated
Employer's defense	Produce a legitimate, nondiscriminatory reason for the employment decision or show bona fide occupational qualification (BFOQ)	Prove that the employment practice bears a manifest relationship with job performance	Job-relatedness and business necessity, undue hardship, or direct threat to health or safety
Plaintiff's rebuttal	Reason offered was merely a “pretext” for discrimination	Alternative procedures exist that meet the employer's goal without having disparate impact	
Monetary damages	Compensatory and punitive damages	Equitable relief (e.g., back pay)	Compensatory and punitive damages (if discrimination was intentional or employer failed to show good-faith efforts to accommodate)

Disparate Treatment

[Disparate treatment](#) exists when individuals in similar situations are treated differently and the different treatment is based on the individual's race, color, religion, sex, national origin, age, or disability status. If two people with the same qualifications apply for a job and the employer decides whom to hire based on one individual's race, the individual not hired is a victim of disparate treatment. In a disparate treatment case, the plaintiff must prove that there was a discriminatory motive—that is, that the employer intended to discriminate.

[Disparate treatment](#)

A theory of discrimination based on different treatment given to individuals because of their race, color, religion, sex, national origin, age, or disability status.

Whenever individuals are treated differently because of their race, sex, or the like, there is disparate treatment. For example, if a company fails to hire women with school-age children (claiming the women will be frequently absent) but hires men with school-age children, the applicants are being treated differently based on sex. page 124Another

example would be an employer who checks the references and investigates the conviction records of applicants who belong to an ethnic minority group, but does not do so for white applicants. Why are managers advised not to ask about marital status? Because in most cases, a manager will either ask only the female applicants or, if the manager asks both males and females, he or she will make different assumptions about females (such as “She will have to move if her husband gets a job elsewhere”) and males (such as “He’s very stable”). In all these examples, notice that (1) people are being treated differently and (2) there is an actual intent to treat them differently.²⁰

For instance, the Timken Company agreed to a \$120,000 settlement over a sex and disability discrimination suit. In 2007, Carmen Halloran applied for a full-time position at Timken, after having worked at the facility as a part-time process associate for four years. The EEOC alleged that the company refused to hire Halloran because managers believed that Halloran, who is the mother of a child with a disability, would be unable to work full time and care for her child. They also alleged that this decision was based on an unfounded gender stereotype that the mother of a child with a disability would necessarily be the primary caregiver because they did hire men with children with disabilities. “The EEOC is committed to fighting discrimination in the workplace,” said Lynette A. Barnes, regional attorney for the EEOC’s Charlotte District Office. “Employers must be careful not to apply stereotypes against women based on perceptions that they must always be the primary caregivers and therefore are unreliable employees.”²¹

To understand how disparate treatment is applied in the law, let’s look at how an actual court case, filed under disparate treatment, would proceed.

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The Plaintiff’s Burden

As in any legal case, the plaintiff has the burden of proving that the defendant has committed an illegal act. This is the idea of a *prima facie* case. In a disparate treatment case, the plaintiff meets the *prima facie* burden by showing four things:

The plaintiff belongs to a protected group.

The plaintiff applied for and was qualified for the job.

Despite possessing the qualifications, the plaintiff was rejected.

After the plaintiff was rejected, the position remained open and the employer continued to seek applicants with similar qualifications, or the position was filled by someone with similar qualifications.

Although these four elements may seem easy to prove, it is important to note that what the court is trying to do is rule out the most obvious reasons for rejecting the plaintiff’s claim (for example, the plaintiff did not apply or was not qualified, or the position was already filled or had been eliminated). If these alternative explanations are ruled out, the court assumes that the hiring decision was based on a discriminatory motive.

The Defendant’s Rebuttal

Once the plaintiff has made the *prima facie* case for discrimination, the burden shifts to the defendant. The burden is different depending on whether the *prima facie* case presents only circumstantial evidence (there is no direct evidence of discrimination such as a formal policy to discriminate, but rather discriminatory intent must be inferred) or direct evidence (a formal policy of discrimination for some perceived legitimate reason). In cases of circumstantial evidence, the defendant simply must produce a legitimate, nondiscriminatory reason, such as that,

although the plaintiff was qualified, the individual hired was more qualified.

However, in cases where direct evidence exists, such as a formal policy of hiring only women for waitress jobs because the business is aimed at catering to male customers, then the defendant is more likely to offer a different defense. This defense argues that, for this job, a factor such as sex or religion was a [bona fide occupational qualification \(BFOQ\)](#). For example, if one were hiring an individual to hand out towels in a women's locker room, being a woman might be a BFOQ. However, there are very few cases in which sex qualifies as a BFOQ, and in these cases it must be a necessary, rather than simply a preferred, characteristic of the job.

[Bona fide occupational qualification \(BFOQ\)](#)

A job qualification based on race, sex, religion, and so on that an employer asserts is a necessary qualification for the job.

UAW v. Johnson Controls, Inc., illustrates the difficulty in using a BFOQ as a defense.²² Johnson Controls, a manufacturer of car batteries, had instituted a “fetal protection” policy that excluded women of childbearing age from a number of jobs in which they would be exposed to lead, which can cause birth defects in children. The company argued that sex was a BFOQ essential to maintaining a safe workplace. The Supreme Court did not uphold the company's policy, arguing that BFOQs are limited to policies that are directly related to a worker's ability to do the job.

Interestingly, some factors are by no means off-limits when it comes to discrimination. For instance, a survey by *Newsweek* of 202 hiring managers revealed that almost 60% said that qualified, yet unattractive, applicants face a harder time getting hired. In addition, two-thirds believe that managers hesitate before hiring qualified, but overweight, candidates.²³

The Plaintiff's Rebuttal

If the defendant provides a legitimate, nondiscriminatory reason for its employment decision, the burden shifts back to the plaintiff. The plaintiff must now show that the reason offered by the defendant was not in fact the reason for its decision but merely a “pretext” or excuse for its actual discriminatory decision. This could entail providing page 126evidence that white applicants with similar qualifications to the plaintiff have often been hired while Black applicants with similar qualifications were all rejected. To illustrate disparate treatment, let's look at the first major case dealing with disparate treatment, *McDonnell Douglas Corp. v. Green*.

This Supreme Court case was the first to delineate the four criteria for a prima facie case of discrimination. From 1956 to 1964, Green had been an employee at McDonnell Douglas, a manufacturing plant in St. Louis, Missouri, that employed about 30,000 people. In 1964, he was laid off during a general workforce reduction. While unemployed, he participated in some activities that the company undoubtedly frowned upon: a “lock-in,” where he and others placed a chain and padlock on the front door of a building to prevent the employees from leaving; and a “stall-in,” where a group of employees stalled their cars at the gates of the plant so that no one could enter or leave the parking lot. About three weeks after the lock-in, McDonnell Douglas advertised for qualified mechanics, Green's trade, and he reapplied. When the company rejected his application, he sued, arguing that the company didn't hire him because of his race and because of his persistent involvement in the civil rights movement.

In making his prima facie case, Green had no problem showing that he was a member of a protected group, that he had applied for and was qualified for the job (having already worked in the job), that he was rejected, and that the company continued to advertise the position. The company's defense was that the plaintiff was not hired because he participated in the lock-in and the stall-in. In other words, the company was merely refusing to hire a troublemaker.

The plaintiff responded that the company's stated reason for not hiring him was a pretext for discrimination. He pointed out that white employees who had participated in the same activities (the lock-in and the stall-in) were rehired, whereas he was not. The court found in favor of the plaintiff.

This case illustrates how similarly situated individuals (white and Black) can be treated differently (whites were hired back whereas Blacks were not) with the differences in treatment based on race. As we will discuss later, most plaintiffs bring cases of sexual harassment under this theory of discrimination, sexual harassment being a situation in which individuals are treated differently because of their sex.

Mixed-Motive Cases

In a mixed-motive case, the defendant acknowledges that some discriminatory motive existed but argues that the same hiring decision would have been reached even without the discriminatory motive. In *Hopkins v. Price Waterhouse*, Ann Hopkins was an accountant who had applied for partnership in her firm. Although she had brought in a large amount of business and had received high praise from her clients, she was turned down for a partnership on two separate occasions. In her performance reviews, she had been told to adopt more feminine dress and speech and received many other comments that suggested gender-based stereotypes. In court, the company admitted that a sex-based stereotype existed but argued that it would have come to the same decision (not promoted Hopkins) even if the stereotype had not existed.

One of the main questions that came out of this case was, Who has the burden of proof? Does the plaintiff have to prove that a different decision would have been made (that Hopkins would have been promoted) in the absence of the discriminatory motive? Or does the defendant have to prove that the same decision would have been made?

According to CRA 1991, if the plaintiff demonstrates that race, sex, color, religion, or national origin was a motivating factor for any employment practice, the prima facie burden has been met, and the burden of proof is on the employer to demonstrate that the same decision would have been made even if the discriminatory motive had not been present. If the employer can do this, the plaintiff cannot collect page 127 compensatory or punitive damages. However, the court may order the employer to quit using the discriminatory motive in its future employment decisions. The [Evidence-Based HR](#) box describes how weight discrimination impacts people with obesity.



EVIDENCE-BASED HR

A Large Discrimination Problem

Weight discrimination, that is, making decisions based on negative stereotypes about people who are perceived as overweight, is not illegal and has been described as the last acceptable form of discrimination. A recent study used experts to rate male and female CEOs regarding their weight. These ratings suggested that 5 to 22% of top female CEOs in the United States are overweight and approximately 5% are obese, and that 45 to 61% of male CEOs are overweight and approximately 5% are obese. Compared to the general U.S. population, overweight and obese women are significantly underrepresented among top female CEOs. Compared to the population, these results show that overweight and obese female CEOs are underrepresented, overweight male CEOs are overrepresented, and obese male CEOs are underrepresented. In other words, weight discrimination occurs at the highest levels in organizations, and it impacts women more negatively than men.

SOURCE: Patricia V. Roehling, Mark V. Roehling, Jeffrey D. Vandlen, Justin Blazek, William C. Guy, "Weight Discrimination and the Glass Ceiling Effect among Top US CEOs," *Equal Opportunities International* 28, no. 2 (2009), pp. 179–96

Disparate Treatment and LGBT Discrimination

For a number of years LGBT proponents have pushed for the “Equality Act” that would amend Title VII to add sexual preference as a protected category. They were never able to get enough votes in both the House and the Senate to pass the legislation. However, the same outcome was achieved in two recent Supreme Court decisions.

These decisions concluded that Title VII of the Civil Rights Act applies to discrimination against homosexual and transgender individuals in that such discrimination exemplifies disparate treatment. The Supreme Court decisions in *Bostock v. Clayton County* and *Harris Funeral Homes v. EEOC* dealt with the firing of a gay man (Bostock) and a transgender woman (Harris). Justice Neil Gorsuch wrote the opinions and based the opinions in the logic of the disparate treatment form of sex discrimination. He wrote:

[H]omosexuality and transgender status are inextricably bound up with sex. Not because homosexuality or transgender status are related to sex in some vague sense or because discrimination on these bases has some disparate impact on one sex or another, but because to discriminate on these grounds *requires an employer to intentionally treat individual employees differently because of their sex.* (emphasis added)

In other words, discrimination against a gay man is disparate treatment because the company hires women who have sexual relationships with men but refuses to hire men who have sexual relationships with men. Similarly, discrimination against transgender individuals constitutes disparate treatment because the company hires women who wear dresses and other female attire but does not hire men who wear the same types of clothes. In both cases the company is treating people differently based on their sex.

While progress is being made in terms of protecting the rights of LGBTQ individuals, the [Competing through Globalization](#) box illustrates how the increasing recognition of LGBTQ rights may create conflicts with religious and speech rights.

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COMPETING THROUGH GLOBALIZATION

A Clash of Rights

While the increasing recognition of the human rights of LGBTQ individuals is surely a good thing, this positive trend has come into conflict with other rights people have such as religious freedom and freedom of speech. The firing of the Australian rugby star Israel Folau illustrates this conflict.

When Folau stated on Instagram that gay people, adulterers, and atheists are headed for hell unless they repent, he argued he was only expressing his sincere religious beliefs and such speech is protected under the Australian federal employment law that prohibits discrimination on the basis of religion. However, Rugby Australia tore up his 4-year, 4-million-dollar contract because he violated the stipulation that requires the respectful use of social media. In addition, GoFundMe shut down an account set up to help him pay his legal bills because they said they do not tolerate exclusion or discrimination.

This situation illustrates the increasing tension between LGBTQ rights, religious rights, and speech rights. Many questions are raised. Is the practice of individuals' religious beliefs illegal or unacceptable (freedom of religion) under some circumstances, is it okay to have beliefs but not to express them publicly (freedom of speech), or can individuals have and express beliefs freely regardless of how they might offend others? Add in the twist that while religious and speech rights are protected from actions by the government, private employers and organizations have greater latitude in what they can require or prohibit. Monash University associate professor of constitutional law Luke Beck commented on the dilemma in the rugby star's case: “Religious freedom and free speech can't be

absolute. There are easy cases, like honor killings, then there are harder cases, like this one, and drawing the line will always be contentious.”

DISCUSSION QUESTIONS

What can companies do to recognize the rights of both LGBTQ individuals and sincere religious individuals?

Should they distinguish between what employees say in the workplace from what they say in social media?

SOURCE: R. Hoyle, “Australian Rugby Star’s Anti-Gay Post Exposes Fault Lines Over Religious Freedom,” June 30, 2019, <https://www.wsj.com/articles/australian-rugby-stars-anti-gay-post-exposes-fault-lines-over-religious-freedom-11561894209>.

Disparate Impact

The second type of discrimination is called [disparate impact](#). It occurs when a facially neutral employment practice disproportionately excludes a protected group from employment opportunities. A facially neutral employment practice is one that lacks obvious discriminatory content yet affects one group to a greater extent than other groups, such as an employment test. Although the Supreme Court inferred disparate impact from Title VII in the *Griggs v. Duke Power* case (discussed later in this section), it has since been codified into the Civil Rights Act of 1991.

[Disparate impact](#)

A theory of discrimination based on facially neutral employment practices that disproportionately exclude a protected group from employment opportunities.

There is an important distinction between disparate impact and disparate treatment discrimination. For there to be discrimination under disparate treatment, there has to be intentional discrimination. Under disparate impact, intent is irrelevant. The important criterion is that the consequences of the employment practice are discriminatory.

For example, if, for some practical reason, you hired individuals based on their height, you may not have intended to discriminate against anyone, yet using height would have a disproportionate impact on certain protected groups. Women tend to be shorter than men, so fewer women will be hired. Certain ethnic groups, such as those of Asian ancestry, also tend to be shorter than those of European ancestry. Thus, your facially neutral employment practice will have a disparate impact on certain protected groups.

This is not to imply that simply because a selection practice has disparate impact, it is necessarily illegal. Some characteristics (such as height) are not equally distributed across race and gender groups; however, the important question is whether the characteristic is related to successful performance on the job. To help you understand how disparate impact works, let’s look at a court proceeding involving a disparate impact claim.



EVIDENCE-BASED HR

Significant research attention has focused on discrimination in employment applications. Usually these studies send out resumes or fill out applications with information that clearly identifies the applicant's race (e.g., white, Black, or Latino/a) but all having exactly the same qualifications. They usually measure discrimination by whether or not the applicant receives a response to come for an interview (a “callback”). While these studies have been conducted for years, a group of researchers recently examined if the level of discrimination has changed over time.

Conducting a meta-analysis (a method for combining and examining the effects across a number of studies) these authors examined 28 studies conducted since 1989. These studies entailed 55,842 applications for 26,326 positions. They found that, on average, whites received 36% more callbacks than Blacks, and 24% more than Latino/as. Interestingly, they saw little change over time. There was no change in hiring discrimination against Black applicants over the past 25 years, and only a slight reduction in discrimination against Latinos/as. While the study does not address larger issues of discrimination (e.g., in pay, promotions, etc.), it does seem to indicate that racial discrimination at the point of hire has changed very little.

SOURCE: L. Quillian, D. Pager, O. Hexel, and A. Midboen, "Meta-analysis of Field Experiments Shows No Change in Racial Discrimination in Hiring over Time," Proceedings of the National Academy of Sciences of the United States of America, <https://www.pnas.org/content/early/2017/09/11/1706255114>.

The Plaintiff's Burden

In a disparate impact case, the plaintiff must make the prima facie case by showing that the employment practice in question disproportionately affects a protected group relative to the group with the highest hiring rate. To illustrate this theory, let's assume that you are a manager who has 60 positions to fill. Your applicant pool has 80 white and 40 Black applicants. You use a test that selects 48 of the white and 12 of the Black applicants. Is this a disparate impact? Two alternative quantitative analyses are often used to determine whether a test has adverse impact.

The [four-fifths rule](#) states that a test has disparate impact if the hiring rate for the protected group (race, color, sex, religion, national origin) is less than four-fifths (or 80%) of the hiring rate for the group with the highest hiring rate. Keep in mind that whites or males are not always the group with the highest hiring rate. Applying this analysis to the preceding example, we would first calculate the hiring rates for each group:

Whites = $48/80 = 60\%$

Blacks = $12/40 = 30\%$

[Four-fifths rule](#)

A rule that states that an employment test has disparate impact if the hiring rate for a minority group is less than four-fifths, or 80%, of the hiring rate for the majority group.

Then we would compare the hiring rate of the protected group (30%) with that of the group with the highest hiring rate (60%). Using the four-fifths rule, we would determine that the test has adverse impact if the hiring rate of the protected group is less than 80% of the hiring rate of the group with the highest selection rate. Because it is less (i.e., $30\%/60\% = 50\%$, which is less than 80%), we would conclude that the test has adverse impact. The [Evidence-Based HR](#) box describes how discrimination against visible minority applicants has not seemed to dissipate over the past 25 years.

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The [standard deviation rule](#) uses actual probability distributions to determine adverse impact. This analysis uses the difference between the expected representation (or hiring rates) for visible minorities and the actual representation (or hiring rate) to determine whether the difference between these two values is greater than would occur by chance. Thus, in our example, 33% (40 of 120) of the applicants were Blacks, so one would expect 33% (20 of 60) of those hired to be Black. However, only 12 Black applicants were hired. To determine if the difference between the expected representation and the actual representation is greater than we would expect by chance, we calculate the standard deviation (which, you might remember from your statistics class, is the standard deviation in a binomial distribution):

[Standard deviation rule](#)

A rule used to analyze employment tests to determine disparate impact; it uses the difference between the expected representation for minority groups and the actual representation to determine whether the difference between the two is greater than would occur by chance.

$$\sqrt{\text{Number hired} \times \frac{\text{Number of visible minority applicants}}{\text{Number of total applicants}} \times \frac{\text{Number of non-visible minority applicants}}{\text{Number of total applicants}}}$$

or in this case:

$$\sqrt{60 \times \frac{40}{120} \times \frac{80}{120}} = 3.6$$

If the difference between the actual representation and the expected representation ($20 - 12 = 8$ in this case) of Blacks is greater than 2 standard deviations ($2 \times 3.6 = 7.2$ in this case), we would conclude that the test had adverse impact against Blacks, because we would expect this result less than 1 time in 20 if the test were equally difficult for both whites and Blacks.

The *Wards Cove Packing Co. v. Atonio* case involved an interesting use of statistics. The plaintiffs showed that the jobs in the cannery (lower-paying jobs) were filled primarily with visible minority applicants (in this case, American Eskimos). However, only a small percentage of the noncannery jobs (those with higher pay) were filled by visible minorities. The plaintiffs argued that this statistical disparity in the racial makeup of the cannery and noncannery jobs was proof of discrimination. The federal district, appellate, and Supreme Courts all found for the defendant, stating that this disparity was not proof of discrimination.

Once the plaintiff has demonstrated adverse impact, he or she has met the burden of a prima facie case of discrimination.²⁴

Defendant's Rebuttal

According to CRA 1991, once the plaintiff has made a prima facie case, the burden of proof shifts to the defendant, who must show that the employment practice is a "business necessity." This is accomplished by showing that the practice bears a relationship with some legitimate employer goal. With respect to job selection, this relationship is demonstrated by showing the job relatedness of the test, usually by reporting a validity study of some type, to be discussed in [Chapter 6](#). For now, suffice it to say that the employer shows that the test scores are significantly correlated with measures of job performance.

Measures of job performance used in validation studies can include such things as objective measures of output, supervisor ratings of job performance, and success in training.²⁵ Normally, performance appraisal ratings are used, but these ratings must be valid for the court to accept the validation results. For example, in *Albemarle Paper v. Moody*, the employer demonstrated that the selection battery predicted performance (measured with supervisors' overall rankings of employees) in only some of page 131the 13 occupational groups in which it was used. In this case, the court was especially critical of the supervisory ratings used as the measure of job performance. The court stated, "There is no way of knowing precisely what criteria of job performance the supervisors were considering."²⁶

Plaintiff's Rebuttal

If the employer shows that the employment practice is the result of some business necessity, the plaintiff's last resort is to argue that other employment practices could sufficiently meet the employer's goal without adverse impact. Thus, if a plaintiff can demonstrate that selection tests other than the one used by the employer exist, do not have adverse impact, and correlate with job performance as highly as the employer's test, then the defendant

can be found guilty of discrimination. Many cases deal with standardized tests of cognitive ability, so it is important to examine alternatives to these tests that have less adverse impact while still meeting the employer’s goal. At least two separate studies reviewing alternative selection devices such as interviews, biographical data, assessment centers, and work sample tests have concluded that none of them met both criteria.²⁷ It seems that when the employment practice in question is a standardized test of cognitive ability, plaintiffs will have a difficult time rebutting the defendant’s rebuttal.

To illustrate how this process works, let’s look at the *Griggs v. Duke Power* case.²⁸ Following the passage of Title VII, Duke Power instituted a new system for making selection and promotion decisions. The system required either a high school diploma or a passing score on two professionally developed tests (the Wonderlic Personnel Test and the Bennett Mechanical Comprehension Test). A passing score was set so that it would be equal to the national median for high school graduates who had taken the tests.

The plaintiffs met their prima facie burden showing that both the high school diploma requirement and the test battery had adverse impacts on Blacks. According to the 1960 census, 34% of white males had high school diplomas, compared with only 12% of Black males. Similarly, 58% of white males passed the test battery, whereas only 6% of Blacks passed.

Duke Power was unable to defend its use of these employment practices. A company vice president testified that the company had not studied the relationship between these employment practices and the employees’ ability to perform the job. In addition, employees already on the job who did not have high school diplomas and had never taken the tests were performing satisfactorily. Thus, Duke Power lost the case.

It is interesting to note that the court recognized that the company had not intended to discriminate, mentioning that the company was making special efforts to help undereducated employees through financing two-thirds of the cost of tuition for high school training. This illustrates the importance of the consequences, as opposed to the motivation, in determining discrimination under the disparate impact theory.

Recently the Department of Justice in the Trump administration brought a lawsuit against Harvard claiming that its admission policies discriminated against Asian American applicants (see more on this in the Exercising Strategy feature at the end of this chapter). This case provides a great opportunity to explore how plaintiffs use statistics in a disparate impact case.

The plaintiff’s expert witness used two data sets to make the case that Harvard was discriminating. One was the “baseline” set that excluded athletes, legacies, and early decision applicants, and the “expanded” set included all those applicants as well. [Table 3.4](#) shows the admit rates for each group, with the four-fifths rule applied to each group relative to Asian Americans.

Table 3.4 Harvard Admit Rates by Racial/Ethnic Group

	BASELINE		EXPANDED	
	ADMIT RATE	FOUR-FIFTHS	ADMIT RATE	FOUR-FIFTHS
White	4.20	0.95	8.00	0.74*
Hispanic	5.30	0.75*	7.00	0.84
African American	6.50	0.62*	8.60	0.68*
Asian	4.00		5.90	
Total	4.50	0.89	7.30	0.80

*Admit rate for Asian Americans less than 80% of the compared group

On the other hand, the defendant, Harvard, argued that the share of the different groups in the applicant pool is very similar to the share of each group in those students admitted. This can be seen in the numbers in [Table 3.5](#).

Table 3.5 Comparison of the Pool of Harvard's Applicants to Admits by Racial/Ethnic Groups

	Share of Applicants	Share of Admits
White	40.3	37.6
Hispanic	12.8	14.9
African American	11.0	15.8
Asian	28.3	24.9

So, as you can see, the different sides in a disparate impact case use the statistics that support their case.

Pattern and Practice

In class-action pattern and practice lawsuits, plaintiffs attempt to show three things. First, they show some statistical disparities between the composition of some group within the company compared to some other relevant group. For instance, in a discrimination case brought against Walmart (*Dukes v. Walmart*), the plaintiff's lawyers pointed to two comparative statistics as evidence of discrimination. First, they compared the female representation in the nonmanagerial (63.4%) and managerial (33.6%) employee groups. They also compared the female representation in the managerial group (again, 33.6%) with that in their top 20 competitors (56.5%). They also calculated that hourly female workers were paid, on average, \$1,100 less per year than men and salaried women received \$14,500 less. However, Walmart disputed the list of comparison companies, arguing that if a broader group were used, reflecting Walmart's wide geographic footprint and variety of products offered, it did not differ from that group. The company also argued that if it had claimed its highest-level hourly wage supervisors as "managers" on its EEO-1 forms, as many of the comparison companies do, the entire disparity disappeared. Walmart also noted that of the applicants for managerial positions, only 15% were female, and of those promoted, 18% were female. Finally, regarding pay, Walmart's experts suggested that the plaintiff's pay comparisons did not account for crucial factors such as the number of hours worked or whether the work was night-shift work, which pays more. Their analyses suggested that when pay was compared at the department level, where pay decisions are determined, 92.8% of all stores showed no statistically significant pay disparities, and that of the remainder, 5.2% showed disparities favoring men whereas 2.0% showed disparities favoring women.

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Second, plaintiffs try to show that individual acts of intentional discrimination suggest that the statistical disparity is a function of the employer's larger culture. In the *Dukes* case, the plaintiffs argued that at Monday morning meetings of high-level Sam's Club executives, female store employees were referred to as "Janie Q's," and that this continued even after a female executive complained that she found the term demeaning.

Finally, plaintiffs usually try to make the case that the promotion and/or pay procedures leave too much discretion to managers, providing the avenue through which their unconscious biases can play a part. In the *Dukes* case, the plaintiffs brought in expert witnesses to argue that the performance management processes were extremely subjective, and that male managers have subconscious tendencies to favor male over female employees.

Reasonable Accommodation

[Reasonable accommodation](#) presents a relatively new theory of discrimination. It began with regard to religious discrimination but has been both expanded and popularized with the passage of the ADA. Reasonable accommodation differs from the other two theories in that rather than simply requiring an employer to refrain from some action, reasonable accommodation places a special obligation on an employer to affirmatively do something to accommodate an individual's disability or religion. This theory is violated when an employer fails to make reasonable accommodation, where that is required, to a qualified person with a disability or to a person's religious observation and/or practices.

[Reasonable accommodation](#)

Making facilities readily accessible to and usable by individuals with disabilities.

Religion and Accommodation

Often individuals with strong religious beliefs find that some observations and practices of their religion come into direct conflict with their work duties. For example, some religions forbid individuals from working on the sabbath day when the employer schedules them for work. Others might have beliefs that preclude them from shaving, which might conflict with a company's dress code. Although Title VII forbids discrimination on the basis of religion, just like race or sex, religion also receives special treatment requiring employers to exercise an affirmative duty to accommodate individuals' religious beliefs and practices. As [Figure 3.2](#) shows, the number of religious discrimination complaints has dropped consistently over the past few years other than a temporary increase in 2016.

In cases of religious discrimination, an employee's burden is to demonstrate a legitimate religious belief and provide the employer with notice of the need to accommodate the religious practice, and that adverse consequences occurred due to the employer's failure to accommodate. In such cases, the employer's major defense is to assert that to accommodate the employee would require an undue hardship.

Examples of reasonably accommodating a person's religious obligations might include redesigning work schedules (most often accommodating those who cannot work on their sabbath), providing alternative testing dates for applicants, not requiring union membership and/or allowing payment of "charitable contributions" in lieu of union dues, or altering certain dress or grooming requirements. Although an employer is required to make a reasonable accommodation, it need not be the one that is requested by the employee.²⁹

In one case, Walmart agreed to settle with a former employee who alleged that he was forced to quit in 1993 after refusing to work on Sunday. Walmart agreed to pay the former employee unspecified damages, to instruct managers on employees' rights to have their religious beliefs accommodated, and to prepare a computer-based manual describing employees' rights and what constitutes religious harassment.³⁰

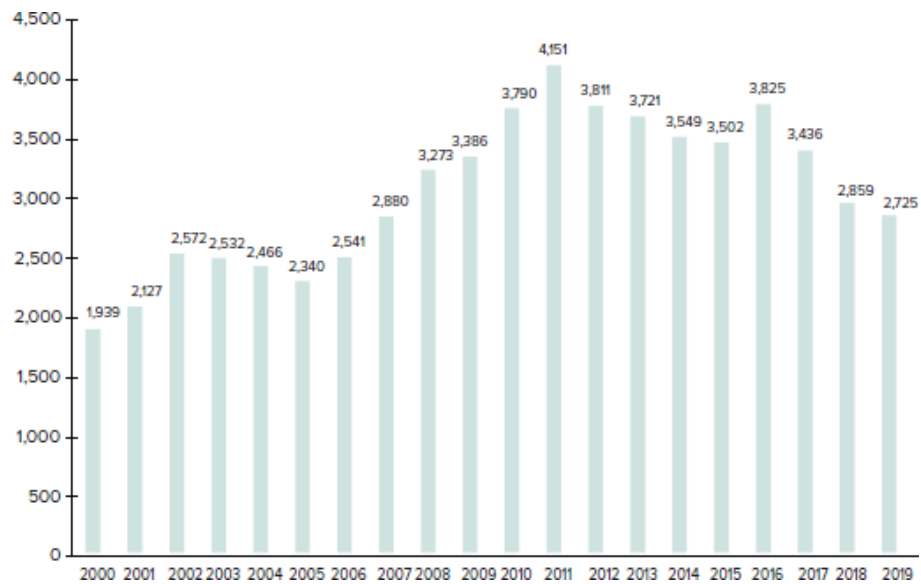


Figure 3.2 Religious Discrimination Complaints, 2000–2019

SOURCE: Equal Employment Opportunity Commission, “Religion-Based Charges (Charges Filed with EEOC),” <https://www.eeoc.gov/eeoc/statistics/enforcement/religion.cfm>.

Following the 9/11 terrorist attacks, a number of cases sprang up with regard to discrimination against Muslims, partly accounting for the significant increase in religious discrimination complaints in 2002. In one case, the EEOC and Electrolux Group settled a religious accommodation case brought by Muslim workers from Somalia. The Islamic faith requires Muslims to offer five prayers a day, with two of these prayers offered within restricted time periods (early morning and sunset). Muslim employees alleged that they were disciplined for using an unscheduled break traditionally offered to line employees on an as-needed basis to observe their sunset prayer. Electrolux worked with the EEOC to respect the needs of its Muslim workers without creating a business hardship by affording them with an opportunity to observe their sunset prayer.³¹

Religion and accommodation also bring up the question of what to do when different rights collide. For instance, John Nemecek had been a respected business professor at Spring Arbor University for 15 years, when administrators at the evangelical college in Michigan began to take issue with some of his behavior. After he began wearing earrings and makeup and asking friends to call him “Julie,” Nemecek found himself demoted and then fired because his womanly appearance violated “Christian behavior.” In 2004, a doctor diagnosed Nemecek with a “gender identity disorder,” in which a person identifies with a gender different from the one assigned at birth based on physical characteristics. Soon after, the school began taking away some of his responsibilities, and then issued him a contract revoking his dean’s post, reassigning him to a non-tenure-track role in which he would work from home, teaching online. It also required him not to wear any makeup or female clothing or to display any outward signs of femininity when visiting campus. Gayle Beebe, the university’s president, said, “We felt through a job reassignment we could give him the space to work on this issue.” Nemecek signed the contract but then violated it by showing up on campus with earrings and makeup on four separate occasions. Nemecek filed a complaint with the EEOC, and the university then declined to renew his contract. Nemecek, whose Baptist church also asked him to leave the congregation, said of the university, “Essentially, they’re saying they can define who is a Christian. I don’t agree that our biology determines our gender.”³²

Disability and Accommodation

As stated earlier, the ADA made discrimination against individuals with disabilities illegal. However, the act itself states that the employer is obligated not just to refrain from discriminating but also to take affirmative steps to accommodate individuals who are protected under the act.

Under disability claims, plaintiffs must show that they are a qualified applicant with a disability and that an adverse action was taken by a covered entity. An employer's defense then depends on whether the decision was made without regard to the disability or in light of the disability. For example, if an employer argues that the plaintiff is not qualified, then it has met the burden, and the question of reasonable accommodation becomes irrelevant.

If, however, the decision was made "in light of" the disability, then the question becomes one of whether the person could perform adequately with a reasonable accommodation. This leads to three potential defenses. First, the employer could allege job relatedness or business necessity through demonstrating, for example, that it is using a test that assesses ability to perform essential job functions. However, the question then arises of whether the applicant could perform the essential job functions with a reasonable accommodation. Second, the employer could claim an undue hardship to accommodate the individual. In essence, this argues that the accommodation necessary is an action entailing significant difficulty or expense. Finally, the employer could argue that the individual with the disability might pose a direct threat to his or her own or others' health or safety in the workplace. This requires examining the duration of the risk, the nature and severity of potential harm, the probability of the harm occurring, and the imminence of the potential harm. For instance, Walmart was sued by one of its employees, a fitting room attendant who had cerebral palsy and was confined to a wheelchair. The employee requested to use a grabber and a shopping cart to help her pick up and hold clothes. However, a manager prevented her from using both and then implemented progressive discipline, ending in the attendant's termination.³³

What are some examples of reasonable accommodation with regard to disabilities? First, employers might provide readily accessible facilities such as ramps and/or elevators for individuals with disabilities to enter the workplace. Second, job restructuring might include eliminating marginal tasks, shifting these tasks to other employees, redesigning job procedures, or altering work schedules. Third, employers might reassign employees who have a disability to a job with essential job functions they could perform. Fourth, employers might accommodate applicants for employment who must take tests by providing alternative testing formats, providing readers, or providing additional time for taking the test. Fifth, employers may offer reading assistance to employees with disabilities, such as readers, interpreters, or technology. Sixth, employers could allow employees to provide their own accommodation such as bringing a guide dog to work.³⁴ Most accommodations are inexpensive. A study by Sears, Roebuck & Co. found that 69% of all accommodations cost nothing; 29% cost less than \$1,000; and only 3% cost more than \$1,000.³⁵

Retaliation for Participation and Opposition

Suppose you overhear a supervisor in your workplace telling someone that he refuses to hire women because he knows they are just not cut out for the job. Believing this to be illegal discrimination, you face a dilemma. Should you come forward and report this statement? Or if someone else files a lawsuit for gender discrimination, should you testify on behalf of the plaintiff? What happens if your employer threatens to fire you if you do anything?

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Title VII of the Civil Rights Act of 1964 protects you. It states that employers cannot retaliate against employees for either "opposing" a perceived illegal employment practice or "participating in a proceeding" related to an alleged illegal employment practice. Opposition refers to expressing to someone through proper channels that you believe that an illegal employment act has taken place or is taking place. Participation refers to actually testifying in an investigation, hearing, or court proceeding regarding an illegal employment act. Clearly, the purpose of this provision is to protect employees from employers' threats and other forms of intimidation aimed at discouraging the employees from bringing to light acts they believe to be illegal.

The EEOC filed suit against Dillard's, a major department store chain, for firing a business manager as retaliation for filing a discrimination charge. In 2008, Shontel Mayfield filed a charge with the EEOC in which she alleged that Dillard's management had discriminated against her because of her race. She had begun working for Dillard's in July 2001 and earned a promotion to business manager of the Estee Lauder counter in 2006. However, in September 2008, Mayfield complied with a Jefferson County, Texas, mandatory evacuation order and evacuated the area in advance of Hurricane Ike. She returned to Jefferson County consistent with the directives of the county's "disaster declarations." After Mayfield returned to work, she was told that she was being fired for the stated reason of "excessive absenteeism." On her termination paperwork, she was accused of having "failed to maintain verbal communication concerning her absences with either the store manager or the operations manager." Yet telephone records showed that Mayfield placed numerous calls to Dillard's "disaster recovery" number, as well as to the cellular telephones of the store manager and the operations manager during the evacuation period.³⁶

These cases can be extremely costly for companies because they are alleging acts of intentional discrimination, and therefore plaintiffs are entitled to punitive damages. For example, a 41-year-old former Allstate employee who claimed that a company official told her that the company wanted a "younger and cuter" image was awarded \$2.8 million in damages by an Oregon jury. The jury concluded that the employee was forced out of the company for opposing age discrimination against other employees.³⁷

In one case, Target Corporation agreed to pay \$775,000 to a group of Black workers who charged that, at one store, the company condoned a racially hostile work environment exemplified by inappropriate comments and verbal berating based on race. When one of the Black employees objected to this treatment, he was allegedly retaliated against, forcing him to resign.³⁸

This does not mean that employees have an unlimited right to talk about how racist or sexist their employers are. The courts tend to frown on employees whose activities result in a poor public image for the company unless those employees have attempted to use the organization's internal channels—approaching one's manager, raising the issue with the HRM department, and so on—before going public.

The [Integrity in Action](#) box describes how Google hopes to better protect those who file sexual harassment complaints within the organization.

Current Issues Regarding Diversity and Equal Employment Opportunity

LO 3-5

Identify behavior that constitutes sexual harassment, and list things that an organization can do to eliminate or minimize it.

Because of recent changes in the labor market, most organizations' demographic compositions are becoming increasingly diverse. A study by the Hudson Institute projected that 85% of the new entrants into the U.S. labor force over the next decade will be females and visible minorities.³⁹ Integrating these groups into organizations made up predominantly of able-bodied white males will bring attention to important issues like sexual harassment, affirmative action, and the "reasonable accommodation" of employees with disabilities.



Out of the Flames of Failure, Google Hopes to Model a Culture that Prevents Sexual Harassment

Google's market and financial success have made it a model company that is respected by many. However, their performance regarding preventing sexual harassment leaves a lot to be desired. They received amazingly bad press for exiting one executive accused of sexual harassment with a severance package of \$90 million and another with a severance of \$45 million. In addition, in 2018 they admitted that they had to exit 48 people over the previous two years for sexual harassment, 13 of whom were "senior managers and above." This sparked over 20,000 Google employees to walk off the job in 2018 to protest the multimillion-dollar settlements for executives accused of harassment.

Google has sought to solve their problem as part of a \$310 million shareholder lawsuit. As part of the settlement they articulated "5 Guiding Principles" which include commitment, care, transparency, fairness and consistency, and accountability. At a more practical level, they will limit the use of nondisclosure agreements that might prevent employees from talking about the resolution of harassment complaints and will make arbitration of sexual harassment allegations purely voluntary on the part of employees. Critics say NDAs and arbitration protect perpetrators more than they protect victims. Google has also formalized a policy of not paying severance to executives accused of harassment and not allowing them to adjust their stock plans (e.g., exercising their options) while they are under investigation.

The tech industry as a whole has been characterized as having serious problems in the area of sexual harassment, but Google hopes to become a model for other companies. CEO Sundar Pichai alluding to the direction of the settlement said, "I hope these commitments will serve as a strong signal to all of you that we are not going back in time."

DISCUSSION QUESTIONS

How can firms create a culture that protects employees from sexual harassment?

What should firms do when victims allege retaliation for reporting sexual harassment?

Source: J. Elias, "Google's \$310 Million Sexual Harassment Settlement Aims to Set New Industry Standard," [CNBC.com](https://www.cnbc.com/2020/09/29/googles-310-million-sexual-misconduct-settlement-details.html), September 29, 2020, <https://www.cnbc.com/2020/09/29/googles-310-million-sexual-misconduct-settlement-details.html>.

Sexual Harassment

A number of recent allegations of sexual harassment have made it into the news. For instance, now-retired Uber CEO Travis Kalanick announced that Uber would begin an "urgent investigation" following a former female engineer's blog post alleging systemic sexual harassment. The engineer, Susan Fowler, says her manager propositioned her for sex during her first day on the job. When she complained, she was told he would not be punished because he was a "high performer" and this was his first offense. However, she later spoke to other women whom the manager had also propositioned and each of them had been told it was his "first offense." Kalanick instructed Uber's chief HR officer to conduct the investigation because "what's described here is abhorrent & against everything we believe in."⁴⁰

In spite of the big headlines, the number of sexual harassment charges filed has steadily decreased since 2010. However, largely due to the #MeToo movement, 2018 saw a significant uptick in claims, as we see in [Figure 3.3](#).

Sexual harassment refers to unwelcome sexual advances (see [Table 3.6](#)). It can take place in two basic ways. "Quid pro quo" harassment occurs when some kind of benefit (or punishment) is made contingent on the employee's submitting (or not submitting) to sexual advances, such as the situation with Uber. For example, a male

manager tells his female secretary that if she has sex with him, he will help her get promoted, or he page 138 threatens to fire her if she fails to do so; these are clearly cases of quid pro quo sexual harassment.

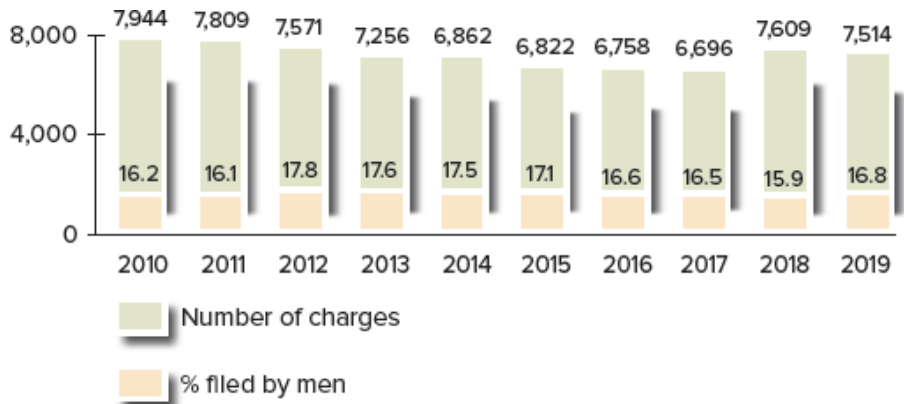


Figure 3.3 Charges Alleging Sexual Harassment, 2010–2019

SOURCE: “Charges Alleging Sex-Based Harassment (Charges filed with Equal Employment Opportunity Commission) FY 2010 - FY2019,” https://www.eeoc.gov/eeoc/statistics/enforcement/sexual_harassment_new.cfm.

The *Bundy v. Jackson* case illustrates quid pro quo sexual harassment.⁴¹ Sandra Bundy was a personnel clerk with the District of Columbia Department of Corrections. She received repeated sexual propositions from Delbert Jackson, who was at the time a fellow employee (although he later became the director of the agency). She later began to receive propositions from two of her supervisors: Arthur Burton and James Gainey. When she raised the issue with their supervisor, Lawrence Swain, he dismissed her complaints, telling her that “any man in his right mind would want to rape you,” and asked her to begin a sexual relationship with him. When Bundy became eligible for a promotion, she was passed over because of her “inadequate work performance,” although she had never been told that her work performance was unsatisfactory. The U.S. Court of Appeals found that Bundy had been discriminated against because of her sex, thereby extending the idea of discrimination to sexual harassment.

A more subtle, and possibly more pervasive, form of sexual harassment is a “hostile working environment.” This occurs when someone’s behavior in the workplace creates an environment that makes it difficult for someone of a particular sex to work. Many plaintiffs in sexual harassment lawsuits have alleged that men ran their fingers through the plaintiffs’ hair, made suggestive remarks, and physically assaulted them by touching their intimate body parts. Other examples include having pictures of naked women posted in the workplace, using offensive sexually explicit language, or using sex-related jokes or innuendos in conversations.⁴²

Table 3.6 EEOC Definition of Sexual Harassment

Unwelcome sexual advances, requests for sexual favors, and other verbal or physical contact of a sexual nature constitute sexual harassment when
Submission to such conduct is made either explicitly or implicitly a term or condition of an individual’s employment,
Submission to or rejection of such conduct by an individual is used as the basis for employment decisions affecting such individual, or

Such conduct has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile, or offensive working environment.

SOURCE: EEOC guideline based on the Civil Rights Act of 1964, Title VII.

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For instance, in the aforementioned situation at Uber, the engineer claimed that a manager bought leather jackets for more than 120 men but not six women because there were not enough to get a similar bulk discount. Fowler was told that “if we wanted leather jackets, we women needed to find jackets that were the same price as the bulk-order price of the men’s jackets.”

When she threatened to go to HR, her manager threatened to fire her. “I told him that was illegal, and he replied that he had been a manager for a long time, he knew what was illegal, and threatening to fire me for reporting things to HR was not illegal.” When she reported the situation to HR, the managers there told her retaliation is illegal, but then they did nothing in response to the threat.⁴³

These types of behaviors are actionable under Title VII because they treat individuals differently based on their sex. In addition, although most harassment cases involve male-on-female harassment, any individual can be harassed. For example, male employees at Jenny Craig alleged that they were sexually harassed, and a federal jury found that a male employee had been sexually harassed by his male boss.⁴⁴

In another example, Ron Clark Ford of Amarillo, Texas, agreed to pay \$140,000 to six male plaintiffs who alleged that they and others were subjected to a sexually hostile work environment and different treatment by male managers because of their gender. Evidence gathered showed that the men were subjected to lewd, inappropriate comments of a sexual nature, and had their genitals and buttocks grabbed against their will by their male managers. The defendants argued that the conduct was “harmless horseplay.”⁴⁵

Finally, Babies ‘R’ Us agreed to pay \$205,000 to resolve a same-sex suit. The lawsuit alleged that Andres Vasquez was subjected to a sexually hostile working environment and was the target of unwelcome and derogatory comments as well as behavior that mocked him because he did not conform to societal stereotypes of how a male should appear or behave.⁴⁶

Sexual harassment charge filings with the EEOC by men increased to 16.6% of all filings in 2016, up from 10% of filings in 1994. Although the commission does not track same-sex, male-on-male charges, anecdotal evidence shows that most harassment allegations by men are against other men.

There are three critical issues in these cases. First, the plaintiff cannot have “invited or incited” the advances. Often the plaintiff’s sexual history, whether she or he wears provocative clothing or engages in sexually explicit conversations are used to prove or disprove that the advance was unwelcome. However, in the absence of substantial evidence that the plaintiff invited the behavior, courts usually lean toward assuming that sexual advances do not belong in the workplace and thus are unwelcome. In *Meritor Savings Bank v. Vinson*, Mechelle Vinson claimed that during the four years she worked at a bank she was continually harassed by the bank’s vice president, who repeatedly asked her to have sex with him (she eventually agreed) and sexually assaulted her.⁴⁷ The Supreme Court ruled that the victim’s voluntary participation in sexual relations was not the major issue, saying that the focus of the case was on whether the vice president’s advances were unwelcome.

A second critical issue is that the harassment must have been severe enough to alter the terms, conditions, and privileges of employment. Although it has not yet been consistently applied, many courts have used the “reasonable woman” standard in determining the severity or pervasiveness of the harassment. This consists of assessing whether a reasonable woman, faced with the same situation, would have reacted similarly. The reasonable woman standard recognizes that behavior that might be considered appropriate by a man (like off-color

jokes) might not be considered appropriate by a woman.

The third issue is that the courts must determine whether the organization is liable for the actions of its employees. In doing so, the court usually examines two things. First, did the employer know or should the employer have known about the page 140harassment? Second, did the employer act to stop the behavior? If the employer knew about it and the behavior did not stop, the court usually decides that the employer did not act appropriately to stop it.

Sexual harassment suits can be quite costly for companies. For instance, Aaron's Inc., the furniture rental company, faced a sexual harassment suit filed by a female employee who claimed that her manager groped her, exposed himself to her, and sexually assaulted her. She contacted a company harassment hotline but was never called back. She also alleged that she was denied a promotion for complaining about the alleged assault. In 2011, a jury awarded the employee \$95 million, a significant sum given that Aaron's profits had been \$118 million the previous year.⁴⁸

To ensure a workplace free from sexual harassment, organizations can follow some important steps. First, the organization can develop a policy statement that makes it clear that sexual harassment will not be tolerated in the workplace. Second, all employees, new and old, can be trained to identify inappropriate workplace behavior. Third, the organization can develop a mechanism for reporting sexual harassment that encourages people to speak out. Fourth, management can prepare to take prompt disciplinary action against those who commit sexual harassment as well as appropriate action to protect the victims of sexual harassment.⁴⁹

Affirmative Action and Reverse Discrimination

LO 3-6

Discuss the legal issues involved with preferential treatment programs.

Few people would disagree that having a diverse workforce in terms of race and gender is a desirable goal, if all individuals have the necessary qualifications. In fact, many organizations today are concerned with developing and managing diversity. To eliminate discrimination in the workplace, many organizations have affirmative action programs to increase representation of traditionally underrepresented ethnic and racial groups. Affirmative action was originally conceived as a way of taking extra effort to attract and retain employees from underrepresented ethnic and racial groups. This was typically done by extensively recruiting members of underrepresented ethnic and racial groups on college campuses, advertising in publications whose readers are primarily from underrepresented ethnic and racial groups, and providing educational and training opportunities to members of underrepresented ethnic and racial groups.⁵⁰ However, over the years, many organizations have resorted to quota-like hiring to ensure that their workforce composition mirrors that of the labor market in the surrounding community. Sometimes these organizations act voluntarily; in other cases, the quotas are imposed by the courts or by the EEOC. Whatever the impetus for these hiring practices, many white and/or male individuals have fought against them, alleging what is called reverse discrimination.

An example of an imposed quota program is found at the fire department in Birmingham, Alabama. Having admitted a history of discriminating against Blacks, the department entered into a consent decree with the EEOC to hold 50% of positions at all levels in the fire department open for members of underrepresented ethnic and racial groups, even though they made up only 28% of the relevant labor market. The result was that some white applicants were denied employment or promotion in favor of Black applicants who scored lower on a selection battery. The federal court found that the city's use of the inflexible hiring formula violated federal civil rights law and the constitutional guarantee of equal protection. The appellate court agreed, and the Supreme Court refused to hear the case, thus making the decision final.

Ricci v. DeStefano is another case that was appealed to the Supreme Court regarding the potential for reverse discrimination based on a situation in New Haven, Connecticut. In this case, a professional consulting firm developed a firefighter test specifically eliminating questions that had adverse impact against members of under-represented ethnic and racial groups (based on pilot study testing). However, when the test was given, no Blacks made the promotion list, so the city simply ignored page 141 the test and promoted no one. White and Hispanic firefighters who would have been on the promotion list sued, stating that the failure to use the test results discriminated against them because of their race. The district and appellate courts ruled that because no Blacks were promoted either (because there were no promotions), there had been no discrimination.

The entire issue of affirmative action should evoke considerable attention and debate over the next few years. Although most individuals support the idea of diversity, few argue for the kinds of quotas that have to some extent resulted from the present legal climate. In fact, one survey revealed that only 16% of the respondents favored affirmative action with quotas, 46% favored it without quotas, and 28% opposed all affirmative action programs. One study found that people favor affirmative action when it is operationalized as recruitment, training, and attention to applicant qualifications but oppose it when it consists of discrimination, quotas, and preferential treatment.⁵¹

Outcomes of the Americans with Disabilities Act

The ADA was passed with the laudable goals of providing employment opportunities for people with a true disability who, in the absence of legislation, were unable to find employment. Certainly, some individuals with disabilities have found employment as a result of its passage. However, as often occurs with legislation, the impact is not necessarily what was intended. First, there has been increased litigation. The EEOC reports that since 2010 an average of over 26,000 complaints have been filed each year. Approximately 50% of the complaints filed have been found to be without reasonable cause. For example, in one case a company fired an employee for stealing from other employees and bringing a loaded gun to work. The fired employee sued for reinstatement under the ADA, claiming that he was the victim of a mental illness and thus should be considered as having a disability.⁵²

A second problem is that the kinds of cases being filed are not based on the rights that Congress intended to protect. Although the act was passed because of the belief that discrimination against individuals with disabilities occurred in the failure to hire them, 52.2% of the claims deal with firings, 28.9% with failure to make reasonable accommodation, and 12.5% with harassment. Only 9.4% of the complaints allege a failure to hire or rehire.⁵³ In addition, although the act was passed to protect people with major disabilities such as blindness, deafness, lost limbs, or paralysis, these disabilities combined account for a small minority of the disabilities claimed. As we see in [Table 3.7](#), the biggest disability category is “other,” meaning that the plaintiff claims a disability that is not one of the 35 types of impairment listed in the EEOC charge data system. The second largest category is “being regarded as disabled” accounting for 13.4% of all charges, followed by “back impairment” claims at 8.8%. As an example, a fired employee sued IBM asking for \$5 million in damages for violation of the Americans with Disabilities Act. The employee had been fired for spending hours at work visiting adult chat rooms on his computer. He alleged that his addiction to sex and the Internet stemmed from trauma experienced by seeing a friend killed in 1969 during an army patrol in Vietnam.⁵⁴

Finally, the act does not appear to have had its anticipated impact on the employment of Americans with disabilities. According to the Bureau of Labor Statistics, only 17.5% of people with disabilities are employed, compared to 65% of the general population.⁵⁵

For these reasons, Congress has explored the possibility of amending the act to more narrowly define the term *disability*.⁵⁶ The debate continues regarding the effectiveness of the ADA.

Table 3.7 Sample of Complaints Filed under the ADA

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of complaints	15,864	16,470	15,964	15,377	15,576	14,893	15,575	17,734	19,453	21,451	25,165	25,742	26,379	25,957	25,369	26,968	28,073	26,838	24,605	24,238
Percentage dealing with:																				
Asthma	2.0%	1.6%	1.6%	1.6%	1.5%	1.6%	1.7%	1.0%	1.7%	1.6%	1.7%	1.9%	1.6%	1.5%	1.4%	1.3%	1.2%	1.3%	1.2%	1.3%
Orthopedic and structural impairment	10.2	9.3	9.5	8.6	8.0	8.4	8.1	8.3	9.3	9.9	9.7	8.2	8.9	8.7	8.8	8.2	7.9	7.1	7.4%	6.8%
Cancer	2.7	2.8	2.9	2.9	2.8	2.7	3.2	3.3	3.6	3.7	3.9	4.4	4.4	4.7	4.4	3.4	3.2	3.2	3.3%	3.3%
Diabetes	4.1	4.3	4.7	4.8	4.7	4.5	4.8	5.1	5.6	5.5	5.4	4.6	4.2	4.7	5.0	4.2	4.1	4.3	3.6%	3.7%
Hearing	3.1	2.9	3.2	3.1	3.4	3.2	3.3	3.0	3.3	3.3	3.1	3.2	3.4	3.4	3.7	3.1	2.7	2.6	2.5%	2.4%
Vision	2.3	2.3	2.6	2.6	2.5	2.3	2.3	2.5	2.6	2.2	2.3	2.5	2.4	2.4	2.2	2.0	1.9	1.6	1.8%	1.7%
Heart	3.3	3.6	4.0	3.7	3.5	3.3	3.4	3.7	3.8	3.8	4.2	4.0	3.7	4.0	3.9	3.1	3.0	3.0	2.9%	2.9%
Regarded as disabled	13.7	12.8	13.7	16.8	18.2	17.4	17.2	17.7	16.7	14.1	12.8	13.0	13.1	13.8	13.4	10.8	10.5	11.0	11.1%	9.9%
Drug addiction	0.6	0.5	0.6	0.6	0.5	0.3	0.5	0.5	0.7	0.6	0.5	0.5	0.5	0.4	0.3	0.5	0.5	0.4	0.6%	0.4%
Anxiety	3.4	3.4	4.1	3.5	2.4	2.2	2.2	2.8	4.5	5.3	5.3	4.5	5.1	5.5	5.8	7.2	7.6	8.2	8.5%	9.5%
Depression	6.5	6.1	6.7	6.3	2.9	5.4	6.6	5.5	6.1	6.5	6.3	6.6	6.8	6.3	6.4	6.8	6.9	7.0	7.0%	7.8%
Other	22.2	22.3	23.7	18.1	12.3	14.7	15.7	16.4	20.2	24.4	26.3	28.2	29.4	29.4	30.5	35.4	35.5	36.9	50.1%	50.3%

*Not all complaints are listed.

SOURCE: Equal Employment Opportunity Commission, “ADA Charge Data by Impairment/Bases—Receipts,” www.eeoc.gov, accessed May 26, 2019.

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Gender Equity

We discussed the Equal Pay Act earlier in the chapter, and some more of the legal issues regarding pay will be discussed in [Chapter 11](#). However, one recent development in organizations deals with gender equity. Gender equity has two main areas of emphasis: equity in pay and equity in representation.

In terms of pay equity, in response to social trends, many organizations are taking the initiative to determine if pay inequities exist in their organizations. Consistent with the requirements of the Equal Pay Act, they analyze the pay of all employees (at this point, usually beginning in the United States) and use all of the relevant determinants of pay (e.g., job, location, performance, tenure in the job, education, etc.) and then determine if any employees’ pay falls outside the expected range. For instance, at a recent professional society meeting, one chief HR officer told how she was proud to report to her CEO that their analysis found 99.2% of their company’s employees were found to be in range. She said, “He looked at me and said ‘I don’t want to work for a company where only 99.2% of the employees have fair pay. Do you?’ So we immediately went out and made corrections for the 0.8% who fell outside their projected range.”

Companies can often have pay equity in all jobs, but not have equity in representation at the highest levels of the organization. For example, research by McKinsey finds that women represent 48% of entry-level professionals, 29% of vice presidents, and only 23% of c-suite executives. Thus, even if a company pays equitably in each job, but has very few women in the highest-paying jobs, they do not have true equity. Thus, many firms seek to increase the representation of women in top jobs. For instance, the Paradigm for Parity is a consortium of companies that have committed to achieving overall gender pay equity, both within jobs and representation across jobs, by the year 2030.

Employee Safety

LO 3-7

Identify the major provisions of the Occupational Safety and Health Act (1970) and the rights of employees that are guaranteed by this act.

In March 2005, officials at the BP refinery in Texas City, Texas, were aware that repairs needed to be done on some of the equipment in an octane-boosting processing unit. On March 23, knowing that some of the key alarms were not working, managers authorized a start-up of the unit. The start-up resulted in the deadliest petrochemical accident in 15 years, killing 15 people and injuring an additional 170.⁵⁷

Like equal employment opportunity, employee safety is regulated by both the federal and state governments. However, to fully maximize the safety and health of workers, employers need to go well beyond the letter of the law and embrace its spirit. With this in mind, we first spell out the specific protections guaranteed by federal legislation and then discuss various kinds of safety awareness programs that attempt to reinforce these standards.

The Occupational Safety and Health Act (OSHA)

Although concern for worker safety would seem to be a universal societal goal, the [Occupational Safety and Health Act \(OSHA\)](#)—the most comprehensive legislation regarding worker safety—did not emerge in the United States until the early 1970s. At that time, there were roughly 15,000 work-related fatalities every year.

[Occupational Safety and Health Act \(OSHA\)](#)

The 1970 law that authorizes the federal government to establish and enforce occupational safety and health standards for all places of employment engaging in interstate commerce.

OSHA authorized the federal government to establish and enforce occupational safety and health standards for all places of employment engaging in interstate commerce. The responsibility for inspecting employers, applying the standards, and levying fines was assigned to the Department of Labor. The Department of Health and Human Services was assigned responsibility for conducting research to determine the criteria for specific operations or occupations and for training employers to comply with the act. Much of this research is conducted by the National Institute for Occupational Safety and Health (NIOSH).

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Employee Rights under OSHA

The main provision of OSHA states that each employer has a general duty to furnish each employee a place of employment free from recognized hazards that cause or are likely to cause death or serious physical harm. This is referred to as the [general duty clause](#). Some specific rights granted to workers under this act are listed in [Table 3.8](#). The Department of Labor recognizes many specific types of hazards, and employers are required to comply with all the occupational safety and health standards published by NIOSH.

[General duty clause](#)

The provision of the Occupational Safety and Health Act that states an employer has an overall obligation to furnish employees with a place of employment free from recognized hazards.

A recent example is the development of OSHA standards for occupational exposure to blood-borne pathogens such as the AIDS virus. These standards identify 24 affected industrial sectors, encompassing 500,000 establishments and 5.6 million workers. Among other features, these standards require employers to develop an exposure control plan (ECP). An ECP must include a list of jobs whose incumbents might be exposed to blood, methods for implementing precautions in these jobs, postexposure follow-up plans, and procedures for evaluating incidents in which workers are accidentally infected.

Although NIOSH publishes numerous standards, regulators clearly cannot anticipate all possible hazards that could occur in the workplace. Thus, the general duty clause requires employers to be constantly alert for potential sources of harm in the workplace (as defined by the standards of a reasonably prudent person) and to correct them. For example, managers at Amoco's Joliet, Illinois, plant realized that over the years some employees had created undocumented shortcuts and built them into their process for handling flammable materials. These changes appeared to be labor saving but created a problem: Workers did not have uniform procedures for dealing with flammable products. This became an urgent issue because many of the experienced workers were reaching retirement age, and the plant was in danger of losing critical technical expertise. To solve this problem, the plant adopted a training program that met all the standards required by OSHA. That is, it conducted a needs analysis highlighting each task new employees had to learn and then documented these processes in written guidelines. New employees were given hands-on training with the new procedures and were then certified in writing by their supervisor. A computer tracking system was installed to monitor who was handling flammable materials, and this system immediately identified anyone who was not certified. The plant met requirements for both ISO 9000 standards and OSHA regulations and continues to use the same model for safety training in other areas of the plant.⁵⁸



OSHA is responsible for inspecting businesses, applying safety and health standards, and levying fines for violations. OSHA regulations prohibit notifying employers of inspections in advance.

www.OSHA.gov/OSHA

Many companies have also explored the use of technologies as a way to increase occupational safety and health.

Table 3.8 Rights Granted to Workers under the Occupational Safety and Health Act

Employees have the right to

Work in safe and healthful workplaces;

Know about hazardous chemicals in their workplaces;

Receive information about injuries and illnesses in their workplaces;

Complain or request hazard correction from their employers;

Receive training about workplace hazards;

Examine hazard exposure and medical records;

File a complaint with OSHA;

Participate in an OSHA inspection; and

Be free from retaliation for exercising rights.

SOURCE: "Employee's Role & Rights Under the OSH Act," *Lion Technology*, 2013, <https://www.lion.com/lion-news/june-2013/employees-role-rights-under-the-osh-act>.

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OSHA Inspections

OSHA inspections are conducted by specially trained agents of the Department of Labor called compliance officers. These inspections usually follow a tight "script." Typically, the compliance officer shows up unannounced. For obvious reasons, OSHA's regulations prohibit advance notice of inspections. The officer, after presenting credentials, tells the employer the reasons for the inspection and describes, in a general way, the procedures necessary to conduct the investigation.

An OSHA inspection has four major components. First, the compliance officer reviews the employer's records of deaths, injuries, and illnesses. OSHA requires this kind of record keeping from all firms with 11 or more full- or part-time employees. Second, the officer, typically accompanied by a representative of the employer (and perhaps by a representative of the employees), conducts a "walkaround" tour of the employer's premises. On this tour, the officer notes any conditions that may violate specific published standards or the less specific general duty clause. The third component of the inspection, employee interviews, may take place during the tour. At this time, any person who is aware of a violation can bring it to the attention of the officer. Finally, in a closing conference, the compliance officer discusses the findings with the employer, noting any violations. The employer is given a reasonable time frame in which to correct these violations. If any violation represents imminent danger (that is, could cause serious injury or death before being eliminated through the normal enforcement procedures), the officer may, through the Department of Labor, seek a restraining order from a U.S. district court. Such an order compels the employer to correct the problem immediately.

Citations and Penalties

If a compliance officer believes that a violation has occurred, the officer issues a citation to the employer that specifies the exact practice or situation that violates the act. The employer is required to post this citation in a prominent place near the location of the violation—even if the employer intends to contest it. Nonserious violations may be assessed up to \$7,000 for each incident, but this penalty may be adjusted downward if the employer has no prior history of violations or if the employer has made a good-faith effort to comply with the act. Serious violations of the act or willful, repeated violations may be fined up to \$70,000 per incident. Fines for safety violations are never levied against the employees themselves. The assumption is that safety is primarily the responsibility of the employer, who needs to work with employees to ensure that they use safe working procedures.

In addition to these civil penalties, criminal penalties may also be assessed for willful violations that kill an employee. Fines can go as high as \$20,000, and the employer or agents of the employer can be imprisoned. Criminal charges can also be brought against anyone who falsifies records that are subject to OSHA inspection or anyone who gives advance notice of an OSHA inspection without permission from the Department of Labor.

The Effect of OSHA

OSHA has been unquestionably successful in raising the level of awareness of occupational safety. [Table 3.9](#) presents recent data on occupational injuries and illnesses. Yet legislation alone cannot solve all the problems of work site safety.⁵⁹ Many industrial accidents are a product of unsafe behaviors, not unsafe working conditions. Because the act does not directly regulate employee behavior, little behavior change can be expected unless employees are convinced of the standards' importance.⁶⁰ This has been recognized by labor leaders. For example, Lynn Williams, then president of page 146the United Steelworkers, noted, "We can't count on government. We can't count on employers. We must rely on ourselves to bring about the safety and health of our workers."⁶¹

Table 3.9 Workplace Illnesses and Injuries

NONFATAL INJURIES AND ILLNESSES, PRIVATE INDUSTRY	FATAL WORK-RELATED INJURIES
Total recordable cases: 2.81 million in 2019	Total fatal injuries (all sectors): 5,333 in 2019
Cases involving days away from work: 888,220 in 2019	Roadway incidents (all sectors): 1,270 in 2019
Median days away from work: 8 in 2019	Falls, slips, trips (all sectors): 880 in 2019
Cases involving sprains, strains, tears: 295,180 in 2019	Homicides (all sectors): 454 in 2019
Cases involving injuries to the back: 136,190 in 2019	
Cases involving falls, slips, trips: 244,000 in 2019	

SOURCE: Bureau of Labor Statistics, www.bls.gov.

Because conforming to the statute alone does not necessarily guarantee safety, many employers go beyond the letter of the law. In the next section we examine various kinds of employer-initiated safety awareness programs that comply with OSHA requirements or, in some cases, exceed them.

Safety Awareness Programs

[Safety awareness programs](#) go beyond compliance with OSHA and attempt to instill symbolic and substantive changes in the organization's emphasis on safety. These programs typically focus either on specific jobs and job elements or on specific types of injuries or disabilities. A safety awareness program has three primary components: identifying and communicating hazards, reinforcing safe practices, and promoting safety internationally.

[Safety awareness programs](#)

Employer programs that attempt to instill symbolic and substantive changes in the organization's emphasis on safety.

Identifying and Communicating Job Hazards

Employees, supervisors, and other knowledgeable sources need to sit down and discuss potential problems related to safety. The [job hazard analysis technique](#) is one means of accomplishing this.⁶² With this technique, each job is broken down into basic elements, and each of these is rated for its potential for harm or injury. If there is consensus that some job element has high hazard potential, this element is isolated and potential technological or behavioral changes are considered.

[Job hazard analysis technique](#)

A breakdown of each job into basic elements, each of which is rated for its potential for harm or injury.

Another means of isolating unsafe job elements is to study past accidents. The [technic of operations review \(TOR\)](#) is an analysis methodology that helps managers determine which specific element of a job led to a past accident.⁶³ The first step in a TOR analysis is to establish the facts surrounding the incident. To accomplish this, all members of the work group involved in the accident give their initial impressions of what happened. The group must then, through group discussion, reach a consensus on the single, systematic failure that most contributed to the incident as well as two or three major secondary factors that contributed to it.

[Technic of operations review \(TOR\)](#)

Method of determining safety problems via an analysis of past accidents.

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An analysis of jobs at Burger King, for example, revealed that certain jobs required employees to walk across wet or slippery surfaces, which led to many falls. Specific corrective action was taken based on analysis of where people were falling and what conditions led to these falls. Now Burger King provides mats at critical locations and has generally upgraded its floor maintenance. The company also makes slip-resistant shoes available to employees in certain job categories.⁶⁴

Communication of an employee's risk should take advantage of several media. Direct verbal supervisory contact is important for its saliency and immediacy. Written memos are important because they help establish a "paper trail" that can later document a history of concern regarding the job hazard. Posters, especially those placed near the hazard, serve as a constant reminder, reinforcing other messages.

In communicating risk, it is important to recognize two distinct audiences. Sometimes relatively young or inexperienced workers need special attention. Research by the National Safety Council indicates that 40% of all accidents happen to individuals in the 20 to 29 age group and that 48% of all accidents happen to workers during their first year on the job.⁶⁵ The employer's primary concern with respect to this group is to inform them. However,

the employer must not overlook experienced workers. Here the key concern is to remind them. Research indicates that long-term exposure to and familiarity with a specific threat lead to complacency.⁶⁶ Experienced employees need retraining to jar them from complacency about the real dangers associated with their work. This is especially the case if the hazard in question poses a greater threat to older employees. For example, falling off a ladder is a greater threat to older workers than to younger ones. More than 20% of such falls lead to a fatality for workers in the 55 to 65 age group, compared with just 10% for all other workers.⁶⁷ Although most of this discussion has focused on workplace safety, technology has increasingly enabled and encouraged workers to work at home off the clock.

Reinforcing Safe Practices

One common technique for reinforcing safe practices is implementing a safety incentive program to reward workers for their support and commitment to safety goals. Initially, programs are set up to focus on improving short-term monthly or quarterly goals or to encourage safety suggestions. These short-term goals are later expanded to include more wide-ranging, long-term goals. Prizes are typically distributed in highly public forums (like annual meetings or events). These prizes usually consist of merchandise rather than cash because merchandise represents a lasting symbol of achievement. A good deal of evidence suggests that such programs are effective in reducing injuries and their cost.⁶⁸

Whereas the safety awareness programs just described focus primarily on the job, other programs focus on specific injuries or disabilities. Lower back disability (LBD), for example, is a major problem that afflicts many employees. LBD accounts for approximately 25% of all workdays lost, costing firms nearly \$30 billion a year.⁶⁹ Human resource managers can take many steps to prevent LBD and rehabilitate those who are already afflicted. Eye injuries are another target of safety awareness programs. The National Society to Prevent Blindness estimated that 1,000 eye injuries occur every day in occupational settings.⁷⁰ Ten ways to reduce eye injuries at work are presented in [Table 3.10](#). Similar guidelines can be found for everything from chemical burns to electrocution to injuries caused by boiler explosions.⁷¹

Table 3.10 A 10-Step Program for Reducing Eye-Related Injuries

Here are 10 ways that you can help prevent an eye injury in your workplace.
Assess!
Look carefully at plant operations. Inspect all work areas, access routes, and equipment for hazards to eyes. Study eye accident and injury reports. Identify operations and areas the present eye hazards.
Test
Uncorrected vision problems can cause accidents. Provide vision testing during routine employee physical exams.
Protect
Select protective eyewear that is designed for the specific duty or hazard. Protective eyewear must meet the current standards from the Occupational Safety and Health Act of 1970 and later revisions.
Participate!

Create a 100% mandatory program for eye protection in all operation areas of your plant. A broad program prevents more injuries and is easier to enforce than one that limits eye protection to certain departments, areas, or jobs.
Fit!
Workers need protective eyewear that fits well and is comfortable. Have eyewear fitted by an eye care professional or someone trained to do this. Provide repairs for eyewear and require each worker to be in charge of his or her own gear.
Plan for an Emergency!
Set up first-aid procedures for eye injuries. Have eyewash stations that are easy to get to, especially where chemicals are used. Train workers in basic first-aid and identify those with more advanced training.
Educate!
Conduct ongoing educational programs to create, keep up, and highlight the need for protective eyewear. Add eye safety to your regular employee training programs and to new employee orientation.
Support!
Management support is key to having a successful eye safety program. Management can show their support for the program by wearing protective eyewear whenever and wherever needed.
Review!
Regularly review and update your accident prevention policies. Your goal should be NO eye injuries or accidents!
Put it in Writing!
Once your safety program is created, put it in writing. Display a copy of the policy in work and employee gathering areas. Include a review of the policy in new employee orientation.

SOURCE: [Preventblindness.com](https://preventblindness.com), "10 Ways to Prevent Eye Injuries at Work," <https://preventblindness.org/ten-ways-to-prevent-eye-injuries-at-work/>.

Promoting Safety Internationally

Given the increasing focus on international management, organizations also need to consider how to best ensure the safety of people regardless of the nation in which they operate. Cultural differences may make this more difficult than it seems. For example, a study examined the impact of one standardized corporationwide safety policy on 148 employees in three different countries: the United States, France, and Argentina. The results of this study indicated that the same policy was interpreted differently because of cultural differences. The individualistic, control-oriented culture of the United States stressed the role of top management in ensuring safety in a top-down

fashion. However, this policy failed to work in Argentina, where the collectivist culture made employees feel that safety was everyone's joint concern; therefore, programs needed to be defined from the bottom up.⁷²

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At the beginning of this section, we discussed a horrific accident at BP's Texas City refinery. After examining the causes of the explosion, the U.S. Chemical Safety and Hazard Investigation Board asked BP to set up an independent panel that would focus on overseeing radical changes in BP's safety procedures. This panel was tasked with investigating the safety culture at BP along with the procedures for inspecting equipment and reporting near-miss accidents. The panel's charter is not just to oversee the Texas City refinery, but also to look at the safety practices in refineries that BP has acquired over the years.⁷³



A LOOK BACK

Potential Discrimination at McDonald's

In one suit McDonald's temporarily won, but the win was by no means conclusive. The judge ruled that the plaintiffs did not provide enough evidence to justify going to trial, but stated that "something was indeed rotten with the corporate culture at McDonald's." The women also have appealed the judge's decision. In late 2019 the EEOC ruled that McDonald's likely discriminated against a group of 178 female workers by paying them less and denying them promotions based on their sex.

Since Guster-Hines and Neal filed their lawsuit McDonald's was also sued by 77 Black franchisees who claim that McDonald's discriminatory policies make it difficult for them to fairly profit from their operations. So, while McDonald's has been repeatedly sued for discrimination, they have won most of the cases or the cases have not yet been decided.

QUESTIONS

Do you think McDonald's is guilty of discrimination? If so, what should they do with these employees?

Do you think that McDonald's culture is part of the problem, and if so, what can they do to change the culture in a way that is more equitable and inclusive?

SUMMARY

Viewing employees as a source of competitive advantage results in dealing with them in ways that are ethical and legal as well as providing a safe workplace. An organization's legal environment—especially the laws regarding equal employment opportunity and safety—has a particularly strong effect on its HRM function. HRM is concerned with the management of people, and government is concerned with protecting individuals. One of HRM's major challenges, therefore, is to perform its function within the legal constraints imposed by the government. Given the multimillion-dollar settlements resulting from violations of EEO laws (and the moral requirement to treat people fairly regardless of their sex or race) as well as the penalties for violating OSHA, HR and line managers need a good understanding of the legal requirements and prohibitions in order to manage their businesses in ways that are sound, both financially and ethically. Organizations that do so effectively will definitely have a competitive advantage.

KEY TERMS

[Equal employment opportunity \(EEO\)](#), [112](#)

[Americans with Disabilities Act \(ADA\)](#), [118](#)

[Equal Employment Opportunity Commission \(EEOC\), 121](#)

[Utilization analysis, 122](#)

[Goals and timetables, 122](#)

[Action steps, 123](#)

[Disparate treatment, 123](#)

[Bona fide occupational qualification \(BFOQ\), 125](#)

[Disparate impact, 128](#)

page 150[Four-fifths rule, 129](#)

[Standard deviation rule, 130](#)

[Reasonable accommodation, 133](#)

[Occupational Safety and Health Act \(OSHA\), 143](#)

[General duty clause, 144](#)

[Safety awareness programs, 146](#)

[Job hazard analysis technique, 146](#)

[Technic of operations review \(TOR\), 146](#)

DISCUSSION QUESTIONS

Disparate impact theory was originally created by the court in the *Griggs* case before finally being codified by Congress 20 years later in the Civil Rights Act of 1991. Given the system of law in the United States, from what branch of government should theories of discrimination develop?

Disparate impact analysis (the four-fifths rule, standard deviation analysis) is used in employment discrimination cases. The National Assessment of Education Progress conducted by the U.S. Department of Education found that among those aged 21 to 25, (1) 60% of whites, 40% of Hispanics, and 25% of Blacks could locate information in a news article or almanac; (2) 25% of whites, 7% of Hispanics, and 3% of Blacks could decipher a bus schedule; and (3) 44% of whites, 20% of Hispanics, and 8% of Blacks could correctly determine the change they were due from the purchase of a two-item restaurant meal. Do these tasks (locating information in a news article, deciphering a bus schedule, and determining correct change) have adverse impact? What are the implications?

Many companies have dress codes that require men to wear suits and women to wear dresses. Is this discriminatory according to disparate treatment theory? Why or why not?

Cognitive ability tests seem to be the most valid selection devices available for hiring employees, yet they also have adverse impact against Blacks and Hispanics. Given the validity and adverse impact, and considering that race norming is illegal under the Civil Rights Act of 1991, what would you say in response to a recommendation that such tests be used for hiring?

How might the ADA's reasonable accommodation requirement affect workers such as law enforcement officers and firefighters?

The reasonable woman standard recognizes that women have different ideas than men of what constitutes appropriate behavior. What are the implications of this distinction? Do you think it is a good or bad idea to make

this distinction?

Employers' major complaint about the ADA is that the costs of making reasonable accommodations will reduce their ability to compete with businesses (especially foreign ones) that do not face these requirements. Is this a legitimate concern? How should employers and society weigh the costs and benefits of the ADA?

Many people have suggested that OSHA penalties are too weak and misdirected (aimed at employers rather than employees) to have any significant impact on employee safety. Do you think that OSHA-related sanctions need to be strengthened, or are existing penalties sufficient? Defend your answer.

SELF-ASSESSMENT EXERCISE



What Do You Know about Sexual Harassment?

If you have been assigned this Self-Assessment in Connect, you will complete a survey to find out how much you know about this topic.

EXERCISING STRATEGY

Discrimination at Harvard?

As you know, academic institutions rightfully seek to bring in a diverse set of students. They know that having people from diverse backgrounds in class with one another, interacting with one another, and building relationships with one another provides the atmosphere for the students to learn about and appreciate others' perspectives. In addition, because they are "academic" institutions, they want to make sure that they bring in students with the qualifications to succeed in the university setting. Sometimes these two goals compete such that academic qualifications may be downplayed in order to increase diversity.

For example, Harvard was recently sued by Asian Americans who claimed that they had been discriminated against in the admissions process, a case that, as of the writing of this chapter, had recently been heard by the Supreme Court. Harvard uses a number of different criteria for its admissions decisions including an "academic index" (using things like test scores and high school GPA) along with additional criteria such as an "extracurricular" rating, "athletic" rating, and ratings by two teachers and a school counselor. However, the main issue revolves around the "personal" rating made by the admissions group (there is also a personal rating made by alumni). The plaintiffs argue that the admissions group gives lower personal ratings to Asian Americans to offset the higher academic ratings these applicants have. Harvard argues that it uses multiple criteria, and that when examining the final outcomes, there is no discrimination. They also argue that using only the academic rating would result in cutting their Black and Hispanic admits by half.

This case provides a unique platform for discussing a number of issues regarding equal employment opportunity law, particularly in what types of statistics support that an organization is or is not discriminating against an individual or a particular group. In the chapter you can see the actual statistics that both the plaintiff and the defendant presented in the case.

So, does Harvard admissions illegally discriminate against Asian American applicants? Those on the plaintiff's side of the issue point to the fact that Asian American applicants with the same or higher academic ratings have a much lower likelihood of being admitted compared to other racial groups. Those on the defendant's side of the issue note that in the end, the percentage of Asian American students admitted reflects the percentage of those who applied.

QUESTIONS

Do you think that Harvard is discriminating? Why or why not?

What type of additional data would you want that would tell you whether or not Harvard is discriminating?

SOURCE: . A. Harticollis, "Does Harvard Admissions Discriminate?" *The New York Times*, October 15, 2018, <https://www.nytimes.com/2018/10/15/us/harvard-affirmative-action-asian-americans.html>, accessed January 2, 2019.

MANAGING PEOPLE

Uber Life after Kalanick?

Earlier in the chapter we referred to the challenge Uber faced in response to a former female engineer's blog alleging that Uber had created a very discriminatory and sexist environment. However, that may have been the least of Uber's problems.

Earlier in 2017 CEO Travis Kalanick was caught on video berating an Uber driver. Kalanick attempted to minimize this public relations disaster by confessing that he needed to "grow up" and get "leadership help." He was seeking to hire a chief operating officer (COO) to provide such leadership and help manage the company. However, after interviewing a number of potential COOs, Uber was unsuccessful at hiring one, in part because many did not find the proposition of reporting to Kalanick appealing. Many said they would not take the job if Kalanick remained as CEO.

The COO vacancy created an even greater executive-level staffing challenge as Uber had lost some of its most important executives over the previous year. The leaders of operations, marketing, finance, communications, and self-driving car development had all left either through resignation or firing. Jeff Jones had been hired away from his chief marketing officer role at Target to become president of ride-sharing. However, Jones left after six months, saying in a written statement "the beliefs and approach to leadership that have guided my career are inconsistent with what I saw and experienced at Uber."

In June 2017 the board of directors at Uber asked for and received Kalanick's resignation as CEO. He will remain on the board because of his significant holdings of Uber's stock, but will no longer exert any operational control over the organization.

So, now Uber has no CEO, no CFO, no COO, and a number of other c-suite jobs are vacant. In addition, the recent Covington report chastised Uber for creating an extremely dysfunctional culture.

QUESTIONS

Do you think CEOs should be fired for not having a good leadership style, even if the company seems to be performing well? Why or why not?

page 152 Given the large number of problems facing Uber, what should the focus be on solving first, second, and third?

SOURCES: G. Bensinger and M. Farrell, "How Uber Backers Orchestrated Kalanick's Ouster as CEO," *The Wall Street Journal*, June 21, 2017, <https://www.wsj.com/articles/how-uber-backers-orchestratedkalanicks-ouster-as-ceo-1498090688>; G. Bensinger, "Uber's President of Ride-Sharing Jeff Jones Resigns," *The Wall Street Journal*, March 20, 2017, www.wsj.com/articles/uber-president-of-ride-sharing-jeff-jones-resigns-1489961810.

HR IN SMALL BUSINESS

Buffer Isn't Bashful about Mental Health

Buffer doesn't even try to operate like a traditional business. The company, which makes products for businesses to use in managing their brands on social media, says it has focused on "building one of the most unique and

fulfilling workplaces by rethinking a lot of traditional practices.” The company’s 85 employees work in 15 different countries, without any central headquarters. Guiding them are six values: transparency, positivity, gratitude, reflection, ongoing improvement, and consideration of the larger picture beyond oneself.

The first value, transparency, is intended to be Buffer’s default mode of operation. It assumes that geographically dispersed employees will trust one another better if they are open and honest. Buffer makes known its pay structure and all salaries, as well as information about product development and employee diversity. Anyone can visit the website to see the share of employees who have a disability, consider themselves LGBTQIA, or have served in the military, as well as demographic data on employee age, ethnicity, and country of location. Recent data show the company as 55% male, 73% white, and 64% in households with no children.

Perhaps the clearest marker of the commitment to diversity is Buffer’s Open Blog, which speaks frankly about the work experience at and aims of Buffer and is available to the public. Buffer’s founder and CEO Joel Gascoigne contributes to the blog and does not hold back when it comes to the topic of his own mental-health care. As the leader, Gascoigne sets the tone, and employees also feel free to mention their own experiences with issues like anxiety or depression.

This would be extraordinary at many, probably most, companies. It may seem natural to Buffer’s employees, because they are of a generation where the stigma of mental illness is less than it has been in the past. Almost seven in ten Buffer employees, including Gascoigne, are between the ages of 25 and 34, and most of the remainder are 35 to 44. Millennial and Generation Z employees typically are used to sharing personal information online, and they grew up at a time when it was relatively common for children to get help with anxiety, depression, or attention-deficit disorder. Further, many have experienced seeking accommodations for these conditions in high school or college, suggesting that they may want the same at work.

QUESTIONS

How likely do you think it is that Buffer could experience challenges related to age discrimination? Explain.

Imagine that Buffer brought you in to advise on its HR policies. Suggest how the company can maintain its openness while maintaining privacy of health information.

SOURCES: Company website, “About Us,” <https://buffer.com>, accessed March 27, 2020; Lauren Weber, “Young Workers Seek Mental Health Accommodations, Employers Try to Keep Up,” *The Wall Street Journal*, February 12, 2020, <https://www.wsj.com>; Theresa Agovino, “Out of the Darkness,” *HR Magazine*, Fall 2019, pp. 69-74; Buffer, “Buffer’s Six Values, Version 2.0,” SlideShare, August 20, 2018, <http://www.slideshare.net>.

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CHAPTER 4

The Analysis and Design of Work



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO4-1 Analyze an organization's structure and work-flow process, identifying the output, activities, and inputs in the production of a product or service.](#)

[LO4-2 Understand the importance of job analysis for line managers and strategic human resource managers.](#)

[LO4-3 Choose the right job analysis technique for a variety of human resource activities.](#)

[LO4-4 Identify the tasks performed and the skills required in a given job.](#)

[LO4-5 Understand the different approaches to job design.](#)

[LO4-6 Comprehend the trade-offs among the various approaches to designing jobs.](#)

ENTER THE WORLD OF BUSINESS



Working from Home: Back to Normal or the New Normal?

In 2019 many organizations were increasingly contemplating moving their workers out of office buildings that were expensive to rent and maintain and instead leveraging technology to allow people to work from their own homes. Some were even considering doing some formal experimenting with the concept to test its long-term viability. All of the choice in this matter went out the window, however, when COVID-19 pushed everyone into an unplanned experiment where participation was not optional. The results of this impromptu experiment are starting to come in and so now the question becomes whether the world of work will “return to normal” or whether working from home is the “new normal.” So let’s take stock of what companies experienced in terms of the advantages, disadvantages, and contingencies associated with working from home.

When it comes to virtues, many workers did not miss getting formally dressed for work that might include ties or heels, and then executing their daily commute. Research suggests that the average commute time for the average worker had been one hour, and research also suggests that the largest percentage of that saved time was now channeled back into work. Census data suggest that work hours increased by 26 hours a month during the pandemic. Few workers miss having to leave their home and loved ones to climb onto a plane to some far-off or undesirable location. Employers do not miss that expense either, and are now also off the hook for travel those employees might like—such as that weeklong professional conference in Hawaii. Top leaders of organizations also took the chance to actually expand their communications with their organization as a whole via short weekly meetings page 156that made some employees actually feel more connected to the organization’s vision than they were on-site.

When it comes to liabilities, however, some believe that the increased hours devoted to work from home is not sustainable in the long term. Many workers at the beginning of the pandemic were terrified that they were going to lose their jobs and overcompensated by overachieving in a manner that might be hard to maintain if working from home became the new normal. Also, the blurred lines between work life and home life created burnout, especially for parents trying to manage children or care for elderly parents. In addition, some believe that real-time face-to-face collaboration and informal and serendipitous interactions are a necessary requirement when it comes to spurring innovation. It is hard to schedule any major radical breakthrough in product development in a teleconference meeting scheduled precisely from 9 a.m. to 10 a.m. this Tuesday. Plus, many organizations have large sunk costs in physical facilities like Apple's \$5 billion spaceship-shaped headquarters. Even employers who occupy more mundane facilities are tied to long-term leases that they see as sunk costs.

Thus, rather than a one-size-fits-all approach, the future of working from home is going to be contingent upon a number of factors and subject to new rules of engagement. For example, with respect to face-to-face interaction, many employers are committed to a set of core hours when all employees are expected to be on-site and a set of noncore hours when they can be at home. When employees are working from home, many organizations now have rules against fatigue-generating, concentration-destroying, back-to-back teleconference meetings. Organizations are also developing rules that differ if an employee is a long-tenured member of the organization, and hence highly familiar with its culture and comrades, versus new employees who need to be more immersed into the culture and mentored. Travel will probably never be the same and will be limited to events that both the employer and employee agree are absolutely necessary. Thus, although the future of work will not be going back to normal, you should be able to see normal from where it is going.

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Introduction

In [Chapter 2](#), we discussed the processes of strategy formulation and strategy implementation. Strategy formulation is the process by which a company decides how it will compete in the marketplace; this is often the energizing and guiding force for everything it does. Strategy implementation is the way the strategic plan gets carried out in activities of organizational members. We noted five important components in the strategy implementation process, three of which are directly related to the human resource management function and one of which we will discuss in this chapter: the task or job.

For example, in the [Enter the World of Business](#) story that opened this chapter, during the pandemic many companies were forced to redesign work so that people could do their jobs from home. For many, this was not a strategic choice at the time, as there was no other way. However, when the opportunity to "go back to normal" presented itself, organizations needed to make a decision about how to do that, and that decision affects their outcomes. When an employer is competing on costs, for example, it may make sense to shut down expensive offices and keep employees working from their own homes, supported by technology. For example, Qualio, a company that develops compliance software for life science companies, is committed to its new virtual operations because it wants to stay away from high-cost areas like San Francisco and New York. The distributed workforce at Qualio lives in less expensive small towns, employs technology to collaborate, and is paid less relative to some of their competitors.¹

Other companies that are competing on differentiation or innovation may go the other way, and bring everyone back together face-to-face in plush surroundings. For example, Amazon is opening up six new regional centers dedicated to face-to-face work. Ardine Williams, vice president of workforce development, notes that “the ability to connect with people, the ability for teams to work together, in an ad hoc fashion, you can try to do it virtually, but it isn’t spontaneous.”² Indeed, it is ironic that many high-tech companies, the firms one might think would be best at managing a virtual workforce, are totally dedicated to finding creative space for collaborative activities.³ Still, other companies will commit to new hybrid models that mix virtual and face-to-face work via their own formula, and all these choices need to reflect a thorough study of how the company plans on competing and how working from home supports their specific business model.⁴

Many central aspects of strategy formulation address how the work gets done, in terms of individual job design as well as the design of organizational structures that link individual jobs to each other and the organization as a whole. The way a firm competes can have a profound impact on the way jobs are designed and how they are linked via organizational structure. In turn, the fit between the company’s structure and environment can have a major impact on the firm’s competitive success.

If a company decides to compete on cost, and hence hire low-cost offshore labor, the jobs have to be designed so that they can be performed by minimally skilled people who will require little training. The organization in this case needs to have a centralized structure so that low-level workers are not forced into making too many decisions and the workers should work independently to prevent errors from cascading through the system. In contrast, if the organization is going to compete by differentiating its product, and hence hiring high-wage labor, it has to design the jobs in a different way.

For example, when shoe manufacturers in Portugal saw that they were losing sales to cheaper Chinese competitors, they completely revamped their work processes to emphasize higher-quality shoes that would support higher prices. Well-trained and well-paid employees worked with expensive, state-of-the-art technology like high-speed waterjet cutters to produce small batches of high-end shoes that were sold to luxury designers. Portuguese shoes are now selling briskly and command an export price of \$32 a pair, compared to \$4 for China.⁵

Throughout this chapter, we provide examples of the kinds of decisions that need to be made with regard to how organizations should be structured and to the jobs that exist within these organizations, so that you can learn how these choices affect a number of outcomes. This includes not just quantity and quality of production, but also outcomes like coordination; innovation; and worker attraction, motivation, and retention. In many cases, there are trade-offs associated with the choices, and the more you know about these trade-offs, the better decisions you can make in terms of making your team or organization more competitive.

It should be clear from the outset of this chapter that there is no “one best way” to design jobs and structure organizations. The organization needs to create a fit between its environment, competitive strategy, and philosophy, on the one hand, and its jobs and organizational design, on the other. Failing to design effective organizations and jobs has important implications for competitiveness. Many years ago, some people believed that the difference between U.S. auto producers and their foreign competitors could be traced to American workers; however, when companies like Toyota and Honda came into the United States and demonstrated clearly that they could run profitable car companies with American workers, the focus shifted to processes and organization.

This chapter discusses the analysis and design of work and, in doing so, lays out considerations involved in making informed decisions about how to create and link jobs. The chapter is divided into three sections, the first of which deals with “big picture” issues related to work-flow analysis and organizational structure. The remaining two sections deal with more specific, lower-level issues related to job analysis and job design.

The fields of job analysis and job design have extensive overlap, yet in the past they have been treated differently. Job analysis has focused on analyzing existing jobs to gather information for other HRM practices such as selection, training, performance appraisal, and compensation. Job design, by contrast, has focused on redesigning existing jobs to make them more efficient or more motivating to jobholders. Thus, job design has had a more

proactive orientation toward changing the job, whereas job analysis has had a passive, information-gathering orientation.

Work-Flow Analysis and Organization Structure

LO 4-1

Analyze an organization's structure and work-flow process, identifying the output, activities, and inputs in the production of a product or service.

Work-flow design is the process of analyzing the tasks necessary for the production of a product or service, prior to allocating and assigning these tasks to a particular job category or person. Only after we thoroughly understand work-flow design can we make informed decisions regarding how to initially bundle various tasks into discrete jobs that can be executed by a single person.

Organization structure refers to the relatively stable and formal network of vertical and horizontal interconnections among jobs that constitute the organization. Only after we understand how one job relates to those above (supervisors), below (subordinates), and at the same level in different functional areas (marketing versus production) can we make informed decisions about how to redesign or improve jobs to benefit the entire organization.

Finally, work-flow design and organization structure have to be understood in the context of how an organization has decided to compete. Both work-flow design and organization structure can be leveraged to gain competitive advantage for the firm, but how one does this depends on the firm's strategy and its competitive environment.

Work-Flow Analysis

All organizations need to identify the outputs of work, to specify the quality and quantity standards for those outputs, and to analyze the processes and inputs necessary for producing outputs that meet the quality standards. This conception of the work-flow process is useful because it provides a means for the manager to understand all the tasks required to produce a number of high-quality products as well as the skills necessary to perform those tasks. This work-flow process is depicted in [Figure 4.1](#).

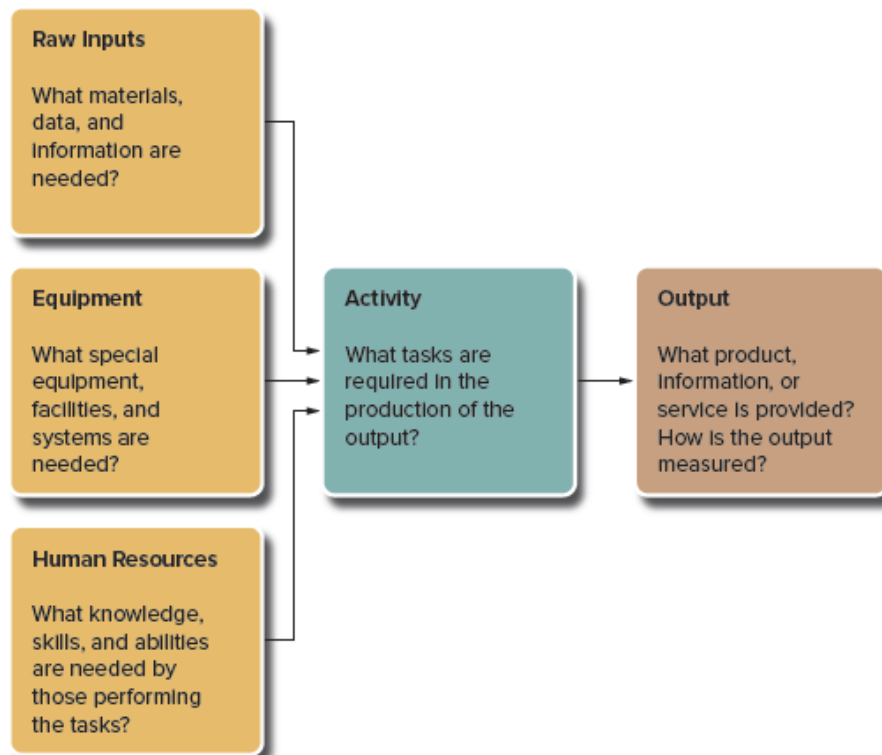


Figure 4.1 Developing a Work-Unit Activity Analysis

Analyzing Work Outputs

Every work unit—whether a department, a team, or an individual—seeks to produce some output that others can use. An output is the product of a work unit and this is often an identifiable object such as a jet engine blade, a forklift, or a football jersey. Strategically, an organization may decide to change its outputs, and this will have downstream consequences for all the rest of the workflow. For example, in 2017, Toyota came to the conclusion that it was producing too many sedans like the Camry and Avalon, and that it was missing the boat when it came to SUVs and roomier pickups that more consumers were demanding. It decided to close this gap relative to the market by shifting its output—at the cost of over \$80 million in downstream workflow costs.⁶ An output is not always a physical product, however, and can also be a service, such as an airline that transports you to some destination, a housecleaning service that maintains your house, or a babysitter who watches over your children.

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We often picture an organization only in terms of the product that it produces, and then we focus on that product as the output. Merely identifying an output or set of outputs is not sufficient. Once these outputs have been identified, it is necessary to specify standards for the quantity or quality of these outputs. In many cases, the number and nature of the outputs chosen create challenges for how to efficiently process the inputs in order to generate the outputs. Strategically, a service company needs to decide how many different services it is going to provide, and again, this has downstream implications for the rest of the workflow.

Once the output or service has been chosen, the organization has to decide whether they are going to focus on producing the whole product or service or just one or two parts of it. For example, although many politicians focus on the value of creating manufacturing jobs, research actually shows that organizations derive far more return on investment from jobs that precede or follow the manufacturing process. That is, the best value and highest wages are associated with the research, development, and design that occurs before manufacturing, as well as branding, sales service, and support that occurs after manufacturing. This is sometimes referred to as “the smile curve,” and

the base of the smile in this case is manufacturing and the jobs associated with it.

For example, when it comes to a product like an iPhone, Apple designs the product, and then sells and services it, but it does not manufacture a single phone. This is a wise decision because manufacturing accounts for only 3% of the phone's cost, and the remaining 97% of the costs are a result of design, sales, and service. Thus, a company like Apple enjoyed a net income of 21% of revenue in 2016 and its shares traded at 18 times earnings. Compare this to Han Hoi Precision Company which manufactures the iPhone in China. They report net income of 3% of revenue and its shares trade at 12 times earnings. The strategic decision to focus on design, sales, and service, rather than manufacturing, allows Apple to create 80,000 jobs in the United States alone with plans to expand to 100,000 jobs by 2020.⁷

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Analyzing Work Processes

Once the outputs of the work unit have been identified, it is possible to examine the work processes used to generate the output. The work processes are the activities that members of a work unit engage in to produce a given output. Every process consists of operating procedures that specify how things should be done at each stage of the development of the product. These procedures include all the tasks that must be performed in the production of the output. The tasks are usually broken down into those performed by each person in the work unit. Of course, in many situations where the work that needs to be done is highly complex, no single individual is likely to have all the required skills. In these situations, the work may be assigned to a team. Team-based job design is becoming increasingly popular in contemporary organizations. In addition to providing a wider set of skills, team members can back each other up, share work when any member becomes overloaded, and catch each other's errors.

For example, although the job of driving a truck used to be an individual job, increasingly teams of drivers are assigned to trucks in order to keep the big rigs—which reflect a major capital investment—moving 24 hours a day. U.S. regulations limit the number of hours truck drivers can operate to 11 hours a day, but by swapping drivers at the end of a shift, teams can carry goods more than twice the distance than can be accomplished by drivers working alone.⁸

The use of teams can also be seen in the field of medicine, where team-based care is increasingly becoming the norm. Rather than a single one-on-one doctor–patient relationship, many medical services are delivered by a team that might include a nurse practitioner, a physician's assistant, a clinical pharmacist, and a variety of technicians who work alongside the primary physician. Part of this is a result of the increased workload created by the Affordable Care Act as well as the decreased number of general practitioners minted by medical schools. As noted by Kirsten Meisinger, a supervising physician who oversees an 11-person team, “I can't possibly do everything that needs to be done for all of our patients as a single human being.”⁹ Having all the work reside within a single patient-focused team also eliminates depersonalized “hand-offs” from one separate functional unit to another—one of the major sources of errors in traditionally structured hospitals. Avoiding errors attributed to faulty work procedures is critical because routine medical errors are the third leading cause of death in the United States, trailing only heart disease and cancer.¹⁰



This job may look tedious or possibly even uninteresting. Considering how to engage employees in seeing the benefits of their work outside of the lab is an important way to motivate them through their day.

ProStockStudio/Shutterstock

There is a great deal of value in studying work-flow processes and this is best illustrated when private equity groups come in and buy a failing company at a low price, revamp the work-flow process, and then sell the company again at a higher price. Private equity groups employ efficiency experts who try to wring out every ounce of waste in production operations. When efficiency experts first visit a company, they are looking for three different kinds of waste: (1) movement that creates no value, (2) the overburdening of specific people or machines, and (3) inconsistent production that creates excessive inventories. Typically armed with stopwatches, clipboards, and flowcharts, efficiency experts prowl the manufacturing floor for waste that would not be detected by most managers. More often than not, this leads to a reduction in headcount because improved procedures dramatically streamline operations. As Justin Hillenbrand, an executive at Monomoy Capital Partners, notes, “You could have the best CEO in the world, but in a manufacturing company, profits are made on the floor.”^{[11](#)}

Organizations often work hard to minimize overstaffing via lean production techniques. *Lean production* refers to processes developed in Japan, but then adopted worldwide, emphasizing manufacturing goods with a minimum amount of time, materials, money—and most important—people. Lean production tries to leverage technology, along with small numbers of flexible, well-trained, and skilled personnel in order to produce more custom-based products at less cost. This can be contrasted with more traditional “batch work” methods, where large groups of low-skilled employees churn out long runs of identical mass products that are stored in inventories for later sale. In lean production systems, there are fewer employees to begin with, and the skill levels of those employees are so high that the opportunity to cut costs by laying off employees is simply less viable.

Although lean production can create highly efficient work processes, this efficiency is often achieved at the cost of flexibility or adaptability to rapid change. For example, many efficient and well-coordinated factory floors were severely disrupted by the COVID-19 pandemic that forced them to radically alter their work processes.^{[12](#)} For example, at Whirlpool, workers who once worked side by side had to be placed at safe distances and partitions between work stations hindered the ability to simply hand a job from one worker to another.^{[13](#)}

However, at least at Whirlpool, they had the space to do this. At other companies such as Caterpillar there was not enough space to simply spread workers out, and so the only way they could carve out enough space for safe distancing was to create staggered shifts so only a subset of workers were on site at the same time. In workplaces where people were moving around a great deal, such as Continental Tire Company, employees were outfitted with wearable sensors that chimed or buzzed whenever two workers got as close as 6 feet away.^{[14](#)} Failure to adapt to this new world of social distancing cost some employers dearly. For example, sicknesses at several Amazon warehouses where social distancing measures were not in place led to a 30% spike in absenteeism, and when some of those employees eventually died, this created a public relations nightmare for the company.^{[15](#)}

In addition, even during normal conditions, although lean design is great for employers, it is not always great for workers. For example, one side effect of this increased level of efficiency is that when the economy bounces back,

there is much less new hiring. This can leave a permanent dent in the number of U.S. manufacturing jobs because many of those jobs never come back due to more efficient design of work processes.¹⁶

Analyzing Work Inputs

The final stage in work-flow analysis is to identify the inputs used in the development of the work unit's product. As shown in [Figure 4.1](#), these inputs can be broken down into the raw materials, equipment, and human skills needed to perform the tasks. *Raw materials* consist of the materials that will be converted into the work unit's product.

Organizations that try to increase efficiency via lean production techniques often try to minimize the stockpile of inputs via "just-in-time" inventory control procedures. Indeed, in some cases, inventories are being abandoned altogether, and companies at the edge of the lean production process do not even manufacture any products until customers place an order for them. However, like lean production, there are also downsides to "just-in-time" inventory management practices. Specifically, the efficiency gained from maintaining an inventory measured in days rather than weeks creates a lack of flexibility. The unanticipated COVID-19 pandemic again illustrates this lack of adaptability. Shortages of Personal Protection Equipment (PPE) ripped through many hospitals across the globe because such a large percentage of things like gloves and masks were made in China.¹⁷ When China had to close these facilities, these "just-in-time" practices left hospitals with little or no inventory to fall back on.

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Equipment refers to the technology and machinery necessary to transform raw materials into the product. In general, the amount of money that an organization invests in equipment is calculated in terms of the amount of "capital spending per worker," and some labor economists in the United States are concerned that this form of investment has not kept pace with what is needed to compete against international competition. For example, 2016 marked the seventh year in a row that the U.S. economy showed no growth in capital spending per worker, and not coincidentally, this year also witnessed a severe drop in worker productivity. This metric climbed in 2017 and 2018, however, and many analysts attribute this to the large tax breaks that were granted to employers in 2016.¹⁸ Companies had a lot of money on their hands, all of a sudden, and due to the labor shortage could not spend all of this on labor. Still, even though investment went up, some lamented the rather small size of these investments relative to the largess that was distributed in tax cuts.

Cutting-edge equipment can boost productivity in many ways, and new technology often improves how humans work; it does not necessarily eliminate jobs.¹⁹ For example, new augmented reality helmets allow the wearer of the device to electronically relay exactly what they are seeing and hearing to another worker who has needed expertise, but may not be on site. Thus, in the past, when it came to repairing a broken turbine in Malaysia, Baker Hughes traditionally would fly a five-person specialized crew from the United States to Asia—a process that was time consuming and expensive. Today, however, the specialized crew never leaves town and instead can work remotely with local workers who become their eyes and ears on the ground. Smart helmets such as these also allow older, highly experienced workers who may not be able to physically get to dangerous or remote locations to stay on the job—thus preserving their human capital for their employers. As noted by Shell's vice president of HR, Aliso Choong, "with these technologies, it is more about the people than the hardware."²⁰

Apps for one's mobile phone are also being increasingly used to boost worker efficiency. For example at Old Navy, workers on the sales floor have at least seven different apps placed on their phone that prompt a wide variety of actions. One of these apps will "ping" the employee if a customer purchases the last item in some inventory, which then prompts an automatic resupply order. Another app buzzes an employee any time someone purchases something for online pickup in the store, directing them to the item that can then be placed in a specially numbered bin assigned to the customer. Yet a third app can be used by the sales staff to check to see if some item, not on the floor, is in the local stockroom. If it is not, this too automatically generates a resupply order.²¹

The final input in the work-flow process is the *human skills* and efforts necessary to perform the tasks. Obviously, the human skills consist of the workers available to the company. Generally speaking, in terms of human skills, work should be delegated to the lowest-cost employee who can do the work well, and in some cases this principle is violated when too much emphasis is placed on reducing headcount. For example, the U.S. economy wiped out over 1 million office and administrative support positions in the last 10 years. Although this might seem a reasonable place to cut costs, does it really make financial sense to have c-suite executives booking their own travel, completing routine paperwork, loading toner into the copier, and screening 500 e-mails a day, 400 of which are spam? For an executive making \$1 million a year, an \$80,000 assistant needs to increase that person's productivity by only 8% for the company to break even.²²

Organization Structure

Whereas work-flow design provides a longitudinal overview of the dynamic relationships by which inputs are converted into outputs, organization structure provides a cross-sectional overview of the static relationships between individuals and units that create the outputs. Organization structure is typically displayed via organizational charts that convey both vertical reporting relationships and horizontal functional responsibilities.

Dimensions of Structure

Two of the most critical dimensions of organization structure are centralization and departmentalization.

[Centralization](#) refers to the degree to which decision-making authority resides at the top of the organizational chart as opposed to being distributed throughout lower levels (in which case authority is *decentralized*).

[Departmentalization](#) refers to the degree to which work units are grouped based on functional similarity or similarity of work flow.

[Centralization](#)

The degree to which decision-making authority resides at the top of the organizational chart.

[Departmentalization](#)

The degree to which work units are grouped based on functional similarity or similarity of work flow.

For example, a school of business could be organized around functional similarity so that there would be a marketing department, a finance department, and an accounting department, and faculty within these specialized departments would each teach their area of expertise to all kinds of students. Alternatively, one could organize the same school around work-flow similarity, so that there would be an undergraduate unit, a graduate unit, and an executive development unit. Each of these units would have its own marketing, finance, and accounting professors who taught only their own respective students and not those of the other units.

Structural Configurations

Although there are an infinite number of ways to combine centralization and departmentalization, two common configurations of organization structure tend to emerge in organizations. The first type, referred to as a *functional structure*, is shown in [Figure 4.2](#). A functional structure, as the name implies, employs a functional departmentalization scheme with relatively high levels of centralization. High levels of centralization tend to go naturally with functional departmentalization because individual units in the structures are so specialized that members of the unit may have a weak conceptualization of the overall organization mission. Thus, they tend to

identify with their department and cannot always be relied on to make decisions that are in the best interests of the organization as a whole. In addition, the opportunity for finger pointing and conflict between subunits that fundamentally do not understand the work that other subunits do creates the need for a centralized decision-making mechanism to manage potential disputes.²³

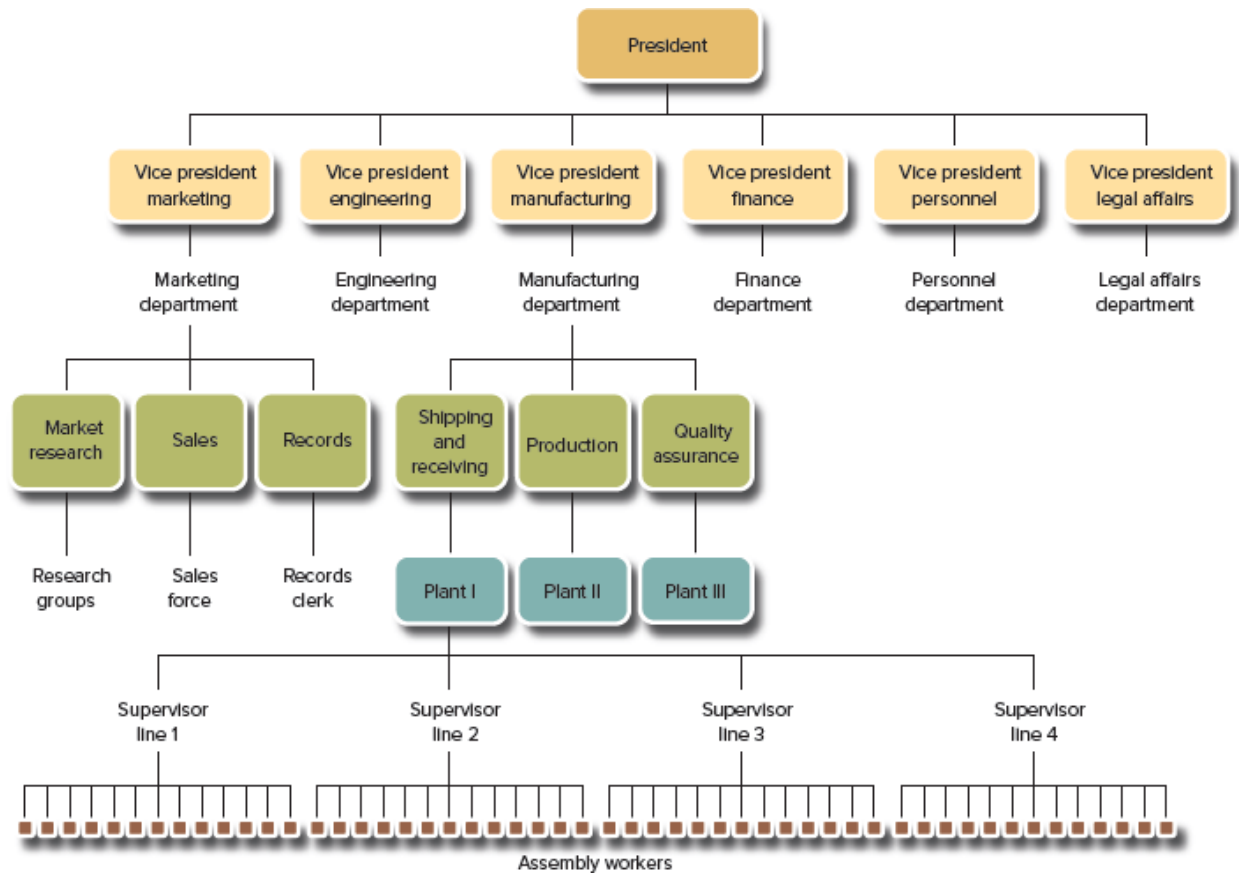


Figure 4.2 The Functional Structure

SOURCE: Adapted from J. A. Wagner and J. R. Hollenbeck, *Organizational Behavior: Securing Competitive Advantage*, 3rd ed. (New York: Prentice Hall, 1998).

Alternatively, a second common configuration is a *divisional structure*, three examples of which are shown in [Figures 4.3, 4.4, and 4.5](#). Divisional structures combine a divisional departmentalization scheme with relatively low levels of centralization. Units in these structures act almost like separate, self-sufficient, semi-autonomous organizations. The organization shown in [Figure 4.3](#) is divisionally organized around different products, the organization shown in [Figure 4.4](#) is divisionally organized around geographic regions, and the organization shown in [Figure 4.5](#) is divisionally organized around different clients. A real-world example of this can be seen at the pharmaceutical giant Pfizer that recently reorganized to create three separate divisions, one devoted to research and innovative medicines, a second one devoted to over-the-counter consumer sales of products like Advil and Centrum, and a third devoted to established prescription medicines such as Lipitor and Viagra.²⁴ This change in the structure at Pfizer was especially helpful when it came to creating efficiencies on the scientific discovery arm of the business and helped the company win the race for being the first to market an approved COVID-19 vaccine.²⁵

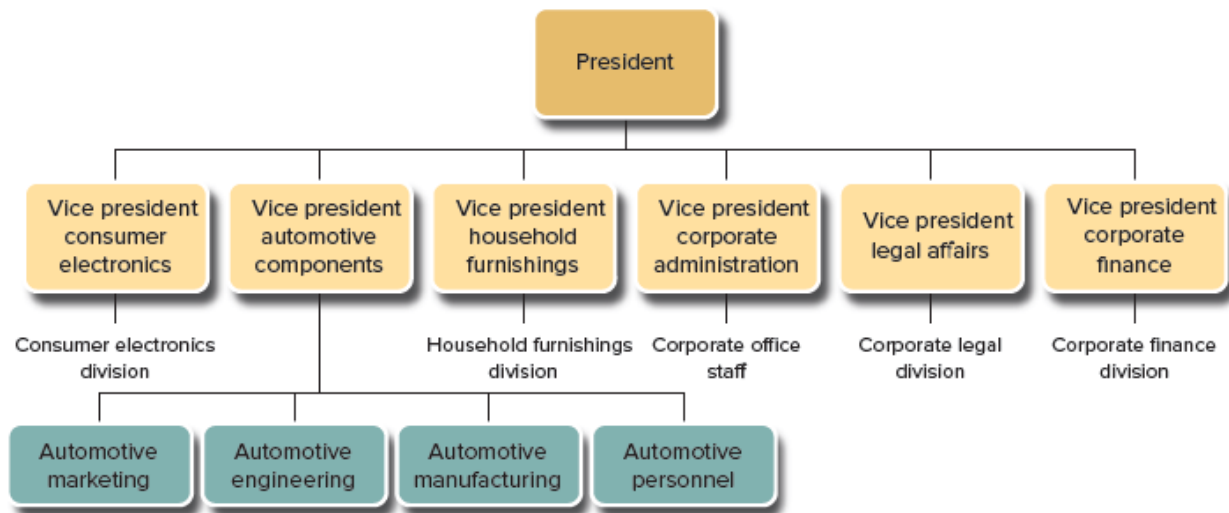


Figure 4.3 Divisional Structure: Product Structure

SOURCE: Adapted from J. A. Wagner and J. R. Hollenbeck, *Organizational Behavior: Securing Competitive Advantage*, 3rd ed. (New York: Prentice Hall, 1998).

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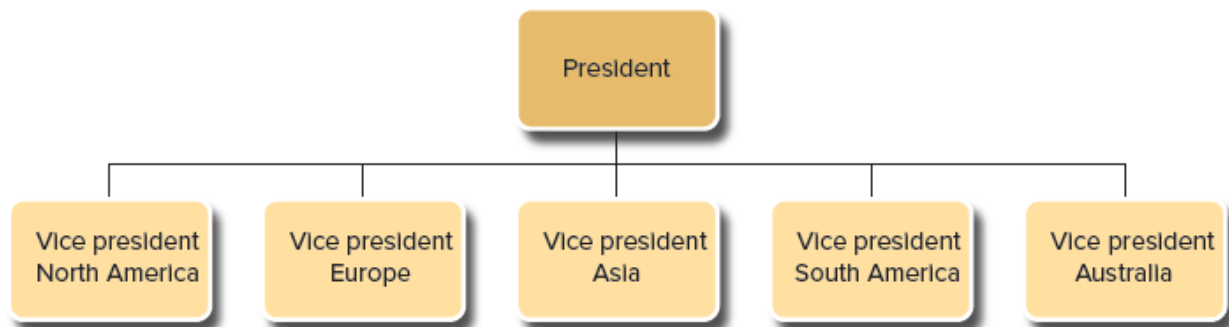


Figure 4.4 Divisional Structure: Geographic Structure

SOURCE: Adapted from J. A. Wagner and J. R. Hollenbeck, *Organizational Behavior: Securing Competitive Advantage*, 3rd ed. (New York: Prentice Hall, 1998).

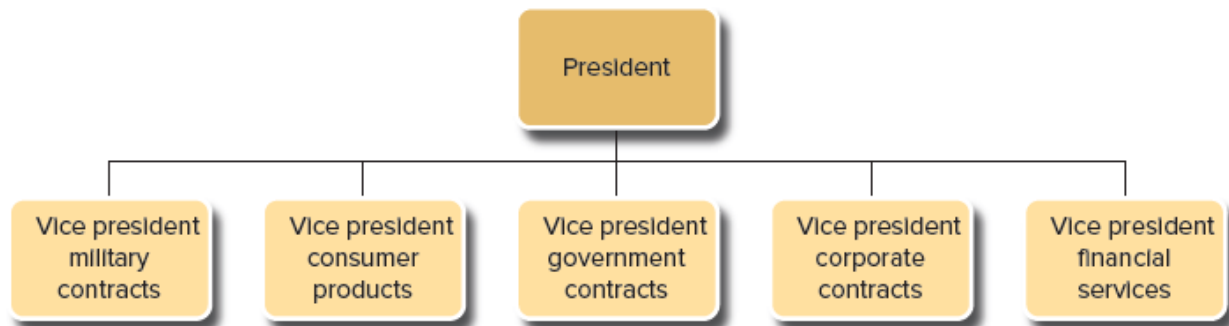


Figure 4.5 Divisional Structure: Client Structure

SOURCE: Adapted from J. A. Wagner and J. R. Hollenbeck, *Organizational Behavior: Securing Competitive Advantage*, 3rd ed. (New York: Prentice Hall, 1998).

Variations in an Organization's Structure

Regardless of how subunits are formed, many organizations try to keep the size of each subunit small enough that people within the subunit feel like they can make a difference and feel connected to others. People within very large subunits experience reduced feelings of individual accountability and motivation, which hinders organizational performance. Research suggests that these types of problems start to manifest themselves once a group exceeds 150 people; hence, many organizations try to limit subunits to this specific size. For example, W.L. Gore and Associates, the company that makes Gore-Tex and other innovative materials, typically will break up a division once its size exceeds this number, splitting it in two and opening a new physical office.²⁶

Because of their work-flow focus, their semi-autonomous nature, and their proximity to a homogeneous consumer base, divisional structures tend to be more flexible and innovative. They can detect and exploit opportunities in their respective consumer bases faster than the more centralized functionally structured organizations. Indeed, because decision making in functional structures occurs at a level far from the shop floor or customer interface, there can sometimes be a disconnect between the perceived needs of those working on the front lines and upper management. For example, at McDonald's, central headquarters kept adding items to the menu without taking any other items off and this was causing problems for franchise owners. As one owner noted, "If more of the corporate people would spend their lunch hour and work the line and in the kitchen, we wouldn't be in the position we're in today. They kept expanding the menu; we knew this was only making the problem worse."²⁷

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By contrast, it is also the case that some strategic decisions made at corporate headquarters are more informed by wider trends in the industry that may not be recognizable by those on the front lines. For example, back at McDonald's, the local operators offered stiff resistance to the decision to offer "all-day breakfast" because, again, this was expanding the menu.²⁸ However, that decision was based on wide-ranging market surveys conducted at the corporate level, and that program turned out to be a huge success for all.²⁹ All of this again points to the fact that there is no one best way to design the organization's structure and that the key is to make sure the structure is aligned with the competitive strategy.

In fact, when highly functional structures that are really built for efficiency and cost containment try to compete via speed and flexibility, serious problems can ensue. This is perfectly illustrated in the "fast-fashion" industry. Historically, retailers launched new styles at the beginning of each season, and it often took a full year for a design concept to go from the drawing board to the store floor. Although last-minute changes could be made, these were typically costly and cut into margins at a rate that offset the value of the change. However, chains such as H&M and Zara are rewriting the rules of the fashion industry and increasingly introducing new styles every month as part of the push for "fast fashion."³⁰

The only problem with this practice, however, is that many people feel that it can be accomplished only via the exploitation of workers in small, emerging labor markets in developing countries. It might not seem like such a major request to shift an order from 20,000 blue blouses to 10,000 blue blouses and 10,000 red blouses. However, quick shifts in operations like this, when not accompanied by changes in order delivery dates, cause plant managers in emerging economies to pump up worker hours and take shortcuts with maintenance that create major safety issues. These problems have surfaced most clearly in Bangladesh, a country that has been at the forefront of the fast-fashion industry after surging wages in China sent retailers looking for cheaper and more accommodating manufacturers.³¹

In some extreme cases, divisional structures may be so decentralized that some small divisions may not even be supervised by a formal manager, and the employees may self-manage. For example, Valve Corporation, a video-game producer located in Bellevue, Washington, touts itself as a "boss-free" company where decisions regarding hiring, firing, and pay are made by the employees themselves, who are organized into teams. The teams tend to vote on most decisions, or in some cases, due to experience or expertise, one or two people will emerge as leaders for specific projects. Typically this type of leadership emergence occurs in a way that is supported by the team. As one employee notes, "It absolutely is less efficient up front, but once you have the organization behind it, the buy-in and the execution happen quickly."³²

Although flexible, divisional structures are not very efficient because of the redundancy associated with each group carrying its own functional specialists. Also, divisional structures can “self-cannibalize” if the gains achieved in one unit come at the expense of another unit. For example, iPhone’s and iPads are managed by different divisions at Apple, and although the iPhone is certainly a very successful product, the folks over at iPad realized very quickly that iPhones were affecting their sales in a very negative way.³³

Similarly, many retailers house in-store sales and e-commerce sales in different divisions and then find that their e-commerce sales wind up killing their in-store sales. This is exactly what happened at Nordstrom’s during the holiday season in 2016 when in-store sales were crushed, in part, due to the increased sales that were being generated online. As one industry analyst has noted, “most retailers haven’t yet figured out how to grow and maintain brick and mortar profitability while trying to keep up with the likes of Amazon in today’s increasingly digital environment.”³⁴

Decentralized and divisional structures can also create problems if the stand-alone divisions start making decisions that are overly risky or out of line with the page 167organization’s larger goals. This can be particularly problematic when the organization is trying to manage a universal brand image with demands for standardized practices across many far-flung units. For example, Chipotle Mexican Grill had a winning formula for luring customers and investors with a promise of healthy fast food, achieved in an environmentally sustainable manner. At the core of its business strategy was the decentralized nature of decision making where franchise managers had the freedom to make their own decisions regarding local sourcing of ingredients. Unlike national burger chains such as McDonald’s and Burger King that rely on a small number of huge beef and potato suppliers chosen by corporate headquarters, Chipotle’s 2,000 restaurants rely on decentralized supply chain decisions that involved hundreds of small, local independent farmers. This was a distinguishing element of its competitive strategy and it was one of the main factors that made Chipotle a darling of the “farm-to-table” segment of the market.

All of this changed, however, in June 2017 when the organization was upended by a breakout of *E. coli* bacterial poisoning at many of its restaurants—the second major incident in two years. Typically, outbreaks such as this are isolated incidents, but when one chain is struck in so many different regions at the same time, customers and investors begin to think that something is systematically going wrong. Many came to believe that the decentralized nature of the decisions regarding ingredients was simply too loose when it came to strict quality control. Sales dropped by 16% soon after the outbreaks, and the stock price closed 22% lower in the wake of the scandal. As one industry analyst noted, “this strikes deeper at their brand, because so much of their story is based on the quality of their ingredients.”³⁵

Another example of how decentralized structures can lead to problems can be seen in the [Integrity in Action](#) box, where Amazon’s decentralized approach to managing the “last mile” of the delivery chain opened them up to severe criticism when it came to driver safety.

Alternatively, functional structures are very efficient, with little redundancy across units, and they provide little opportunity for self-cannibalization or for rogue units running wild. Also, although the higher level of oversight in centralized structures tends to reduce the number of errors made by lower-level workers, when errors do occur in overly centralized systems, they tend to cascade through the system as a whole more quickly and can, therefore, be more debilitating. For example, nowhere was this more evident than in the 2014 recall of 2.7 million General Motor (GM) vehicles due to failures in the ignition system that resulted in the deaths and injuries of more than 500 customers and financial losses of over \$400 million.

There were two specific problems associated with the structure of GM that helped contribute to the ignition system disaster. First, the structure created functional silos where people who worked on one aspect of the cars rarely spoke to people who worked in other functional areas. For example, the switch problem was, in part, a result of a single engineer who redesigned a faulty part, but failed to renumber it. Because it was not renumbered, when the part moved down through the line through other divisions, those divisions all thought they were working on the original part. Then, when reports of cars stalling began rolling in, this was treated as a customer satisfaction problem, not a safety issue or a design flaw. Thus, the personnel that were monitoring customer satisfaction never

talked to the personnel in design who were not even aware of the problem until it was too late.

A second problem with GM's structure was that it was not at all clear who had decision-making authority for different decisions, and people at lower levels of the organization were reluctant to take responsibility for problems or pass bad news up the organizational chart. An external investigation of the incident conducted by the U.S. Attorney General's Office revealed that many people were aware of the problem as far back as 2001, but these individuals either said nothing or pointed the finger of blame at other units, and so no one actually did anything to solve the problem. In fact, page 168 when the Attorney General's Office asked one worker who knew about the problem if "fixing the problem was part of your job description," the person simply answered "No." The report from the Attorney General's Office specifically noted that "no single person owned any decision related to the ignition switch problem."³⁶



INTEGRITY IN ACTION

Cutting Corners to Increase Speed?

When it comes to competition in the package delivery industry, the so-called "last mile" from the local warehouse to the customer's doorstep is where the race is won and lost. At one time, Amazon hired UPS to do this job, but over time, in order to increase the speed of its delivery services and lower costs, Amazon turned instead to a decentralized network of independent contractors to do the work. As we note in the text, decentralized structures do promote speed, but often at the cost of standardized controls when it comes to errors and safety. This fact is becoming increasingly clear as the evidence mounts that pressure to speed up deliveries seems to be causing deadly accidents for Amazon that may be far higher in terms of per capita mile relative to UPS. In fact, at least 10 recent deaths have been attributed to Amazon drivers and many feel this is just the tip of the iceberg when it comes to the actual number of accidents.

Indeed, Amazon is increasingly becoming a competitor of UPS, and its decentralized structure provides some competitive advantages that allow them to cut the corners when it comes to safety practices. Part of this deals with regulations. UPS is regulated by the Federal Motor Carrier Safety Administration (FMCSA), and hence, has to engage in extensive government mandated driver training. UPS's multimillion-dollar training facilities complete with virtual reality displays and real obstacle course hazard gauntlets are truly impressive, but also costly. In contrast, Amazon trains its drivers via instructional videos that they play on their personal phones. Also, FMCSA investigates and records accident data, but does not regulate the type of smaller vehicle that Amazon contractors use, and hence, has little knowledge of the actual accident rates for Amazon versus UPS.

Beyond regulation, Amazon is also sheltered because unlike the ubiquitous brown UPS truck, loaded with signage, many Amazon vehicles are anonymous white vans with no hint of any logo. Indeed, Amazon argues that as independent contractors, their drivers are not their employees and therefore, the company is not at all liable for their behavior. And even though these drivers can be directly contacted by Amazon if their deliveries are running late, if the drivers get in trouble, the company can simply point to a waiver that each driver signed at the time of their employment. That waiver stipulates that they must "defend, indemnify and hold Amazon harmless," and "assume the liability and responsibility for legal costs due to damage to property or bodily harm including death." Finally, nondisclosure agreements and confidentiality clauses associated with settlements make it even harder to know the true toll that these practices take on innocent victims.

Sadly, and ironically, in one recent accident, this toll was actually paid by former Amazon CFO Joy Covey who was run down and killed by an Amazon contract driver while she was riding her bike in San Francisco. Whether any of these accidents will have any effect on customers is an open question. As one customer has noted, "I think anyone who thinks about it has conflicted feelings. It's sure nice to get something in two days for free, but this idea that they have walled themselves off from responsibility is disturbing." That customer was Tim Hauck, whose own sister was

killed by an Amazon driver in San Diego.

DISCUSSION QUESTIONS

If Amazon dispatchers can directly call drivers and pressure them to speed up their deliveries, does this imply that the drivers are really “independent” or is this simply a right that they have after hiring an independent contractor?

If you are managing a competing company in this business such as UPS or FedEx, how might you try to overcome the built-in competitive advantages that Amazon enjoys in this space?

SOURCES: P. Callahan, “Amazon Pushes Fast Shipping but Avoids Responsibility for the Human Cost,” *The New York Times Online*, September 5, 2019; M. Hanbury, “Amazon Accused of Pressuring Drivers to Meet Deadlines, Sometimes Causing Crashes,” *CBS News*, November 15, 2019; H. Peterson, “Amazon Executive Was Killed after Colliding with a Van Delivering the Company’s Packages,” *Business Insider*, December 23, 2019.

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In contrast to divisional structures, functional structures are most appropriate in stable, predictable environments, where demand for resources can be well anticipated and coordination requirements between jobs can be refined and standardized over consistent repetitions of activity. This type of structure also helps support organizations that compete on cost, because efficiency is central to making this strategy work. Indeed, as you can see in the [Competing through Environmental, Social, and Governance Practices](#) box, brutal efficiency of highly centralized structures can keep cost remarkably low, however, the same structure makes the industry highly maladaptive when it comes to reacting to unpredictable radical change.

Divisional structures are most appropriate in unstable, unpredictable environments, where it is difficult to anticipate demands for resources, and coordination requirements between jobs are not consistent over time. This type of structure also helps support organizations that compete on differentiation or innovation, because flexible responsiveness is central to making this strategy work. For example, Domino’s Pizza has a highly decentralized structure where local franchise owners control a great deal of the decision making. This provided the type of local responsiveness that made them uniquely well-positioned to respond adaptively to the COVID-19 pandemic. For example, prior to the pandemic many local Domino’s began testing a new service aimed primarily at customers who were in a rush. The concept was a way to pick up a pizza without entering the store. Upon arrival, customers checked in via text message or the Domino’s app on their phone, and then an employee deposited the pizza in the trunk of the customer’s car. Thus, “contact free” food delivery was invented, and when the pandemic hit, and suddenly customers either couldn’t or wouldn’t enter stores, Domino’s quickly rolled out “carside” pickup to all of its stores nationally. This was one reason why sales and the stock price of Domino’s surged while other restaurants struggled and went out of business.^{[37](#)}

Of course, designing an organizational structure is not an either-or proposition, and some research suggests that “middle-of-the-road” options that combine functional and divisional elements are often best. For example, most organizations take a “mixed” approach to how they structure the HR function. Typically, there is a subunit called a shared service center that is highly centralized and handles all the major routine transactional tasks such as payroll. There is also a center of excellence subunit that houses specialized expertise in the area of training or labor relations, which is centralized but separate from the shared service center. Finally, there is a third decentralized subunit that acts as business partner to other subunit leaders on talent management or succession planning. This three-pronged structure has elements that strive to achieve efficiency when it comes to routine tasks, specialization when it comes to complex tasks, and flexibility when it comes to supporting each separate business unit.^{[38](#)}

Structure and the Nature of Jobs

Finally, moving from big-picture issues to lower-level specifics, the type of organization structure also has implications for the design of jobs. Jobs in functional structures need to be narrow and highly specialized. Workers in these structures (even middle managers) tend to have little decision-making authority or responsibility for managing coordination between themselves and others. Indeed, in some highly functional structures, decision making at almost all levels is replaced by a set of formal rules and institutionalized procedures that people must adhere to, even when the rules become outdated.

For example, in Japan, there are rules that require that certain decisions have to be made by and approved by large groups. These groups then need to signify their input with a “hanko,” that is, a formal ink stamp manually applied to a document that is then hand delivered to other units. All the units must eventually render their hanko on the paperwork as it moves up or down the chain of command. This formalized procedure provides a solid check that all parties were consulted on a decision, but in a day and age when competing organizations are moving digitized documents at high speeds, the practice seems antiquated, limiting and may create some competitive disadvantage.³⁹



COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

The High Cost of Cheap Meat

Americans consume more meat than anyone else in the world and this has been sustained by the relatively low cost of production within this industry. The U.S. maintains a price advantage of more than 20% when compared to European or Canadian producers, and this can be traced to the structure of the industry and the nature of the work design that characterizes the industry. Meat production in the U.S. is monopolized by a small number of huge businesses that compete directly against one another on costs. Just four organizations control 80% of the beef market, four control 60% of the pork supply and five source 60% of the chicken market. These huge companies are structured for efficiency and as one industry analyst noted, “big companies are competing against each other for the cheapest meat down to the pennies.”

This competition can be best seen in the way work is designed and controlled. For the most part, the jobs are housed in massive facilities constructed in low-cost rural areas, and then staffed by immigrant laborers who have few other available job opportunities. This labor force does heavy labor disassembling animals by hand for long hours in wet, cold and crowded conditions. The brutal efficiency of these facilities can best be seen in their production goals. For example, in the poultry industry, the standard is to process 175 chickens a minute along an assembly line that breaks down each act into tiny repeated steps (e.g., left wing detachment versus right wing detachment and so on).

However, as we note in the text, work designs that promote efficiency are almost always poor when it comes to adaptability to shocks and changes, and this is exactly what became evident when the COVID-19 epidemic broke out. The cold, wet nature of the facilities, along with the elbow-to-elbow working conditions among poorly paid workers who could not afford to stay home if they were sick, made these facilities the perfect storm when it came to spreading the virus. Sickness and death at the facilities got so bad at one point, that only the invocation of the Defense Protection Act by the White House could keep them open. Still, this executive order did not do anything to slow the spread of the virus, and although some companies took steps to protect workers by spacing them out and installing plexi-glass, others, seeking to leverage their cost advantage, not only did nothing, but actually forbade the use of masks on the cutting floor for fear that it would “scare other workers.”

The scenes of devastation at these facilities were enough to turn one into a vegetarian for life, and many local communities took their own steps to stop the carnage. Tony Thompson, Sheriff of Black Hawk County in Iowa, shut down the local plant there and said, “what I saw there shook me to my core.” Many families also filed for damages as part of workers’ compensation claims. At the national level, legislation was passed that made it more difficult to approve mergers within these industries and promoted the sustainability of smaller suppliers. Clearly, these smaller suppliers will be less cost efficient than the giants they compete against, but in the words of Sheriff Thompson, “What is more important, your pork chops or the people that are contracting COVID and dying from it?”

DISCUSSION QUESTIONS

What are some low-cost steps large businesses in this industry might take to help them better protect workers?

If you were a small local supplier trying to compete against the giant agribusinesses such as those highlighted in this box, what steps might you take to try to wrestle away their business?

Sources: I. Ilmeda, M.Dursin, G. Ritchie, and J. Skerit, “If You Work Here, Assume You Have It,” *Bloomberg Businessweek*, May 11, 2020, pp. 48–53; J. Fortin, “After Meat Workers Die of Covid-19, Families Fight for Compensation,” *New York Times Online*, October 6, 2020; P. Coy, “The Human Cost of Cheap Meat,” *Bloomberg Businessweek*, May 4, 2020, pp. 6–8; A. Swanson, D. Yaffe-Bellany, and M. Corkery, “Pork Chops versus People: Battling Coronavirus in an Iowa Meat Plant,” *The New York Times Online*, May 10, 2020.

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In contrast, the steel producer Nucor is structured divisionally; production at its 30 minimill plants has doubled almost every two years, and profit margins have pushed beyond 10% largely because of its flat, divisional structure. At Nucor, individual plant managers have wide autonomy in how to design work at their own mills. Nucor plants sometimes compete against each other, but the CEO makes sure that the competition is healthy and that best practices are distributed throughout the organization as fast as possible, preventing any long-term sustainable advantage to any one plant. Moreover, the profit sharing plan that makes up the largest part of people’s pay operates at the organizational level, which also promotes collaboration among managers who want to make sure that every plant is successful.⁴⁰

Nucor employs just four levels of management and operates a headquarters of just 66 people, compared to one of its competitors, U.S. Steel, which has over 20 levels and 1,200 people at its headquarters. This gives Nucor a long-term sustainable competitive advantage, which it has held for close to 25 years. Many expect this competitive advantage to grow even more in the future, because Nucor is one of the firms that has been helped out the most when it comes to the new tariffs that the U.S. government imposed on foreign steel producers in 2018.⁴¹

The choice of structure also has implications for people who would assume the jobs created in functional versus divisional structures. Managers of functional structures often need to be specialists with deep experience in a narrow topic area. For example, because patents for well-established drugs run out after a set time period, a company like Eli Lilly can survive only by inventing new products before the time bomb represented by their older drugs goes off. Faced with the prospect of losing the patent on its \$5 billion a year schizophrenia medication Zyprexa, this company restructured operations in a functional direction in order to create new products more quickly and efficiently. All persons who were responsible for converting molecules into medicine were taken out of their home departments and placed under one roof in the new Development Center for Excellence.

This group of intensely focused specialists, who were all working together for the first time, came up with an innovative new method for launching and testing drugs. This group took a formerly sequential two-stage process for determining general effectiveness and then the optimal dosage, and converted it into a single-stage process in which multiple dose levels were tested all at once and compared to each other. This process shaved 14 months off the process of developing a new drug for diabetes and was then generalized to other therapeutic causes.⁴²

Job Analysis

LO 4-2

Understand the importance of job analysis for line managers and strategic human resource managers.

[Job analysis](#) refers to the process of getting detailed information about jobs. It is important for organizations to understand and match job requirements and people to achieve high-quality performance. This is particularly true in today's competitive marketplace.

[Job analysis](#)

The process of getting detailed information about jobs.

The Importance of Job Analysis for HR specialists

Job analysis is the building block of everything that human resource managers do. Almost every human resource management program requires some type of information that is gleaned from job analysis: work redesign, human resource planning, selection, training and development, performance appraisal, career planning, and job evaluation. For example, often a firm will seek to redesign work to make it more efficient or effective. To redesign the work, detailed information about the existing job(s) must be available. In addition, redesigning a job will, in fact, be similar to analyzing a job that does not yet exist.

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As another example, in human resource planning, managers analyze an organization's human resource needs in a dynamic environment and develop activities that enable a firm to adapt to change. This planning process requires accurate information about the levels of skill required in various jobs to ensure that enough individuals are available in the organization to meet the human resource needs of the strategic plan. Human resource selection identifies the most qualified applicants for employment. To identify which applicants are most qualified, it is first necessary to determine the tasks that will be performed by the individual hired and the knowledge, skills, and abilities the individual must have to perform the job effectively. This information is gained through job analysis.

As yet another example, most every employee hired by an organization will require training. Some training programs may be more extensive than others, but all require the trainer to have identified the tasks performed in the job to ensure that the training will prepare individuals to perform their jobs effectively. Performance appraisal deals with getting information about how well each employee is performing in order to reward those who are effective, improve the performance of those who are ineffective, or provide a written justification for why the poor performer should be disciplined. Through job analysis, the organization can identify the behaviors and results that distinguish effective performance from ineffective performance.

Finally, when it comes to pay practices, the process of job evaluation involves assessing the relative dollar value of each job to the organization to set up internally equitable pay structures. If pay structures are not equitable, employees will be dissatisfied and quit, or they will not see the benefits of striving for promotions. To put dollar values on jobs, it is necessary to get information about different jobs to determine which jobs deserve higher pay than others.

The Importance of Job Analysis to Line Managers

Job analysis is clearly important to the HR department's various activities, but why it is important to line managers may not be as clear. There are many reasons. First, managers must have detailed information about all the jobs in their work group to understand the work-flow process. Especially in team-based contexts, groups may develop "transactive memory systems" where there is an undocumented and implicit understanding of who know what and who is responsible for what. Managers need to ensure that these unwritten elements of work flow and process are codified so that if there is personnel turnover, the organization retains an objective account of what everyone was actually doing.⁴³

This became an issue during the COVID-19 pandemic in nursing homes when, due to chronic understaffing and high turnover rates, workers began to deviate from formal written job descriptions and improvise new undocumented practices.⁴⁴ Over 30% of COVID-related deaths occurred in nursing homes because of the inability of some new and untrained employees to actually do the job as it was written in the formal job description.⁴⁵ In addition, many of those who found workarounds for getting the job done despite the formal job description left the job before they could teach others.⁴⁶

Second, managers also need to understand the job requirements to make intelligent hiring decisions. Very seldom do employees get hired by the HR department without a manager's input. Even in an age when some companies use sophisticated algorithms to screen applicants, in the end, the manager is going to need to see that the person passes the "eyeball test" prior to making a formal offer.

Third, a manager is responsible for ensuring that each individual is performing satisfactorily (or better). This requires the manager to evaluate how well each person is performing and to provide feedback to those whose performance needs improvement. Finally, it is also the manager's responsibility to ensure that work is being done safely, know where potential hazards might manifest themselves, and create a climate where people feel free to interrupt the production process if dangerous conditions exist.

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For example, in 2016, Donald Blankenship, the CEO of Massey Energy Company, was fined \$250,000 and sentenced to a year in prison for conspiring to violate federal safety standards when it came to running mining operations. Prosecutors in this case argued that Blankenship created a culture at the organization that placed financial performance ahead of safety standards and that this contributed to the deaths of 29 miners after an explosion in the Upper Big Branch Mine in Appalachia. After he took over as new CEO, Paul O'Neill changed reporting procedures so that any time an employee got hurt, the department head in that unit had to develop a plan detailing how work processes were going to be changed to make sure the same accident did not happen again. Executives who failed to embrace this new standard routine were fired. As a result of this new policy, each department head had to become intimately familiar with work processes, which ultimately led to many conversations with lower-level workers, who had great ideas not only for shoring up safety but also for streamlining work flow.⁴⁷

Of course, one problem with trying to make job analysis fulfill so many different purposes is that the best job analysis for one objective may not be the best job analysis for another. For example, a job description that is based on a job analysis performed for recruitment purposes needs to be short and attract attention to applicants who may not spend a great deal of time reading an advertisement. In contrast, a job description that is based on a job analysis used as part of a performance management program needs to be detailed enough to tease out the strengths and weaknesses of a job incumbent who may have been observed over a full year. Thus, a company may perform multiple job analyses for a single job or derive multiple job descriptions from a single job analysis.

Job Analysis Information

Nature of Information

Two types of information are most useful in job analysis: job descriptions and job specifications. A [job description](#) is a list of the tasks, duties, and responsibilities (TDRs) that a job entails. TDRs are observable actions. For example, a clerical job requires the jobholder to type. If you were to observe someone in that position for a day, you would certainly see some typing. When a manager attempts to evaluate job performance, it is most important to have detailed information about the work performed in the job (that is, the TDRs). This makes it possible to determine how well an individual is meeting each job requirement. [Table 4.1](#) shows a sample job description. On the one hand, job descriptions need to be written broadly because overly restrictive descriptions make it easy for someone to claim that some important task, perhaps unforeseen, “is not my job.” On the other hand, lack of specificity can result in disagreement and conflict between people about the essential elements of what the job entails.⁴⁸ Thus, it is critical to strike an effective balance between breadth and specificity when constructing job descriptions.

[Job description](#)

A list of the tasks, duties, and responsibilities (TDRs) that a job entails.

A [job specification](#) is a list of the knowledge, skills, abilities, and other characteristics (KSAOs) that an individual must have to perform the job. *Knowledge* refers to factual or procedural information that is necessary for successfully performing a task. A *skill* is an individual's level of proficiency at performing a particular task. *Ability* refers to a more general enduring capability that an individual possesses. Finally, *other characteristics* might be personality traits such as one's achievement motivation or persistence. Thus, KSAOs are characteristics of people that are not directly observable; they are observable only when individuals are carrying out the TDRs of the job. If someone applied for the clerical job mentioned earlier, you could not simply look at the individual to determine whether he or she possessed typing skills. However, if you were to observe that individual typing something, you could assess the level of typing skill. When a manager is attempting to fill a position, it is important to have accurate information about the characteristics a successful jobholder must have.

[Job specification](#)

A list of the knowledge, skills, abilities, and other characteristics (KSAOs) that an individual must have to perform a job.

Job Title: Maintenance Mechanic

General Description of Job: General maintenance and repair of all equipment used in the operations of a particular district. Includes the servicing of company vehicles, shop equipment, and machinery used on job sites.

Essential Duty (40%): Maintenance of Equipment—Tasks: Keep a log of all maintenance performed on equipment. Replace parts and fluids according to maintenance schedule. Regularly check gauges and loads for deviances that may indicate problems with equipment. Perform nonroutine maintenance as required. May involve limited supervision and training of operators performing maintenance.

Essential Duty (40%): Repair of Equipment—Tasks: Requires inspection of equipment and a recommendation that a piece be scrapped or repaired. If equipment is to be repaired, mechanic will take whatever steps are necessary to return the piece to working order. This may include a partial or total rebuilding of the piece using various hand tools and equipment. Will primarily involve the overhaul and troubleshooting of diesel engines and hydraulic equipment.

Essential Duty (10%): Testing and Approval—Tasks: Ensure that all required maintenance and repair has been performed and that it was performed according to manufacturer specifications. Approve or reject equipment as being ready for use on a job.

Essential Duty (10%): Maintain Stock—Tasks: Maintain inventory of parts needed for the maintenance and repair of equipment. Responsible for ordering satisfactory parts and supplies at the lowest possible cost.

Nonessential Functions

Other duties as assigned.

Sources of Job Analysis Information

In performing the job analysis, one question that often arises is, Who should be responsible for providing the job analysis information? Whatever job analysis method you choose, the process of job analysis entails obtaining information from people familiar with the job. We refer to these people as *subject-matter experts* because they possess deep knowledge of the job.

In general, it will be useful to go to the job incumbent to get the most accurate information about what is actually done on the job. This is especially the case when it is difficult to monitor the person who does the job. When left unobserved for a long time, some job incumbents redesign their own work via a process called “job crafting” where they make small changes in the job so that it better fits their own idiosyncratic skills, interests or constraints.⁴⁹ The ratings of multiple job incumbents that are doing the same job do not always agree, however, especially if the job is complex and does not involve standardized equipment or tight scripts for customer contact.⁵⁰ Also, a sure sign that job crafting may be taking place is when there is a high level of disagreement between job incumbents with respect to how the work is done. Thus, you will also want to ask others familiar with the job, such as supervisors, to look over the information generated by the job incumbent. This serves as a check to determine whether what is being done is congruent with what is supposed to be done in the job.



Visit your instructor's Connect® course and access your eBook to view this video.



“We are looking at those work systems in the back of the restaurant in terms of where to use potential automation that actually elevates the experience of the employee and makes it a better place to work.”

—Scott A. Weisberg, Former Chief People Officer, The Wendy's Company

Video Produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Film-works

Job incumbents are also useful when one is trying to assess the informal social network that exists within the formal organizational structure. That is, although the formal organizational structure suggests who *should* be talking to whom from a top-down normative perspective, an analysis of a company's social structure shows who *really* is talking to whom from a bottom-up descriptive perspective. In fact, one example of the growing field of business analytics deals with people analytics programs that show who is talking to whom on a day-to-day basis via self-report surveys or e-mail trails or from data derived from wearable sensors.

In many cases, social networks develop due to limitations in the formal structure when people realize they need to interact with some person in a way that was not anticipated by a formal organizational designer. Once alerted to this need, formal planners may wish to reconfigure the formal structure to reflect the needs identified by the informal, emergent social structure.⁵¹ For example, [Figure 4.6](#) shows a social network among the division leaders within an organization that produces scientific equipment. In this figure, the blue dots represent engineers engaged in production, the green dots represent scientists engaged in design, the black dots represent administrative support personnel, and the red dots represent the top management team. The lines in this figure denote who frequently interacts with whom on a face-to-face basis.

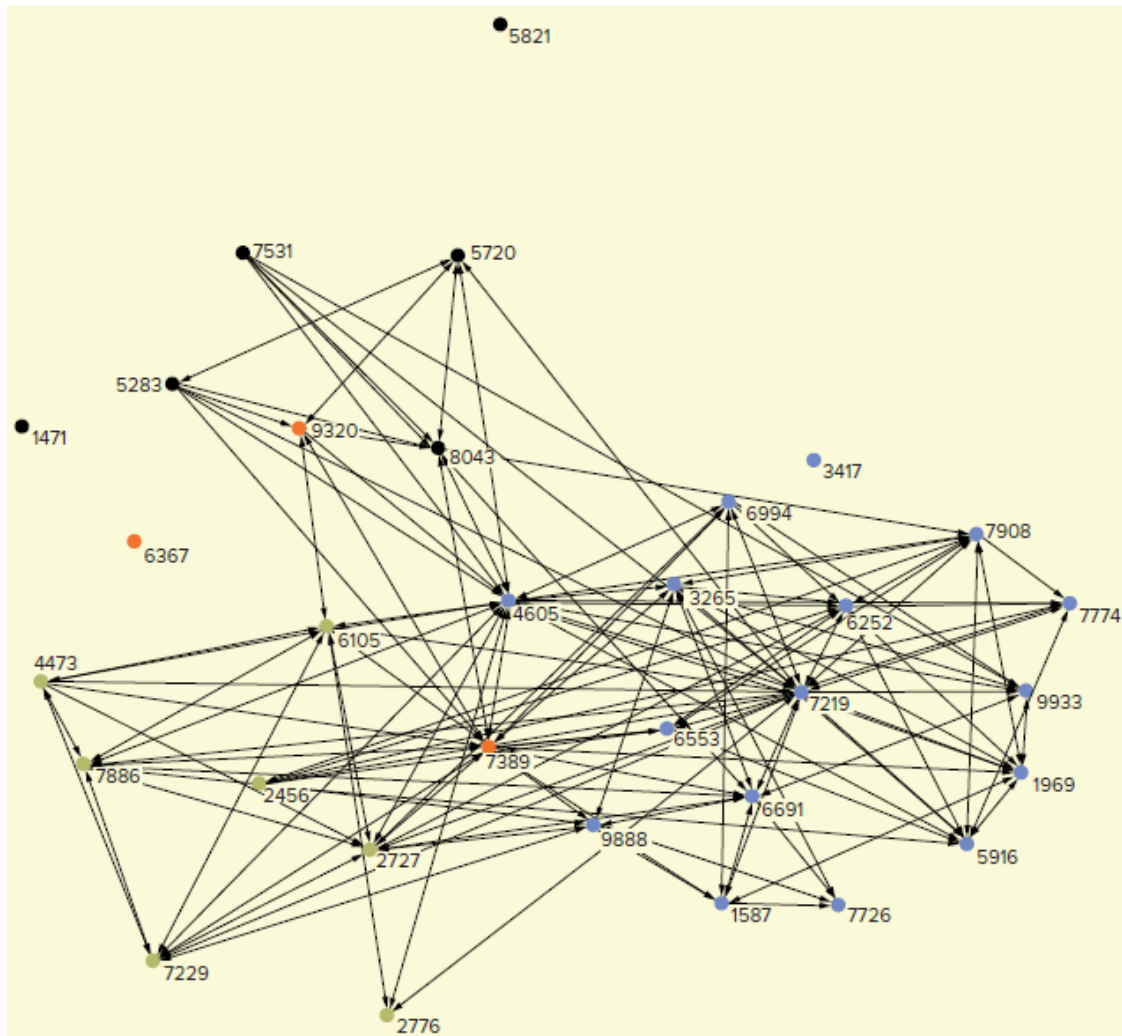


Figure 4.6 Social Network within an Organization

Unlike formal structures designed in a top-down fashion that tend to embrace symmetry and balance, social networks are much more organic and seemingly chaotic. These pictures are an important supplement to the formal organizational chart, however, because they often point out individuals who are more central to the organization than one might think given their job description and the formal chart.⁵² In [Figure 4.6](#), individuals like 4605, 7219, 2727, and 7389 are important “boundary page 176spanners” across the units, whereas 3417, 2776, 1471, and 6367 do not even seem closely tied to members of their own units. It is easy for organizations to underestimate the importance of these informal boundary spanners, and the loss of any one of these individuals is likely to have a much more negative impact on the organization than the loss of individuals who are social outliers.

For these and many other reasons, organizations are increasingly complementing depictions of their formal structure with depictions of these informal structures, and these pictures may not just rely on self-reports.⁵³ Bluetooth signals coming from wearable sensors can accomplish the same goal, and indeed, the social network depicted in [Figure 4.6](#) was based on data from wearable sensors and not self-reports.⁵⁴ By relying on relational data captured automatically and continuously via this technology, one can obtain monthly, weekly, and even daily social network depictions that, due to their organic nature, are more volatile than formal organizational charts. In many cases, informal structures arise as adaptations to problems with formal structures, and over time, the formal structure may be changed so that it conforms more closely to the informal structure.

In contrast to cases where some communication link develops between people in order to meet a legitimate need to get the job done, a close examination of the social network in other cases uncovers individuals who overcommunicate for no good reason related to the work and, hence, waste their time and the time of others. For

example, one company that analyzed its e-mail communications found one executive who generated so many e-mails that it took the equivalent of 10 people working full time just to read the e-mails sent by this one person. An analysis of these e-mails suggested that few of the people who were being sent the communications really needed e-mails from this person to do their job. An intervention directed at “fixing” this part of the social network increased the efficiency of a large number of people.⁵⁵

Although job incumbents and supervisors are the most obvious and frequently used sources of job analysis information, other sources, such as customers, can be helpful, particularly for service jobs. However, because they lack training in evaluations and assessment, customers can sometimes show racial bias or sex bias when evaluating the nature of the work.⁵⁶ Finally, when it comes to analyzing skill levels, external job analysts who have more experience rating a wide range of jobs may be the best source.⁵⁷

Job Analysis Methods

LO 4-3

Choose the right job analysis technique for a variety of human resource activities.

There are various methods for analyzing jobs and no “one best way.” In this section, we discuss two methods for analyzing jobs: the Position Analysis Questionnaire (PAQ) and the Occupational Information Network (O*NET). Although most managers may not have time to use each of these techniques in the exact manner suggested, the two provide some anchors for thinking about broad approaches, task-focused approaches, and person-oriented approaches to conducting job analysis.

Position Analysis Questionnaire (PAQ)

We lead off this section with the PAQ because this is one of the broadest and most well-researched instruments for analyzing jobs. Moreover, its emphasis on inputs, processes, relationships, and outputs is consistent with the work-flow analysis approach discussed at the beginning of this chapter ([Figure 4.1](#)).

The PAQ is a standardized job analysis questionnaire containing 194 items.⁵⁸ These items represent work behaviors, work conditions, and job characteristics that can be generalized across a wide variety of jobs. They are organized into six sections:

Information input—Where and how a worker gets information needed to perform the job.

page 177 *Mental processes*—The reasoning, decision-making, planning, and information-processing activities that are involved in performing the job.

Work output—The physical activities, tools, and devices used by the worker to perform the job.

Relationships with other persons—The relationships with other people required in performing the job.

Job context—The physical and social contexts where the work is performed.

Other characteristics—The activities, conditions, and characteristics other than those previously described that are relevant to the job.

The job analyst is asked to determine whether each item applies to the job being analyzed. The analyst then rates the item on six scales: extent of use, amount of time, importance to the job, possibility of occurrence, applicability, and special code (special rating scales used with a particular item). These ratings are submitted to the PAQ

headquarters, where a computer program generates a report regarding the job's scores on the job dimensions. Research has indicated that the PAQ measures 12 overall dimensions of jobs (listed in [Table 4.2](#)) and that a given job's scores on these dimensions can be very useful. The PAQ database has linked scores on certain dimensions to scores on subtests of the General Aptitude Test Battery (GATB). Thus, knowing the dimension scores provides some guidance regarding the types of abilities that are necessary to perform the job. Obviously, this technique provides information about the work performed in a format that allows for comparisons across jobs, whether those jobs are similar or dissimilar. Another advantage of the PAQ is that it covers the work context as well as inputs, outputs, and processes. There are several other job analysis questionnaires that are available, and some, like the "Work Design Questionnaire," are freely available to the public.⁵⁹

Table 4.2 Overall Dimensions of the Position Analysis Questionnaire

Decision/communication/general responsibilities
Clerical/related activities
Technical/related activities
Service/related activities
Regular day schedule versus other work schedules
Routine/repetitive work activities
Environmental awareness
General physical activities
Supervising/coordinating other personnel
Public/customer/related contact activities
Unpleasant/hazardous/demanding environment
Nontypical work schedules

Knowledge of work context is important because in many cases, one can predict absenteeism and turnover from the nature of the surroundings in which the work takes place, and some people are more resilient than others when it comes to dealing with adverse environments. For example, one aspect of the work environment that is being reconsidered is the use of open office plans that eliminate private offices and place employees in larger more public spaces. The hope was that this kind of office design would spur collaboration and creativity, but in many instances, due to the need to concentrate, many employees would put on head phones and never look up from their cubicle that was often "redecorated" in ways that would preclude people page 178seeing one another.⁶⁰ These types of spontaneous behaviors reminded employers that in many high-level jobs, people need time alone to concentrate, not just collaborate.⁶¹ Hence, new approaches to office designs often create both shared spaces and spaces where one can be isolated, as well as time partitioning that precludes meetings during certain hours.⁶² The ability to isolate also came in handy when the COVID pandemic forced social distancing requirements at work.⁶³

There was also the hope that open office designs would promote a more egalitarian environment because upper-level managers often resided in the same space, and were more accessible relative to when they were in a

big private office. But again, these plans backfired because many workers were stressed out by having their supervisors around constantly. In addition, the upper-level managers also required privacy for many of their tasks, and when they left their “open space” for “communal private space” to meet in private, this fueled needless speculation and rumors. Thus, for a host of reasons, when it comes to work surroundings, many companies are returning to private offices for supervisors.⁶⁴

The Occupational Information Network (O*NET)

The *Dictionary of Occupational Titles* (DOT) was born during the 1930s and served as a vehicle for helping the new public employment system link the demand for skills and the supply of skills in the U.S. workforce. Although this system served the country well for more than 60 years, it became clear to officials at the U.S. Department of Labor that jobs in the new economy were so qualitatively different from jobs in the old economy that the DOT no longer served its purpose. Technological changes in the nature of work, global competition, and a shift from stable, fixed manufacturing jobs to a more flexible, dynamic, service-based economy were quickly making the system obsolete.⁶⁵

For all these reasons, the Department of Labor abandoned the DOT and developed an entirely new system for classifying jobs referred to as the Occupational Information Network, or O*NET. Instead of relying on fixed job titles and narrow task descriptions, the O*NET uses a common language that generalizes across jobs to describe the abilities, work styles, work activities, and work context required for various occupations that are more broadly defined (e.g., instead of the 12,000 jobs in the DOT, the O*NET describes only 1,000 occupations).⁶⁶

Reviews of the O*NET have praised it for its breadth and scope in terms of covering the wide variety of work reflected in the U.S. economy; however, it has also been criticized for the fact that many of its different sections are poorly coordinated and redundant and that many sections are laced with jargon that is difficult for nonspecialists to understand.⁶⁷

Still, the O*NET is a valuable source of information, especially for job seekers who are unfamiliar with the requirements associated with certain jobs. For example, in a changing U.S. labor market, new and emerging occupations (including those that are linked to a green economy or the adoption of newer technologies) are raising the importance of analytical skills, as well as skills related to science, math, and engineering. The O*NET provides descriptions of new jobs such as database architects, biostatisticians, and intelligence analysts. But the green economy is also raising the demand for some “old job” mechanical skills, such as equipment maintenance and repairing. With its emphasis on the environment and the sustainable use of resources, the green economy has stimulated employment in existing engineering and production jobs, ranging from industrial engineers to electricians, which often call for mechanical proficiency.⁶⁸

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Dynamic Elements of Job Analysis

LO 4-4

Identify the tasks performed and the skills required in a given job.

Although we tend to view jobs as static and stable, in fact, jobs tend to change and evolve over time. Especially in a context where job crafting can take place, those who occupy or manage the jobs often make minor, cumulative adjustments to the job that try to match either changing conditions in the environment or personal preferences for how to conduct the work. Indeed, although there are numerous sources for error in the job analysis process, most

inaccuracy is likely to result from job descriptions simply being outdated. For this reason, in addition to statically defining the job, the job analysis process must also detect changes in the nature of jobs.

For example, as we have noted, working in a nursing home has always been a stressful occupation mentally, but changes over time in the nature of the patients have dramatically increased requirements related to pure physical strength. The percentage of morbidly obese patients increased from less than 15% in 2000 to over 25% in 2015, which has led to an unprecedented spike in staff injuries related to heavy lifting because, in many cases, this aspect of the job was not reflected in outdated job descriptions.⁶⁹

Indeed, in today's world of rapidly changing products and markets, some people have begun to question whether the concept of "the job" is simply a social artifact that has outlived its usefulness. The belief is that traditional "jobs" will be replaced by "gigs" where workers all act as private contractors. Instead of being "W-2" employees working for an employer, each worker will be a freelancer and part of some part-time work arrangement.

Although this vision of the future may be true for Uber drivers, Task Rabbit contributors, and some employees on the fringe of the high-tech industry, recent statistics from the Bureau of Labor Statistics suggest that the percentage of U.S. workers that would be categorized as being part of "alternative work arrangements" is small (10%) and has actually decreased in the last decade.⁷⁰ In particular, as the labor market tightened up in 2018, it began to appear that so-called gig jobs were just a temporary resort that workers turned to after the previous recession left many out of traditional jobs.

Even in industries where gig work seems to dominate at the moment, legal challenges to how workers are classified is making it more difficult for companies like Uber to claim their employees are independent contractors. For example, California passed legislation in 2021 that forced many companies to reclassify their workers as employees rather than contractors, making them eligible for the state minimum wage, overtime pay, workers compensation and paid sick days.⁷¹ In response to this, rather than allow their costs to increase, some companies like Vox Media stopped using freelance writers in California and simply hired freelancers from other states.⁷²

Job Design

LO 4-5

Understand the different approaches to job design.

So far we have approached the issue of managing work in a passive way, focusing only on understanding what gets done, how it gets done, and the skills required to get it done. Although this is necessary, it is a very static view of jobs, in that jobs must already exist and that they are already assumed to be structured in the one best way. However, a manager may often be faced with a situation in which the work unit does not yet exist, requiring jobs within the work unit to be designed from scratch. Sometimes work loads within an existing work unit are increased, or work-group size is decreased while the same work load is required. Finally, sometimes the work is not being performed in the most efficient manner. In these cases, a manager may decide to change the way that work is done in order for the work unit to perform more effectively and efficiently. This requires redesigning the existing jobs.

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Job design is the process of defining how work will be performed and the tasks that will be required in a given job. Job redesign refers to changing the tasks or the way work is performed in an existing job. To effectively design jobs, one must thoroughly understand the job as it exists (through job analysis) and its place in the larger work unit's work-flow process (work-flow analysis). Having a detailed knowledge of the tasks performed in the work unit and in the job, a manager then has many alternative ways to design a job. This can be done most effectively through understanding the trade-offs between certain design approaches.

Job design

The process of defining the way work will be performed and the tasks that will be required in a given job.

Job redesign

The process of changing the tasks or the way work is performed in an existing job.

LO 4-6

Comprehend the tradeoffs among the various approaches to designing jobs.

Research has identified four basic approaches that have been used among the various disciplines (such as psychology, management, engineering, and ergonomics) that have dealt with job design issues.⁷³ All jobs can be characterized in terms of how they fare according to each approach; thus a manager needs to understand the trade-offs of emphasizing one approach over another. The Work Design Questionnaire (WDQ), a specific instrument that reliably measures these and other job design characteristics, is available for use by companies wishing to comprehensively assess their jobs on these dimensions.⁷⁴

Mechanistic Approach

The mechanistic approach has roots in classical industrial engineering. The focus of the mechanistic approach is identifying the simplest way to structure work that maximizes efficiency. This most often entails reducing the complexity of the work to provide more human resource efficiency—that is, making the work so simple that anyone can be trained quickly and easily to perform it. This approach focuses on designing jobs around the concepts of task specialization, skill simplification, and repetition. For example at Chili's Restaurants, cooks used to cut up vegetables, meats, and other ingredients as part of preparing a meal. To increase efficiency, the organization decided to break this job into two smaller parts: one job, called “prep cook,” involves coming in the morning to cut up the ingredients, and the second job, “line cook,” involves using these prepared ingredients to assemble the final meal.⁷⁵

Scientific management was one of the earliest and best-known statements of the mechanistic approach.⁷⁶ According to this approach, productivity could be maximized by taking a scientific approach to the process of designing jobs. Scientific management first sought to identify the “one best way” to perform the job. Once the best way to perform the work is identified, workers should be selected based on their ability to do the job, they should be trained in the standard “one best way” to perform the job, and they should be offered monetary incentives to motivate them to work at their highest capacity.

The scientific management approach was built upon in later years, resulting in a mechanistic approach that calls for jobs to be designed so that they are very simple. By designing jobs in this way, the organization reduces its need for high-ability individuals and thus becomes less dependent on individual workers. Individuals are easily replaceable—that is, a new employee can be trained to perform the job quickly and inexpensively.

Many jobs structured this way are performed in developing countries where there is a large supply of low-skilled labor and relatively lax legal guidelines regarding safety standards.⁷⁷ For example, manufacturing silicon chips involves a process that exposes workers to a large number of carcinogens that are regulated less heavily in Asia than in the United States; hence, chip production has largely moved overseas.⁷⁸ In addition, as the [Competing through Technology](#) box shows, many jobs related to the development of artificial intelligence such as data labeling are also exported to countries where people are more willing to work boring or toxic jobs for low wages.



COMPETING THROUGH TECHNOLOGY

Data Labeling: The Real Work Behind Artificial Intelligence

Google Chief Executive Sundar Pichai has said that “in the sweep of human history, Artificial Intelligence (AI) is more important than electricity or fire,” and all of the major tech companies are expanding rapidly into the field. The highly publicized nature of the new technology even got a boost from the Mars Perseverance Mission in 2020, when AI was used by NASA scientists to train a helicopter drone to automatically identify geographic and geological features of the Martian landscape. All of this may seem like “out of this world” computing power, however, at the core of any AI application is hundreds, sometimes thousands, of humans working in the background on a task called “data labeling.”

Data labeling is a boring, monotonous, and sometimes toxic task where human operators put names on various pictures and images, basically teaching the AI application what those images represent. At NASA, the data labelers feeding the helicopter drone were skilled graduate students and post docs, but for more routine aspects of this developing technology, this is a job outsourced to low wage countries. For example, in order to have self-driving, autonomous vehicles, the AI driving the car or truck needs to know what basic things like stop lights, traffic signs, solid lines, dotted lines and cross walks look like from many different angles. Data labelers work long hours for low wages, often in crowded conditions in dilapidated buildings placing digital boxes around images taken from the Internet and giving them names and definitions.

But a data labeler working on a task that is just mind-numbingly boring is lucky. It could be far worse. For example, one of the tasks that high-tech companies would like AI to learn is how to identify highly graphic violence and hard-core pornography. If this task could be automated, this would allow companies to keep the Internet safe and clean from some images. However, for this to happen, this means that some poor set of humans has to watch violent acts like beheadings, from many different angles so that the AI can learn what that looks like. This is where the work becomes toxic and workers assigned to these tasks often develop mental health issues, even though they are strictly monitored.

Regrettably, although the future of AI might be bright, at the present, companies cannot take the human out of the loop, and this creates some pretty poor tasks when it comes to job design. Moreover, some have suggested that the potential embodied in AI has been highly oversold, and that it might not be worth the financial and human cost spent on its development. For example, to date, most AI performs routine tasks, and merely assists human beings in making routine decisions. The systems are poor at adapting to anything they have not seen or that presents itself in some unusual manner. For example, the rocks on Mars are pretty stable, do not move, and are relatively predictable in terms of shapes and sizes. In other contexts characterized by rapid change, the technology is largely useless. Thus, AI not only requires low-skill workers to teach it, but does not eliminate the need for high-skill workers to do what it can never learn.

DISCUSSION QUESTION

When it comes to the “boring” aspects of teaching AI routine identification tasks, what can one do in the area of job design to enrich this work in order to make it more engaging?

When it come to the “toxic” aspects of teaching AI how to identify graphic violence and hard-core pornography, how can HR professionals protect workers, and if necessary, redesign the work?

SOURCES: J. Kahn, “If Data Is the New Oil, These Companies Are the New Baker Hughes,” *Fortune Magazine Online*, February 4, 2020; S. Johnson, “A Potential and Problematic Industry Behind AI,” *Business Insider Online*, September 22, 2020; L. Yuan, “How Cheap Labor Drives China’s A.I. Ambitions,” *The New York Times Online*,

November 25, 2018; C. Metz, "AI Is Learning from Many Humans," August 16, 2019, *The New York Times Online*, accessed September 24, 2019; C. Mims, "AI Isn't Magical and Won't Help You Reopen Your Business," *The Wall Street Journal Online*, May 30, 2020.

In some cases, jobs designed via mechanistic practices result in work that is so simple that a child could do it, and this is exactly what can happen in some undeveloped countries. This can lead to a backlash against companies that benefit from this unethical practice, and increasingly, organizations are taking the lead in preventing these kinds of practices. Although the world was making inroads against the use of child labor, much of this progress was set back during the COVID pandemic when children were not allowed to go to school, and parents, who may have been out of work themselves, pushed children into the global labor supply.⁷⁹ This was not just limited to developing countries, however, and closer to home in Massachusetts, the Chipotle restaurant chain was fined for regularly letting 16- and 17-year-old employees work more than nine hours per day and more than 48 hours per week, in violation of state law. Rather than some simple routine scheduling error, the practice seemed to be systematic and, according to the Massachusetts attorney general, Chipotle had violated child labor laws 13,253 times.⁸⁰

Motivational Approach

The motivational approach to job design has roots in organizational psychology and management literature and, in many ways, emerged as a reaction to mechanistic approaches to job design. It focuses on the job characteristics that affect psychological meaning and motivational potential, and it views attitudinal variables (such as satisfaction) as the most important outcomes of job design. The prescriptions of the motivational approach focus on increasing the meaningfulness of jobs through such interventions as job enlargement and job enrichment.

A model of how job design affects employee reactions is the Job Characteristics Model.⁸¹ According to this model, jobs can be described in terms of five characteristics. *Skill variety* is the extent to which the job requires a variety of skills to carry out the tasks. *Task identity* is the degree to which a job requires completing a "whole" piece of work from beginning to end. *Autonomy* is the degree to which the job allows an individual to make decisions about the way the work will be carried out. *Feedback* is the extent to which a person receives, from the work itself, clear information about performance effectiveness. *Task significance* is the extent to which the job has an important impact on the lives of other people. Although all five characteristics are important, the belief that the task is significant because performing it well leads to outcomes one values may be the most critical motivational aspect of work. This can often be enhanced by making it clear to the worker how his or her job affects other people, whether they be customers, co-workers, or society in general.

Designing jobs so that they are performed by teams can also increase the meaningfulness of the work by helping to meet the social needs of employees. Indeed, the natural innate drive to work with other people has spawned an entire industry associated with "work clubs."⁸² This was the original idea behind the company WeWorks, and although this founding company eventually went bankrupt, others took up the charge. Companies such as Impact Hub or Hatchlab create a shared space for freelancers who *work next to*, but not really *work with*, other people. Just being in the presence of others seems to increase motivation, accountability, and even peer pressure so much that workers are willing to pay for the opportunity.⁸³

For example, working in a call center trying to drum up contributions to a university's scholarship fund is boring, routine work that, more often than not, leads to rejection for employees. However, one experiment conducted in this setting found that after introducing the workers to scholarship recipients whose lives were changed by their awards, productivity among the call center team increased over 150%.⁸⁴ Helping workers see the meaningfulness of their jobs can be very motivational, and it is easy to lose this "line of sight" on a day-to-day basis if it is not reinforced.

Indeed, the term "job gentrification" has been coined to capture the fact that many well-educated workers, who struggle to see meaning in their work, have reverted to taking many formerly "nonprofessional" jobs like bartender,

barber, and butcher. These jobs have a hands-on aspect to them where one works directly with customers on a day-to-day basis and, hence, can see people appreciate their work. When executed as part of job gentrification, these jobs have a distinct “performance” element to page 183the work that differentiates it from how the job is traditionally performed. For example, a trendy whole animal butcher produces products and attracts clients who are willing to pay a premium for those products, which differ from what one sees at their local grocery store chain.⁸⁵

Biological Approach

The biological approach to job design comes primarily from the sciences of biomechanics (i.e., the study of body movements), work physiology, and occupational medicine, and it is usually referred to as *ergonomics*. [Ergonomics](#) is concerned with examining the interface between individuals’ physiological characteristics and the physical work environment. The goal of this approach is to minimize physical strain on the worker by structuring the physical work environment around the way the human body works. It therefore focuses on outcomes such as physical fatigue, aches and pains, and health complaints. Any job that creates a significant number of injuries is a target for ergonomic redesign.

[Ergonomics](#)

The interface between individuals’ physiological characteristics and the physical work environment.

The biological approach has been applied in redesigning equipment used in jobs that are physically demanding. Such redesign is often aimed at reducing the physical demands of certain jobs so that they can be performed faster and more comfortably. For example, Jeff Bezos, the former CEO of Amazon, often notes how in the early days of his company, he and his co-workers spent long hours kneeling on the floor, packing books into boxes. When one of his employees suggested the use of packing tables, productivity at the little startup doubled and the rest is history.⁸⁶ Many other biological interventions focus on redesigning machines and technology, such as adjusting the height of the computer keyboard to minimize occupational illnesses (like carpal tunnel syndrome). The design of chairs and desks to fit posture requirements is very important in many office jobs and is another example of the biological approach to job design.

Although providing comfortable, ergonomically designed chairs is certainly laudable, recent research suggests that getting employees out of their chairs is also critically important when it comes to health outcomes. That is, the evidence is becoming increasingly clear that merely sitting for long periods can be damaging to employees. From an evolutionary perspective, the human body was designed to move, and long stretches of sedentary behavior are at odds with this design. For example, people who are above the mean in “time spent sitting” have a 24% greater risk of developing colon cancer, a 32% higher risk of endometrial cancer, and a 21% increased risk of lung cancer, even when one controls for the amount of physical exercise that people get when they are not sitting. Thus, office redesign programs that involve the introduction of treadmill desks or stand-up desks are becoming increasingly common elements of design, and some organizations are trying to make standing, rather than sitting, the default position for performing jobs.⁸⁷

However, too much time standing can also be problematic when it comes to ergonomics. That is, recent evidence suggests that standing too long causes people to lean in odd directions that result in musculature problems, back problems, foot problems, carotid artery disease, and even varicose veins. Ergonomic science is now honing in on the precise formula for mixing sitting, standing, and light activity while at work for a standard eight-hour day. The current evidence suggests that the best mix includes two to four hours of standing and roughly 15 episodes of light activity (two minutes) spread throughout the day. Still, few workers are able to maintain the discipline required for this balance without some technical aid, such as sensors to remind them when to do what for how long a period.⁸⁸

In addition to the direct effects of these kinds of interventions on worker well-being, such programs also have a positive psychological effect on workers by emphasizing an organizational climate that values safety and health.

That is, in addition to page 184 changes in design, some organizations try to instill a safety culture by giving each and every employee the power to report, or better yet, stop any worker who engages in unsafe behavior. At Chevron, for example, any worker within its headquarters office in San Ramon, California, can halt an activity the worker deems unsafe by taking out a small white “stop work” card. Thus, in terms of decision-making authority, each person has the power to identify and correct safety lapses regardless of where they reside on the formal organizational chart.⁸⁹



EVIDENCE-BASED HR

Organizations that plot their informal structure can often identify individuals who are more central to getting work done in the organization than one might think from just looking at their position on the formal organizational structure. This can be important for helping to leverage the informal influence those individuals have when it comes to promoting organizational goals. However, in addition to this, individuals who have a large number of ties in the organization are also less likely to quit the job, thus promoting organizational stability.

Recent evidence from a longitudinal research study that followed over 120 workers found that those who had a large number of “friendship ties” and “advice ties” were more likely to stay versus those with fewer ties. Also, dynamically, even a small number of decreases in ties over time increased the probability of turnover quite significantly, even when the absolute number of retained ties was relatively high. Finally, when individuals were thinking of quitting, this affected the two different types of ties in different ways. People who were thinking of quitting but had a lot of friendship ties did not work to expand those ties and find more friends. However, when people who had a large number of advice ties were thinking about quitting, they actually increased the number of advice ties in preparation for flight. This evidence shows the importance of not just plotting the organization's informal network, but plotting separate networks for friends versus people who merely seek and provide advice.

SOURCE: C. Troster, A. Parker, D. Van Knippenberg, and B. Sahlmuller, “The Coevolution of Social Networks and Thoughts of Quitting,” *Academy of Management Journal* 62 (2019), pp. 22–43.

Unfortunately, not all organizations necessarily share the same culture committed to employee health and well-being. For example, in 2018, workers in the Venezuela oil industry were leaving their jobs at such a high rate that the government placed a limit on the behavior at “five resignations a day.” Due to hyper-inflation in the economy, effective salary rates were cut to a level where the workers could not even feed themselves because food inflation surpassed 2,500% in one month alone. Workers doing heavy physical labor need to consume roughly 3,600 calories a day, however, in many regions in Venezuela they were down to just 400 calories a day. In one facility, 12 malnourished workers collapsed in one day and had to be taken off drilling platforms for treatment. After 500 workers quit in just one month at one prominent facility, the government cracked down and issued the “five resignations a day” policy, backed up by threats to imprison any “traitors to the homeland” who quit without permission.⁹⁰

Perceptual–Motor Approach

The perceptual–motor approach to job design has roots in human-factors literature. Whereas the biological approach focuses on physical capabilities and limitations, the perceptual–motor approach focuses on human mental capabilities and limitations. The goal is to design jobs in a way that ensures they do not exceed people's mental capabilities and limitations. This approach generally tries to improve reliability, safety, and user reactions by designing jobs to reduce their information-processing requirements. Regrettably, as the [Competing through Globalization](#) box shows, failures in the page 185 design of work can increase the danger associated with certain complex jobs like flying an airplane, and if people are not careful, well-intended warnings and automated systems

can actually make the problem worse.



COMPETING THROUGH GLOBALIZATION

Human Factors Engineering: The Last Line in the Defense of Safety

The crash of Ethiopian Airlines Flight 302 was costly in so many ways. The tragic human toll was over 150 lives, a number that had to be added to the 190 lives lost when the same type of plane crashed just five months earlier in Indonesia. Financially, the company that designed the plane, Boeing, was forced to ground one of the most ubiquitous planes in their fleet for months. This was happening at perhaps the worst time, because its main competitor had just introduced the new Airbus A320 a few years earlier and the company was already playing from behind when it came to cost effectiveness. Analysts estimate this cost the airline over \$18 billion. Finally, the reputational damage inflicted on Boeing may last a lifetime in an industry where beliefs about safety can never be taken for granted.

In the early phases of the investigation, some attention was directed at the pilots. As Yeshiwas Zeggaye, the former head of the Ethiopian Airline Pilots Association, noted, “We have this joke that we usually say, ‘If a plane crash does not kill you, the report will kill you.’ It’s always easy to blame the pilots.” Indeed, Boeing CEO David L. Calhoun suggested that pilots in Ethiopia and Indonesia had far less experience than those in the United States. In addition, a former chief engineer with the carrier, Yonas Yeshanew, accused Ethiopian Airlines of fabricating documents and overseeing a culture of corruption and shoddy maintenance. Moreover, some suggested that ground crews in Indonesia routinely made last minutes adjustments to planes without notifying Boeing.

However, deeper into the investigation, it became crystal clear that it was the culture at Boeing, and not Indonesian or Ethiopian culture, that lay at the core of the twin disasters. Most specifically, in both crashes, the key point of failure was a vane that measures the plane’s nose against the incoming wind called the Maneuvering Characteristics Augmentation System (MCAS). The system automatically applies double-speed impulses of nosedown trim, but only under circumstances so narrow that very few regular airline pilots will ever experience its activation. Unless, that is, the sensor fails. When the sensor fails, the system delivers a dizzying array of cockpit warnings, including a rumbling alert known as a “stick-shaker” that suggests the plane is stalling.

The specific problem has been linked to a bigger problem at Boeing that seems to point to a cost-cutting culture that may have been trading off safety for cost control. For example, some have suggested that in order to weaken some of the unions that Boeing worked with in the Seattle region, the company moved training operations to Miami. This resulted in a loss of over 100 human factor engineers—specialists trained in designing systems in a way that best matches a human’s psychological processes. Richard Ludtke, a former cockpit designer with the company, noted that with these specialists gone, “it was easier for the program leaders to drive their wishes on the design team. They just didn’t have the people who understood that you need to say ‘no.’”

Realizing the huge costs associated with their lack of attention to safety, Boeing has responded by completely restructuring their safety operations into a single unit dedicated to channeling all concerns raised by employees to their top management team. The hope is that this will prevent any recurrence of the tragic events of 2019.

DISCUSSION QUESTIONS

Why might the first reaction to disasters such as the twin Boeing crashes be directed at pilots, and why might this knee-jerk reaction be especially pronounced when the pilots hail from cultures that differ from the airline manufacturer?

In a world that competes on costs, how can a company protect its safety culture in a manner that still allows the firm to survive?

SOURCES: S. Marks and A. L. Dahir, "Ethiopian Report on 737 Max Crash Blames Boeing," *The New York Times Online*, March 9, 2020; W. Langewiesche, "What Really Brought Down the Boeing 737 Max," *The New York Times Magazine*, September, 18, 2019; P. Robison and J. Johnsson, "Where the 737 Went Off Course," *Bloomberg Businessweek*, December 23, 2019, pp. 14–18; D. Cameron, "Boeing Unifies Safety Responsibilities," *The Wall Street Journal Online*, September 10, 2019.

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Recent changes in technological capacities hold the promise of helping to reduce job demands and errors, but in some cases, these developments have made the problem worse. The term "absence presence" has been coined to refer to the reduced attentive state that one might experience when simultaneously interacting with multiple media. For example, someone might be talking on a cell phone while driving a car, or surfing the Internet while attending a business meeting, or checking e-mail while preparing a presentation. In all these cases, the new technology serves as a source of distraction from the primary task, reducing performance and increasing the opportunities for errors.⁹¹ Hence, ergonomic interventions aimed at reducing physical barriers are likely to be largely ineffective. For example, holding a stressful conversation while driving in heavy traffic is dangerous regardless of whether one is using a "hands-free" device or not. It is the mental strain, not the physical challenge, that makes this a hazardous activity.⁹²

Unfortunately, in the information age, there is a temptation to push more and more information at employees to the point that it can actually detract from performance. For example, in the airline industry, new handheld devices given to flight attendants provide sweeping amounts of information regarding each and every passenger far beyond what you might expect. Part of this is to promote customer service, and hence, a picture of a birthday cake comes up for any passenger whose recorded birthdate matches that date on the calendar. The handheld also tells the staff whether or not the person's experiences on their last five flights were good or bad in terms of on-time arrival and how well their connecting flight looks this time. Finally, the device also tells the attendant whether or not the passenger has been disruptive or caused problems in the past, and hence needs to be watched carefully. When one multiplies all this new information times the number of passengers, the mental calculations that one has to go through on the spot is very high and may well crowd out more important duties related to keeping the cabin safe.⁹³ Moreover, in the end, the result might be that some customers will think their privacy is being invaded.



A LOOK BACK

Revisiting Working from Home and Job Design

In the chapter-opening story, we saw that during the pandemic companies were initially forced to redesign many jobs so that people could work from home, but then, when the chance to return to normal presented itself, they had to make a strategic choice about where they needed to get the work done, based upon the business model and competitive approach. Thus, what started as a necessity turned into a strategic decision. We also showed throughout the chapter numerous methods and examples of how organizations can effectively design work and create jobs where duties are clear, the work is meaningful, and workers are protected from unsafe conditions.

QUESTIONS

The analysis of workflow design traditionally starts at the end of the process, with the final product or service that is to be rendered. If an employer wants to commit to processes that highlight working from home, how could the process of workflow design play out and how might the results be different than if the organization was committing to having people work at an office?

What changes in the formal structure of an organization might be needed to support people working from home? Although there are advantages and disadvantages to different structural configurations, why might it be

more difficult to change one's structure in some directions than others?

Many ways of reducing the cost of getting jobs done often come at some price to workers who have to do those jobs. What can be done to promote a more humane and sustainable workforce in all corners of the world? Does the competitive nature of product or labor markets mean that "nice guys always finish last"?

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SUMMARY

The analysis and design of work is one of the most important components to developing and maintaining a competitive advantage. Strategy implementation is virtually impossible without thorough attention devoted to work-flow analysis, job analysis, and job design. Managers need to understand the entire work-flow process in their work unit to ensure that the process maximizes efficiency and effectiveness. To understand this process, managers also must have clear, detailed information about the jobs that exist in the work unit, and the way to gain this information is through job analysis. Equipped with an understanding of the work-flow process and the existing jobs, managers can redesign jobs to ensure that the work unit is able to achieve its goals while individuals within the unit benefit from the various work outcome dimensions such as motivation, satisfaction, safety, health, and achievement. This is one key to competitive advantage.

KEY TERMS

[Centralization, 163](#)

[Departmentalization, 163](#)

[Job analysis, 171](#)

[Job description, 173](#)

[Job specification, 173](#)

[Job design, 180](#)

[Job redesign, 180](#)

[Ergonomics, 183](#)

DISCUSSION QUESTIONS

Assume you are the manager of a fast-food restaurant. What are the outputs of your work unit? What are the activities required to produce those outputs? What are the inputs?

Based on Question 1, consider the cashier's job. What are the outputs, activities, and inputs for that job?

Consider the "job" of college student. Perform a job analysis on this job. What are the tasks required in the job? What are the knowledge, skills, and abilities necessary to perform those tasks? What environmental trends or shocks (like social networking platforms) might change the job, and how would that change the skill requirements?

Discuss how the following trends are changing the skill requirements for managerial jobs in the United States: (a) increasing use of collaborative technologies and (b) increasing international competition.

Why is it important for a manager to be able to conduct a job analysis? What are the negative outcomes that would result from not understanding the jobs of those reporting to the manager?

What are the trade-offs between the different approaches to job design? Which approach do you think should be weighted most heavily when designing jobs?

For the cashier job in Question 2, which approach to job design was most influential in designing that job? In the context of the total work-flow process of the restaurant, how would you redesign the job to more heavily emphasize each of the other approaches?

SELF-ASSESSMENT EXERCISE



Do You Have the Necessary Skills for Your Dream Job?

If you have been assigned this Self-Assessment in Connect, you will visit the Department of Labor's Occupational Information Network (O*NET) at <https://www.onetonline.org/> to see if you think this system meets the goal of promoting "the effective education, training, counseling, and employment needs of the American workforce."

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EXERCISING STRATEGY

Creating Jobs and Injuries in the American South

"This brings shame on your reputation. American consumers are not going to want to buy cars stained with the blood of American workers." This was the stern warning that David Michaels, Director of the Occupational Safety and Health (OSHA), gave to top level executives at Hyundai Motor Company and Kia Motors Company after showing them some startling statistics. All of these numbers pertained to serious safety violations and injuries that were occurring at U.S. plants that supplied parts to the giant automakers. Most of the plants were located in southern states such as Alabama, and the statistics were unpleasant. For example, workers at auto supplies plants located in Alabama were 50% more likely to be injured compared to the industry as a whole, and over 50% of those injuries could be traced to Korean-owned plants.

Southern states originally opened their arms to non-U.S. manufacturers when they moved into the region in the 1990s, and the partnership seemed like a win-win proposition for all. Companies like Hyundai and Kia created thousands of new jobs for American workers, and in return, the companies received favorable tax treatment and access to a large labor force that had a strong work ethic, and that was largely nonunionized. This workforce was clearly a source of advantage for these firms when it came to competing against U.S. companies, many of which are located in the northern states. Twenty years later, however, many of these states are reconsidering the bargain they struck due to the fear that the harsh working conditions often found in Asian sweatshops are also being imported into the American South.

For example, Reco Allen took a custodian's job at the Matsu Alabama plant at just \$9 an hour, specifically avoiding higher paid jobs due to his fear of the machinery. His only training basically consisted of where to find the mop and pail. Still, despite this, on one evening after a 12-hour shift, he was ordered to work a metal pressing machine when the employee who regularly did that job failed to show up for work. Unfortunately, the machine malfunctioned and when Allen tried to fix it, it kicked back on him and the press slammed down on both of his arms. It took emergency crews over an hour to free Allen, all the while his arms were burning and crushed inside the press. Subsequent investigations into Matsu revealed that this was far from an isolated incident. The evidence showed that the plant had routinely forced untrained employees to operate dangerous machines that were often producing at a rate that exceeded the manufacturer's recommendations.

To be fair, most of the problems that OSHA was able to document did not directly point to the large automakers themselves. The safety records for workers at Hyundai and Kia themselves are not worse than the industry as a

whole. However, OSHA felt that the large companies were pressuring their smaller suppliers, who were operating with small margins and competing against Asian and Mexican plants, to hit quotas that were impossible to achieve without bending the rules. The sustainability of this practice is highly questionable, and now many employees who once worked with companies that supplied Hyundai and Kia have quit and taken their skills to American-owned auto plant suppliers. One such employee was Cordney Crutcher, who left Matsu and joined a U.S. plant whose workers were represented by the United Auto Workers. Crutcher notes, "They teach you the right way. They don't throw you to the wolves."

QUESTIONS

Most local governments and politicians are driven to bring jobs into their districts. What can be done at the local level or the national level to attract employers, but at the same time protect taxpayers and the local labor force?

Are the financial penalties that are administered by OSHA enough to deter employers from engaging in unsafe work practices, and if not, what else can be done to protect employees and better inform them of the risks associated with specific employers?

SOURCES: P. Waldman, "Don't Let the Monster Eat You Up," *Bloomberg Businessweek*, April 2, 2017, pp. 46–51; K. Bo-gyung, "U.S. Authorities Warn Hyundai, Kia Motors Over Worker Safety," *The Korea Herald Online*, January 16, 2017; J. Little, "Auburn Auto Parts Supplier for Hyundai, Kia Fined \$106,020 for Safety Violations," *Opelika-Auburn News Online*, September 29, 2018.

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MANAGING PEOPLE

Toxic Killer Comes Back from the Dead

It was considered one of the greatest achievements in public health at the time. A lone health and safety worker at a computer chip Digital Electronics Corporation plant in Hudson, Massachusetts, noticed a strange pattern of data at the facility that suggested that women there were experiencing miscarriages at a rate that far exceeded the expected rate in the population. Industry experts were very skeptical of the small sample study and challenged the initial findings. Eventually, two separate and much larger studies, funded by the industry, were conducted. One of the studies was conducted by scientists at the University of California, Davis, who examined 14 different facilities operated by different companies, and one by John Hopkins University that focused on only one large producer, IBM.

Despite the fact that the two studies were completely independent and examined totally different sets of workers at different chip-making facilities, the results were identical in terms of both showing unusual evidence of miscarriages (in addition to birth defects) at these facilities, as well as the specific source of the problem, a group of toxic chemicals called ethylene glycol ethers (EGEs). Faced with evidence from three independent studies, leaders within the industry jointly agreed to totally eliminate EGEs from chip production processes in the U.S in 1992. Even though safer alternatives to EGE were more expensive, less effective, and less abundant, the ethical costs associated with exposing women to this hazard far outweighed the financial considerations. EGEs were gone forever—until they weren't.

Over 20 years later, a South Korean epidemiologist named Kim Myoung-hee working within a Samsung Electronics plant also noticed an anomaly. Two young women working side-by-side at the plant both died from a rare form of leukemia within a six-month period. The odds of developing this rare form of leukemia were 3 out of 100,000 and thus, to discover this in two people sitting at the same workstation, were too high to discount. Myoung-hee began a quiet investigation into the problem at Samsung and other electronic producers and discovered more and more cases similar to the one that first captured her attention. At first, she discounted EGEs as the culprit because every study she had ever read regarding EGEs noted, at some point in the paper, that EGEs had been banned from the industry. However, an examination of random samples taken from drums of chemicals taken from Samsung and

SK Hynix, another large South Korean chip manufacturer, revealed that there were traces of EGEs in 60% of the drums.

Chip-makers at first denied the accusations and aggressively fought the victims in court in ways that relied on nontransparency. They claimed that their production processes were trade secrets and that settlements to other victims were covered by nondisclosure agreements, a claim actually supported by the South Korean Commerce Ministry. Ultimately, however, more research, as well as a ground swell of support for the victims from South Korean citizens and politicians, forced change. Accusations that the industry simply shifted exposure from U.S. workers to Korean workers were simply too widespread to deny. By 2018, Samsung had changed their tune and a spokesperson for the company noted that “we have been working to help out former semi-conductor employees and their families who have endured the hardship and heartache.” Hopefully, EGEs will be gone forever—again.

QUESTIONS

Although the computer chip manufacturing industry left the U.S., in what way are U.S. authorities in the industry responsible for ensuring that what was learned in this country regarding worker safety is exported along with the jobs?

Everyone who owns a computer or a cell phone is a consumer of the types of computer chips manufactured by Samsung. What can each of us do as concerned consumers to ensure that the products we love are not manufactured in a way that harms unsuspecting workers?

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HR IN SMALL BUSINESS

Johnson County Library Checks Out Job Rotation

A few years ago, some branch managers in the Johnson County Library (JCL) system in Kansas met with the director of branch services to discuss a problem: after years on the job, they were feeling burned out. The director invited them to talk to the other branch managers and propose a solution. The full group of managers considered their strengths and desires for future career opportunities, as well as the culture of the library's 14 branches (it has since grown to 16). They saw fresh opportunities within their organization and developed a proposal to try job rotations. The proposal included plans for communicating the changes to those who would be affected.

After a year of planning, the job rotation began with assistant managers spending one week as assistant manager in a different branch. Even this short job rotation was considered a success. The assistant librarians found that they were building networks with more of their colleagues and strengthening relationships with more staff and library patrons. Building on this success, JCL then did two-week job rotations of clerks and then information specialists. Again, the employees completing the rotations built work relationships. They also reported developing greater flexibility and appreciation of the JCL system beyond the particular branch where they had been working. Being in a different place with different people caused them to look at the library's work with greater attentiveness. Following the series of job rotations, some staff members permanently moved to new positions where they could contribute more or had better working relationships with their colleagues.

Some examples illustrate the impact of the job rotations. A developer of web content had been wanting to work more with patrons. Rotating jobs led him to a position as an information specialist, which involves working with the public. A clerk who rotated to another branch was promoted there to assistant branch manager. Because of her experience as a clerk, she was quickly able to size up opportunities for improving efficiency in her new branch. A

branch manager who got experience with several locations helped JCL identify a more effective way to pair small branches with shared leadership.

The turnover in librarians in the JCL system is small, and there are only 16 locations serving the 20 cities of Johnson County, Kansas. This means that the career path for any given librarian is limited within the organization. With job rotation, the employees found a way to inject variety into their work. This refreshed their thinking, sparked some improvements in operations, and launched an approach to work design that seems likely to endure.

QUESTIONS

Job rotation is a method of designing jobs that motivate. How did its use at Johnson County Library also help the organization improve efficiency?

According to the Job Characteristics Model, which we discussed in our section on job design, what other aspects of jobs contribute to making work more motivating? Which of these do you think could apply to the librarians at JCL?

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PART TWO Acquisition and Preparation of Human Resources

CHAPTER 5

Human Resource Planning and Recruitment



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO5-1 Discuss how to align a company's strategic direction with its human resource planning.](#)

[LO5-2 Determine the labor demand for workers in various job categories.](#)

[LO5-3 Discuss the advantages and disadvantages of various ways of eliminating a labor surplus and avoiding a labor shortage.](#)

[LO5-4 Describe the various recruitment policies that organizations adopt to make job vacancies more attractive.](#)

[LO5-5 List the various sources from which job applicants can be drawn, their relative advantages and disadvantages, and the methods for evaluating them.](#)

[LO5-6 Explain the recruiter's role in the recruitment process, the limits the recruiter faces, and the opportunities available.](#)

ENTER THE WORLD OF BUSINESS



Offshoring: Another Victim of COVID?

It is sometimes said that unanticipated events do not alter the arc of history so much as speed the direction it is already moving. This may be the case when it comes to decisions that organizations have made concerning the human resource planning process and offshoring. Two decades ago, in 2001, after permanently granting China “most-favored-nation-status” for trade, there was a major shift as companies in the U.S. radically shifted their production to low-wage countries such as China. This was seen as an opportunity to pay lower wages, promote efficiency, avoid environmental regulations, and enhance profits. At the height of the craze, a large number of companies seemed to do it simply because everyone else was doing it, regardless of how much sense it made for specific business models.

But by 2019 much of the wind had already gone out of these sails as companies started to pull back from this practice. There were a number of reasons for this change of heart at that time. Experience working with unstable or corrupt governments added uncertainty to operations that many companies did not foresee. At the plant level, human rights violations created bad publicity for companies that spend a great deal of money burnishing their image to get consumers to identify with their brand. Copyright infringement and outright intellectual theft created a situation where companies were enabling their own new competitors on an uneven playing field.

Back at home, companies that relied on offshoring had to deal with increasingly hostile local governments when they tried to shut down plants, as well as a national government dedicated to protecting jobs and moving production back to the U.S. Trade barriers and tariffs were erected that changed the calculus of profitable efficiency. Wages back at home stagnated while wage pressures in China actually increased, and all this, along with technological

advances associated with robotization of work, rewrote the business case for offshoring. The message being sent was that if you wanted certainty, access to American markets and technology, as well as the protection of the U.S. legal system, then you needed to bring back the jobs. And they did. In 2019, the Kearney Reshoring Index, the standard measure of global production strategies, showed for the first time in many years that production in low-wage Asian countries was going down while production in the U.S. was going up.

All of these naturally occurring trends were already in place prior to the COVID-19 pandemic. However, the shock of the pandemic further heightened the need for change. Companies that had found efficiencies in offshoring also had found efficiencies in lean production methods and just-in-time systems that eliminated the costs of maintaining large inventories. But this left the cupboard bare when their long, convoluted, and fragile supply chains were severed during the pandemic. Although this was the case in all industries, it was seen most publicly and embarrassingly in the medical area, where shortages of masks and other Personal Protection Equipment left front-line workers exposed to unprecedented dangers. America soon came to realize that efficiency is all well and good, but there are also clear virtues in resiliency, flexibility, and adaptability that come from local sourcing and local stockpiles.

How this will play out over time is hard to predict, and the idea that U.S. production will ever go back to what it was in 2000 is hard to imagine. Companies like Apple and others are so wedded to their Chinese production base that moving all this work back to the U.S. is totally unthinkable. There is no U.S. substitute for a production facility where over 250,000 people live and work, and not enough U.S. workers are interested in doing that work even if there was. Rather, moving forward will require a more complicated model that relies on a more diverse set of human resource planning practices that balances efficiency and resiliency in a way that has never been done before.

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Introduction

Human resource managers are at the forefront of the worldwide war for competitive advantage. Organizations need to find the best set of workers for meeting their strategic objectives, attract those workers to their companies, and then get them to stay long enough to obtain some return on their investment. As our chapter-opening story describes, there are costs and benefits associated with alternative labor supplies, and the process of meeting the demand for labor needs to change over time for a host of reasons, some of which derive from a company's strategic thrust and business model. Employers who are able to tap in to the best pool of talent for executing their own unique competitive strategy gain a competitive advantage over their rivals that is often sustainable for a long period.

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The purpose of this chapter is to examine factors that influence the supply and demand for labor and, in particular, to focus on what HR managers can do in terms of planning and executing policies that give their firms competitive advantage in a dynamic environment. Although our focus is at the firm level, nations also compete in labor markets, and when a country begins to see most of its human talent emigrate, this type of "brain drain" can have a devastating impact on national competitiveness. For example, when a large number of very high-profile Western-trained economists left important policy-making positions in India to return to the United States in 2018, many wondered if political pressures within India were making it hostile to its best and brightest citizens.¹ Thus, the war for talent takes place at both the organizational level and the national level, and later in this chapter we will

highlight some of the countries that are winning and losing this war.

Two of the major ways that societal trends and events affect employers are through (1) consumer markets, which affect the demand for goods and services, and (2) labor markets, which affect the supply of people to produce goods and services. In some cases, the market might be characterized by a labor shortage. In other cases, there might be a surplus of labor. Reconciling the difference between the supply and demand for labor presents a challenge for organizations, and how they address this challenge will affect their overall competitiveness.

There are three keys to effectively utilizing labor markets to one's competitive advantage. First, companies must have a clear idea of their current configuration of human resources. In particular, they need to know the strengths and weaknesses of their present stock of employees. Second, organizations must know where they are going in the future and be aware of how their present configuration of human resources relates to the configuration that will be needed. Third, where there are discrepancies between the present configuration and the configuration required for the future, organizations need programs that will address these discrepancies.

This chapter looks at tools and technologies that can help an organization develop and implement effective strategies for leveraging labor market "threats" into opportunities to gain competitive advantage. In the first half of the chapter, we lay out the steps that go into developing and implementing an HR plan. Through each section, we focus especially on recent trends and practices that can have a major impact on the firm's bottom line and overall reputation. In the second half of the chapter, we familiarize you with the process by which individuals find and choose jobs and the role of personnel recruitment in reaching these individuals and shaping their choices.

The Human Resource Planning Process

LO 5-1

Discuss how to align a company's strategic direction with its human resource planning.

An overview of human resource planning is depicted in [Figure 5.1](#). The process consists of forecasting, goal setting and strategic planning, and program implementation and evaluation. We discuss each of these stages in the next sections of this chapter.

Forecasting

The first step in the planning process is [forecasting](#), as shown in the top portion of [Figure 5.1](#). In personnel forecasting, the HR manager attempts to ascertain the supply of and demand for various types of human resources. The primary goal is to predict areas within the organization where there will be future labor shortages or surpluses.

[Forecasting](#)

The attempts to determine the supply of and demand for various types of human resources to predict areas within the organization where there will be future labor shortages or surpluses.

Forecasting, on both the supply and demand sides, can use either statistical methods or judgmental methods. Statistical methods are excellent for capturing historic trends in a company's demand for labor, and under the right conditions they give predictions that are much more precise than those that could be achieved through subjective judgments of a human forecaster. However, many important events that occur in the labor market have no historical precedent; hence, statistical methods that work from historical trends are of little use in such cases. With no historical precedent, one must rely on the pooled subjective judgments of experts, and their "best guesses"

might be the only source from which to make inferences about the future. Typically, because of the complementary strengths and weaknesses of the two methods, companies that engage in human resource planning use a balanced approach.

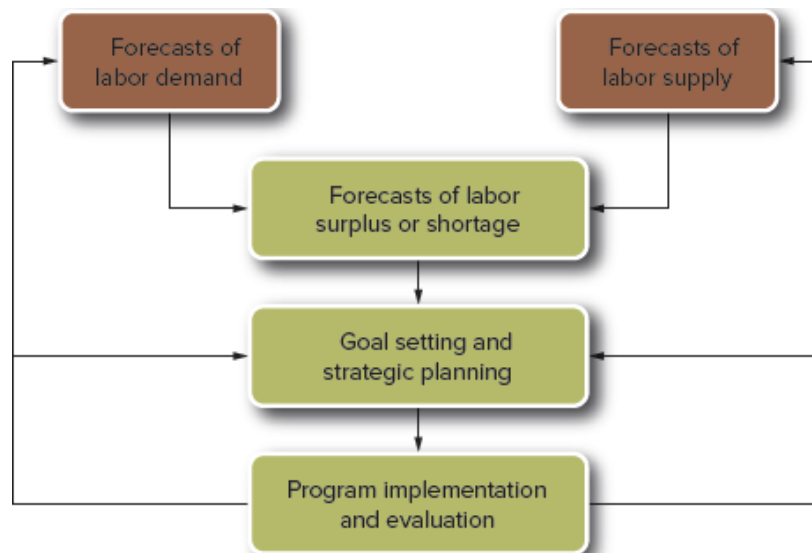


Figure 5.1 Overview of the Human Resource Planning Process

An example of the forecasting process can be seen at Qualcomm, one of the world's biggest suppliers of chips for mobile phones. Qualcomm products handle cellular communications and computing in smartphones, and although one might think there is a never-ending demand for these types of chips, Qualcomm's analysis of the market in 2015 suggested that there was going to be an over-supply of its product in the future. Samsung was the biggest buyer for Qualcomm's chips; however, Samsung's share of the cell phone market was shrinking, causing future collateral damage at Qualcomm. In addition, smaller upstarts like MediaTek were cutting into Qualcomm's share of the market, and then Samsung announced it was going to start manufacturing its own chips for its new phone. According to Qualcomm's forecast, the company was likely to produce far too many chips for the market if it failed to take preventive steps, one of which included a workforce reduction of 155 people.²



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“How do we think about making sure this company has access to the right skills and capabilities to grow a company for the future?”

—Heidi B. Capozzi, Senior VP, Human Resources, The Boeing Company

Video produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Filmworks

Determining Labor Demand

LO 5-2

Determine the labor demand for workers in various job categories.

Typically, demand forecasts are developed around specific job categories or skill areas relevant to the organization's current and future state. Once the job categories or skills are identified, the planner needs to seek information that will help predict whether the need for people with those skills or in that job category will increase or decrease in the future. For example, due to the aging population in the United States, elder care was one of the fast-growing industries, and thus one expected that there would be a high demand for workers with skills that suit this work. However, the COVID pandemic started to reverse this demand when families became more hesitant to place their loved ones in nursing homes for safety reasons. Indeed, statistics page 198 show that occupancy in U.S. nursing homes is down by 15%, or more than 195,000 residents, since the end of 2019, and this is a leading indicator when it comes to the demand for workers in the industry.³

Similarly, many predict that the demand for appraisers in the housing industry will experience a drop in demand due to big data and computing advances that allow online companies like Zillow and Redfin to precisely estimate a house's value without human intervention. Once large mortgage companies like Freddie Mac became comfortable using computer estimates, as one industry analyst put it, "the future for appraisers in the residential market for doing mortgage work is coming to an end."⁴

Organizations differ in the sophistication with which labor demand forecasts are derived. At the most sophisticated level, an organization might have statistical models that predict labor demand for the next year given relatively objective statistics on leading indicators from the previous year. A [leading indicator](#) is an objective measure that accurately predicts future labor demand. For example, because interest rates predict homebuilding rates and homebuilding rates predict the demand for lumber and other construction related products, saw mills see interest rates as a leading indicator when it comes to demand for labor six to twelve months into the future.⁵

[Leading indicator](#)

An objective measure that accurately predicts future labor demand.

Although the relationship between oil prices and demand for rig workers is well known, the drop in oil prices in 2015, attributed to the rapid growth of the fracking industry, came as a surprise to many.⁶ Hence, over 100,000 workers had to be laid off when this industry confronted an unanticipated change in demand.⁷ Then, when the industry made a comeback in 2017, rather than hire back all of the workers, many firms in the industry turned to labor-saving automation that largely replaced the "roustabouts" who, in the past, performed the task of connecting hundreds of drill pipes. Drilling sites that used to employ 20 workers can now can be managed with 5, and the 15 jobs eliminated will probably never come back. As one manager noted, "It used to be that you had a toolbox full of wrenches and tubing benders, but now, your main tool is a laptop."⁸

Statistical planning models are useful when there is a long, stable history that can be used to reliably detect relationships among variables. However, these models almost always have to be complemented by subjective judgments of people who have expertise in the area. There are simply too many one-time changes that have to be considered that cannot be captured accurately in statistical models. For example, only a decade ago, no one would have heard the job title "cloud computing engineer," yet this is projected to be one of the fast-growing areas when it comes to the demand for labor in the future. Thus, there are no historical data for a job like this.

Similarly, although there were jobs in the contract tracing industry for tracking outbreaks for conditions like the measles, the need for contract tracers during the COVID pandemic spiked to a point where all by itself New York City had to find over 3,000 tracers in one month.⁹ Plus, given the uncertain nature of the virus and uncertainties associated with the advent of vaccines, it was also very difficult to guess how long this demand would last. The

same kind of unanticipated surge in labor demand can be seen at Instacart, where again, due to COVID, more and more people relied on home delivery of groceries versus going out to the store themselves. Instacart had to add over 300,000 “shoppers” over a period of just eight weeks and extend the hours of current workers to such lengths that the company experienced a “walkout” that shut down operations during peak demand.¹⁰

Determining Labor Supply

Once a company has projected labor demand, it needs to get an indicator of the firm's labor supply. Determining the internal labor supply calls for a detailed analysis of how many people are currently in various job categories (or who have specific skills) within the company. This analysis is then modified to reflect changes in the near future caused by retirements, promotions, transfers, voluntary turnover, and terminations.

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As in the case of labor demand, projections for labor supply can be derived either from historical statistical models or through judgmental techniques. One type of statistical procedure that can be employed for this purpose involves transitional matrices. [Transitional matrices](#) show the proportion (or number) of employees in different job categories at different times. Typically these matrices show how many people move in one year from one state (outside the organization) or job category to another state or job category.

[Transitional matrix](#)

A matrix showing the proportion or number of employees in different job categories at different times.

[Table 5.1](#) shows a transitional matrix for a hypothetical manufacturer, focusing on seven job categories. Although these matrices look imposing at first, they are easy to read and use in determining the internal labor supply. A matrix like the one in this table can be read in two ways. First, we can read the rows to answer the question “Where did people in this job category in 2018 go by 2021?” For example, 70% of those in the clerical job category (row 7) in 2018 were still in this job category in 2021, and the remaining 30% had left the organization. For the production assembler job category (row 6), 80% of those in this position in 2018 were still there in 2021. Of the remaining 20%, half (10%) were promoted to the production manager job category, and the other half (10%) left the organization.

A transitional matrix can also be read from top to bottom (in the columns) to answer the question “Where did the people in this job category in 2021 come from (i.e., where were they in 2016)?” Again, starting with the clerical job (column 7), 70% of the 2021 clerical positions were filled by people who were also in this position in 2018, and the remaining 30% were external hires (they were not part of the organization in 2018). In the production assembler job category(column 6), 80% of those occupying this job in 2021 occupied the same job in 2018, and the other 20% were external hires.

Matrices such as these are extremely useful for charting historical trends in the company's supply of labor. More important, if conditions remain somewhat constant, they can also be used to plan for the future. For example, if we believe that we are going to have a surplus of labor in the production assembler job category in the next three years, then we see that by simply initiating a freeze on external hires, the ranks of this position will be depleted by 20% on their own. Similarly, if we believe that we will have a labor shortage in the area of sales representatives, the matrix informs us that we may want to (1) decrease the amount of voluntary turnover in this position, since 35% of those in this category leave every three years, (2) speed the training of those in the sales apprentice job category so that they can be promoted more quickly than in the past, and/or (3) expand external recruitment of individuals for this job category, since the usual 20% of job incumbents drawn from this source may not be sufficient to meet future needs.

Table 5.1 A Hypothetical Transitional Matrix for an Auto Parts Manufacturer

2018	2021							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Sales manager	.95							.05
(2) Sales representative	.05	.60						.35
(3) Sales apprentice		.20	.50					.30
(4) Assistant plant manager				.90	.05			.05
(5) Production manager				.10	.75			.15
(6) Production assembler					.10	.80		.10
(7) Clerical							.70	.30
(8) Not in organization	.00	.20	.50	.00	.10	.20	.30	

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Note that whereas any of the three options chosen here can solve the problem, all three take time, and hence, failure to accurately forecast in a timely fashion may leave an employer with few good options. In fact, due to an unanticipated labor shortage in 2021, executives and professional workers at Yankee Candle had no choice but to be pulled off their normal jobs to work shifts on the factory floor helping to produce, package, and ship millions of items to meet peak holiday demand.¹¹

Determining Labor Surplus or Shortage

LO 5-3

Discuss the advantages and disadvantages of various ways of eliminating a labor surplus and avoiding a labor shortage.

Once forecasts for labor demand and supply are known, the planner can compare the figures to ascertain whether there will be a labor shortage or labor surplus for the respective job categories. Although this kind of planning for the future is critical for employers, as the [Competing through Globalization](#) box shows, this may be a matter of national security for some countries such as France.

Once the inference regarding surplus or shortage is determined, the organization can determine what it is going to do about these potential problems. For example, in the construction industry in 2015, a shortage of skilled laborers meant that many real estate developers had to cut back on building plans or had these plans delayed an inordinate amount of time because of the inability to find workers with specific skills. In Denver, Shea Homes had plans and funding to build 325 homes but could not execute these plans because the company could not find workers to fit and install cabinets, as well as heating, ventilation, and air conditioning installers.¹²

This problem was compounded in 2017 when tighter rules on immigration cut the number of workers in the home-building trades even further. Many of those employed in the construction trades are immigrants, including 50% of drywall and ceiling tile installers, 40% of roofers, and 60% of plasterers and stucco workers. Svenda Gudell, the chief economist at real estate tracker Zillow, noted, “When you ask builders, ‘why aren’t you building more?’ labor shortages are at the top of their list.”¹³

In contrast to construction workers, the Bureau of Labor Statistics estimates that during the decade ending in 2020, the U.S. economy will create roughly 70,000 lawyer positions, while U.S. law schools are matriculating over 25,000 graduates a year. This translates into a labor surplus of 180,000 lawyers with little or nothing to do.¹⁴ Some observers have noted that smaller, private, and less reputable law schools have contributed to this problem. Kyle McEntee, executive director of the advocacy group Law School Transparency, notes, “People are not being helped

by going to these schools. The debt is really high, bar passage rates are poor and employment opportunities are horrendous.”¹⁵

Determining the underlying reason for the shortage or surplus is also important, because this will have implications down the line when it comes to addressing the problem. For example, in some cases, stereotypes about the job may be needlessly restricting the supply of potential workers. In Japan, for instance, working in the auto industry was traditionally not viewed as “women’s work,” however, when confronted with critical labor shortages due to an aging domestic population, companies like Honda, Nissan, and Toyota started to hire many more women.¹⁶ In contrast, in the United States, chronic labor shortages in the field of nursing, a job that is traditionally considered “women’s work,” has prompted employers to hire more male nurses. Ironically, many of these men moving into nursing were transitioning from jobs in the U.S. auto industry when they were displaced by robots or other forms of technology.¹⁷

Goal Setting and Strategic Planning

The second step in human resource planning is goal setting and strategic planning, as shown in the middle of [Figure 5.1](#). The purpose of setting specific quantitative goals is to focus attention on the problem and provide a benchmark for determining the relative success of any programs aimed at redressing a pending labor shortage or surplus. The goals should come directly from the analysis of labor supply and demand and should include a specific figure for what should happen with the job category or skill area and a specific timetable for when results should be achieved.

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COMPETING THROUGH GLOBALIZATION

Can a 20-Foot-Tall Blue Rooster Save France?

If you live in France, there is a good chance that the “French Fab Tour” may be coming to your town soon. This tour includes a team of a dozen technicians, six trucks, an airstream trailer, and a giant robotic blue rooster who strides proudly out into the future with his chest out and wings peeled back. The “Fab” in the title of the tour refers both to the ideas of “fabriquer,” which means “manufacture” and “fabulous,” and the two concepts are combined with the intent of convincing the French that employment in the manufacturing sector is a great thing. This is a tough sell, and it may take more than a giant blue rooster to close the deal, but the government is desperate and intent on trying to change the culture in a way that makes the country more competitive on the global stage when it comes to manufacturing.

When it comes to national strategy, France made the strategic decision decades ago to emphasize academic studies in school, secure in the idea the French would lead the world in the technology, finance, and service sectors of the economy. Prior to this decision, France, along with Germany, was considered the manufacturing center of Europe, with a wide variety of plants stationed around the country. In fact, twenty years ago, over 25% of the French economy was based on manufacturing versus less than 10% today. However, Germany invested in manufacturing and developed a school system that emphasized skilled trades and apprenticeships. Indeed, over half of German students are exposed to a curriculum grounded in applied work versus less than a third of French students. This decision trickles down to the shop floor, and even though the French unemployment rate is high at 10%, surveys of employers suggest that 50% of employers cannot recruit anyone to take their jobs. As Agnes Pannier-Runacher, the director of the Fab Five Tour, notes, “The main problem for our competitiveness comes from the fact that we are not able to recruit and we cannot recruit because we have an image problem.”

Solving this problem is a matter of national priority. France is a country that prides itself on self-sufficiency, including a heavy investment in harboring its own military hardware industry, to help maintain the country's sovereignty. However, the country was found to be totally unprepared during the COVID pandemic because it failed to develop any stockpile of Personal Protective Equipment (PPE) or ventilators, and then, when supplies ran out, was completely unable to manufacture any locally. In contrast, Germany was able to quickly mobilize not only with respect to PPE and ventilators but also testing kits. To put this in quantifiable terms, Germany ran up a \$1.4 billion trade surplus for testing kits versus France which ran up a \$900 million deficit.

French President Emmanuel Macron asserted that this experience was to "be a game changer for globalization." The country vowed to create a \$1.2 billion program to subsidize jobs in French companies committed to manufacturing pharmaceuticals, electronics, and other "strategic products." However, to date, the unwillingness on the part of French workers to apply for those jobs stands in the way of these strategic initiatives. Meanwhile, while the giant blue rooster struggles to get off the ground, French citizens watch as the country receives airlifts of PPE from China and India, a signal of both its desperation and dependence.

DISCUSSION QUESTIONS

How do national-level decisions regarding educational policy and training of young people affect a country's ability to compete in different sectors of the global economy?

How do the individual-level decisions of young people regarding their own choices when it comes to applying for jobs affect their employment opportunities, and how might individuals strategically place themselves in high demand when they buck national-level decisions?

Sources: W. Horobin, "Can France Make Factories Cool?" *Bloomberg Businessweek*, July 15, 2019, pp. 34–35; L. Alderman, "In an Industrial Corner of France, 18,000 Jobs Are On Offer. Why Aren't People Taking Them?" *The New York Times Online*, July 27, 2019; N. Onishi and C. Meheut, "How France Lost the Weapons to Fight a Pandemic," *The New York Times Online*, May 17, 2020; L. Alderman, "France Thought it Could Reverse Globalization, but It's Still Bleeding Jobs," *The New York Times Online*, November 30, 2020.

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Once these goals are established, the firm needs to choose from the many different strategies available for redressing labor shortages and surpluses. [Table 5.2](#) shows some of the options for an HR planner seeking to reduce a labor surplus. [Table 5.3](#) shows some options available to the same planner intent on avoiding a labor shortage.

Table 5.2 Options for Reducing an Expected Labor Surplus

OPTION	SPEED	HUMAN SUFFERING
Downsizing	Fast	High
Pay reductions	Fast	High
Demotions	Fast	High

Transfers	Fast	Moderate
Work sharing	Fast	Moderate
Hiring freeze	Slow	Low
Natural attrition	Slow	Low
Early retirement	Slow	Low
Retraining	Slow	Low

Table 5.3 Options for Avoiding an Expected Labor Shortage

OPTION	SPEED	REVOCABILITY
Overtime	Fast	High
Temporary employees	Fast	High
Outsourcing	Fast	High
Retrained transfers	Slow	High
Turnover reductions	Slow	Moderate
New external hires	Slow	Low
Technological innovation	Slow	Low

This stage is critical because the many options available to the planner differ widely in their expense, speed, effectiveness, amount of human suffering, and revocability (how easily the change can be undone). For example, if the organization can anticipate a labor surplus far enough in advance, it may be able to freeze hiring and then just let natural attrition adjust the size of the labor force. If successful, an organization may be able to avoid layoffs

altogether, so that no one has to lose a job. Similarly, with enough advance warning, if an organization can anticipate a labor shortage for some job category they can work with existing employees to upgrade their skills sets.

For example, the term “job reskilling” refers to programs with this goal in mind, that is, taking people whose skills may not be in demand in the future and providing them needed training. Sometimes this training is conducted by employers themselves, who set up short-term “Reskilling Bootcamps” to quickly move employees from one job category to another.¹⁸ In other cases, employers work with state agencies that take job descriptions of work that is in demand, and then work with local residents to provide them the skills that are needed in those specific local jobs.¹⁹ Still other programs are national level initiatives where individuals make their own decisions regarding how they want to upgrade their skills, and then apply for government scholarships to make that happen. Regardless of the method, the ultimate goal of all of these programs is to find a “win-win” solution for employers and workers when it comes to creating a better fit between the skills in demand and the skills in supply.

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Unfortunately for many workers, in the past decade the typical organizational response to a surplus of labor has been downsizing, which is fast but high in human suffering. The human suffering caused by downsizing has both an immediate and a long-term element. In the short term, the lack of pay, benefits, and meaningful work has negative implications for financial, physical, and psychological aspects of individuals, causing bankruptcies, illnesses, and depression. Then, even if one can survive these immediate problems, in the long term, an extended bout of unemployment (e.g., lasting over six months) can stigmatize the individual, thus reducing future opportunities. In particular, in job categories where skills are perishable and need to be updated continually, many laid-off workers will take any work within their area—even unpaid volunteer work—to prevent a gap in their employment history.²⁰

In contrast, the typical organizational response to a labor shortage has been either hiring temporary employees or outsourcing, responses that are fast and high in revocability. Given the pervasiveness of these choices, we will devote special subsections of this chapter to each of these options.

Downsizing

We define [downsizing](#) as the planned elimination of large numbers of personnel designed to enhance organizational effectiveness. As [Table 5.2](#) indicates, as a means of reducing a labor surplus, downsizing is high in human suffering but fast, and due to lack of planning or the impossibility of planning for certain events, companies often have to resort to this tactic. At no time was this clearer than during the COVID pandemic when job losses in the U.S. were the highest experienced since 1939.²¹ In 2020 alone, the U.S. economy shed over 9 million jobs. The losses were most heavy in the leisure and hospitality industries whose business models were decimated. However, it also spilled over into the transportation industry where slack demand for gasoline and jet fuel grounded oil companies as well as airlines.²² As companies shut down, they also took down consulting and business support providers since there was little in the way to support some operations. All of this occurred despite national efforts to support employer payrolls through loans and grants.²³

[Downsizing](#)

The planned elimination of large numbers of personnel, designed to enhance organizational effectiveness.

Although one tends to think of downsizing as something that a company turns to in times of recession or when facing bouts of poor performance, in fact, many companies that are doing quite well still downsize their workforce regularly for strategic reasons. For example, although Microsoft was doing fine in 2014, it still laid off 18,000 workers in the phone and tablet divisions after the purchase of Nokia left the company with a surplus of workers in

those areas.²⁴ Similarly, Hewlett-Packard cut 16,000 jobs that same year and used the roughly \$1 billion in savings to invest more heavily in cloud computing services.²⁵

Surveys indicate three major reasons that organizations engage in downsizing. First, many organizations are looking to reduce costs, and because labor costs represent a big part of a company's total costs, this is an attractive place to start.

An example of this could be seen in 2017 as Boeing announced plans to downsize to cut costs. John Hamilton, the company's vice president of engineering, noted, "We continue to operate in an environment characterized by fewer sales opportunities and tough competition, and the decision to reduce the number of 777 jets underscores that environment and what we need to do to help Boeing win."²⁶ This is a clear example of projections of reduced sales triggering cost-cutting downsizing moves. This decision then trickled down to GE, which provides jet engines for Boeing, as GE also reduced their own headcount by over 75,000 employees.²⁷

Second, in some organizations, the introduction of new technologies or robots reduces the need for a large number of employees. For example, Boston Dynamics created an incredibly life-like dog, named Spot, that can move with efficiency through rugged terrain, visualize space and send pictures to remote human workers. The robot dog has been employed in a number of different industries. For example, Spot now performs dangerous power plant inspections of pipes, he monitors toxic thermal exhaust at a garbage treatment facility, he surveys construction worksites, and even does temperature checks of COVID patients at a Massachusetts hospital. The company is also developing a robot named Handle that can move boxes and load trucks in a way that will revolutionize the demand for labor in warehouses.²⁸ As the [Competing through Technology](#) box shows, the use of robots was given a boost during the COVID pandemic.

Although not employing robots per se, General Electric's new battery manufacturing plant in Schenectady, New York, shows how new technology can reduce jobs. The entire 200,000-square-foot facility requires only 370 workers, only 200 of which are actually on the shop floor. The plant manager runs the entire operation, including lights, heat, inventory, purchasing, and maintenance from an iPad that is linked to wireless sensors embedded in the batteries themselves.²⁹

Third, many firms downsized for economic reasons by changing the location where they do business. Some of this shift was from one region of the United States to another—in particular, many organizations moved from the Northeast, the Midwest, and California to the South and the mountain regions of the West. There has also been a shift away from expensive urban areas such as Boston, San Francisco, and Silicon Valley to smaller cities such as Boise, Denver, and Austin.³⁰ This ongoing trend was accelerated by the COVID pandemic when it became clear that many workers could efficiently work from remote locations.³¹ This creates a win-win solution for employers who can pay slightly lower wages, and employees who can afford a better lifestyle even on those adjusted salaries relative to trying to make ends meet in high-cost locales.

Although downsizing has an immediate effect on costs, much of the evidence suggests that it has negative effects on long-term organizational effectiveness, especially for some types of firms. Thus, it is important to understand what goes into an effective versus an ineffective downsizing campaign. There seem to be a number of reasons for the failure of most downsizing efforts to live up to expectations in terms of enhancing firm performance. First, although the initial cost savings are a short-term plus, the long-term effects of an improperly managed downsizing effort can be negative. The permanent loss of talent is difficult to ramp back up quickly and can create an inability to respond to changing circumstances. For example, many feel that cuts in the public health sector of the economy and at hospitals left the U.S. in a poor position to respond quickly to the COVID pandemic. Even throwing huge amounts of money at the problem was no solution because as one industry expert noted, "We can't manufacture doctors and nurses in the same way we can manufacture ventilators."³²

Second, many downsizing campaigns let go of people who turn out to be irreplaceable assets. In fact, one survey indicated that in 80% of the cases, firms wind up replacing some of the very people who were let go. In other cases, firms bring back the specific people who were let go, often at a higher salary. In fact, the term *boomerang*

employee has been coined to refer to this increasingly used source of recruits. Research on such “rehires” suggests that boomerang employees are a low risk option in cases where their performance was acceptable in the past. That seems to stay consistent. Additionally, boomerang employees who leave for relatively positive or neutral reasons initially outperformed internal and external hires, but this initial advantage does not last. Finally, boomerang employees do not appear to return with higher levels of organizational commitment. In fact, they turned over at twice the rate than other types of employees.³³

A third reason downsizing efforts often fail is that employees who survive the purges often become narrow minded, self-absorbed, and low in organizational commitment.³⁴ Motivation levels drop off because any hope of future promotions—or even a future—with the company dies out. Many employees also start looking for alternative employment opportunities.³⁵ The negative publicity associated with a downsizing campaign can also hurt the company’s image in the labor market, making it more difficult to recruit employees later. Especially in an age of text messaging and social media, the once-private practice of laying off employees is becoming increasingly transparent, and any organizational mistake that gets made in the process is likely to become highly public.



COMPETING THROUGH TECHNOLOGY

Robots: They Came for the Pandemic, Then Stayed Forever

Although businesses have been slowly transforming workplaces via the introduction of robots over the last decade, the COVID pandemic created a spike in this activity that may never fade away. Social distancing guidelines and other worker protection efforts tilted the playing field even further away from human workers to automated ones, especially when it became clear that demand for products and services was going to return to normal well before it was going to be safe for employees to come back to work. In some cases, these robots complemented the efforts of humans, but in other cases they replaced the workers entirely.

For example, in the recycling industry, many employers were afraid that workers lined up elbow-to-elbow sorting through other people’s trash might contact the virus directly from each other or indirectly via the trash. Thus, trash sorting robots rushed to the rescue. The robots use sophisticated cameras and other sensing devices to detect the different types of recyclables that might appear on a conveyor belt, and then sort them automatically. Due to the unpredictability of refuse, however, many objects defy easy classification, and these “outliers” are left to be processed by human operators who are fewer in number and spaced far apart.

Meat processing plants were a major source of problems during the pandemic, and here too, some companies adapted and used robots to transform the work. Automating this work eliminated many jobs that were boring and dangerous before the pandemic, and hence, these robots will be at their work stations long after the pandemic has passed. For example, at Tyson Foods engineers are developing an automated deboning system that can safely handle close to 40 million chickens a week as they are slaughtered, plucked and carved up with little human intervention. In the last three years alone, Tyson has invested over \$500 million in robotic butchers and the size of this investment suggests it is not a temporary, short-term fix.

Warehouses were another location where the demand for certain products during the pandemic created an urgent need for a human labor supply to ship products, even though it was hard to protect workers from running into one another as they processed orders. American Eagle Outfitters responded to this by installing over 25 “piece-picking robots” at its main distribution centers. These robots use cameras, mechanical arms, and artificial intelligence to sort through apparel piles and then assemble orders for customers taken directly from the Internet. They reduce crowding on the warehouse floor, where the company said one human being can manage multiple robots instead of standing next to other associates. However, the cost advantages they provide make it clear that these robots will far outlast the need for social distancing. As Shekar Natarajan, vice president of global inventory and supply chain logistics for American Eagle Outfitters, notes, “During nonCovid times, if demand grew by 50% I would go hire 300 more people; now this is no longer necessary.”

Finally, when one thinks of the number of different people a toll collector interacts with over the course of the day, the need to protect these workers was very clear. Thus, organizations like the Pennsylvania Turnpike Commission radically moved up their schedule for automation efforts, eliminating 500 jobs. These were jobs that paid over \$50,000 a year along with full benefits, and the installation of automated toll collection stations is not something that is going to be uninstalled any time soon.

DISCUSSION QUESTIONS

What aspects of a job, in general, make robots a more attractive option than offshoring work to some low-cost supplier?

It is often stated that “necessity is the mother of invention,” and clearly, the COVID pandemic fits this notion when it comes to robots. However, what other changes in society or the environment may eventually create the next “spike” in robotization?

Sources: M. Corkery and D. Gelles, “Robots Welcome to Take Over, as Pandemic Accelerates Automation,” *The New York Times Online*, April 10, 2020; J. Bunge and J. Newman, “Tyson Turns to Robot Butchers, Spurred by Coronavirus Outbreaks,” *The Wall Street Journal Online*, July 9, 2020; J. Smith, “Companies Step Up Distribution Automation under Pandemic Strains,” *The Wall Street Journal Online*, August 12, 2020; J. Smialek, “Toll Worker Job Losses Highlight Long-Term Fallout of Pandemic,” *The New York Times Online*, February 4, 2021.

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The key to a successful downsizing effort is to avoid indiscriminate across-the-board reductions, and instead perform surgical strategic cuts that not only reduce costs but also improve the firm’s competitive position. For example, at the State University of New York, \$50 million was saved across the system via a series of cuts that consolidated many senior administrative positions. The same practice cut \$70 million at the University of California at Berkeley, and \$5 million at the University of Kansas. These cuts were specifically targeted at “administrative bloat” revealed by research that showed that the number of employees hired by colleges to administer people and programs rose 50% faster than the number of professors in the preceding 12 years. The size of the instructional and research staff was left as is, and the evidence suggests that student outcomes were not affected at all by such cuts.³⁶

Early Retirement Programs and Buyouts

Another popular means of reducing a labor surplus is to offer an early retirement program. As shown in [Figure 5.2](#), the average age of the U.S. workforce is increasing. Although many Baby Boomers are approaching traditional retirement age, early indications are that this group has no intention of retiring any time soon.³⁷ Indeed, 40% of Americans who are 65 and older still work, and many of those individuals had actually retired in the past. Several forces fuel the drawing out of older workers’ careers.

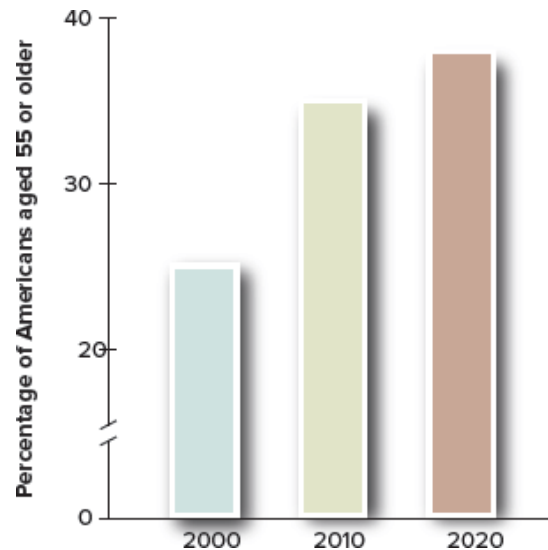


Figure 5.2 Aging of the U.S. Population, 2000–2020

First, some of this is driven by finances and the failure to adequately plan for the future. Research shows that close to 50% of U.S. households aged 55 and up have saved *nothing* for retirement.³⁸ Many also fear that Social Security benefits may be cut and not be enough to sustain them. In addition, the savings rates for younger workers at present are far too low to secure a safe retirement based on actuarial data that projects they may live to the ripe old age of 125.³⁹ They too have legitimate concerns regarding Social Security based upon projections that the program may go bankrupt as early as 2035.

Second, many people who “unretired” did so because they were bored or missed the meaningful social interaction associated with working with others.⁴⁰ Third, the improved health of older people in general, in combination with the decreased physical labor in many jobs, has made working longer a viable option. Fourth, age discrimination legislation and the outlawing of mandatory retirement ages have created page 207 constraints on organizations’ ability to unilaterally deal with an aging workforce. For example, the EEOC is currently investigating IBM for age discrimination related to thousands of terminations that, according to leaked internal documents, were aimed at correcting the “seniority mix” at the company.⁴¹

In contrast to what we see at IBM, other employers such as Deloitte Consulting are trying to keep older workers on board longer in order to help train the next generation of leaders. Deloitte forecasts that, in just a few years, there will be no Baby Boomers left in its leadership ranks. To prevent the permanent loss of implicit knowledge embodied in these workers, Deloitte pairs them with Millennial managers to create synergistic pairs that are greater than the sum of their parts. As one participant in this program noted, “Millennials bring data and analytics but boomers have experience that they can rely on when the data isn’t sufficient.”⁴²

Although an older workforce has some clear advantages for employers in terms of experience and stability, it also poses problems. First, older workers are sometimes more costly than younger workers because of their higher seniority, higher medical costs, and higher pension contributions. Second, because older workers typically occupy the highest ranking jobs, they sometimes block the advancement of younger workers. This is frustrating for the younger workers and leaves the organization in a perilous position whenever the older workers decide to retire.

In the face of such demographic pressures, many employers try to induce voluntary attrition among their older workers through early retirement incentive programs. For people close to retirement and who are well prepared financially, an early retirement buyout is a gift. However, for most people, deciding whether to stay or go is a complicated and emotionally fraught decision that may require considering the risks of two bad options: giving up a paycheck when jobs are scarce or clinging to an insecure job without any guarantee of severance if layoffs are announced. In general, a competitive buyout plan will offer roughly two weeks of pay for every year of employment, as well as health benefits coverage for 18 months, plus outplacement support for those who seek to continue to

work.⁴³ Although these programs do induce attrition among some older workers, to a large extent, such programs' success is contingent on accurate forecasting and it is easy for employers to overestimate or underestimate the number of people that will respond to various incentives.

Temporary Workers and Independent Contractors

Whereas downsizing has been a popular method for reducing a labor surplus, hiring temporary workers and outsourcing have been the most widespread means of eliminating a labor shortage. Temporary employment afforded firms the flexibility needed to operate efficiently in the face of swings in the demand for goods and services. In fact, a surge in temporary employment often preceded a jump in permanent hiring and was often a leading indicator that the economy was expanding. However, that no longer seems to be the case. Employers today seem to appreciate the flexibility that comes with hiring temporary employees and like being able to match quick changes in consumer demands for products and services with quick changes in the supply of labor.

In addition to flexibility, hiring temporary workers offers several other advantages. For one, the use of temporary workers frees the firm from many administrative tasks and financial burdens associated with being the “employer of record.” Second, small companies that cannot afford their own testing programs often get employees who have been tested by a temporary agency. Third, many temporary agencies train employees before sending them to employers, which reduces training costs and eases the transition for both the temporary worker and the company. Finally, because the temporary worker has little experience in the host firm, the person brings an objective perspective to the organization's problems and procedures that is sometimes valuable.

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Steven Berkenfeld, an investment banker who specializes in this area, sums up the feeling of many employers when he says that, when it comes to needing more labor, the key questions are, “Can I automate it? If not, can I outsource it? If not, can I give it to an independent contractor?”⁴⁴ Few jobs make it through that obstacle course, and for many contemporary organizations, hiring a real employee is the last resort.

It is useful to distinguish between temporary workers, who are part of a large employment agency and are more or less rented by the primary employer, and independent contract workers, who are more or less freelancers and not part of any organization. Independent contractors are unattached individuals who agree to do specific tasks for specific time periods as part of a written contract between the worker and the employer. Rather than shifting the burden to be the “employer of record” from the employer to a temporary agency, in this case, virtually all the burden associated with this distinction falls on the worker himself or herself.

There has been an unprecedented increase in the use of contract workers like this in recent years, fueled in part by the ability of mobile apps to link employers to workers without the need to go through any other intermediary. In addition, the demonstrated success associated with this business model achieved by companies like Uber, Instacart, TaskRabbit, and Handy has made this option even more attractive to employers, and the number of individuals working as part of this form of employment grew by 15 million people from 2005 to 2020.⁴⁵

Although many individuals prefer the autonomy, freedom, and flexibility associated with being an independent contractor, for many workers, this option is chosen only as a last resort. Independent contracting jobs rarely provide any job security, health benefits, or retirement support, and many of the jobs are poorly paid. In Spain, over 90% of the job growth in that country experienced in the 2012–2015 period was attributed to such jobs, often referred to as *trabajo basura*, or “garbage work.”⁴⁶

Governments and labor organizations in both the United States and the European Union have been worried about this trend in employment and are studying ways to help protect workers who are part of such arrangements.⁴⁷ As we noted in our last chapter, legal challenges to how workers are classified are making it more difficult for

companies to claim their employees are independent contractors. For example, California passed legislation in 2021 that forced many companies to reclassify their workers as employees rather than contractors, making them eligible for the state minimum wage, overtime pay, workers' compensation, and paid sick days.⁴⁸ Drivers and other workers for so-called gig economy companies in California were not included in this reclassification plan, however, and hence will not become regular employees. However, as a concession to labor advocates, these companies are required to offer a wage floor and limited benefits to drivers. Uber also agreed to give drivers more warning before being deactivated and agreed that they could no longer block drivers who turned down rides too frequently.⁴⁹

Outsourcing and Offshoring

Whereas a temporary employee can be brought in to manage a single job, in other cases a firm may be interested in getting a much broader set of services performed by an outside organization; this is called [outsourcing](#). Outsourcing is a logical choice when a firm simply does not have certain expertise and is not willing to invest time and effort into developing it. For example, rather than hire an MBA full time, some companies may decide just to "rent one" for a short, specific project. In fact, a group of Harvard MBAs started a new firm called HourlyNerd to meet just this growing need. Businesses pay \$75–\$100 an hour for specific one-time tasks like pricing a new product or valuating a business that requires a short dose of expertise.⁵⁰

[Outsourcing](#)

An organization's use of an outside organization for a broad set of services.

Similarly, in the area of research and development, generic labs have sprung up that allow companies to perform experiments and product testing that may require expensive equipment that is better to rent than own. For example, Emerald page 209Therapeutics provides these kinds of services for small pharmaceutical companies that may have big ideas but limited infrastructure to test such ideas. Emerald rents out both its expensive machinery and talented technicians, thus essentially creating a virtual research and development division for a small company that could never develop this capacity internally.⁵¹

Ironically, companies increasingly outsource many of their HRM tasks to outside vendors that specialize in efficiently performing many of the more routine administrative tasks associated with this function. Cost savings in this area are easily obtained because rather than purchase and maintain their own specialized hardware and software, as well as specialized staff to support such systems, companies can time-share the facilities and expertise of a firm that focuses on this technology. HR outsourcing firms often focus on health care or financial/retirement programs because these areas are subject to heavy government regulation. These regulations are often changing and demand a great deal of paperwork that is best left to experts who focus single-mindedly on these tasks.⁵² The hope is that this frees up HR managers to focus on more strategic issues.

In other cases, outsourcing is aimed at simply reducing costs by hiring less expensive labor to do the work, and, more often than not, this means moving the work outside the country. [Offshoring](#) is a special case of outsourcing, in which the jobs that move leave one country and go to another. This kind of job migration has always taken place; however, rapid technological changes have made the current trends in this area unprecedented. As we saw in the story with which opened this chapter, offshoring is controversial because although it may help a company's bottom line, it harms many citizens who lose their jobs and then look to their government for relief. In addition, in many cases, the inhumane working conditions where jobs were offshored have created public relations nightmares for companies that tarnished their brand image. The [Integrity in Action](#) box highlights how the use of indoctrination camps and forced labor of religious and ethnic minorities in western China has spurred the U.S. government to bar companies from working in that region.

[Offshoring](#)

A special case of outsourcing, in which the jobs that move leave one country and go to another.

When it comes to jobs, the United States has lost millions of manufacturing jobs to China since the mid-1990s, and a great deal of political pressure is being placed on companies to “reshore” this work.⁵³ This pressure often comes in the form of tariffs. Tariffs are essentially a tax on products that are produced outside the country that is applied when those products are brought across the border. This tax makes it more expensive for companies to offshore work unless they can pass that added expense on to consumers. So for example, the U.S. threatened a 100% tariff on wine imported from Europe making wine produced in the U.S. a far better bargain both for consumers and those running American vineyards.⁵⁴ It also slapped a 15% tariff on \$100 billion worth of products from China in an effort to motivate U.S. companies who offshored work there to do more domestic production and increase the number of American jobs.⁵⁵

Although simple in theory, in practice, the interdependent nature of U.S. supply chains makes tariffs a dual-edged sword that can actually work to reduce domestic production. For example, in the steel industry, producers loved the idea that there would be tariffs levied on finished steel, but those producers who imported unfinished steel as raw material saw their costs go up more than was offset by the price advantage they were given.⁵⁶ In many cases, it is hard to predict what the total impact of a tariff might be in advance due to cascading effects that permeate the economy.

This political pressure regarding offshoring may seem problematic for U.S. employers, but still, if effectively managed, firms that offshore certain aspects of work gain an undeniable competitive advantage over their rivals. Ignoring this source of advantage is self-defeating and akin to putting one's head in the sand. For example, Levi-Strauss tried for years to compete against other low-cost jeans manufacturers who offshored their labor. However, after years of one plant shutdown after another, the firm finally gave up and closed down all of its U.S. manufacturing plants. The move, which many people saw as inevitable, was long overdue, and had it been made earlier, the company might have been able to avoid losing over \$20 million.⁵⁷



INTEGRITY IN ACTION

The Ultimate Competitive Weapon: Forced Labor Camps

In the polarized world of American politics, many votes are cast straight down party lines. Hence, when a bill passes in the U.S. House of Representatives by a margin of 406 to 3, people take notice. This is particularly the case when many of America's largest and most prestigious companies such as Nike, Coca-Cola, and Apple either directly lobbied against the bill or worked diligently behind the scenes to blunt its impact. The bill was called the Uyghur Forced Labor Prevention Act, and it was designed to prevent U.S.-based companies from working with suppliers from the western Xinjiang region of China. This region of China supplies a full 85% of the nation's cotton crop and a wide variety of companies such as Adidas, Tommy Hilfiger, Calvin Klein, H&M, Patagonia and, of course, Nike, rely on this cheap source of raw materials. The area is also rich in tomato and sugar production, which attracts other large companies such as Campbell Soup, Heinz Ketchup, Costco and, of course, Coca Cola. The raw materials from this area are cheap because they are plentiful and, most critically, because they are processed by the forced labor of local people who are coerced into working the fields out of fear of being placed in “indoctrination camps” often located within eyesight of the workers.

These workers need to be “indoctrinated” because most are Uyghurs and Kazakhs, Turkic-speaking Muslim minorities that have historically lived in the Xinjiang region and who do not share a great deal of the predominant Chinese culture. The central Chinese government is increasingly looking to integrate these religious and cultural minorities into the dominant Chinese culture and has been heavy-handed when it comes to that goal. Xinjiang's forced-labor system grew exponentially during the time when regional authorities built “vocational training camps” where close to 2 million Uyghurs and Kazakhs were imprisoned. Each year, Xinjiang municipalities check with cotton producers about their labor needs and government officials then sweep down on local villages and camps to conscript the workers for service. One government document states that the government officials “eat, live, study,

and work together” with the laborers while continuously carrying out “ideological education” to reform their thinking.

To respond to these concerns, some Western brands have turned to nonprofit organizations to help vet their suppliers for human-rights violations. But labor activists have argued that these organizations are weak when it comes to standing up to huge corporations and the Chinese government. For the most part, these auditors simply become unwitting enablers that help brands justify their sourcing decisions because the heavy police presence in the region prevents real access and proper examination of factories.

Some companies were already starting to shift their supply chains even before the Uyghur Forced Labor Prevention Act went into effect. For example, apparel firm PVH Corporation that owns the Calvin Klein and Tommy Hilfiger brands said it would cease “all business relationships with any factories and mills that produce garments or fabric, or use cotton grown, in Xinjiang within the next 12 months.” Adidas AG instructed suppliers not to source cotton from the region and H & M went so far as to scrutinize garment-manufacturing factories in other regions of China. They felt this was necessary due to accusations that Uyghurs and Kazakhs are sent by buses to work at facilities outside Xinjiang. The situation in the Xinjiang region of China remains an ongoing serious moral concern.

DISCUSSION QUESTIONS

As a consumer, how upset would you be if you were to learn that one of your favorite brands was making a profit off the backs of conscripted cultural and religious minority members?

As a consumer, how much extra would you be willing to pay for your clothing if it could be verified that its production was ethically sourced?

SOURCES: C. Buckley and A. Ramzy, “Inside China’s Push to Turn Muslim Minorities into an Army of Workers,” *The New York Times Online*, December 30, 2019; A. Swanson, “Nike and Coca-Cola Lobby Against Xinjiang Forced Labor Bill,” *The New York Times Online*, November 29, 2020; A. Zenz, “Coercion in Xinjiang’s Cotton Fields,” *The Wall Street Journal Online*, December 15, 2020; E. Xiao, “U.S. Bans Cotton, Tomato Imports from China’s Xinjiang Region,” *The Wall Street Journal Online*, January 13, 2021; E. Xiao, “Auditors to Stop Inspecting Factories in China’s Xinjiang Despite Forced-Labor Concerns,” *The Wall Street Journal Online*, September 21, 2020.

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When making the decision to offshore some product or service, organizations should consider several critical factors. Many companies that failed to look before they leaped onto the offshoring bandwagon have been disappointed by their results. Quality control problems, security violations, and poor customer service experiences have in many cases wiped out all the cost savings attributed to lower wages, and more. For these reasons, many companies “reshore” this work eventually.

For example, much of the computer software work that U.S. companies once sent to India is now being performed by U.S. domestic companies, many of which have popped up in the former industrial Midwest. Nexient, a domestic software outsourcing company, has lured business customers that were frustrated by the problems of navigating time zones, language, and culture associated with outsourcing tech work to India. The company is headquartered in the Midwest, rather than the traditional East Coast or West Coast hubs, because of the availability of local talent that wants to stay in that region where the cost of living is lower. Although the cost of their workers is two or three times what the same workers would have cost in India, this is still far less than the eight-fold differences one saw 10 years ago. Moreover, their central Midwest location makes it easy for the company to fly representatives to the sites where they are working to increase valuable face-to-face interactions. Indeed, this business model has been so successful that now Indian outsourcing giants such as Infosys are making plans to open their own shops in the U.S. Midwest.⁵⁸

Immigration

If one cannot take the work overseas, but still wishes to tap into less-expensive global talent to fill a labor shortage, then one might simply bring foreign workers into the country. Immigration has always been a vital part of the American economy, and many foreign workers are happy to leave their homes and pursue their own American dream.⁵⁹ However, entrance of foreign workers into the United States to fill jobs is federally regulated, so there are limits to what can be accomplished here. Because immigration is a complex and controversial topic both for HR professionals and people in general, we will examine these issues closely, focusing first on low-skill jobs that are regulated with H2-A visas, and then high-skill jobs that are regulated with H1-B visas.

A Close Look at H2-A Visas

First, when it comes to low-skill jobs, the U.S. government provides H2-A visas that allow foreign workers into this country to do seasonal work, mostly in agriculture. Employers in this sector of the economy are desperate for this labor because these jobs are dirty, hot, low paid, and no American citizen has any interest in doing this work.⁶⁰ Much of the work is also difficult to automate, and although mechanization has made inroads when it comes to processing corn, rice, soybean, and wheat, other high-value crops such as fruits and berries require human labor.

Because of the high demand for this labor, employers' applications for H2-A visas tripled between 2011 and 2018.⁶¹ Unlike H1-B visas, there are no caps on H2-A visas, but despite this, many employers find the process expensive and unreliable. It is also very time-consuming, sometimes taking close to four weeks to process, which defeats the purpose when it comes to time-sensitive seasonal produce. Finally, for many employers, the demand for this labor is not technically seasonal. Dairy farmers, meat processors, and construction companies all find it impossible to recruit American citizens for some jobs, but the work they offer proceeds year-round.

Because the H2-A process fails to meet the needs of employers, these organizations often turn to undocumented workers who are in the United States illegally. These page 212workers are illegal because they do not have visas or green cards that would make them permanent residents of the United States, and hence, they are not eligible to work in this country and getting the proper documentation is very difficult.

The process of getting a green card can take up to three or four years and requires hiring an immigration lawyer that can cost over \$25,000. This is a price that is typically beyond the reach of farm laborers. Moreover, because undocumented workers entered the United States illegally (often dragged into the country when they were children), the last step of this process is to leave the United States, and then re-enter legally once their paperwork is all set. Most undocumented workers in the United States are over 35 years of age and have families in this country that they are afraid to leave. They are terrified to take this last step, worried that they may never make it back if something is wrong in the paperwork—which is legally technical and hard to understand and check yourself.

Because of the difficulties employers find with H2-A visas and the difficulties undocumented workers have getting green cards—and the fact that crops will quickly rot if not processed—this all results in a situation where employers in these industries pretty much “knowingly” hire undocumented workers. In fact, over 50% of the labor in agriculture and meat processing is done by workers who are in the country illegally.

The government can crack down on employers who are hiring these workers, and indeed, this was what the U.S. government did in 2011 when it initiated the E-Verify program that required employers to check the legal status of all hires, and fill out an I-9 Form for each employee. Employers who failed to secure I-9 Forms were subject to financial penalties for failure to comply.

Although the E-Verify program looked like a perfect solution to the problem of undocumented workers on paper, there were two problems when this was put in practice. First, the rules of the program were written up in a way that

required the government to prove the employer “knew” that some worker was undocumented. This spawned a cottage industry of fake I-9 Forms and other documents that employers, who desperately needed the workers, were more than willing to “examine” with a closed eye. This allowed them to say, “it looked good to me---I did not know” when pressed by the government. Second, they were never really pressed by the government. The E-Verify program was never strongly enforced, and an undercover investigation revealed that in most states no one even knew who was responsible for enforcing the program. As one labor economist noted, “lawmakers got all the political benefits of supporting immigration enforcement without the cost of hurting their local businesses.”⁶²

This might be considered a highly cynical and imperfect solution, but still, it was a solution until 2017 and 2018 when the government decided to actually enforce the program. Immigration and Custom Enforcement (ICE) started launching unannounced raids on employers, who were very ill prepared for the onslaught. The scope of the raids was historically unprecedented, and in one instance at a poultry production plant in Morton, Mississippi, close to 700 people were rounded up and pulled out of the plants.⁶³ Employers were simply not ready for these raids for two reasons. First, they had grown used to ignoring the I-9 Form. Second, unannounced raids were technically not legal either. ICE referred to the raids as “audits,” which are clearly part of their jurisdiction. However, the audits actually required the government to provide employers with a three-day “Notice of Inspection” in order to get their paperwork in order. ICE often skipped this step.⁶⁴

With federal authorities now actually taking them to task, local employers turned to their state governments, and many states came to the aid of their employers, setting up a war between federal and state authorities. Businesses were caught in the crossfire and were totally confused about what they could and could not do in this situation. Whether because of their own ethical values or their own economic needs, in the end, most of the employers complied with their state authorities rather than the federal page 213 authorities, and as one local business owner noted, “when your laws don’t align with the market, then the market is always going to win.”⁶⁵

A Close Look at H1-B Visas

The state of affairs when it comes to low-skilled workers and the H2-A visa is confusing, but one might hope that the situation would be a little clearer when it comes to high-skill workers regulated by the H1-B visa program, because that is where the money is when it comes to wages and products. However, the picture here is also fluid and uncertain.

First, unlike the H2-A program, the H1-B program is capped and employers are limited to a fixed number a year, a figure that often changes based upon who is in control of the government and their relative emphasis on protecting American jobs.⁶⁶ At one point in 2020, the U.S. government actually suspended the program altogether, permitting no such visas.⁶⁷ Still, even when not suspended altogether, typically there are three times as many applications as visas that are issued, and they are awarded on a lottery basis. Although some of the visas go to universities, the vast majority wind up going to the tech industry. These are highly paid jobs (average salaries of \$125,000) that the U.S. government tries to protect and reserve for American workers, however, tech companies claim that American universities are not producing enough workers with skills in Science, Technology, Engineering, and Math (STEM) to meet their needs.

Thus, the industry is constantly lobbying for a larger number of H1-B visas. For example, Microsoft’s President Brad Smith spoke for many of his colleagues when he stated that it is never a good time to cut our nation off from the world’s best talent and that “immigrants play a vital role in our company and support our country’s critical infrastructure.”⁶⁸ The tech companies argue that rather than taking jobs, each immigrant they hire instead of an American actually winds up creating five jobs for American workers.⁶⁹ These efforts often pay off, as in 2013 when a new immigration bill was approved that provided access to a green card for any foreign worker in a job with an advanced degree in STEM.⁷⁰

More recently, however, people outside the tech industry have pushed back on these arguments, and one survey conducted in 2016, showed that 80% of Americans wanted to see more restrictions on high-skilled foreign workers.⁷¹ In addition, many have suggested that not all the visas actually wind up going to highly skilled people, especially when the big tech companies like Microsoft, Facebook, eBay, Apple, and [Amazon.com](https://www.amazon.com) file applications for smaller companies where they outsource work. Salaries for these jobs are lower (\$60,000 is the lower limit for the H1-B visa) and an estimated 90% of them do not require advanced degrees or training.⁷² Arguments like this have motivated the government to tighten rules on the program, and some have suggested that it be ended altogether.⁷³

Employer reactions to this pushback have been widely varied. On the one hand, some of the major players in the outsourcing field such as Infosys have announced that they are going to open up facilities in the United States, hiring as many as 10,000 new workers.⁷⁴ This is surprising because the company was laying off thousands of workers in India at the same time.⁷⁵ In contrast, other employers moved their jobs from the United States to Canada where they felt immigration policies were more supportive.⁷⁶ As one Microsoft executive noted when they expanded their operations in Vancouver, “The U.S. laws clearly did not meet our needs, and thus we had [to] look other places.”⁷⁷

Finally, before leaving the topic of immigration, we should also note that some employers are turning to a new supply of labor from outside the United States—refugees—to solve their chronic labor shortage problems. In contrast to immigrants, U.S. regulations allow refugees to work as soon as they arrive in the country. Over the years, the share of immigrant labor in Midwest slaughterhouses has grown to 35%, many of which come from Somalia. At the higher end of the labor pool, some page 214refugees are well trained, and it is not uncommon for some individuals who worked as doctors in their own country, to work in areas like nursing in the United States, where there are chronic labor shortages.⁷⁸ Starbucks also recently announced that they will hire 10,000 refugees worldwide citing their outstanding work ethic and drive for self-improvement.⁷⁹

However, this strategy is also in peril because in 2017 the United States placed restrictions on refugees entering the country, cutting this supply of labor in half. Clearly, there is a need for comprehensive immigration reform in the United States, but until that day arrives, HR professionals and employers need to stay acutely tuned to day-to-day developments on this front when it comes to managing both H2-A visas, H1-B visas, undocumented workers, and refugees. Although the difficulties associated with increasing globalization and softening borders are many, as the [Evidence-Based HR](#) box shows, the difficulties associated with isolation may be even worse.



EVIDENCE-BASED HR

Thought of globalization scares some workers and citizens because of its uncertain impact on domestic jobs. With this as a starting point, one might ask, what is the downside of just rejecting globalization and sealing oneself off from the world? Although the United Kingdom's (UK) experience with Brexit is hardly an experiment in totally sealing oneself off from the world, it does shed light on what happens when a country limits its options, and the evidence is pretty clear—you lose jobs, for sure.

Brexit is the term used to describe the UK's departure from the European Union (EU), and research estimates that closing off its borders to trade cost the country slightly over 400,000 jobs in the run-up to the policy in 2020. Another 200,000 to 500,000 jobs are expected to be lost in 2021 after the enactment of the policy. In fact, 1 out of 5 British companies reported that they plan to relocate their business outside the country in 2021. Most of those jobs are expected to go to Central and Eastern Europe, but ironically, a large number of these jobs are also going to Ireland. Ireland is still part of the European Union and for many British companies, it is ideally suited for their relocation plans due to proximity in geography, culture, and language.

SOURCE: S. Fidler, “Brexit: What You Need to Know About the UK's Deal with the EU,” *The Wall Street Journal Online*, April 21, 2021.

Altering Pay and Hours

Companies facing a shortage of labor may be reluctant to hire new full-time or part-time employees. Under some conditions, these firms may have the option of trying to garner more hours out of the existing labor force. Despite having to pay workers time-and-a-half for overtime production, employers see this as preferable to hiring and training new employees—especially if they are concerned that current demand for products or services may not extend to the future. Also, for a short time at least, many workers enjoy the added compensation.

However, over extended periods, employees experience stress and frustration from being overworked in this manner. Historically, in the United States, overtime pay was granted only to hourly workers or workers earning less than \$24,000 a year, but a law passed in 2016 expanded overtime pay to any worker earning less than \$50,000 a year. This significantly increased the number of workers eligible for overtime pay and was aimed primarily at employers who might be misclassifying exempt workers in an attempt to avoid paying overtime.⁸⁰

In the face of a labor surplus, organizations can sometimes avoid layoffs if they can get their employees to take pay cuts. In general, wages tend to be “sticky” in the sense that employers are reluctant to cut someone’s pay, and the data suggest that this holds true even during economic recessions.⁸¹ During economic expansions and page 215labor shortages, it is almost impossible to lower wages, at least in the private sector. The U.S. government did institute a pay freeze for federal employees, however, in 2018, despite the unprecedented labor shortage. The move was an attempt to stamp down on spending in a context where worker mobility opportunities might be less for public employees relative to those in the private sector.⁸²

Alternatively, one can avoid layoffs and hold the pay rate constant but reduce the number of hours of all the workers. For example, when business at the Bristol, Rhode Island, plastics manufacturer Saint-Gobain slowed in 2012, none of the workers were laid off, but many had their hours cut by 40%. This would have resulted in a major cut in pay for the workers, except for a state government program that helped Saint-Gobain pay 70% of the lost wages in return for the company keeping the workers on the payroll. The state would have wound up paying a similar amount in unemployment compensation, but this program allowed the company to hold on to experienced employees for when the economy turned around. These kinds of “work share” programs have always been popular in Europe but are now starting to be seen in the United States.⁸³

When a cut in hours is targeted at salaried workers rather than hourly workers, this is called a *furlough*. For example, in 2016, roughly 10,000 workers at Honeywell were furloughed for one week. The program was an attempt to reduce costs necessary because of slow economic growth and decreased U.S. defense spending.⁸⁴ Furloughs are perceived as a good strategy to use when the employer has an immediate need to conserve money and protect cash flow, but also believes that need will be short term and the employees involved have skills that make them hard to replace in the long term.⁸⁵ Thus, in the face of the COVID pandemic when hotels were stuck with an oversupply of labor given the demand, chains like Hilton furloughed some workers whom they eventually wanted to hire back, cut the pay of some workers whom they could not live without, and reduced the hours of those who could be flexibly deployed.⁸⁶

Furloughs are controversial because, unlike most hourly workers who go home after the assembly line stops running, the work of most white-collar professionals simply piles up when they leave the office for extended periods of time. Furloughs are also controversial because they hit higher-paid employees harder than lower-paid employees, and if these pay differences were a result of some type of pay-for-performance system, this means that the best employees take the biggest hit.

Program Implementation and Evaluation

The programs developed in the strategic planning stage of the process are put into practice in the program-implementation stage, shown at the bottom of [Figure 5.1](#). A critical aspect of program implementation is to make sure that some individual is held accountable for achieving the stated goals and has the necessary authority and resources to accomplish this goal. It is also important to have regular progress reports on the implementation to be sure that all programs are in place by specified times and that the early returns from these programs are in line with projections. The final step in the planning process is to evaluate the results. This evaluation consists of comparing results to goals, as well as an “after-action-review” of what worked or failed to work when it came to accomplishing goals.

The Special Case of Affirmative Action Planning

Human resource planning is an important function that should be applied to an organization’s entire labor force. It is also important to plan for various subgroups within the labor force. For example, affirmative action plans forecast and monitor the proportion of various protected group members, such as women and visible minorities, who are in various job categories and career tracks. The proportion of workers in these subgroups can then be compared with the proportion that each subgroup represents in the relevant labor market. This type of comparison is called a [workforce utilization review](#). This process can be used to determine whether there is any subgroup whose proportion in the relevant labor market is substantially different from the proportion in the job category.

[Workforce utilization review](#)

A comparison of the proportion of workers in protected subgroups with the proportion that each subgroup represents in the relevant labor market.

If such an analysis indicates that some group—for example, African Americans—makes up 35% of the relevant labor market for a job category but that this same group constitutes only 5% of the actual incumbents in that job category in that organization, then this is evidence of underutilization. Evidence exactly like this was recently discovered in the banking industry, where EEOC statistics showed that African Americans held only 5% of the positions at several of the major banks, despite reflecting 15% of the overall population.

In his annual letter to shareholders in 2017, Jamie Dimon, CEO of JP Morgan Chase and Company, frankly admitted that “there is one area in particular where we simply have not met the standards we have set for ourselves—and that is increasing African American talent in the firm.” This was a frank assessment and shareholders were initially impressed—until they were shown that he made the exact same statement in the 2016 letter. Still, the bank did make a \$5 million investment toward improving diversity, much of which was channeled into scholarships that have an impact much further down the line.⁸⁷

Evidence for underutilization can also be found in many areas of high tech. For example, only 15% of software engineers in Silicon Valley are women, a proportion that is far short of their general participation rate.⁸⁸ The proportion is even lower for African Americans, who represent just 1% of software engineers versus a 13% general participation rate. These figures would support the inference that these groups are underutilized, and many firms are trying to respond to this situation. For example, Google has sent several workers to predominantly African American colleges like Howard University to help cultivate future coders.⁸⁹

These kinds of affirmative action programs are often controversial because many people in majority groups see them as unfair. However, when the evidence provided from a workforce utilization review makes it clear that a specific group has been historically underrepresented because of past discrimination, and that increasing the level of representation will benefit workforce diversity and competitiveness, then these kinds of programs are easier to justify to all involved. The programs are also easier to justify at times of civil unrest, and so in the wake of the George Floyd killing by Minneapolis Police in the summer of 2020, many CEOs took a much stronger stand when it came to setting goals and timetables for integrating their workforces.⁹⁰ Organizations need to realize, however, that

affirmative action plans need to be complemented with communication programs that clearly spell out the needs and benefits that these programs bring to the organization and the larger society.⁹¹

The Human Resource Recruitment Process

As the first half of this chapter shows, it is difficult to always anticipate exactly how many (if any) new employees will have to be hired in a given year in a given job category. The role of [human resource recruitment](#) is to build a supply of potential new hires that the organization can draw on if the need arises. Thus, human resource recruitment is defined as any practice or activity carried on by the organization with the primary purpose of identifying and attracting potential employees. It thus creates a buffer between planning and actual selection of new employees, which is the topic of our next chapter.

[Human resource recruitment](#)

The practice or activity carried on by the organization with the primary purpose of identifying and attracting potential employees.

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The goal of the recruiting is not simply to generate large numbers of applicants. If the process generates a sea of unqualified applicants, the organization will incur great expense in personnel selection, but few vacancies will actually be filled. This problem of generating too many applicants is often promulgated by the use of wide-reaching technologies like the Internet to reach people.

The goal of personnel recruitment is not to finely discriminate among reasonably qualified applicants, either. Recruiting new personnel and selecting new personnel are both complex processes. Organizations explicitly trying to do both at the same time will probably not do either well. For example, research suggests that applicants apparently remember less information about the recruiting organization after dual-purpose interviews.⁹²

In general, as shown in [Figure 5.3](#), all companies have to make decisions in three areas of recruiting: (1) personnel policies, which affect the kinds of jobs the company has to offer; (2) recruitment sources used to solicit applicants, which affect the kinds of people who apply; and (3) the characteristics and behaviors of the recruiter. These, in turn, influence both the nature of the vacancies and the nature of the people applying for jobs in a way that shapes job choice decisions.

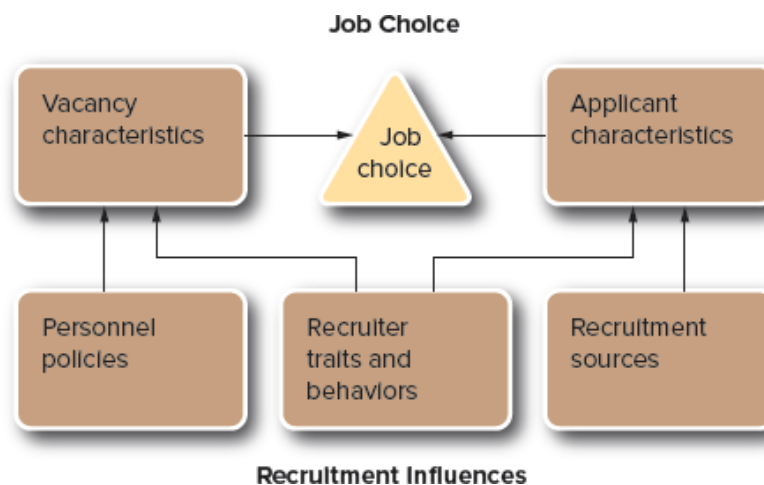


Figure 5.3 Overview of the Individual Job Choice–Organizational Recruitment Process

Personnel Policies

LO 5-4

Describe the various recruitment policies that organizations adopt to make job vacancies more attractive.

Personnel policies is a generic term we use to refer to organizational decisions that affect the nature of the vacancies for which people are recruited. If the research on recruitment makes one thing clear, it is that characteristics of the vacancy are more important than recruiters or recruiting sources when it comes to predicting job choice.

Internal versus External Recruiting: Job Security

One desirable feature of a vacancy is that it provides ample opportunity for advancement and promotion. One organizational policy that affects this is the degree to which the company “promotes from within”—that is, recruits for upper-level vacancies internally rather than externally. Promote-from-within policies make it clear to applicants that there are opportunities for advancement within the company. These opportunities spring not just from the first vacancy but from the vacancy created when a person in the company fills that vacancy.

For example, Optimove is a software company that creates products that support the automation of personalized customer retention marketing focused mainly on the page 218gaming industry. CEO Pini Yakuel has relied almost exclusively on promotion-from-within policies that attempt to commit the worker to the organization and vice versa. Yakuel notes that “the big advantage is that these people know the company in all its particulars from top to bottom, and it’s a strength that an outside manager will need time and extra skills to match.”⁹³

Although these programs are popular with employees because they increase job security and promotion opportunities, there are two downsides. First, this type of program sometimes upsets current managers of employees who are recruited away. Many of these employees are top performers in their current units, and some managers bristle at the loss of these individuals.⁹⁴ Second, moving around insiders who have grown accustomed to routine work processes misses the opportunity to spur creativity and innovation that might originate from outsiders.⁹⁵ For example, Carnival Cruise Line changed its recruiting procedures from hiring industry insiders to bringing in employees who had close to zero experience with cruises. Although these novices do have to be surrounded by some experts in the area, they often come up with new and lucrative ideas, such as volunteer public service cruises where socially conscious passengers get off the boat and help local villagers build housing. This was a new niche in the market that no one steeped in cruise culture was likely to see.⁹⁶

In addition to using promote-from-within policies and internal recruiting sources, employers can promote perceptions of job security and long-term commitment to the organization through due process policies. [Due process policies](#) formally lay out the steps an employee can take to appeal a termination decision. Organizational recruiting materials that emphasize due process, rights of appeal, and grievance mechanisms send a message that job security is high; employment-at-will policies suggest the opposite. [Employment-at-will policies](#) state that either party in the employment relationship can terminate that relationship at any time, regardless of cause. Companies that do not have employment-at-will provisions typically have extensive due process policies. Research indicates that job applicants find companies with due process policies more attractive than companies with employment-at-will policies.⁹⁷

[Due process policies](#)

Policies by which a company formally lays out the steps an employee can take to appeal a termination decision.

[Employment-at-will policies](#)

Policies stating that either an employer or an employee can terminate the employment relationship at any time, regardless of cause.

Extrinsic and Intrinsic Rewards

Because pay is an important job characteristic for almost all applicants, companies that take a “lead-the-market” approach to pay—that is, a policy of paying higher-than-current-market wages—have a distinct advantage in recruiting. A lead-the-market strategy does not just mean that the organizations raise wages relative to what they have done in the past; instead, they raise wages faster than the competition. For example, in order to lure new hires to join their ranks at a time when half a million manufacturing jobs were going unfilled, companies such as Caterpillar and Raytheon raised pay rates and provided relocation bonuses to attract new talent, especially people with skills in welding, engineering and computer programming.⁹⁸ Taco Bell also raised the pay level for managers to \$100,00 a year because as one of their top managers noted, “There is high turnover in the fast food industry, even at managerial levels, and that has a very detrimental effect on how stores are run. A good manager can truly make a difference between a top performing store and one that is a disaster.”⁹⁹

Pay can also make up for a job's less desirable features—for example, paying higher wages to employees who have to work midnight shifts. These kinds of specific shift differentials and other forms of more generic compensating differentials will be discussed in more detail in later chapters that focus on compensation strategies. We note here that “lead” policies make any given vacancy more attractive to applicants.

There are limits to what can be done in terms of using pay to attract people to certain jobs, however. For example, the U.S. Army cannot compete on pay, because as General Michael Rochelle, then head of army recruiting, noted, “We can’t get started down a slippery slope where we are depending on money to lure people in. The reality is that while we have to remain at least competitive, we’re never going to be able to pay as much as the private sector.” To offset this disadvantage in extrinsic financial rewards, the army has to rely on more intrinsic rewards related to patriotism and personal growth opportunities that people associate with military service.

For example, because cyberwar is an increasingly large element within the field of national defense, the military needs coders and software engineers that are already in high demand in the private sector. Although the military cannot match pay with the private sector, it can leverage intrinsic motivation related to serving one's country and learning new skills. Many of the military's cyber warriors are “homegrown” and trained specialists who come from other jobs such as mechanics.¹⁰⁰

Image Advertising

Organizations often advertise specific vacancies (discussed in the next section). Sometimes, however, organizations advertise just to promote themselves as a good place to work in general. Image advertising is particularly important for companies in highly competitive labor markets that perceive themselves as having a bad image. For example, recent events that hurt the images of companies such as at Facebook (privacy breeches), Wells Fargo (defrauding customers), and Uber (hostile work environment) triggered advertising campaigns aimed not just at customers, but also at future potential employees in an attempt to minimize the damage. These apology campaigns included print, digital, and billboard ads, as well as television commercials airing during major events like the NBA playoffs. Although companies have always made mistakes, in the past those seeking forgiveness would simply print an apology letter in a national newspapers, but that no longer seems to cut it.¹⁰¹

Even though it does not provide information about any specific job, image advertising is often effective because job applicants develop ideas about the general reputation of the firm (i.e., its brand image), and then this spills over to influence their expectations about the nature of specific jobs or careers at the organization. These perceptions then

influence the degree to which the person feels attracted to the organization, especially if there appears to be a good fit between the traits of the applicant and the traits that describe the organization.¹⁰²

Recruitment Sources

LO 5-5

List the various sources from which job applicants can be drawn, their relative advantages and disadvantages, and the methods for evaluating them.

The sources from which a company recruits potential employees are a critical aspect of its overall recruitment strategy. The type of person who is likely to respond to a job advertised on the Internet may be different from the type of person who responds to an ad in the classified section of a local newspaper. In this section, we examine the different sources from which recruits can be drawn, highlighting the advantages and disadvantages of each.

Internal versus External Sources

We discussed internal versus external sources of recruits earlier in this chapter and focused on the positive effects that internal recruiting can have on recruits' perceptions of job security. We discuss this issue again here but with a focus on how using internal sources affects the kinds of people who are recruited.

In general, relying on internal sources offers a company several advantages. First, it generates a sample of applicants who are well known to the firm. Second, these applicants are relatively knowledgeable about the company's vacancies, which minimizes the possibility of inflated expectations about the job. Third, it is generally cheaper and faster to fill vacancies internally. Finally, inside hires often outperform outsiders, especially when it comes to filling jobs at the top end of the hierarchy.¹⁰³

With all these advantages, you might ask why any organization would ever employ external recruiting methods. There are several good reasons why organizations might decide to recruit externally. First, for entry-level positions and perhaps even for some page 220specialized upper-level positions, there may not be any internal recruits from which to draw. Second, as we alluded to earlier, bringing in outsiders may expose the organization to new ideas or new ways of doing business. Using only internal recruitment can result in a workforce whose members all think alike and who therefore may be poorly suited to innovation.¹⁰⁴ Finally, recruiting from outside sources is a good way to strengthen one's own company and weaken one's competitors at the same time. In fact, having one's employees "poached" by another company can be so devastating that companies go to great lengths, perhaps even illegal or unethical lengths, to prevent this from happening. For example, some companies coerce employees who leave to file Non-Disclosure Agreements (NDAs) that make it illegal for them to criticize the company or come back and poach former colleagues.¹⁰⁵

Direct Applicants and Referrals

[Direct applicants](#) are people who apply for a vacancy without prompting from the organization. [Referrals](#) are people who are prompted to apply by someone within the organization. These two sources of recruits share some characteristics that make them excellent sources from which to draw.

[Direct applicants](#)

People who apply for a job vacancy without prompting from the organization.

[Referrals](#)

People who are prompted to apply for a job by someone within the organization.

First, many direct applicants are to some extent already “sold” on the organization. Most of them have done some homework and concluded that there is enough fit between themselves and the vacancy to warrant their submitting an application. This process is called *self-selection*. A form of aided self-selection occurs with referrals. Many job seekers look to friends, relatives, and acquaintances to help find employment, and evoking these social networks can greatly aid the job search process for both the job seeker and the organization. Current employees (who are knowledgeable of both the vacancy and the person they are referring) do their homework and conclude that there is a fit between the person and the vacancy; they then sell the person on the job. As the [Competing through Environmental, Social, and Governance Practices](#) box shows, this can sometime create sustainability problems. Still, in terms of motivating employee referrals, generally, employees receive from \$250 for entry-level positions to more than \$25,000 for top executives, with the most common bonus falling between \$1,000 and \$2,500.¹⁰⁶

In the war for talent, some employers who try to entice one new employee from a competitor will often try to leverage that one person to try to entice even more people away. The term *liftout* has been coined for this practice of trying to recruit a whole team of people. The team chemistry and coordination that often takes years to build is already in place after a liftout, and this kind of speed provides competitive advantage. Of course, having a whole team lifted out of your organization is devastating, because customers are frequently the next to leave, following the talent rather than standing pat; hence, firms have to work hard to make sure they can retain their critical teams.

Electronic Recruiting

There are many ways to employ the Internet and social media to recruit employees, and increasingly organizations are refining their use of this medium. Obviously, one of the easiest ways to get into “e-cruiting” is to simply use the organization’s own website to solicit applications. By using their own website, organizations can highly tune their recruitment message and focus on specific people. For example, the interactive nature of this medium allows individuals to fill out surveys that describe what they are looking for and what they have to offer the organization. These surveys can be “graded” immediately, and recruits can be given direct feedback about how well they are matched for the organization. The value of steering recruits to company websites is so high that many employers will pay to have their sites rise to the top of the list in particular search engines when certain terms are entered.

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COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Defending the Country: A Family Business?

As we note in the text, referrals are one of the best sources of recruits for a number of reasons, but at some point, can you have too much of a good thing? When it comes to military service, there is an increasing perception that the applicant pool from which the U.S. Armed Services draws is too small and getting too narrow, especially when one evaluates this against the diverse skill set required to engage in modern combat on a digital battlefield, one that might involve drones, chemicals, and even nuclear weapons.

With respect to geography, the applicant pool is narrow when one considers the counties where recruits come from. Those who sign up for military service overwhelmingly come from counties in the South and a scattering of communities near military bases. The South, where the culture of military service runs deep and military installations are plentiful, produces 20% more recruits than would be expected, based on its population. In contrast,

the Northeast, which has very few military bases and a lower percentage of veterans, produces 20% fewer. Military leaders have sounded the alarm over the growing gulf between communities that serve and those that do not for years, warning that relying on a small number of counties where the tradition of military service is deeply ingrained is unsustainable.

This narrow pool then becomes narrower when one considers that the single best predictor of who will consider joining the military is a person's familiarity with the military, and the best predictor of this is whether or not the person has had family members that served. Thus, within a narrow range of counties, the pool becomes even smaller and focused on a narrow set of families. More specifically, in 2019, 79% of Army recruits reported having a family member who served and in over 30% of the cases it was a parent. In a nation where less than 1% of the population serves in the military, this pool of applicants is getting very, very small and totally unrepresentative of the country as a whole. The Army alone needs to recruit close to 70,000 people a year and this is challenging when it is basically being staffed like a family business.

The Army is well aware that it cannot sustain recruitment numbers by relying on such a narrow applicant pool, and has tried to broaden its appeal with glossy advertisements on social media platforms. It has also created a new team of recruiters called the Army Esports Team that arranges videogame contests along the lines of "Call of Duty" where teams staffed with real Army personnel compete against gamers. This is a soft sell campaign where the recruiters try to convince the gamers that being in the Army might be more engaging than the work they might currently be doing. Finally, beyond the traditional guns-and-grunts messaging that fits well with videogamers, recruiters have tried to make inroads in more liberal communities where they emphasize the college benefits and career training in medical and tech fields. Using these kinds of tactics to expand the applicant pool is critical. As Anthony M. Kurta, secretary of defense for personnel and readiness has stated, "The lack of knowledge and the inability of the general population to identify with those who serve threatens our ability to recruit the number of quality youth with the needed skill sets to maintain our advantage."

DISCUSSION QUESTIONS

How is recruiting for the military qualitatively different than recruiting someone for a more traditional job or occupation?

How has the past success that the military has had recruiting from military families become a liability as the organization prepares for its future, and what can be done to get recruiters to become more risk seeking when it comes to reaching out to different communities?

SOURCES: C. Woody, "The Army is Thinking about the Threat of Nuclear War Again and Wants to Make Sure It has the Right People to Deal with It," *Business Insider*, January 17, 2020; D. Phillips, "Who Signs Up to Fight? Makeup of U.S. Recruits Shows Glaring Disparity," *The New York Times Online*, January 10, 2020; B. Kesling, "Army Deploys Videogames to Reach Recruits Amid Pandemic," *The Wall Street Journal Online*, May 17, 2020; B. Kesling, "U.S. Army Tries New Recruiting Tactics After Missing Targets," *The Wall Street Journal Online*, September 17, 2019.

Of course, smaller and less well-known organizations may not attract any attention to their own websites; thus, for them this is not a good option. A second way for organizations to use the Web is to interact with the large, well-known job boards sites such as Craigslist, [Monster.com](https://www.monster.com), or LinkedIn. These sites attract a vast array of applicants, who submit standardized resumes that can be searched electronically using key terms. Applicants can also search for companies in a similar fashion.

Each of these sites has its advantages and disadvantages. Since it is the most widely used, ads on [Monster.com](https://www.monster.com) are viewed by thousands of potential applicants, but if not properly written, ads here can generate a large number of poorly qualified applicants. Craigslist is better for local ads focused on freelancers or part-time workers, but some users complain that it is too unregulated and susceptible to fake ads or scams that try to rip off applicants. LinkedIn

is good for professionals and allows you to link into existing social networks; however, most of the people on this site already have jobs, and hence they may be costly to recruit.¹⁰⁷ Many LinkedIn entries also tend to become obsolete quickly because unless they are looking for a job at the moment, many people fail to regularly update their data.¹⁰⁸

Social networking sites such as Facebook are yet another avenue for employers to reach out to younger workers in their own environments. Facebook does not allow employers to create pages as members, but it does allow them to purchase pages in order to create what is called a “sponsored group.” Unlike more formal media, the conversations held here are very informal and serve as an easy first step for potential recruits to take in their relationship with the company. The downside is that the privacy of those conversations cannot be always be guaranteed, and the ability to prevent applicants or other organizations from commenting on your ads may make it difficult to control your image.

However, it is critical to make sure that advertisements on outlets like Facebook do not discriminate based on age. Advertisements aimed at recruiting employees are qualitatively different from advertisements aimed at consumers. Target segmentation is a best practice when it comes to consumers, but a potentially illegal practice when used with employees. For example, one recent undercover investigation found that dozens of companies who bought Facebook ads aimed their messages to potential workers within limited age ranges. Applicants who were over 40 years of age could not even access the ads, which is a clear violation of the Age Discrimination Act.¹⁰⁹

Public and Private Employment Agencies

The Social Security Act of 1935 requires that everyone receiving unemployment compensation be registered with a local state employment office. These state employment offices work with the United States Employment Service (USES) to try to ensure that unemployed individuals eventually get off state aid and back on employer payrolls. To accomplish this, agencies collect information from the unemployed about their skills and experiences.

Employers can register their job vacancies with their local state employment office, and the agency will attempt to find someone suitable using its computerized inventory of local unemployed individuals. These databases were overrun during the COVID pandemic because of the unprecedented supply of workers relative to the demand.¹¹⁰ However, in more routine times, the agencies make referrals to the organization at no charge, and these individuals can be interviewed or tested by the employer for potential vacancies. Because of certain legislative mandates, state unemployment offices often have specialized “desks” for members of underrepresented ethnic and racial groups and individuals with disabilities, and Vietnam-era veterans. Thus, this is an excellent source for employers who feel they are currently underutilizing any of these subgroups.

Historically, unemployment compensation did not pay enough to compete against a full-time job and so typically, people were anxious to get off the government assistance and back onto payrolls. However, during the COVID pandemic, the federal government stepped into state-run programs and unemployment compensation was raised by as much as \$600 a week. For over half of the recipients of aid, this was more than they could get from working a full-time job. The purpose of this additional pay was well intended in the sense that the government wanted to make sure people did not rush back to work even if they were still contagious. However, it simply did not make sense for many people to take a real job given the circumstances, and so many employers were frustrated because this prevented them from reopening their businesses.¹¹¹

Public employment agencies serve primarily the blue-collar labor market; private employment agencies perform much the same service for the white-collar labor market. Unlike public agencies, however, private employment agencies charge the organization for the referrals. Another difference between private and public employment agencies is that one doesn't have to be unemployed to use a private employment agency. One special type of private employment agency is the so-called executive search firm. These agencies are often referred to as *headhunters* because, unlike the other sources we have examined, they operate almost exclusively with people

who are currently employed. Dealing with executive search firms is sometimes a sensitive process because executives may not want to advertise their availability for fear of their current employer’s reaction.

Colleges and Universities

Most colleges and universities have placement services that seek to help their graduates obtain employment. Indeed, on-campus interviewing is the most important source of recruits for entry-level professional and managerial vacancies. Organizations tend to focus especially on colleges that have strong reputations in areas for which they have critical needs (chemical engineering, public accounting, or the like).¹¹² Also, because recruiting is increasingly being done via remote means, the lower need for a physical presence on campus has allowed many firms to expand their circle of schools far beyond what they did in the past.¹¹³ For example, colleges with strong reputations in the areas of science, technology, engineering, and mathematics (STEM) have been inundated with employers desperate to find workers with these skills. Research estimates that the demand for these workers is going to rise 15% between now and 2022, and this source of talent is critical particularly given the limit on H1-B visas that we discussed earlier.¹¹⁴

Many employers have found that to effectively compete for the best students, they need to do more than just sign up prospective graduates for interview slots. One of the best ways to establish a stronger presence on a campus is with a college internship program. These kinds of programs allow an organization to get early access to potential applicants and to assess their capacities directly. These programs also allow applicants to gain firsthand experience with the employer, so that both parties can make well-informed choices about fit with relatively low costs and commitment.¹¹⁵

Employers trying to lure college talent also find that programs that help students pay off their college loans are powerful tools. The Federal Reserve Bank estimates that there is \$1.5 trillion in student debt that needs to be paid off, and increasingly hiring organizations are willing to take on some of the debt in return for a commitment from the student. For example, Abbott Laboratories will set aside an additional 5% of a new hire’s salary in a 401(k)-like investment if the employee is willing to place 2% of her or his salary in the same vehicle. Abbott hires over 1,000 college students every year, and the tax implications of this program make it much cheaper than raising salaries, while still highly attractive to students.¹¹⁶

Evaluating the Quality of a Source

Because there are few rules about the quality of a given source for a given vacancy, it is generally a good idea for employers to monitor the quality of all their recruitment sources. One means of accomplishing this is to develop and compare yield ratios for each source. Yield ratios express the percentage of applicants who successfully move from one stage of the recruitment and selection process to the next. Comparing yield ratios for different sources helps determine which is best or most efficient for the type of vacancy being investigated.

Table 5.4 shows hypothetical yield ratios and cost-per-hire data for five recruitment sources. For the job vacancies generated by this company, the best two sources of recruits are local universities and employee referral programs. Newspaper ads generate the largest number of recruits, but relatively few of these are qualified for the position. Recruiting at nationally renowned universities generates highly qualified applicants, but relatively few of them ultimately accept positions. Finally, executive search firms generate a small list of highly qualified, interested applicants, but this is an expensive source compared with other alternatives.

Table 5.4 Hypothetical Yield Ratios for Five Recruitment Sources

	RECRUITING SOURCE				
	LOCAL UNIVERSITY	RENOWNED UNIVERSITY	EMPLOYEE REFERRALS	NEWSPAPER ADS	EXECUTIVE SEARCH FIRMS
Resumes generated	200	400	50	500	20
Interview offers accepted	175	100	45	400	20
Yield ratio	87%	25%	90%	80%	100%
Applicants judged acceptable	100	95	40	50	19
Yield ratio	57%	95%	89%	12%	95%
Accept employment offers	90	10	35	25	15
Yield ratio	90%	11%	88%	50%	79%
Cumulative yield ratio	90/200	10/400	35/50	25/500	15/20
	45%	3%	70%	5%	75%
Cost	\$30,000	\$50,000	\$15,000	\$20,000	\$90,000
Cost per hire	\$333	\$5,000	\$428	\$800	\$6,000

Recruiters

LO 5-6

Explain the recruiter's role in the recruitment process, the limits the recruiter faces, and the opportunities available.

The last part of the model presented in [Figure 5.3](#) that we will discuss is the recruiter. Many applicants approach the recruiter with some degree of skepticism. Knowing that it is the recruiter's job to sell them on a vacancy, some applicants may discount what the recruiter says relative to what they have heard from other sources (like friends, magazine articles, and professors). Also, even before the COVID pandemic, but especially after, recruiters were increasingly meeting people online rather than face-to-face, which also blunts their impact. For these and other reasons, recruiters' characteristics and behaviors seem to have less impact on applicants' job choices than we might expect.

Most organizations use both HR specialists and line managers when it comes to working with applicants. The HR specialist is an expert on employment at the company as a whole, and the line manager is best for sharing details about the exact nature of the work. Two traits stand out with applicants' reactions to either type of recruiter. The first is "warmth," which reflects the degree to which the recruiter seems to care about the applicant and is enthusiastic about her potential to contribute to the company. The second characteristic could be called "informativeness." In general, applicants respond more positively to recruiters who are perceived as warm and informative. In addition, timing seems to play a role as well, in the sense that recruiters have a bigger impact early in the job search process, but then give way to job and organizational characteristics when it comes down to the applicant's final decision.¹¹⁷

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Perhaps the most well-researched aspect of recruiting deals with the level of realism that the recruiter incorporates into his message. Because the recruiter's job is to attract candidates, there is some pressure to exaggerate the positive features of the vacancy while downplaying the negative features. Applicants are highly sensitive to negative information. However, if the recruiter goes too far in a positive direction, the candidate can be misled and lured into taking the job under false pretenses.

Many studies have looked at the capacity of “realistic job previews” to circumvent this problem and help minimize early job turnover. On the whole, the research indicates that realistic job previews do lower expectations and can help reduce future turnover in the workforce. Certainly, the idea that one can go overboard in selling a vacancy to a recruit has merit.¹¹⁸ However, the belief that informing people about the negative characteristics of the job will totally “inoculate” them to such characteristics seems unwarranted, based on the research conducted to date. Thus, we return to the conclusion that an organization’s decisions about personnel policies that directly affect the job’s attributes (pay, security, advancement opportunities, and so on) will probably be more important than recruiter traits and behaviors in affecting job choice.



A LOOK BACK

Addressing Labor Shortages and Surpluses: Exploring Your Options

We opened this chapter highlighting how the practice of offshoring spiked, and then declined, as means of meeting a company’s supply for labor. We also followed this up with a discussion of all the other available means for matching one’s demand for labor with the supply of labor, and how to recruit workers from different sources. We also showed how some companies are relying on enhanced training, outsourcing, automation, immigration, and offshoring of work to stay competitive and survive. There are advantages and disadvantages to recruiting workers from different sources, and we highlighted the strengths and weaknesses of alternative methods for addressing a labor shortage or a labor surplus.

QUESTIONS

Discuss the advantages and disadvantages of hiring local workers versus offshoring versus bringing in immigrant labor. How does the nature of the product market affect what you might do in the labor market?

Assume you are a well-established company that, instead of facing a labor shortage, is now facing a labor surplus in some job category. Why might it be in your best interest to use some method other than layoffs to reduce this surplus, and why are your options a function of how well you did in terms of forecasting labor demand and supply?

Discuss the advantages and disadvantages of promoting workers from within your own firm versus going outside the firm to bring in external hires. How does the nature of the business situation affect this decision?

SUMMARY

Human resource planning uses labor supply and demand forecasts to anticipate labor shortages and surpluses. It also entails programs that can be utilized to reduce a labor surplus (such as downsizing and early retirement programs) and eliminate a labor shortage (like bringing in temporary workers or expanding overtime). When done well, human resource planning can enhance the success of the organization while minimizing the human suffering resulting from poorly anticipated labor surpluses or shortages. Human resource recruiting is a buffer activity that creates an applicant pool that the organization can draw from in the event of a labor shortage that is to be filled with new hires. Organizational recruitment programs affect applications through personnel policies (such as promote-from-within policies or due process provisions) that affect the attributes of the vacancies page 226themselves. They can also impact the nature of people who apply for positions by using different recruitment sources (like recruiting from universities versus advertising in newspapers). Finally, organizations can use recruiters to influence individuals’ perceptions of jobs (eliminating misconceptions, clarifying uncertainties) or perceptions of themselves (changing their valences for various work outcomes).

KEY TERMS

[Forecasting, 196](#)

[Leading indicator, 198](#)

[Transitional matrix, 199](#)

[Downsizing, 203](#)

[Outsourcing, 208](#)

[Offshoring, 209](#)

[Workforce utilization review, 216](#)

[Human resource recruitment, 216](#)

[Due process policies, 218](#)

[Employment-at-will policies, 218](#)

[Direct applicants, 220](#)

[Referrals, 220](#)

DISCUSSION QUESTIONS

Discuss the effects that an impending labor shortage might have on the following three subfunctions of human resource management: selection and placement, training and career development, and compensation and benefits. Which subfunction might be affected most heavily? In what ways might these groups develop joint cooperative programs to avert a labor shortage?

Discuss the costs and benefits associated with statistical versus judgmental forecasts for labor demand and labor supply. Under what conditions might either of these techniques be infeasible? Under what conditions might both be feasible, but one more desirable than the other?

Some companies have detailed affirmative action plans, complete with goals and timetables, for women and members of underrepresented ethnic and racial groups, and yet have no formal human resource plan for the organization as a whole. Why might this be the case? If you were a human resource specialist interviewing with this company for an open position, what would this practice imply for the role of the human resource manager in that company?

Recruiting people for jobs that entail international assignments is increasingly important for many companies. Where might one go to look for individuals interested in these types of assignments? How might recruiting practices aimed at these people differ from those one might apply to the “average” recruit?

Discuss the relative merits of internal versus external recruitment. What types of business strategies might best be supported by recruiting externally, and what types might call for internal recruitment? What factors might lead a firm to decide to switch from internal to external recruitment or vice versa?

SELF-ASSESSMENT EXERCISE



Does Your Résumé Attract Employers?

If you have been assigned this Self-Assessment in Connect, you will review your résumé and answer a series of questions to determine whether or not it will attract an employer’s attention and get you a job interview.

EXERCISING STRATEGY

Economic Development: Tales of Regret, Renegotiation, and Rejection

States and local communities often lust for large employers to come into their region and bring the types of high paying jobs that help politicians get re-elected. However, in some cases, the treasure that is given to employers in order to open up shop in a state may place such a burden on the local community that it is unsustainable after the deal is signed. In general, there has been a great deal of variance in the experiences of different local communities, some of page 227 which questions whether the bare-knuckle brawl between the states for jobs is always worth fighting.

For example, many consider the experience of the State of Ohio's seduction of [Amazon.com](https://www.amazon.com) a tale of regret. The state's private economic development agency, JobsOhio, gave Amazon \$17 million in state tax incentives, \$1.5 million in cash, as well as a 15-year waiver on property taxes to open a warehouse in Licking County. Once the plant was in full operational mode, however, local officials quickly came to realize that the costs associated with servicing the facility were not offset by any property tax revenue. The fire department alone would sometimes respond to three calls a day at the million-square-foot facility, the cost of which was eventually picked up by local taxpayers who were forced to pay a \$6.5 million property tax levy in order to keep the department on life support.

In Racine, Wisconsin, the decision by Foxconn to open up a new plant to produce large screens was initially celebrated, but quickly turned to an opportunity for reappraisal as the project moved from conception to construction. The state originally pledged \$3 billion in tax subsidies, reinforced by another \$800 million from local authorities, in return for what they believed was going to be a 22-million-square-foot liquid-crystal, large-screen, display panel plant that would hire 13,000 factory workers. However, shortly after announcing the deal, Foxconn changed the plan from building large screens to small screens, a change that required a smaller site and investment. Also, interviews with prospective employees seemed to suggest that most of the jobs were going to involve highly skilled engineering jobs rather than factory jobs. The supply for highly skilled engineering jobs in Wisconsin is much smaller than the supply for factory jobs, and it appeared that Foxconn could only meet its demand for skilled labor by bringing Chinese workers to Wisconsin. Fortunately, unlike what was the case in Ohio, the Wisconsin deal includes "performance-based incentives" that would rescind the state's offer if Foxconn failed to hit hiring, wage, and investment targets, making this a story of potential ongoing renegotiation.

The story of Tyson Foods' attempt to open up a new plant in Tonganoxie, Kansas, is ultimately a story of outright rejection. Although Tyson originally thought that their plan to build a huge \$320 million chicken processing plant in the town (supported by the state's Governor Sam Brownback) would be welcomed with open arms, instead a local grassroots movement in the community arose to block the deal. Residents objected to the plant, arguing that it would place too much stress on local roads and waterways. In addition, most residents in the community already had jobs, and were opposed to the influx of hundreds of outsiders into the town who were merely coming because they were attracted to the low-skill, low-wage jobs the deal created. Eventually, Leavenworth County's Board of Commissioners rescinded their decision to open the plant.

QUESTIONS

In many cases, the overly lucrative offers made by states to lure employers are attributable to states competing with other states. How does this competition within the nation affect overall national competitiveness when it comes to competing in the global economy?

How does this potential "race-to-the-bottom" affect citizens of some states, especially when one considers that the politicians that struck these bargains may be long gone well after the effects are in place?

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Plant Became a Turkey,” *Bloomberg Businessweek*, October 16, 2017, pp. 17–19.

MANAGING PEOPLE

Automation: The Effects on the Quantity and Quality of Jobs

A trip around the world can show how automation both drastically decreases the number of employees needed to produce a given product, and at the same time, increases the quality of the jobs for the employees that remain in terms of the nature of work, the security of work, and the safety of work. For example, in the 1960s a traditional steel mill would require 1,000 employees to produce 500,000 tons of steel. However in 2018, a steel mill in Donawitz, Austria, can produce the same output with just 14 employees. Blue-collar jobs in a traditional steel mill required a great deal of hard, physical, manual labor next to blazing hot blast furnaces, but at the Donawitz facility, all that work has been automated. The work that remains looks more like a videogame, where workers sit in a clean, quiet control room perched above all the fray, monitoring the movement and processing of molten iron page 228ore via a bank of computer screens. When asked what steel production is going to look like in the future, plant manager Wolfgang Eder notes that “it is impossible to predict, but the positive thing is, the jobs surviving in the long run will be really attractive.”

In addition to enhancing the nature of the work, automation has also radically improved job security. Traditionally, jobs in the manufacturing industry were subject to the whims of supply and demand, and workers were accustomed to being laid off and then reinstated over and over again. In 2018, however, layoffs in the U.S. hit a 50-year low, and most of this could be traced to enhanced stability in the manufacturing sector of the economy. In Detroit, Michigan, for example, PVS Chemical Company has stabilized employment at roughly 800 employees, and has not laid anyone off despite ebbs of demand for its products. CEO David Nicholson notes, “We have become much more careful about letting people go. Most manufacturing jobs today are technology jobs, and it takes a long time to train someone for the role, and thus you’re reluctant to let them go for short-term slowdowns.”

Finally, in terms of enhanced safety, an examination of the Rotterdam shipyards reveals how automation is increasing safety and reducing injuries. In the past, the work of the “stevedores,” the local name given to dock-workers, was backbreaking labor that often resulted in a whole host of injuries. Whether due to accidents or just declining physical capacity, most stevedores struggled to work past the age of 45, when they were then either dismissed or placed on permanent disability. Today, the ports are automated and cargo is loaded and unloaded remotely and moved from place to place via driverless vehicles. The threat of injuries is greatly reduced because, whereas in the past, you had a large number of men physically moving heavy containers, you now find one 22-year-old woman with perfect eye-hand coordination orchestrating workflow. Although this type of automation is great when it comes to creating jobs that are more attractive, secure, and safe, however, the downside is that it obviously displaces a lot of workers such as the “stevedores.”

QUESTIONS

How does the introduction of automation single out certain subpopulations when it comes to securing and holding a job?

What can HR professionals, as well as local and federal governments, do to protect these subpopulations?

SOURCES: T. Biesheuval, “500,000 Tons of Steel, 14 Jobs,” *Bloomberg Businessweek*, January 26, 2017, pp. 16–17; S. Nunn, “Layoffs Just Reached a Half-Century Low,” *The Wall Street Journal Online*, September 6, 2018; E. Morath, “Factory Workers Don’t Get Laid Off Like They Did Before the Recession,” *The Wall Street Journal Online*, July 10, 2018; “Blame Automation, Not Immigration,” *Bloomberg Business-week*, March 6, 2017, pp. 30–33.

HR IN SMALL BUSINESS

Horizon Therapeutics Plan for Strong Future

With roughly 1,200 employees on its payroll and 11 medicines in its product mix, Horizon Therapeutics goes up against stiff competition to meet its talent needs. Irina Konstantinovsky, the company's chief human resources officer, aims to meet the challenge by emphasizing the advantages of a small employer and by stressing Horizon's core values, including transparency, accountability, and growth, as well as empathy for the patients served by its products. The company was founded in 2008 to sell primary-care drugs, but it has recently transitioned to a more focused approach that targets rare and rheumatic conditions.

Horizon is based in Dublin, with a headquarters in Chicago. It has facilities in Illinois, California, the District of Columbia, and Mannheim, Germany. The most recently opened facility, in South San Francisco, puts the company near a center of biotech talent. This makes the location attractive to these workers, who can maintain connections to colleagues in their professions, but it also places Horizon squarely in the middle of stiff competition for these workers.

This is more than a matter of hiring scientists. Konstantinovsky cites marketing as a particularly difficult skill area to recruit. For example, the firm recently launched a new drug for treating eye inflammation associated with thyroid disease, and this required hiring for more than 40 positions at once. Most people who go into marketing are interested in consumer goods. Selling pharmaceuticals requires scientific knowledge and the ability to discuss products with medical professionals. In the example of the drug for eye inflammation, salespeople need to call on thousands of physicians, including specialists in eye surgery. Horizon therefore combines recruiting with ongoing development, so employees can grow in their profession.

Konstantinovsky's recruiting message is that Horizon moves fast and grows fast, making it an exciting place to work. She notes that in a small company, employees can take on wider responsibility and move up faster in the organization. She also notes that many of the people at Horizon actually know some of the patients who benefit from the company's products, so the impact of treating conditions takes on a personal and significant meaning.

It is a stiff challenge, but Konstantinovsky brings to the job years of experience at pharmaceutical firm Baxter International, where she oversaw talent acquisition and other HR functions for more than 50,000 employees. As she now promises others, Horizon has provided her a fast-paced environment in which to make a difference.

QUESTIONS

Would you say this case describes a situation of a labor surplus or a labor shortage? Why?

Horizon has grown rapidly since its founding, but what if the environment changes so that the company has to scale back some products? How would you recommend the company handle a drop in the need for marketing professionals? Explain your reasoning.

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CHAPTER 6

Selection and Placement



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO6-1 Establish the basic scientific properties of personnel selection methods, including reliability, validity, and generalizability.](#)

[LO6-2 Discuss how the particular characteristics of a job, an organization, or an applicant affect the utility of any test.](#)

[LO6-3 Describe the government's role in personnel selection decisions, particularly in the areas of constitutional law, federal laws, executive orders, and judicial precedent.](#)

[LO6-4 List the common methods used in selecting human resources.](#)

[LO6-5 Describe the degree to which each of the common methods used in selecting human resources meets the demands of reliability, validity, generalizability, utility, and legality.](#)

ENTER THE WORLD OF BUSINESS

Adidas Forced to Deal with Diversity and Inclusion

In 2020, after the brutal and widely viewed murder of George Floyd, a Black man who died after a white police officer knelt on his neck to the point of strangulation, the public outcry in the United States was swift and widespread. Many organizations took to the media to express their solidarity with the Black Lives Matter movement, decrying the continued evidence of racism and highlighting what they had done in the past to support the African American community. For most organizations, this went well—except at Adidas. Black employees at the German-owned sportswear company had been complaining for years about the lack of inclusion at Adidas, and the evidence backed this up. At the top of the organization, there were no African Americans on the company's six-person Executive Committee or the sixteen-member Board of Directors, and only about 1% of the more than 300 worldwide vice presidents were Black.

Thus, even before the Floyd killing, these employees perceived Adidas as highly hypocritical because their internal ill treatment of Black employees was far out of line with their external image that leveraged African American sports and entertainment stars to promote the company. That is, the external image of the company was burnished by celebrities such as Beyoncé Knowles, Kanye West, Candace Parker, Pharrell Williams, Run DMC, James Harden, and Damian Lillard. As one former Adidas employee, D'Wayne Edwards, noted, "Companies like Adidas spend billions of dollars on marketing and advertising to attract African American kids to their products, but they don't do much to support the African Americans on the inside."

For many African American employees, Adidas's public reaction to the Floyd killing was the last hypocritical straw, and led to highly publicized walkouts and protests. In response, instead of acknowledging the issue and the employees' concerns, the company made the decision to deny that there were any problems. The CEO, Zion Armstrong, declared that Adidas did not have a race problem. When asked why more Black employees were not being promoted, Mr. Armstrong said there simply were not any who were ready. Karen Parker, the Global Head of Human Resources, went on further to state more broadly, "Racism is 'noise' that is only discussed in America," doubling down on the company's stated position that the organization had no issues with racism.

Denying the problem simply added fuel to the fire as more and more evidence regarding discriminatory practices was revealed with each passing day. Increasingly, this new evidence showed how the lack of diversity was threatening the company's internal decision-making processes, creating a series of disasters and near-disasters. For example, in 2018, Adidas released all-white sneakers as part of a line meant to commemorate Black History Month, but then had to remove them from stores after a public outcry. In 2016, there was a meeting about the company's latest sneaker for James Harden, where it was decided to make the shoe part of the company's "uncaged" line. The ads for "Harden Uncaged" were going to feature Harden breaking free from a prison cell. This terrible idea (and incredibly insensitive image) was scrapped only at the last minute after substantial financial investment.

Eventually, in the face of this mounting evidence, the company reversed their decision to adopt a denial strategy. In order to accommodate the protestors, Adidas decided to (a) commit to ensuring that 30% of new hires would be Black, (b) fund 50 university scholarships a year for Black students over the next five years, and (c) expand funding for programs that address racial disparities to \$120 million over the next five years. The company also pressured Karen Parker to take an early retirement so they could make room for new HR leadership.

Sources: J. Creswell and K. Draper, "Black Superstars Pitch Adidas Shoes. Its Black Workers Say They're Sidelined," *The New York Times Online*, June 19, 2020; K. Safdar, "Adidas HR Chief to Retire After Criticism from Black Employees," *The Wall Street Journal Online*, June 30, 2020; J. Creswell and K. Draper, "Adidas Pledges to Increase Diversity," *The New York Times Online*, June 10, 2020; K. Safdar, "Adidas Promises to Hire Black, Latino People for 30% of New U.S. Jobs," *The Wall Street Journal Online*, June 9, 2020.

Introduction

Any organization that intends to compete through people must take the utmost care with how it chooses to select and promote organizational members. These decisions have a critical impact on the organization's ability to compete, as well as on each and every job applicant's life. Organizations have to strive to make sure that the decisions they make with respect to who gets accepted or rejected for jobs or who gets promoted are in the best interests of the company and are fair to all parties involved. Poorly informed decisions like the ones we saw at the beginning of this chapter harm everyone who comes into contact with such organizations.

In particular, when an organization is trying to succeed in increasingly diverse product markets, the inability to increase the diversity and inclusion of its workforce at all levels is a strategic mistake that hinders competitiveness. Like Adidas, the 24-hour sports network ESPN also has a business model that leverages Black athletes as a big part of their programming and marketing efforts aimed toward an audience filled with Black viewers. However, behind the camera, the company has been widely accused of discriminating against Black employees internally. Top officials do not even dispute the numbers that reflect lack of inclusion at high levels of ESPN, but more critically, they also point to several recent on-air incidents that were highly insensitive. One such spot included a segment on fantasy football where the setting looked like a slave auction at an old antebellum mansion in the South.¹ ESPN's President James Pitaro has vowed to turn the situation around stating, "We cannot have rooms full of just white decision makers. Our execs and employees need to reflect the audience that we are trying to reach."²

Problems with inclusion of Blacks while trying to appeal to a broad customer base can be seen in many places far beyond the wide world of sports and at all levels of page 235 organizations. Starbucks stores operate in many communities where Blacks make up over 25% of the labor pool and 40% of the customer base yet where only 8% of front-line employees are Black.³ Low levels of employment at lower-level jobs like this then trickles up to middle-level management jobs. For example, McKinsey released a major study that showed that across the country as a whole, whereas Blacks make up 12% of the workforce in general, only 7% ever get promoted to first-line supervisory positions.⁴ This then trickles up to the pinnacle of companies where only 1% of America's largest 500 companies are led by a Black CEO.⁵

Moreover, race is just one piece of the diversity, equity, and inclusion (DEI) puzzle. Beyond race, the evidence suggests that women are also underrepresented in many industries such as venture capital firms and investment banking.⁶ Hispanics also seem to be underrepresented at top levels of organizations. Nowhere is this more evident than in the State of California where Hispanics make up 40% of the state's population, but only 2% of corporate director positions.⁷ Finally, there were over 2,000 charges of discrimination against people based on sexual orientation or gender identity in 2019 alone. This prompted a decision by the U.S. Supreme Court in 2020 that made gay, lesbian, bisexual, and transgender individuals members of a protected class, extending the provisions of the Civil Rights Act of 1967 to this group.⁸

Still, the goals of diversity and inclusion have to be met while hiring and promoting the very best and most talented people. Selecting the best talent is critical to the competitiveness of organizations, as well as nations. Innovation and economic growth are fueled by people, and the firms or nations that bring in the best people will be the ones that compete most successfully. Thus the need for quality in hiring must balance the need to promote groups that have been underrepresented in the past. For competitiveness reasons, if nothing else, organizations need to make sure that in the process of correcting past sins of underrepresentation of certain groups, they do not trample the rights of others.

Other U.S. Supreme Court cases have focused on what has been termed "reverse discrimination." For example, a white recruiter accused YouTube of retaliating against him after he complained that the video site discriminated against white and Asian male applicants. In a case against Google, James Damore accused the company of firing him for espousing conservative political views that opposed the company's diversity-related hiring practices.⁹ As noted by Dennis Parker, director of the racial justice program at the American Civil Liberties Union, "You can have a goal, even a numerical goal over a time period, to increase the number of women or people of color but that's different than saying 'We're not going to hire any more white men.'"¹⁰

Regrettably, in an often polarized society, there is no easy and simple solution to the problem of selecting and promoting individuals in the organization in a manner that is always equitable and just. When it comes to recognizing talent and merit in a way that is not biased by stereotypes or swings in political moods in one direction or the other, wisdom and good judgment are required. The fates of one's country, one's organization, and one's own opportunities in life vitally depend on how these individual decisions are made and how they systematically accumulate over time. As the [Competing through Globalization](#) box shows, the ability to create a talented and diverse workforce is so important, many investors from all over the world use this as a factor in deciding where to invest their money.

Thus, the purpose of this chapter is to familiarize you with ways to minimize errors in employee selection and placement and, in doing so, improve your company's competitive position when it comes to hiring winners. We focus first on five standards that any selection method should meet. Then we evaluate several common selection methods that meet those standards and discuss how these may be used to prevent companies from hiring low-performing, or dubious, individuals that may harm the firm's reputation.

Measuring ESG: Historical Influences on Cross-Cultural Comparisons

Imagine you are an investor and you want to make sure that your investments reflect your own personal values when it comes to the kinds of companies and values you want to support. A growing number of ESG (Environmental, Social, and Governance) vehicles are being created for precisely this purpose. These funds broadly market themselves as trying to invest in companies that pursue strategies to address environmental, social, or governance challenges such as climate change and corporate diversity. Flows into these kinds of funds have soared from \$2.83 billion in 2015 to \$17.67 billion in 2020. Although there were initial concerns that investors should steer clear of these firms because of their fiduciary responsibility to simply make the most money for their clients, early experience suggests that these two goals are not necessarily in conflict. John Wilson, director of corporate engagement at Calvert Research & Management, notes that ESG funds offer rewards for both companies and investors, because “diverse workforces tend to outperform those that are not diverse.”

Obtaining the information needed to classify companies into ESG versus non-ESG categories, however, is a controversial challenge, and an especially tricky challenge in classifying companies outside the U.S. For example, the terms underlying the ESG designation are extremely broad and capture a large number of practices that sometimes are “apples and oranges.” Thus, when summed into a single overall aggregate one never quite knows what is driving the number. For instance, regarding “green policies” and the environment part of the equation, because of historically high prices for oil in Europe, many companies there are way ahead of U.S. firms. But when it comes to the “diversity/inclusion,” and social part of the equation, one may not even be able to obtain information at all from employers in Europe.

Even in the U.S., one challenge is the level of detail that organizations are willing to provide when it comes to social outcomes. Because of reporting requirements to the Equal Employment Opportunity Commission (EEOC), data on the percentages of various underrepresented ethnic and racial groups in different job categories is not difficult to obtain. However, determining pay equity can only be accomplished when companies report detailed pay data, and many firms are not willing to provide such data.

Still, reporting challenges are far greater outside the U.S. In fact, in some European countries it is actually illegal to collect the kind of data that would go into a standard EEOC filing when it comes to diversity. There are two reasons for this. First, due to the legacy of the Holocaust and World War II, the thought of the government collecting data on matters related to religion, race, and other personal information is antithetical to many living in the countries affected by this history. Second, European history of colonialism also creates a barrier because there is a certain taboo when it comes to discussing race in many European companies due to this legacy. For other reasons, it is hard to say if the conversation about the historical trade of enslaved people is at a different place on the two different sides of the Atlantic. Eventually, as ESG funds continue to grow and attract more investors, these matters may be ironed out, and when they are, this will add yet another good reason for creating a diverse workforce—attracting investors.

DISCUSSION QUESTIONS

Much of this book is dedicated to showing how HR practices can help a company compete in product and labor markets, but how does the growth of ESG investing provide yet another route to competitive advantage via HR practices?

Regarding the chapter opener on Adidas and racial discrimination there, how does what we point out here about European history and culture add additional elements to that story?

Sources: M. Sardon, “Sustainability Investors Shift Their Focus to Social Issues,” *The Wall Street Journal Online*, October 10, 2020; D. Holger and D. Lim, “The Labor Department Signaled That New Rules It Is Exploring Might Be More Friendly to Socially Minded Investments,” *The Wall Street Journal Online*, March 10, 2021; A. Marsh, “U.S. Falls Further Behind Europe in Fast-Growing ESG Market,” *Bloomberg Businessweek Online*, December 21, 2020;

Selection Method Standards

LO 6-1

Establish the basic scientific properties of personnel selection methods, including reliability, validity, and generalizability.

Personnel selection is the process by which companies decide who will or will not be allowed into organizations. Several generic standards should be met in any selection process. We focus on five: (1) reliability, (2) validity, (3) generalizability, (4) utility, and (5) legality. The first four build off each other in the sense that the preceding standard is often necessary but not sufficient for the one that follows. This is less the case with legal standards. However, a thorough understanding of the first four standards helps us understand the rationale underlying many legal standards.

Reliability

Much of the work in personnel selection involves measuring characteristics of people to determine who will be accepted for job openings. For example, we might be interested in applicants' physical characteristics (like strength or endurance), their cognitive abilities (such as spatial memory or verbal reasoning), or aspects of their personality (like their decisiveness or integrity). Many people have inaccurate stereotypes about how these kinds of characteristics may be related to factors such as race, gender, age, or ethnic background; therefore, we need to get past these stereotypes and measure the actual attributes directly.¹¹

One key standard for any measuring device is its reliability. We define [reliability](#) as the degree to which a measure is free from random error. If a measure of some supposedly stable characteristic such as intelligence is reliable, then the score a person receives based on that measure will be consistent over time and in different contexts.

[Reliability](#)

The consistency of a performance measure; the degree to which a performance measure is free from random error.

Estimating the Reliability of Measurement

Most measurement in personnel selection deals with complex characteristics like intelligence, integrity, and leadership ability. However, to appreciate some of the complexities in measuring people, we will consider something concrete in discussing these concepts: the measurement of height. For example, if we were measuring an applicant's height, we might start by using a 12-inch ruler. Let's say the first person we measure turns out to be 6 feet, 1¼ inches tall. It would not be surprising to find out that someone else measuring the same person a second time, perhaps an hour later, found this applicant's height to be 6 feet, ¾ inches. The same applicant, measured a third time, maybe the next day, might be measured at 6 feet, 1½ inches tall.

As this example makes clear, even though the person's height is a stable characteristic, we get slightly different results each time he is assessed. This means that each time the person is assessed, we must be making slight errors. If we used a measure of height that was not as reliable as a ruler—for example, guessing someone's height

after seeing her walk across the room—we might see an even greater amount of unreliability in the measure. Thus *reliability* refers to the measuring instrument (a ruler versus a visual guess) rather than to the characteristic itself.

We can estimate reliability in several different ways, and because most of these rely on computing a correlation coefficient, we will briefly describe and illustrate this statistic. The *correlation coefficient* is a measure of the degree to which two sets of numbers are related. The correlation coefficient expresses the strength of the relationship in numerical form. A perfect positive relationship (as one set of numbers goes up, so does the other) equals +1.0; a perfect negative relationship (as one goes up, the other goes down) equals –1.0. When there is no relationship between the sets of numbers, the correlation equals 0.00. Although the actual calculation of this statistic goes beyond the scope of this book, it will be useful for us to conceptually examine the nature of the correlation coefficient and what this means in personnel selection contexts.

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When assessing the reliability of a measure, for example, we might be interested in knowing how scores on the measure at one time relate to scores on the same measure at another time. Obviously, if the characteristic we are measuring is supposedly stable (like intelligence or integrity) and the time period is short, this relationship should be strong. If it were weak, then the measure would be inconsistent—hence, unreliable. This is called assessing *test-retest reliability*.

Note that the time period between measurements is important when it comes to interpreting test-retest reliability. The assumption is that the characteristic being measured is not changing; hence, any change from Time 1 to Time 2 is treated as an error. When the time period becomes too long, this increases the chance that the characteristic itself is changing. For example, when it comes to certain dimensions of personality, research documents that a person who experiences chronic job insecurity or a long stint of unemployment may over a period of five years or so experience lower levels of conscientiousness, emotional stability, and agreeableness. Thus, this change is not really reflecting lack of reliability but rather true change in the trait being measured.¹²

Plotting the two sets of numbers on a two-dimensional graph often helps us to appreciate the meaning of various levels of the correlation coefficient. [Figure 6.1](#), for example, examines the relationship between student scholastic aptitude in one's junior and senior years in high school, where aptitude for college is measured in three ways: (1) via scores on the SAT (formerly known as the Scholastic Aptitude Test), (2) via ratings from a high school counselor on a 1-to-100 scale, and (3) via tossing dice. In this plot, each number on the graphs represents a person whose scholastic aptitude is assessed twice (in the junior and senior years), so in [Figure 6.1a](#), 1 represents a person who scored 1580 on the SAT in the junior year and 1500 in the senior year; 20 represents a person who scored 480 in the junior year and 620 in the senior year.

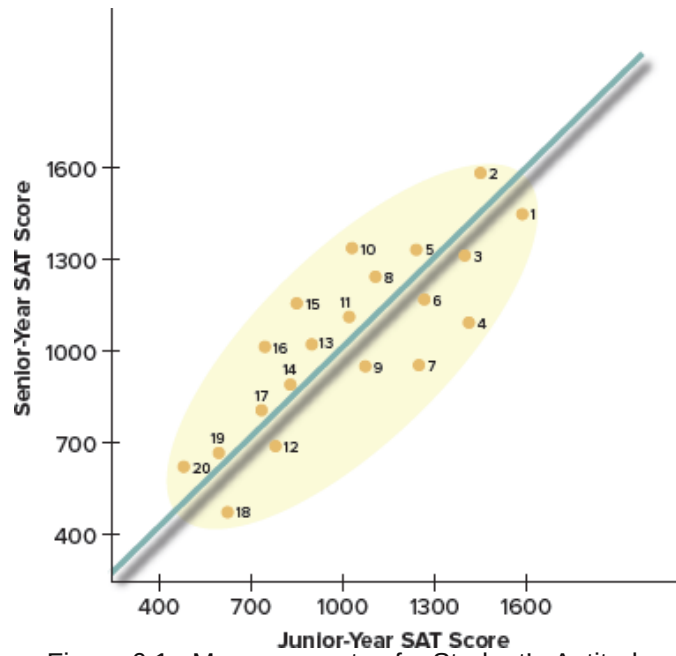


Figure 6.1a Measurements of a Student's Aptitude

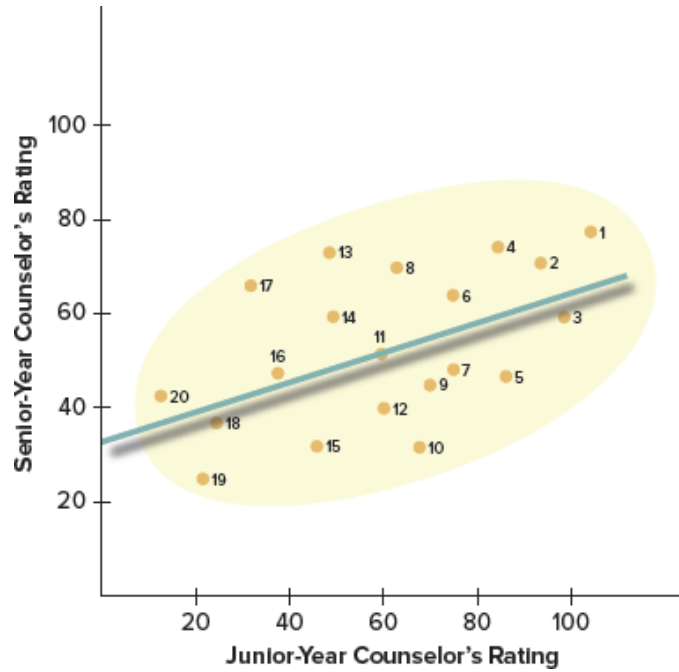
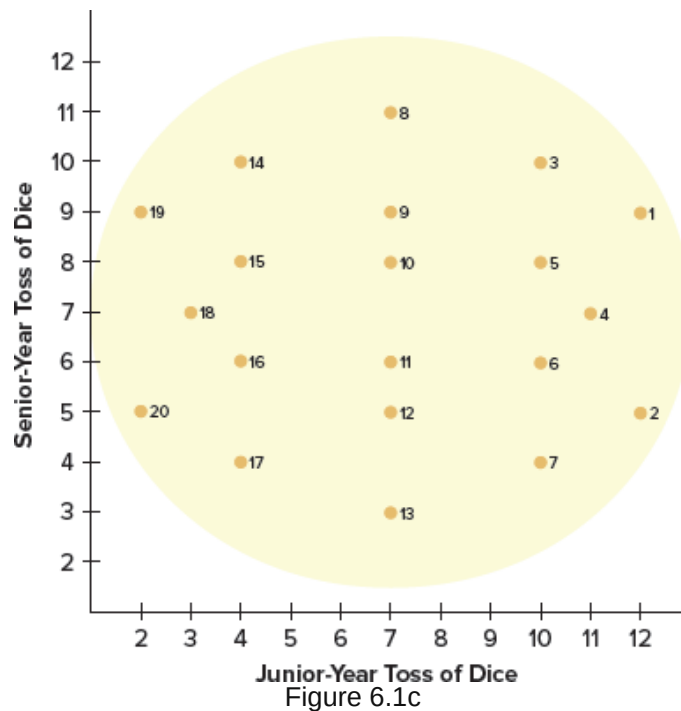


Figure 6.1b



[Figure 6.1a](#) shows a very strong relationship between SAT scores across the two years. This relationship is not perfect in that the scores changed from one year to the next but not by a great deal. Turning to [Figure 6.1b](#), we see that the relationship between the high school counselors' ratings across the two years, while still positive, is not as strong. That is, the counselors' ratings of individual students' aptitudes for college are less consistent over the two years than are the students' test scores. This page 239 might be attributable to the fact the counselor's rating during the junior year was based on a smaller number of observations relative to the ratings made during senior year.

Finally, [Figure 6.1c](#) shows a worst-case scenario, where the students' aptitudes are assessed by tossing two six-sided dice. As you would expect, the random nature of the dice means that there is virtually no relationship between scores taken in one year and scores taken the next. Although no one would seriously consider tossing dice to be a measure of aptitude, research shows that the correlation of overall ratings of job applicants' suitability for jobs based on unstructured interviews is very close to 0.00. page 240 Thus, one cannot assume a measure is reliable without checking its reliability directly. Novices in measurement are often surprised at exactly how unreliable many human judgments turn out to be. Thus, much of the science that deals with selection tries to go beyond subjective human judgments.

Standards for Reliability

Regardless of what characteristic we are measuring, we want highly reliable measures. Thus, in the previous example, when it comes to measuring students' aptitudes for college, the SAT is more reliable than counselors' ratings, which in turn are more reliable than tossing dice. But in an absolute sense, how high is high enough—0.50, 0.70, 0.90? This is a difficult question to answer specifically because the required reliability depends in part on the nature of the decision being made about the people being measured.

For example, let's assume some college admissions officer was considering several students depicted in [Figures 6.1a](#) and [6.1b](#). Turning first to [Figure 6.1b](#), assume the admissions officer was deciding between Student 1 and Student 20. For this decision, the 0.50 reliability of the ratings is high enough because the difference between the two students' counselors' ratings is so large that one would make the same decision for admissions regardless of

the year in which the rating was taken. That is, Student 1 (with scores of 100 and 80 in the junior and senior years, respectively) is always admitted and Student 20 (with scores of 12 and 42 for junior and senior years, respectively) is always rejected. Thus, although the ratings in this case are not all that reliable in an absolute sense, their reliability is high enough for this decision.

By contrast, let's assume the same college admissions officer was deciding between Student 1 and Student 2. Looking at [Figure 6.1a](#), it is clear that even with the highly reliable SAT scores, the difference between these students is so small that one would make a different admissions decision depending on the year the score was obtained. Student 1 would be selected over Student 2 if the junior-year score was used, but Student 2 would be chosen over Student 1 if the senior-year score was used. Thus, even though the reliability of the SAT exam is high in an absolute sense, it is not high enough for this decision. Under these conditions, the admissions officer needs to find some other basis for making the decision regarding these two students (like high school GPA or rank in graduating class). For example, if Student 2 was a member of an unrepresented group and Student 1 was not, one might consider the scores as being essentially "tied." This might be a place to increase diversity where there would be little impact on the overall scores of the entire selected student body when it comes to test scores.

Although these two scenarios clearly show that no specific value of reliability is always acceptable, they also demonstrate why, all else being equal, the more reliable a measure is, the better. For example, turning again to [Figures 6.1a](#) and [6.1b](#), consider Student 9 and Student 14. One would not be able to make a decision between these two students based on scholastic aptitude scores if assessed via counselors' ratings, because the unreliability in the ratings is so large that scores across the two years conflict. However, one would be able to base the decision on scholastic aptitude scores if assessed via the SAT, because the reliability of the SAT scores is so high that scores across the two years point to the same conclusion.

Validity

We define [validity](#) as the extent to which performance on the measure is related to performance on the job. A measure must be reliable if it is to have any validity. By contrast, we can reliably measure many characteristics (like height) that may have no relationship to whether someone can perform a job. For this reason, reliability is a necessary but insufficient condition for validity.

[Validity](#)

The extent to which a performance measure assesses all the relevant—and only the relevant—aspects of job performance.

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Criterion-Related Validation

One way of establishing the validity of a selection method is to show that there is an empirical association between scores on the selection measure and scores for job performance. If there is a substantial correlation between test scores and job-performance scores, [criterion-related validity](#) has been established. For example, [Figure 6.2](#) shows the relationship between 2019 scores on the SAT and 2020 freshman grade point average (GPA). In this example, there is roughly a 0.50 correlation between the SAT and GPA. This 0.50 is referred to as a *validity coefficient*. Note that we have used the correlation coefficient to assess both reliability and validity, which may seem somewhat confusing. The key distinction is that the correlation reflects a reliability estimate when we are attempting to assess the same characteristic twice (such as SAT scores in the junior and senior years), but the correlation coefficient reflects a validity coefficient when we are attempting to relate one characteristic (SAT) to performance on some

task (GPA).

Criterion-related validity

A method of establishing the validity of a personnel selection method by showing a substantial correlation between test scores and job-performance scores.

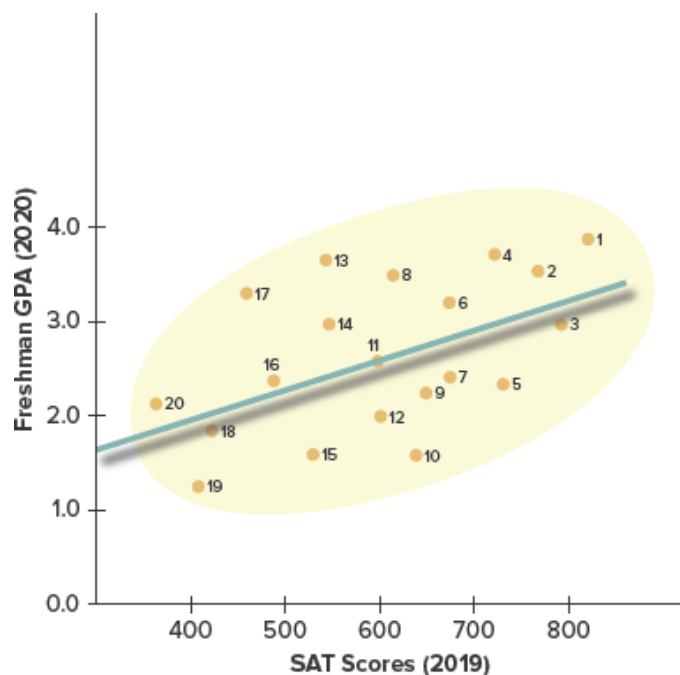


Figure 6.2 Relationship between 2019 SAT Scores and 2020 Freshman GPA

Criterion-related validity studies come in two varieties. [Predictive validation](#) seeks to establish an empirical relationship between test scores taken *prior* to being hired and eventual performance on the job. Because of the time and effort required to conduct a predictive validation study, many employers are tempted to use a different design. [Concurrent validation](#) assesses the validity of a test by administering it to people already on the job and then correlating test scores with existing measures of each person's performance. For example, the testing company Infor measures 39 behavioral, cognitive, and cultural traits among job applicants and then compares their scores on those dimensions with the top performers in the company. The assumption is that if high performers in the company score high on any trait, then the company should use scores on this trait to screen new hires.¹³ [Figure 6.3](#) compares the two types of validation study. In addition, as our [Competing through Technology](#) box shows, the use of Artificial Intelligence (AI) tools when it comes to validating predictors of future job performance has expanded rapidly, even though some feel their use is underregulated due to concerns regarding bias.

Predictive validation

A criterion-related validity study that seeks to establish an empirical relationship between applicants' test scores and their eventual performance on the job.

Concurrent validation

A criterion-related validity study in which a test is administered to all the people currently in a job and then incumbents' scores are correlated with existing measures of their performance on the job.

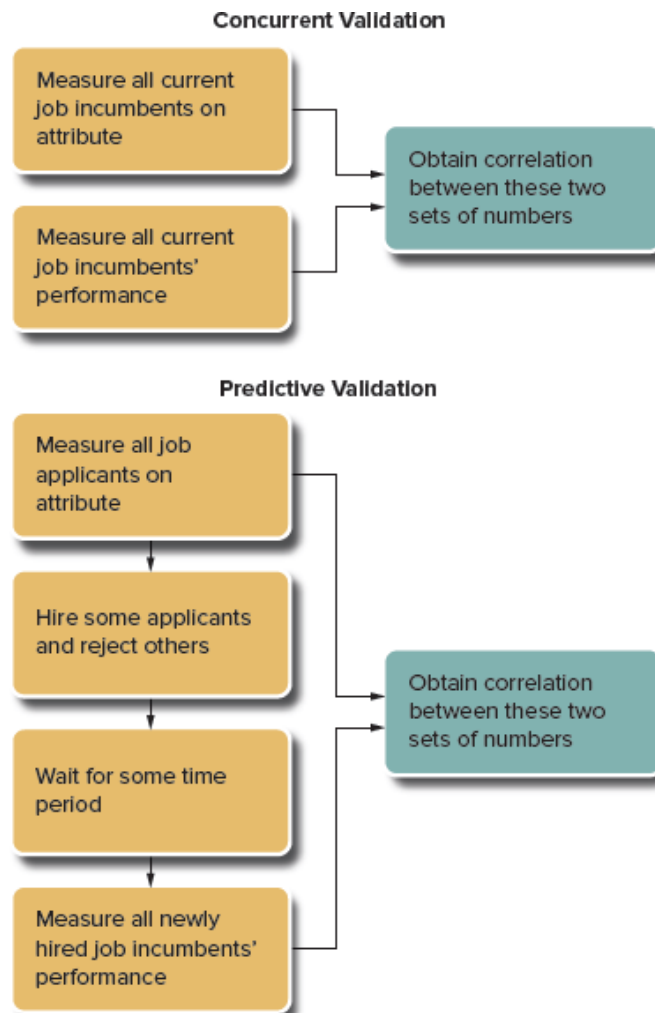


Figure 6.3 Graphic Depiction of Concurrent and Predictive Validation Designs

Despite the extra effort and time needed for predictive validation, it is superior to concurrent validation for a number of reasons. First, job applicants (because they are seeking work) are typically more motivated to perform well on the tests than are current employees (who already have jobs). Thus, job applicants are more tempted to fake responses in order to look good relative to current jobholders. Second, current employees have learned many things on the job that job applicants have not yet learned. Therefore, the correlation between test scores and job performance for current employees may not be the same as the correlation between test scores and job performance for less knowledgeable job applicants. Thus, although concurrent studies can sometimes help one to anticipate the results of predictive studies, they do not serve as substitutes.

Obviously, we would like our measures to be high in validity; but as with the reliability standard, we must also ask, how high is high enough? When trying to determine how much validity is enough, one typically has to turn to tests of statistical significance. A test of statistical significance answers the question, "Assuming that there is no true relationship between the predictor and the criterion, what are the odds of seeing a relationship this strong by chance alone?" If these odds are very low, then one might infer that the results from the test were in fact predicting future job performance.

[Table 6.1](#) shows how big a correlation between a selection measure and a measure of job performance needs to be to achieve statistical significance at a level of 0.05 (that is, there is only a 5 out of 100 chance that one could get a correlation this big by chance alone). Although it is generally true that bigger correlations are better, the size of the sample on which the correlation is based plays a large role as well. Because many of the selection methods we examine in the second half of this chapter generate correlations in the 0.20s and 0.30s, we often need

samples of 80 to 90 people. A validation study with a small sample (such as 20 people) is almost doomed to failure from the start.

Table 6.1 Required Level of Correlation to Reach Statistical Significance as a Function of Sample Size

SAMPLE SIZE	REQUIRED CORRELATION
5	0.75
10	0.58
20	0.42
40	0.30
80	0.21
100	0.19



COMPETING THROUGH TECHNOLOGY

How Intelligent Is Automated Hiring?

The term Artificial Intelligence or AI is widely thrown about in many different contexts and means very different things to different people. One context where it is increasingly popping up is in the area of personnel selection via the process of automated hiring, and it is important here to know precisely what lies underneath the hood of these processing engines before you decide to use one. To start with a somewhat pejorative definition, someone once said that the term AI is used when one is selling it, the term Machine Based Learning is used when one is hiring someone to do it, and the term “statistics” is used when you are actually doing it. This is important to remember because in the end, automated hiring is simply using correlational data to uncover patterns of relationships between different sets of numbers.

Indeed, when selling AI-based selection tools, many vendors extol the virtues of “objective evidence not tainted by human subjectivity” as a virtue when it comes to preventing discrimination. However, if one looks under the hood of the algorithm, the truth of this statement is subject to intense debate. For example, when thought of as Machine Based Learning, one has to ask (a) what is the machine learning, (b) how is it learning what it is learning, and (c) from whom is it learning what it is learning.

So, imagine a correlation-based algorithm that looks to see how some item on a resume or how some answer to a robot-generated interview question or how some answer to an automated test item relates to success on the job in terms of performance ratings or promotion history. Although this generates an “objective” indicator of relatedness, the process by which the performance ratings or promotion decisions are made is completely “subjective” and totally subject to bias. Thus, if the organization’s culture is such that it is biased against women or underrepresented by ethnic and racial groups, then the algorithm, like a precocious child, learns that bias. Children are not born prejudiced, they have to be taught, and an AI algorithm is a voracious learner. On the other hand, the algorithm can also be manipulated so that it gives added points to women or underrepresented ethnic and racial groups that “make up for this bias.” However, if the performance ratings and promotion decisions are not biased, then this creates reverse discrimination against everyone else and results in a poorly performing workforce and

people who struggle to succeed.

Regrettably, all the difficult work that goes into determining what is “valid” and what is “bias” requires a deep dive into how the patterns that are being detected by the AI are affected by how the original set of numbers were generated. It also requires a level of transparency that is often not provided by AI providers who view their algorithm as secret or “proprietary.” If one does not get to look exactly at what the algorithm is doing and why, one will never know how the AI is deciding what is valid and what is bias. For all of these reasons, legislation is starting to be introduced that will force this kind of transparency. For example, in New York City, Councilwoman Alicka Ampry-Samuel, a Democrat from Brooklyn, is introducing legislation to create more transparency when it comes to automated hiring. As she notes, “If companies are using this type of technology, we want to make sure that the tools that they are using are used in a way that really speaks directly to the reduction of discrimination and bias.”

DISCUSSION QUESTIONS

How does the “aura” of the basic idea of “Artificial Intelligence” sometimes lead people to suspend their critical judgment when it comes to evaluating AI products and applications?

How can one balance the need for AI producers to protect their proprietary software, which is at the core of their business model, and the “right to know” when it comes to the public at large?

SOURCES: C. Metz, “Who Is Making Sure the A.I. Machines Aren’t Racist?” *The New York Times Online*, March 15, 2021; A. Murad, “The Computers Rejecting Your Job Application,” *The BBC Online*, February 8, 2021; I. Ajunwa “Beware of Automated Hiring,” *New York Times Online*, October 8, 2019; K. King, “New York City Bill Aims to Regulate AI Hiring Tools,” *The New York Times Online*, February 27, 2020.

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On the flip side, if one has a huge sample, such as is the case with the SAT, even relatively low correlations can achieve statistical significance. Thus, while no one who has looked at the evidence would argue that the SAT lacks criterion-related validity, some believe that the weight it is given in some decisions is too high relatively to its validity. Many colleges were giving less weight to SAT scores for this reason even prior to 2020, but the COVID epidemic accelerated this trend when it became almost impossible to test students.¹⁴ Still, the predictive validity for the SAT is higher than other predictors such as GPA, which is often idiosyncratic to the student’s school or the student’s major or other local factors.¹⁵ Everyone takes exactly the same SAT test and it seems to be a valid predictor even if one controls for socio-economic status.

Content Validation

When sample sizes are small, an alternative test validation strategy, content validation, can be used. Although criterion-related validity is established by empirical means, content validity is achieved primarily through a process of expert judgment. [Content validation](#) is performed by demonstrating that the questions or problems posed by the test are a representative sample of the kinds of situations or problems that occur on the job. A test that is content valid exposes the job applicant to situations that are likely to occur on the job, and then tests whether the applicant currently has sufficient knowledge, skills, or abilities to handle such situations. Many of the new simulations that organizations are using are essentially computer-based role-playing games, where applicants play the role of the job incumbent, confronting the exact types of people and problems real-live job incumbents would face.

[Content validation](#)

A test-validation strategy performed by demonstrating that the items, questions, or problems posed by a test are a representative sample of the kinds of situations or problems that occur on the job.

Because the content of these tests so closely parallels the content of the job, one can safely make inferences from one to the other. For example, in the field of computer programming, employers see the skills needed to win international software code problem-solving competitions as highly related to the skills necessary to perform well on the job. For those who are unaware of the fast-growing sport of computer programming, an important warning—these contests do not make for riveting television.

In most of the contests, roughly two dozen competitors, who worked their way to the finals by topping thousand of others in preliminary events online, rarely move from their workstation as they work through five standardized puzzles that have to be solved quickly with code that is as efficient as possible. Still, many employers study the results from these events looking to hire both winners and runner-ups because they view this as a highly valid work sample test. As Vladimir Novakovski, vice president for engineering at Addepar, a software provider in the investment industry notes, “Every time I hire someone who is good in these contexts, they have crushed the job. They tend to be fast, accurate, and into getting things done.”¹⁶ If there is any problem with this source of recruits, it is that some of the competitors are so good and make so much money in the contests, they have no interest in applying for a full-time job.¹⁷

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The ability to use content validation in small-sample settings makes it generally more applicable than criterion-related validation. However, content validation has two limitations. First, one assumption behind content validation is that the person who is to be hired must have the knowledge, skills, or abilities at the time of hire. Second, because subjective judgment plays such a large role in content validation, it is critical to minimize the amount of inference involved on the part of judges. Thus, the judges’ ratings need to be made with respect to relatively concrete and observable behaviors.

Generalizability

Validity answers the question, is this measure a true predictor of future performance in one specific context with one specific sample? Our next question, deals with generalizability, which is defined as the degree to which a predictor that is valid in one context and sample will be valid in different contexts and samples. Thus, one might ask, do the behaviors that predict success for men differ from the behaviors that predict success for women? Indeed, as the [Integrity in Action](#) box shows, often the behaviors may be the same, but the reaction to those behaviors may differ.

As another example, it was once believed that validity coefficients were situationally specific—that is, the level of correlation between test and performance varied as one went from one organization to another, even though the jobs studied seemed to be identical. Subsequent research has indicated that this is largely false.

Rather, tests tend to show similar levels of correlation even across jobs that are only somewhat similar (at least for tests of intelligence and cognitive ability). Correlations with these kinds of tests change as one goes across widely different kinds of jobs, however. Specifically, the more complex the job, the higher the validity of many tests. It was also believed that tests showed differential subgroup validity, which meant that the validity coefficient for any test–job performance pair was different for people of different races or genders. This belief was also refuted by subsequent research, and, in general, one finds very similar levels of correlations across different groups of people.¹⁸

Because the evidence suggests that test validity often extends across situations and subgroups, *validity generalization* stands as an alternative for validating selection methods for companies that cannot employ criterion-related or content validation. Validity generalization is a three-step process. First, the company provides evidence from previous criterion-related validity studies conducted in other situations that shows that a specific test (such as a test of emotional stability) is a valid predictor for a specific job (like nurse at a large hospital). Second,

the company provides evidence from a job analysis to document that the job it is trying to fill (nurse at a small hospital) is similar to the job already validated elsewhere (nurse at a large hospital). Finally, if the company can show that it uses a test that is the same as or similar to that used in the validated setting, then one can “generalize” the validity from the first context (large hospital) to the new context (small hospital).

Utility

LO 6-2

Discuss how the particular characteristics of a job, an organization, or an applicant affect the utility of any test.

[Utility](#) is the degree to which the information provided by selection methods enhances the bottom-line effectiveness of the organization. Just as validity is a necessary but not sufficient condition for generalizability, generalizability is necessary but insufficient for our next standard: utility. In general, the more reliable, valid, and generalizable the selection method is, the more utility it will have. However, many characteristics of particular selection contexts enhance or detract from the usefulness of given selection methods, even when reliability, validity, and generalizability are held constant.

[Utility](#)

The degree to which the information provided by selection methods enhances the effectiveness of selecting personnel in real organizations.

[Figures 6.4a](#) and [6.4b](#), for example, show two different scenarios where the correlation between a measure of extroversion and the amount of sales revenue generated by a sample of sales representatives is the same for two different companies: Company page 246A and Company B. Although the correlation between the measure of extroversion and sales is the same, Company B derives much more utility or practical benefit from the measure. That is, as indicated by the arrows proceeding out of the boxes (which indicate the people selected), the average sales revenue of the three people selected by Company B ([Figure 6.4b](#)) is \$850,000, compared to \$780,000 from the three people selected by Company A ([Figure 6.4a](#)).

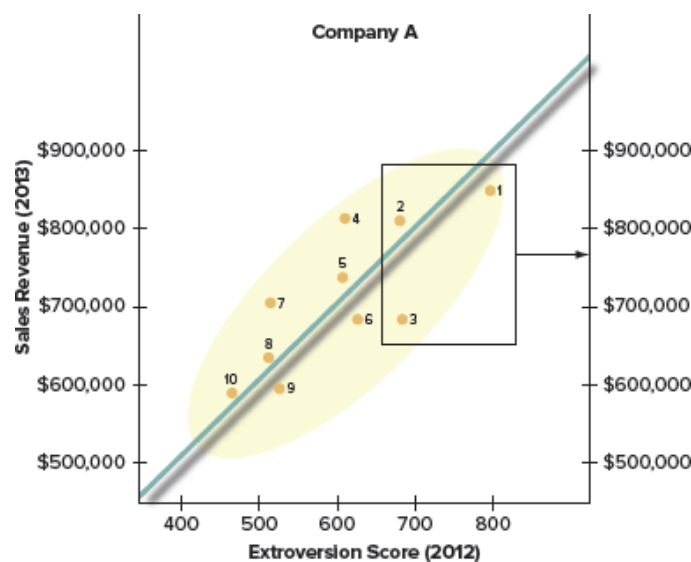


Figure 6.4a Utility of Selecting on Extroversion Scores When Selection Ratio Is High

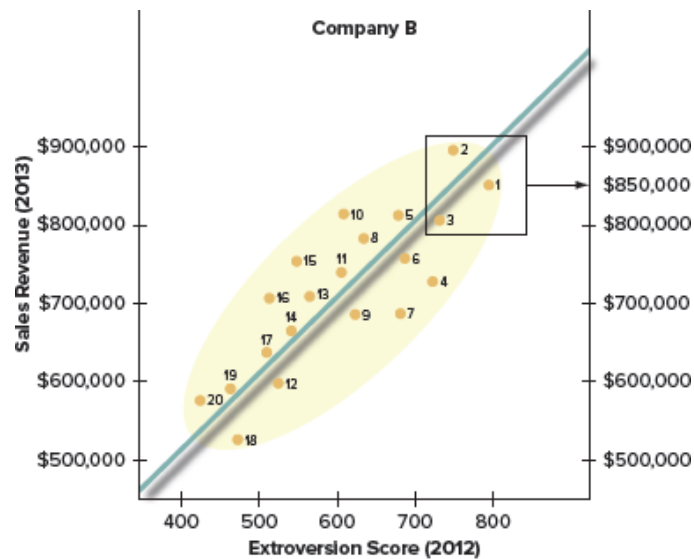


Figure 6.4b Utility of Selecting on Extroversion Scores When Selection Ratio Is Low



INTEGRITY IN ACTION

CEO Selection: Why a Woman Couldn't Be More Like a Man

In 2020, women outnumbered men in the American workforce by a very slight, but still historic, 50.04% to 49.94%. This numerical advantage in the workforce is slowly “trickling up” to the top ranks of organizations. Specifically, the number of female CEOs in the United States’ top 3,000 companies has more than doubled in the last ten years. The doubling of the number of female CEOs has focused attention to these new leaders and many have speculated on how this new wrinkle in the CEO selection process might change the nature of work in contemporary organizations.

For example, some proposed that there were fundamental differences between men and women when it came to leadership positions, suggesting that women are likely to show more integrity and care when it comes to managing their employees. In general, however, when one looks at the history of scientific evidence on gender differences across a host of domains, the absolute levels of difference between the genders is often small, and the size of these differences is overwhelmed by the powerful demands of the situation that drive most people, regardless of their individual differences, toward engaging in the exact same behavior.

Indeed, recent experience seems to suggest that when it comes to ethical and caring leadership behavior, companies run by women often experience many of the same problems that are generally attributed to male leadership. For example, at ThirdLove, the high-end bra retailer run by a female CEO, female employees complained about being bullied and told to never try to negotiate salaries. Women at the online retailer NastyGirl, also led by a female CEO, filed a lawsuit charging that the company mistreated pregnant employees when it came to the guarantees mandated by the Family and Medical Care Leave Act. Stephanie Korey, the CEO of the luggage retailer Away, stepped down from her post after widespread allegations that she oversaw what employees called a “toxic work culture.”

In all of these cases, the story played out in a way that would be familiar to male leaders, except perhaps the ending. It started with a founder who raised a great deal of start-up money. This is great, but it also came along with strong expectations for ever expanding growth and profitability. When these ever expanding expectations hit a ceiling, all CEOs look to cut back on expenses and push the employees to work harder. Then, perhaps fueled by the belief that things were going to be different with a female CEO, this creates a backlash among the staff that might have not been targeted at a male CEO, who might not be subject to the same expectations. Indeed, the small

relative difference when it comes to leadership behaviors exhibited by male or female leaders may be overshadowed by the larger difference in gender stereotypes that people have for men versus women, in general. All of which suggests that leadership is often more about the followers and the situation, and these two forces are more powerful than the traits of the leader.

DISCUSSION QUESTIONS

The idea behind personnel selection practices is that individual differences are important when it comes to how a job is executed, but in what ways are there constraints imposed by certain jobs like CEO that limit the expression of individual differences?

If the constraints associated with some job actually limit the degree to which people can express their own individual differences, and in the face of such behavioral similarity, how do the stereotypes and expectations associated with gender affect how followers might react differently to male versus female CEOs?

SOURCES: V. Furhman, "There Are More Female CEOs than Ever, and Many of Them Are in Retail," *The Wall Street Journal Online*, November 25, 2020; K. Lanaj and J. R. Hollenbeck, "Leadership Over-emergence in Self-managing Teams: The Role of Gender and Countervailing Biases," *Academy of Management Journal* 58 (2015), pp. 1476–94; R. Greenfield, "The Problem with Female CEOs Isn't That They are Female, It's That They Are CEOs," *Bloomberg Businessweek*, December 16, 2019; J. C. Williams, "How Women Can Escape the Likability Trap," *The New York Times Online*, August 16, 2019.

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The major difference between these two companies is that Company B generated twice as many applicants as Company A. This means that the selection ratio (the percentage of people selected relative to the total number of people tested) is quite low for Company B (3/20) relative to Company A (3/10). Thus, the people selected by Company B have higher amounts of extroversion than those selected by Company A; therefore, Company B takes better advantage of the relationship between extroversion and sales. Thus, the utility of any test generally increases as the selection ratio decreases, as long as the additional costs of recruiting and testing are not excessive.

The utility of a test also depends upon the distribution of the trait or the performance metric. Most individual differences take on the form of a *normal distribution*. In other words, most people are in the middle, followed by a smaller group of people who are a little bit above or below the mean, followed by an even smaller group of outliers far above and below the mean. This belief in the normal distribution has traditionally been extended to people's beliefs about job performance, even though little evidence has been collected to test this belief.

However, a study examining over 600,000 entertainers, politicians, amateur athletes, professional athletes, and scientists has challenged this idea and instead suggests that job performance follows a *power law distribution*. [Figure 6.5](#) shows how a distribution that follows a power law differs dramatically from a normal distribution, in the sense that there are few high performers and a large group of potentially poor performers.¹⁹

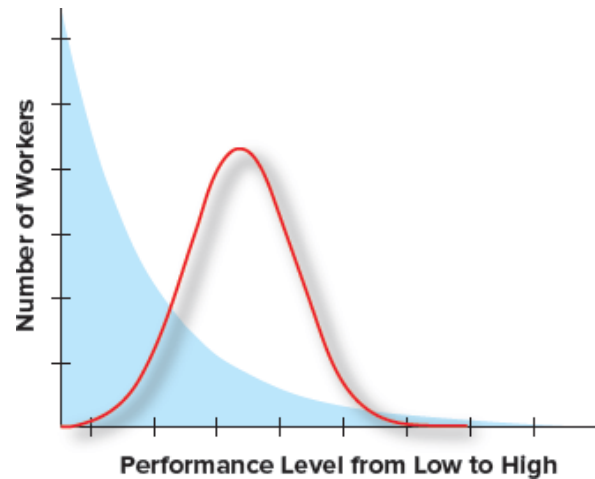


Figure 6.5 Comparing a Normal Distribution (Red Curve) to a Power Law (Blue Shading)

The implication of these findings for utility analysis is important because it implies that the dollar value of a “highly productive worker” (e.g., someone who is one standard deviation above the mean) and an “average worker” (e.g., at the mean) is much greater than one would expect if the distribution were normal. As an example, a scientist with the “average” publication rate is much, much closer to the bottom of the performance distribution than he or she is to the top. These findings also suggest that the use of dichotomous, success versus failure criteria (e.g., above or below the median or some arbitrary cut-off score) for evaluating performance may far underestimate the huge difference among people, all of whom might be above the mean. Thus, any type of minimum competency cut-off used to score success vastly underestimates the utility of a valid predictor. Overall, a test has much more utility when it predicts performance that is distributed as a power law.²⁰

Legality

LO 6-3

Describe the government’s role in personnel selection decisions, particularly in the areas of constitutional law, federal laws, executive orders, and judicial precedent.

The final standard to which any selection method should adhere is *legality*. All selection methods should conform to existing laws and existing legal precedents.

Employers who are taken to court for illegal discrimination experience high costs associated with litigation, settlements, and awards, and also suffer potential damage to their social reputations as good employers, making recruitment and growth more difficult. Although these have always been concerns, the evidence suggests that issues such as this are increasingly salient, especially to younger workers, who are moving the bar when it comes to what they are willing to tolerate without taking action.

According to a recent Harris poll, workers aged 18 to 34 were almost twice as likely to have reported witnessing or experiencing some form of discrimination relative to workers over 55. Surveys of HR managers suggest that this group has seen an increase of discrimination suits of over 35% in the last few years and the source of most of those complaints were young workers who have grown up to expect a higher standard when it comes to the actions of authority figures. Lauren Romansky, an HR consultant for Gartner Inc., notes that “among older workers, there is a tolerance for mistakes. There’s a notion that ‘you didn’t know you said this thing. Please stop doing that’ and people move on. Many younger workers feel no need to explain why they think something was inappropriate and go straight to HR or a lawyer.”²¹ With this in mind, in the following sections, we review the major laws that cover personnel selection and promotion decisions that might serve as a basis for such a complaint.

Federal Legislation

Three federal laws form the basis for a majority of the suits filed by job applicants: the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, and the Americans with Disabilities Act of 1990 (all discussed in [Chapter 3](#)).

Civil Rights Act of 1991. An extension of the Civil Rights Act of 1964, the Civil Rights Act of 1991 protects individuals from discrimination based on race, color, sex, religion, and national origin with respect to hiring as well as compensation and working conditions.

This act defines employers' explicit obligation to establish the business necessity of any neutral-appearing selection method that has had adverse impact on groups specified by the law via the "shifting burden of proof model" we discussed in [Chapter 3](#). This is typically done by showing that a test that has adverse impact has significant criterion-related or content validity. If the employer cannot show such a difference, then the process may be ruled illegal.

For example, in the banking industry, a class action suit was filed against Goldman Sachs, accusing the firm of discriminating against women. This is a tough industry for female employees; no woman has ever run a major New York bank, and less than 20% of executive and senior managers at Citigroup, JPMorgan Chase, and Goldman Sachs are women.²² In the case against Goldman, Christina Chen-Oster and her legal team were able to document how the percentage of women at each transition level (e.g., from regional director to vice president, and then vice president to managing director) got smaller and smaller.²³ This is the kind of evidence that "shifts the burden of proof" to the employer (i.e., Goldman Sachs), to prove that these promotion decisions were based on a business necessity.

The Civil Rights Act of 1991 allows the individual filing the complaint to have a jury decide whether he or she may recover punitive damages (in addition to lost wages and benefits) for emotional injuries caused by the discrimination. This can generate large financial settlements as well as poor public relations that can hinder the organization's ability to compete.

Finally, the 1991 act explicitly prohibits the granting of preferential treatment to underrepresented ethnic and racial groups. Preferential treatment is often attractive because many of the most valid methods for screening people, especially cognitive ability tests and work sample tests, often are high in adverse impact.²⁴ For example, although software coding sport competitions help organizations uncover talented programmers, almost all of the tournament champions tend to be white males. Thus, there is somewhat of a trade-off in terms of selecting the highest scorers on validated tests, on the one hand, and creating diversity in the workforce, on the other hand.²⁵

One potential way to "have your cake and eat it too" is to simply rank the scores of different racial or gender groups within their own groups, and then take perhaps the top 10% of scorers from each group, instead of the top 10% that would be obtained if one ignored race or gender. Many observers feel that this practice is justified because it levels the playing field in a context where bias works against African Americans. However, the 1991 act specifically outlaws this practice (sometimes referred to as *race norming*). Some believe that race norming is just reverse discrimination and gives preferential treatment—rather than equal treatment—to underrepresented racial groups, and thus this practice has been challenged in court.

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Two specific Supreme Court cases show that policies that may be construed as promoting preferential treatment will not stand up in court. In the first case, voters in the state of Michigan backed an initiative that made it illegal to engage in affirmative action for underrepresented ethnic and racial groups when it came to admissions to Michigan colleges. Because the majority of voters in this state were white, this initiative was challenged because of legal precedents that protect from being underrepresented ethnic and racial groups targeted for unfair treatment through

the political process. That is, taken to an extreme, if a majority of members of a state were white, it would not be permissible for them to support a ballot initiative that would prevent underrepresented ethnic and racial groups from attending college at all, since doing so would be patently unfair. The challenge to the Michigan initiative claimed that its effect was close to this extreme, but the challenge was struck down by the Supreme Court, which decided that the electorate was acting within its rights.²⁶ The Court did not necessarily say that affirmative action was illegal in this case, but rather that it was fair for the general electorate to impose its will this way, which leaves colleges that are trying to promote diversity scrambling for other alternatives, one of which was adopted at the University of Texas.²⁷

The Supreme Court case that involved the University of Texas illustrates how difficult it can be to achieve diversity goals while still upholding merit-based selection and avoiding perceptions of reverse discrimination. Specifically, in order to increase the percentage of African American and Hispanic students in the UT system, the school made it a policy to accept the top 10% of the graduating class of every high school. Because many high schools in Texas tend to be segregated by race and ethnicity, this policy worked somewhat like race norming in ensuring that members of every group found their way into college, but it was not explicitly race norming.²⁸

To push the diversity gains even further, though, the admissions officers at UT noted that many African American students in affluent suburban schools often were rejected for admission, even though they had higher test scores than African American students from urban schools. When the school tried to reach out and accept those students, however, this policy was challenged. In 2016, a divided Supreme Court upheld the legality of the UT affirmative action program. Writing for the 4–3 majority, Justice Anthony Kennedy stated that “the university is entitled considerable deference in defining the type of institution it wished to be, including intangible characteristics, such as student body diversity that might be central to the university’s identity and educational mission.”²⁹

This same 10% rule applied at the University of Texas was also used at University of North Carolina (UNC) in their selection process, but only for in-state residents. UNC used more direct adjustments for out-of-state students in order to redress under-representation more heavily, a practice that was also legally challenged. Although it is too soon to tell how this specific adjustment to the 10% rule will be treated by the U.S. Supreme Court, it does show how fluid and active this area of the law is and why HR professionals need to watch this closely.³⁰

Rather than employing race norming, employers can partially achieve both goals of maximizing predicted future performance and diversity in several ways. First, aggressive recruiting of members of protected groups allows an employer to generate a larger pool of protected group members, and, by being highly selective within this larger group, the scores of admitted applicants will more closely match those of all the other groups.³¹ Second, as we will see later in this chapter, different selection methods have different degrees of adverse impact, and multistage selection batteries that use different methods at different stages can also help.³²

Finally, one common approach that does not seem to work is to abandon the kinds of compliance-driven, evidenced-based workforce utilization reviews discussed in [Chapter 5](#), in favor of softer, “inclusion” initiatives that express the generic value of diversity but fail to document goals and timetables statistically. The simple truth is page 251 that the best predictors of whether a firm becomes truly diverse and avoids litigation is whether (1) there is a specific person (e.g., a diversity compliance officer) whose sole job is to monitor hiring statistics, (2) this person has the power to change hiring practices, and (3) this person is held strictly accountable in his or her own performance appraisal for achieving quantifiable results.³³

Age Discrimination in Employment Act of 1967. The Age Discrimination in Employment Act mirrors the Civil Rights Act, in that if any neutral-appearing practice happens to have adverse impact on those over age 40, then the burden of proof shifts to the employer, who must show business necessity to avoid a guilty verdict. This act outlaws almost all “mandatory retirement” programs (company policies that dictate that everyone who reaches a set age must retire).

An example of age discrimination can be seen in a case involving the Texas Roadhouse restaurant. Whereas 20% of servers nationally are over the age of 40, this was true for less than 2% of Texas Roadhouse employees. The

suit was brought by a 40-year-old woman who applied for a job at a Texas Roadhouse restaurant in Palm Bay, Florida, and was told there were no openings. A few days later, she learned that one of her daughter's friends interviewed after she did and got a job offer. Despite this incident and the larger data on underutilization, the chain defended its action by stating that it needed younger workers to reflect its brand image and attract more customers.³⁴ This appeal to brand image and customer preference has a long history as a "business necessity" defense, but it rarely seems to prevail in court, and Texas Roadhouse eventually had to pay \$12 million to settle the suit.³⁵

In a similar example, United Airlines was sued by older flight attendants who charged the airline violated seniority rules and the ADA when it gave lucrative and prestigious assignments on chartered flights primarily to young, white, blond-haired, blue-eyed, female employees. Specifically, United had contracts to provide air travel for forty teams in the National Football League, Major League Baseball, and National Collegiate Athletic Association, and attendants who work those flights earn more, are provided with premium accommodations, and often get tickets to games. According to the lawsuit, older employees were passed over for these assignments in a way that violated the Age Discrimination Act.³⁶

Americans with Disabilities Act (ADA) of 1990. The ADA protects individuals with physical and mental disabilities (or with a history of the same), and requires that employers make "reasonable accommodation" to individuals whose disabilities may prevent them from performing essential functions of the job as currently designed. "Reasonable accommodation" could include restructuring jobs, modifying work schedules, making facilities accessible, providing readers, or modifying equipment. The ADA does not require an organization to hire someone whose disability prevents him or her from performing either critical or routine aspects of the job, nor does it require accommodations that would cause "undue hardship."

Over 2 million workers have some form of disability covered by this act, but only 31% of this group has jobs, which is why they have been identified as a protected group. As we noted earlier, younger workers seem more sensitive to all forms of perceived discrimination and nowhere is this difference more noticeable than with the ADA. The timing of the act, historically, meant that this generation either benefited from or witnessed many different forms of accommodation being made in the schools they attended. They fully expect to see this reflected at work.³⁷

For the most part, employers have made significant inroads when it comes to some of the more obvious and visible types of disabilities. However, when it comes to "invisible" disabilities such as those dealing with learning disabilities, attention deficit disorder, lupus or certain psychiatric diagnoses, many workers with disabilities find that employers are skeptical of their claims and not always accommodating. Some people aggressively assert their rights in these cases but not all.³⁸

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There is some degree of political pressure to increase the hiring of people with disabilities, and the Department of Labor issued new rules aimed at government contractors that decreed they should set a goal of having 7% of their workforce be composed of people with disabilities. Thus, if you are applying for a job with a government contractor, you need to check a box that asks whether or not you have a disability. The ruling was controversial because many people with disabilities, especially those with nonobvious physical impairments or mental impairments, are unlikely to check that box. This means that some employers may be meeting the goal but are not able to show it because of applicants' reluctance to check the box.³⁹

Types of Selection Methods

LO 6-4

List the common methods used in selecting human resources.

In the first half of this chapter, we laid out the five standards by which to judge selection measures. In this half of the chapter, we examine the common selection methods used in various organizations and discuss their advantages and disadvantages in terms of these standards.

Interviews

LO 6-5

Describe the degree to which each of the common methods used in selecting human resources meets the demands of reliability, validity, generalizability, utility, and legality.

A selection interview is a dialogue initiated by one or more persons to gather information and evaluate the qualifications of an applicant for employment. The selection interview is the most widespread selection method employed in organizations, and there have been literally hundreds of studies examining their effectiveness.⁴⁰

Unfortunately, the long history of research on the employment interview suggests that, without proper care, it can be unreliable, low in validity, and biased against a number of different groups. Moreover, interviews are relatively costly because they require at least one person to interview another person, and these people are often in different locations. Finally, in terms of legality, the subjectivity embodied in the process, as well as the opportunity for unconscious bias effects, often makes applicants upset, particularly if they fail to get a job after being asked apparently irrelevant questions. In the end, subjective selection methods like the interview must be validated by traditional criterion-related or content-validation procedures if they show any degree of adverse impact.



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“It’s really about understanding whether or not they’ll fit into an organization. Things like behavioral interviews are really important.”

—Jim Duffy, Executive Vice President and Chief Human Resources Officer, CIT Group, Inc.

Video Produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Filmworks

The first step in the interview process starts when you decide who you should even be talking to in the first place. That is, when it comes to being in a good position to make a choice, one needs to interview a wide variety of people from different backgrounds. Left to their own devices, people often look for people who fit the same mold of people they have hired before, often people who look like themselves and have had similar experiences. This artificially reduces the range in one's choices and may reinforce existing under-representation when it comes to minorities.

For example, the National Football League felt that this was such a large problem that they initiated the “Rooney Rule” (named after former Commissioner Art Rooney) that required every single team that was looking for a new coach to interview at least one qualified Black applicant.⁴¹ Seeing this action, several large banks, including JPMorgan, Bank of America, Citigroup, Wells Fargo, and Bancorp adopted this rule themselves in order to address their own issues related to diversity and inclusion.⁴²

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After taking this first his step, HR staff should keep the interview structured, standardized, and focused on accomplishing a small number of goals. That is, they should plan to come out of each interview with quantitative ratings on a small number of dimensions that are observable (like interpersonal style or ability to express oneself) and avoid ratings of abilities that may be better measured by tests (like intelligence). In addition to coming out of the interview with quantitative ratings, interviewers should also have a structured note-taking system that will aid recall when it comes to justifying the ratings. The note-taking system needs to be highly detailed to the point where the interviewer who is taking the notes truly has to listen intently to what the candidate is saying and needs to note specific and unique follow-up questions that they asked based upon the candidate’s first answer.⁴³ Finally, overall judgments of applicants should be left until the very end of the process, because implicit, first impression biases often cloud initial interpersonal reactions.⁴⁴

Selection interviews should be focused totally on rating and ranking applicants, and even though it may be tempting to accomplish other goals like recruiting the candidate, this temptation needs to be resisted.⁴⁵ As we saw in [Chapter 5](#), recruitment interviews should be kept separate from selection interviews because these types of dual-purpose interviews tend to fail on both scores. Then, after a sufficient amount of time to obtain performance evaluation data, interviewers should get normative feedback on which of the employees that they selected performed well versus poorly so that they can learn from past experience.⁴⁶

When it comes to content, interviewers should avoid asking Brainteasers or questions that are not obviously related to performance in the specific job in question. Questions that are not job-related show very low predictive validity and annoy interviewees in a manner that may leave them frustrated and litigious if they fail to get the job.⁴⁷ Instead, the content of the questions should deal with specific situations and actual challenges that are likely to arise on the job. This way, one can learn in advance how the person is likely to do deal with those situations in the future. These types of [situational interview](#) items have been shown to have high predictive validity.⁴⁸ Situational judgment items come in two varieties, as shown in [Table 6.2](#).

[Situational interview](#)

An interview procedure where applicants are confronted with specific issues, questions, or problems that are likely to arise on the job.

Table 6.2 Examples of Experience-Based and Future-Oriented Situational Interview Items

Experience-based	
Motivating employees	“Think about an instance when you had to motivate an employee to perform a task that he or she disliked but that you needed to have done. How did you handle that situation?”
Resolving conflict	“What was the biggest difference of opinion you ever had with a co-worker? How did you resolve that situation?”

Overcoming resistance to change	“What was the hardest change you ever had to bring about in a past job, and what did you do to get the people around you to change their thoughts or behaviors?”
Future-oriented	
Motivating employees	“Suppose you were working with an employee who you knew greatly disliked performing a particular task. You needed to get this task completed, however, and this person was the only one available to do it. What would you do to motivate that person?”
Resolving conflict	“Imagine that you and a co-worker disagree about the best way to handle an absenteeism problem with another member of your team. How would you resolve that situation?”
Overcoming resistance to change	“Suppose you had an idea for a change in work procedures that would enhance quality, but some members of your work group were hesitant to make the change. What would you do in that situation?”

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Some items are “experience-based” and require the applicant to reveal an experience he or she had in the past when confronting the situation. So, for example, both Amazon and Google were recruiting thousands of experienced software engineers for their new headquarters, but the experience they were looking for differed. In interviews, Amazon was looking for software engineers that had experience in coding languages like C+ and Java, whereas Google needed people with experience in Linus and Python.⁴⁹

In contrast, some items are “future oriented.” That is, although the idea that asking one about past experience would seem obvious, unlike Amazon and Google, companies like Intel and Github care more about the applicant’s potential future rather than the past. These companies are willing to hire self-taught programmers or programmers that attended coding boot camps, even if they have never practiced those skills on a real job.⁵⁰ Organizations that employ future-oriented items tend to emphasize on-the-job training specifically focused on their own needs rather than years of past experience meeting some other employers’ needs.



When more than one person is able to interview a candidate for a position, there is significant advantage in removing any errors or biases that a single individual might make in choosing the correct person for the job. In today's technological world, it is becoming easier for multiple people to give their input in an interview by watching a video recording or listening via conference call if they cannot be there in person.

Digital Vision/Getty Images

These examples show the competitive dynamics associated with HR activities, in the sense that one can compete by emphasizing experience, paying higher wages, and having reduced training needs, or on the other hand, compete by deemphasizing experience, paying lower wages, but increasing training budgets and socialization expenses. This is critical because as we noted earlier, due to recent labor shortage, more companies are moving to a "no experience necessary" model.

In fact, between 2012 and 2017, the percentage of employers who required three years' experience dropped from 30% to 20%, a move that opens up employment opportunities for 1.2 million people. Companies with a "no experience necessary" policy need to have interviewers who are skilled at recognizing an applicant's potential for growth and fit with the company's culture. As Greg Pryor, the vice president of HR at Workday Inc., notes, "This puts a huge responsibility on the company because the burden of proof moves from the candidate to the interviewer."⁵¹ Indeed, perhaps for this reason, research suggests that although both types of items can show validity, experience-based items often outperform future-oriented ones.⁵²

It is also important to use multiple interviewers who are trained to avoid many of the subjective errors that can result when one human being is asked to rate another. These decisions are important to the whole company and should not be left to any one single person. Indeed, many have suggested that one of the major causes of the large number of sexual harassment claims registered in the field of security brokerage is that the broker, who is usually male, makes hiring and compensation decisions regarding female administrative assistants by himself with no input from the firm's HR staff. These individual brokers, however, are not sole proprietors, but rather employees themselves, so this practice is being curtailed at many of the largest companies.⁵³

Many companies find that a good way to get "multiple eyes" on an applicant is to conduct digitally taped interviews, and then send the digitized files (rather than the applicants) around from place to place. This is another type of practice that was trending in this way already before the COVID pandemic made it a requirement, and now most HR professionals believe this practice is here to stay.⁵⁴

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References, Application Blanks, and Background Checks

Nearly all employers use some method for getting background information on applicants before an interview. This information can be solicited from the people who know the candidate through reference checks. The evidence on the reliability and validity of reference checks suggests that these are, at best, weak predictors of future success on the job. The main reason for this low validity is that the evaluations supplied in most reference letters are so positive that it is hard to differentiate applicants. This problem with reference letters has two causes. First, applicants usually get to choose who writes the letter and can thus choose only those writers who think the highest of their abilities. Second, because letter writers can never be sure who will read the letters, they may justifiably fear that supplying damaging information about someone could come back to haunt them. Thus, it is clearly not in the past employers' interest to reveal too much information beyond job title and years of service.

Another problem with reference checks is that applicants do not always tell the truth when it comes to listing their references. In fact, 30% of the companies that check references find false or misleading references on applications. Michael Erwin, a career advisor at CareerBuilder, notes, "For some reason, people think companies aren't going to

check their references and therefore they think they can get away with all sorts of fabrications.” In reality, 80% of companies do in fact check references prior to offering someone an interview or prior to making an offer.⁵⁵

In addition to outside references, employers can also collect background information from the applicants themselves. The low cost of obtaining such information significantly enhances its utility, especially when the information is used in conjunction with a well-designed, follow-up interview that complements, rather than duplicates, the biographical information bank.

One of the most important elements of biographical information deals with educational background. Indeed, providing background information on one's education is probably one of the few things that a written resume is still good for in this day and age. In some cases, employers are looking for specialized educational backgrounds reflected in functional degrees such as business or nursing or engineering, but in other cases, employers are just looking for critical-thinking and problem-solving skills that might be associated with any college degree.⁵⁶

The skills taught in specific majors may be highly relevant for the job, but ironically, GPA does not seem to be a strong predictor of future job performance. Part of this is due to range restriction caused by grade inflation, where in some graduate programs, students rarely get anything lower than a B, and thus, there is not a wide range to choose from using this metric. Second, GPA is highly confounded with the classes one took, and students who arguably do the right thing and stretch themselves by taking difficult classes or classes where their current skills are weak, fare worse than students who do the opposite.⁵⁷

This focus on education is attributed to the nature of the economy, which increasingly demands people with high levels of education. Indeed, it is ironic that despite relatively high levels of employment, many employers find it impossible to find people with the skills they need.⁵⁸ The term *education gap* has been coined to capture the difference between the average years of education required in a job listing in a given area, and the average years of education in that same area. For the nation as a whole, the education gap runs at about 5%, but in some cities, like Las Vegas, the gap exceeds 10%. Areas that have larger education gaps experience much higher rates of unemployment and are usually the last to show signs of job recovery during an economic expansion.⁵⁹

Again, as with the interview, the biggest concern with the use of biographical data is that applicants who supply the information may be motivated to misrepresent themselves. Some research suggests that over 80% of job applications contain some misleading or false information; so again, hiring sight unseen is a very risky proposition. One irony in applicants trying to inflate their resumes is that many employers often page 256consider someone being overqualified as being as bad as someone who is underqualified. One particular place this comes into play is when people reference their prior level of pay. Research suggests that when the job in question pays 25% less than the one a person claims they had in the past, this is often a “knockout factor” in the hiring process. The employer assumes that such a person will not accept the offer or leave the job as quickly as possible and then search for someone else.⁶⁰

To prevent embarrassing episodes, many employers hire outside companies to do background checks on employees. Because of the tendency for people, or their references, to overpresent, many employers use outside background checks to verify information. This is especially true when the job in question is at a high level or deals with sensitive information or is related to public safety.⁶¹ One exception to this seems to be “gig” workers like those involved in ride-sharing companies or food delivery services. Transit officials and taxi companies warn that the drivers lacked professional certification and were not subjected to background checks.

However, companies like Uber and Lyft argue that they are primarily technology companies, not transportation companies, and should not be forced into the burdensome requirements of background checks. This is despite widespread evidence that many drivers do have criminal records and that in one year alone there were thousands of sexual assault charges against their drivers.⁶² The same is true of companies like Airbnb where guests have been subject to theft and voyeuristic hosts using cameras to watch and record their every move.⁶³ Still, despite this, the company does not engage in the use of background checks. Clearly, as the [Competing through Environmental, Social, and Governance Practices](#) box shows, although having a criminal record should not

mean a person is unemployable forever, employers would be wise to do their due diligence when hiring someone with a criminal past.

Physical Ability Tests

Although automation and other advances in technology have eliminated or modified many physically demanding occupational tasks, many jobs still require certain physical abilities or psychomotor abilities.⁶⁴ In these cases, tests of physical abilities may be relevant not only to predicting performance but also to predicting occupational injuries and disabilities.⁶⁵ There are seven classes of tests in this area: ones that evaluate (1) muscular tension, (2) muscular power, (3) muscular endurance, (4) cardiovascular endurance, (5) flexibility, (6) balance, and (7) coordination.⁶⁶

The criterion-related validities for these kinds of tests for certain jobs, such as fire-fighting, are quite strong.⁶⁷ Unfortunately, these tests, particularly the strength tests, are likely to have an adverse impact on some applicants with disabilities and many female applicants. For example, roughly two-thirds of all males score higher than the highest-scoring female on muscular tension tests.⁶⁸ This difference between the genders in physical strength was once used to legally bar women from certain jobs in the military; however, this is no longer the case, and all jobs within the U.S. military were opened up to women in 2015.⁶⁹ Part of the reason for this was a growing recognition that many mistakes or incidents that occur in modern military contexts stem more from decision-making errors than lack of strength, and as the [Evidence-Based HR](#) box shows, gender diversity promotes effective decision making.⁷⁰

There are two key questions to ask in deciding whether to use these kinds of tests. First, is the physical ability essential to performing the job, and is it mentioned prominently enough in the job description? Neither the Civil Rights Act nor the ADA requires employers to hire individuals who cannot perform essential job functions, and both accept a written job description as evidence of the essential functions of the job. Second, is there a probability that failure to adequately perform the job would result in some risk to the safety or health of the applicant, co-workers, or clients? The “direct threat” clause of the ADA makes it clear that adverse impact against those with disabilities is warranted under such conditions.

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COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Is It Ever Safe to Hire a Former Convicted Criminal?

According to the Society of Human Resource Management (SHRM), over 75 million Americans have criminal records, and in any given year, over 700,000 individuals are released from prison. When all of these people are done serving time, most will come looking for a job. At the larger societal level, this begs the question: Can we sustain a society where such a large number of people are considered unemployable? The high cost of incarceration and the high rates of recidivism create a burden on society that needs to be lifted. But this also begs another question: Should you as an employer ever hire someone with a criminal record? That is, are you the one who should be lifting this burden?

In some cases, the answer is always going to be no. For example, for some jobs, such as those where someone is handling large sums of money, serving time for larceny or embezzlement means that the answer is always no. It also depends on where the work is located. If the establishment is anywhere near a school, and an applicant served time for being a sex offender, the answer is always no. If someone has served time for assault and the job gives them the opportunity to enter someone else's home unsupervised, the answer is always no. Finally, for some

employers, because of their own risk aversion and wary attitudes toward former criminals, the answer should probably also be no, since the former inmate will never be given a fair shot on the job.

But under other conditions, the answer might be “maybe.” For example, if the job market is very tight and it would require a big boost in wages to attract people without a record, then perhaps there might be a chance to secure some pay advantage. Alternatively, if the nature of the job is unpleasant and perhaps is unattractive to many people, someone who has just spent time in prison may see the work in a different light. This combined with the knowledge that they may be discriminated against elsewhere (i.e., have limited options for quitting) may also solve a problem with steady turnover. Indeed, former criminals who survive the first six months on the job have been shown to be less likely to turn over. Finally, some employers, perhaps because of their own values or experiences, may see intrinsic worth in turning around a life that took a wrong turn and making a transformational difference in someone’s life. For these people, the answer might be maybe.

If you as an employer are leaning toward “maybe,” there are several things you should consider when making the decision to hire someone with a criminal past. First, recognize that if you are doing it for extrinsic reasons related to wages and turnover, these benefits can only be achieved by accruing other costs. There needs to be a system of checks in place to make sure this new employee sticks to his or her parole program or drug or alcohol treatment. There also needs to be a support system put in place to help make sure this person can secure housing or transportation or credit. All of this costs time and money, and has to be counted against wages and turnover rates. Finally, if you are thinking of going this route simply to be a Good Samaritan, remember that you also have to put policies in place to protect the interests of other workers, customers, and your organization when it comes to a “wrongful employment” charge. Still, if you can get to “yes” despite these challenges, the benefits of this decision can be lasting.

DISCUSSION QUESTIONS

If you were leaning toward “maybe” and considering hiring someone with a criminal record, what questions in an interview might you ask that you would not ask of others?

Do the other people in your organization who are likely to work side-by-side with this person have a right to know about the person’s past or is this an element of privacy that has to be protected?

SOURCES: J. Hyman, “A Pox on Ban the Box,” *Workforce*, December 2019; C. Brzozowski, “Criminal Past Less as a Predictor for Workplace Futures,” *Workforce*, 2019; S. McGregor, “From Prison Time to Overtime,” *Bloomberg Businessweek*, December 16, 2019, pp. 27-28; R. Simon, “The Company of Second Chances,” *The Wall Street Journal Online*, January 25, 2020.

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EVIDENCE-BASED HR

Although the research clearly suggests that diversity in team composition promotes effective decision making and problem solving, when is a token female’s voice incorporated into the actions of a traditionally male-dominated team, and to what ends? Using a sample of active-duty military men and women, one research team employed live observation techniques to study voice enactment in all-male teams versus female-token teams (i.e., teams with a token female member) throughout a series of complex and physically demanding tasks at the Camp Lejeune Marine Corps base.

The findings revealed that (a) token female voice enactment was higher when team leaders possessed more favorable beliefs about women’s capabilities in the military, and (b) token female voice enactment enhanced team performance in more complex tasks but harmed team performance in less complex tasks. Additionally,

female-token teams were more reflective before engaging in action relative to all-male teams, as the latter tended to engage in agentic, “action-first” strategies. Thus, this research suggests that the liabilities of women when it comes to physical strength are more than made up by the virtues they bring to problem solving on complex tasks.

SOURCE: C. I. C. Farh, J. Oh, J. R. Hollenbeck, A. Yu, S. M. Lee, and D. D. King, “Token Female Voice Enactment in Traditionally Male-Dominated Teams: Facilitating Conditions and Consequences for Performance,” *Academy of Management Journal* 63 (2020), pp. 832–56.

Invoking this clause can sometimes cause controversy, as in 2014, when United Parcel Service (UPS) cited this clause to support the decision to fire a pregnant worker because she could not lift packages weighing more than 20 pounds. UPS was sued, because it routinely made accommodations for injured employees, and the same woman who was fired for being pregnant would have been accommodated had she hurt her back at work. The company tried to argue that pregnant women were being treated the same way as men who were injured *outside* of work.⁷¹ UPS eventually settled out of court and eliminated this policy, probably as much for public relations reasons as for any other factor related to business necessity.⁷²

Cognitive Ability Tests

[Cognitive ability tests](#) differentiate individuals based on their mental rather than physical capacities. Cognitive ability has many different facets, although we will focus only on three dominant ones. [Verbal comprehension](#) refers to a person’s capacity to understand and use written and spoken language. [Quantitative ability](#) concerns the speed and accuracy with which one can solve arithmetic problems of all kinds. [Reasoning ability](#), a broader concept, refers to a person’s capacity to invent solutions to many diverse problems.

[Cognitive ability tests](#)

Tests that include three dimensions: verbal comprehension, quantitative ability, and reasoning ability.

[Verbal comprehension](#)

Refers to a person’s capacity to understand and use written and spoken language.

[Quantitative ability](#)

Refers to the speed and accuracy with which one can solve arithmetic problems of all kinds.

[Reasoning ability](#)

Refers to a person’s capacity to invent solutions to many diverse problems.

Some jobs require only one or two of these facets of cognitive ability. Under these conditions, maintaining the separation among the facets is appropriate. However, many jobs that are high in complexity require most, if not all, of the facets; hence, one general test is often as good as many tests of separate facets.⁷³ Highly reliable commercial tests measuring these kinds of abilities are widely available, and they are generally valid predictors of job performance in many different kinds of contexts, including widely different countries.⁷⁴ This can translate into high utility. For example, one study conducted in a sales context, showed that an employee with high cognitive ability generated annual revenue of over \$195,000, compared with \$159,000 for those with moderate cognitive ability and \$109,000 for those with low cognitive ability.⁷⁵ The validity of these kinds of tests is slightly related to the complexity of the job, however, in that one sees higher criterion-related validation for complex jobs than for simple jobs.

One of the major drawbacks to these tests is that they typically have adverse impact on some underrepresented ethnic and racial groups.⁷⁶ Indeed, the size of the differences is so large that some observers have advocated abandoning these types of tests for making decisions regarding who will be accepted for certain schools or jobs. This is somewhat ironic in that these standardized tests were originally designed to be anti-elitist and to help identify talented individuals who may not be high in socioeconomic status but were still very bright by objective standards. However, over time, the tests have become a major hurdle to many disadvantaged groups by restricting their college opportunities and thus are now perceived as elitist due to their adverse impact on minorities.⁷⁷

The notion of race norming, mentioned earlier, was born of the desire to use these high-utility tests in a manner that avoided adverse impact. Although race norming was made illegal by amendments to the Civil Rights Act, some people have advocated the use of banding both to achieve the benefits of testing and to minimize its adverse impact. The concept of *banding* suggests that similar groups of people whose scores differ by only a small amount all be treated as having the same score. Then, within any band, preferential treatment is given to minorities. Most observers feel preferential treatment of members of underrepresented ethnic and racial groups is acceptable when scores are tied, and banding simply broadens the definition of what constitutes a tied score. Like race norming, banding is controversial, especially if the bands are set too wide.⁷⁸

As with all the selection measures we have seen so far, a concern is that applicants may be tempted to cheat in order to score well on whatever instrument is used to make selection decisions. Cheating on tests is hardly a new phenomenon, but what is new is the degree to which the use of computerized testing and social networking has changed the nature and scope of cheating.⁷⁹ The term *question harvesting* has been coined to capture the process whereby test takers use advanced technology to download questions or capture images of questions with digital cameras or other devices while taking a test, and then transmit the content of the test wirelessly to people outside the testing facility, who then post the questions for future test takers.

Personality Inventories

Whereas ability tests attempt to categorize individuals relative to what they can do, personality measures tend to categorize individuals by what they are like. The number of firms employing personality tests as screens has ballooned over the years, from just 26% in 2000 to just under 60% in 2014.⁸⁰ Research suggests that there are five major dimensions of personality, known as the “Big Five”: (1) extroversion, (2) adjustment, (3) agreeableness, (4) conscientiousness, and (5) openness to experience. [Table 6.3](#) lists each of these with a corresponding list of adjectives that fit each dimension.

Although it is possible to find reliable, commercially available measures of each of these traits, the evidence for their validity and generalizability is mixed at best.⁸¹ page 260For example, conscientiousness, which captures the concepts of self-regulation and self-motivation, is one of the few factors that display any validity across a number of different job categories, and many real-world managers rate this as one of the most important characteristics they look for in employees. People who are high in conscientiousness tend to show very good self-control when pursuing work goals and are especially adept at overcoming challenges and obstacles, relative to people low in this trait.⁸²

Table 6.3 The Five Major Dimensions of Personality Inventories

Extroversion	Sociable, gregarious, assertive, talkative, expressive
Adjustment	Emotionally stable, nondepressed, secure, content

Agreeableness	Courteous, trusting, good-natured, tolerant, cooperative, forgiving
Conscientiousness	Dependable, organized, persevering, thorough, achievement-oriented
Openness to experience	Curious, imaginative, artistically sensitive, broad-minded, playful

Instead of showing strong direct and positive correlations with future performance across all jobs, the validity coefficients associated with personality measures tend to be job specific. For example, extroverts tend to excel in jobs like sales or politics because these jobs demand gregariousness and assertiveness, two of the central features shared by all extroverts. In contrast, introverts are better at studying and working in isolation, and hence they are best at jobs like accountant or research scientist because these jobs demand patience and vigilance.⁸³ Both extroverts and introverts can become effective leaders, although they achieve effectiveness in different ways. Extroverts tend to be top-down, autocratic and charismatic leaders who motivate followers by getting them emotionally engaged. In contrast, effective introverted leaders tend to be more bottom-up, participative leaders who listen to empowered employees and then engineer reward structures so that people are working toward their own self-interests.⁸⁴

One important element of staffing in team-based structures, however, relates to how the selection of one team member influences the requirements associated with other team members.⁸⁵ In some cases, organizations might try to select people who have similar values and personality traits in order to create a strong team culture. When there is a strong team culture, everyone shares the same views and traits, promoting harmony and cohesiveness.⁸⁶ In other cases, people putting together a team go out of their way to make sure that the people on the team have different values and personalities. The hope here is that a diversity of opinion promotes internal debate and creativity.⁸⁷ For example, at Pinterest, programming teams are put together one person at a time, and each new person added to the team is evaluated and selected based on some unique trait or perspective they might bring to the team that is not already there.⁸⁸

The concept of “emotional intelligence” is also important in team contexts and has been used to describe people who are especially effective in fluid and socially intensive contexts. Emotional intelligence is traditionally conceived of as having five aspects: (1) self-awareness (knowledge of one’s strengths and weaknesses), (2) self-regulation (the ability to keep disruptive emotions in check), (3) self-motivation (the ability to motivate oneself and persevere in the face of obstacles), (4) empathy (the ability to sense and read emotions in others), and (5) social skills (the ability to manage the emotions of other people).⁸⁹

Because it lies at the intersection of two separate domains, relative to standard measures of ability and personality, there has been considerable scrutiny regarding the construct of emotional intelligence. Critics have raised both theoretical and empirical questions about the construct itself. Theoretically, some critics have argued that the construct is overly broad and confuses aspects of perception, ability, and temperament that are best conceptualized as separate processes.⁹⁰ Empirically, the data seem to suggest that if one holds constant the scores on the variables captured by the five-factor model of personality and scores on tests of cognitive ability, there is little, if any, added predictive power attributable to emotional intelligence.⁹¹

Regardless of the nature of the context, the validity for almost all of the Big Five factors in terms of predicting job performance also seems to be higher when the scores are not obtained from the applicant but are instead taken from other people.⁹² The lower validity associated with self-reports of personality can be traced to three factors. First, people sometimes lack insight into what their own personalities are actually like (or how they are perceived by others), so their scores are inaccurate or unreliable.

Second, people's personalities sometimes vary across different contexts. Thus, someone may be very conscientious when it comes to social activities such as planning a family wedding or a fraternity party, but less conscientious when it comes to doing a paid job. Thus, contextualized measures that add the term "at work" to standard personality items often perform better as predictors than standard noncontextualized measures. On average, "contextualizing" measures on personality tests in this manner can boost their average validity coefficient from around 0.10 to 0.25.⁹³

A third factor that also limits the validity of personality items is that, unlike cognitive ability scores, applicants find it easier to fake traits by providing socially desirable responses to questions. That is, research suggests that when people fill out these inventories when applying for a job, their scores on conscientiousness and emotional stability are much higher relative to when they are just filling out the same questionnaires anonymously for research purposes.⁹⁴ Also, if people fail a personality test and then take the same test again in the future, their scores seem to increase dramatically.⁹⁵ All of this reinforces the idea that it is better to obtain this information from people other than the job applicant, and that it is better to use this information to reject low scorers but not necessarily hire all higher scorers on the basis of self-reports alone.

Finally, technologies are now being developed to create objective measures of traits from "digital traces" that people leave on the world. For example, software has been developed to track people's "likes and dislikes" on Facebook and then link these to the traits captured by the Big Five framework. Research shows that computer algorithms that process these data can generate an estimated score on the five traits that converges with self-reports better than what can be obtained from co-workers, friends, or even close relatives. In a different comprehensive study, researchers tracked the frequency of use, social interaction, and news consumption recorded on digital platforms for a sample of over 20,000 individuals across 20 countries. The findings showed that extroversion, agreeableness, and conscientiousness were all positively related to different types of social media use, whereas emotional stability and openness were negatively related to the same traces.⁹⁶

Work Samples

Experience doing the job before in a different location or organization is sometimes an overrated predictor of future success when a person is applying for a new job in a related area, and as we saw earlier, organizations are increasingly open to people with little or no experience for some job categories. Experience does seem to predict early success when it comes to adapting to the new role, but the value of this seems to weaken over time as less experienced people eventually catch up and draw even. Part of the difficulty trying to predict from experience is in knowing how close two jobs really are when performed in different locations or organizations and partly because it is hard to get an accurate estimate of how well people actually performed in their previous role.⁹⁷

Because of this, in many cases there is no real substitute for giving job applicants a work sample test where the degree to which they benefited from their experience or even need the experience can be directly observed. Work-sample tests attempt to simulate the job in a pre-hiring context to observe how applicants perform in the simulated job. For example, at Compose Inc., a cloud-based storage firm in California, all applicants are brought in on one day to work on "mock projects" that simulate the actual work. The identities of the applicants are kept secret, and those making the hiring decision make it based solely on the work produced without ever meeting the candidates personally or studying their resumes.⁹⁸

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The degree of fidelity in work samples can vary greatly. In some cases, applicants respond to a set of standardized hypothetical case studies and role-play how they would react to certain situations.⁹⁹ Often these standardized role-plays employ interactive video technology to create "virtual job auditions."¹⁰⁰ Simulations involving video-based role-plays seem to be more engaging and display higher levels of predictive validity relative to paper-and-pencil approaches.¹⁰¹ In other cases, the job applicants are brought to the employers' location and perform the job for a

short time period as part of a “job tryout.”¹⁰²

In some cases, as we saw earlier, employers will sponsor competitions in which contestants (who at this point are not even considered job applicants) vie for attention by going head-to-head in solving certain job-related problems.¹⁰³ These sorts of competitions have been common in some industries like architecture and fashion design, but their use is spreading across many other business contexts. These competitions tend to be cost effective in generating a lot of interest, and some have attracted as many as 1,000 contestants who bring their talents to bear on specific problems faced by the employing organization.

With all these advantages of work-sample tests come two drawbacks. First, by their very nature the tests are job specific, so generalizability is low. Second, partly because a new test has to be developed for each job and partly because of their nonstandardized formats, these tests are relatively expensive to develop. It is much more cost effective to purchase a commercially available cognitive ability test that can be used for a number of different job categories within the company than to develop a test for each job.

In the area of managerial selection, work-sample tests are typically the cornerstone in assessment centers. Generically, the term [assessment center](#) is used to describe a wide variety of specific selection programs that employ multiple selection methods to rate either applicants or job incumbents on their managerial potential. Someone attending an assessment center would typically experience work-sample tests such as an in-basket test and several tests of more general abilities and personality. Because assessment centers employ multiple selection methods, their criterion-related validity tends to be quite high.

[Assessment center](#)

A process in which multiple raters evaluate employees' performance on a number of exercises.

Assessment centers seem to tap a number of different characteristics, but problem-solving ability and interpersonal skills stand out as probably the two most important skills tapped via this method.¹⁰⁴ However, many observers have argued that it is the exercises themselves—through their value as work samples—that explain why assessment centers have such high criterion-related validity, rather than their ability to tap generic underlying traits and skills.¹⁰⁵

Honesty Tests and Drug Tests

Many problems that confront society also exist within organizations, which has led to the development of honesty tests and drug-use tests. Many companies formerly employed polygraph tests, or lie detectors, to evaluate job applicants, but this changed with the passage of the Polygraph Act in 1988. This act banned the use of polygraphs in employment screening for most organizations. However, it did not eliminate the problem of theft by employees. As a result, the paper-and-pencil honesty-testing industry was born.

Paper-and-pencil honesty tests come in a number of different forms. Some directly emphasize questions dealing with past theft admissions or associations with people who stole from employers. Other items are less direct and tap more basic traits such as social conformity, conscientiousness, or emotional stability.¹⁰⁶ A large-scale independent review of validity studies suggests they can predict both theft and other disruptive behaviors. As is the case with measures of personality, some people are concerned that people confronting an honesty test can fake their way to a passing score. The evidence suggests that people instructed to fake their way to a high score (indicating honesty) can do so. A low score on the other hand is pretty diagnostic in the sense that it suggests that someone is not even able to fake honesty on such a test.

As with theft, there is a growing perception of the problems caused by drug use among employees. There are three societal trends in the United States that have heightened the need for such tests. First, there is an opioid epidemic that continues to spread across the country, with a record number of drug overdose deaths. Between 2015 and

2020, the number of deaths attributed to opioids went from 42,000 to 82,000 a year. As you might expect, much of the fallout is increasingly spilling over to the workplace—especially construction sites, factories, warehouses, and back offices.¹⁰⁷ At least 217 workers died from an unintentional drug or alcohol overdose while at work in 2016, up 32% from 2015, according to the Bureau of Labor Statistics.¹⁰⁸ Workplace overdose deaths have been increasing by 25% or more a year since 2010. Those numbers don't include the many more overdoses that don't end in death or accidents that are only caused partly by drug impairment.

As mentioned previously, a second change in the United States that employers need to recognize is the shifting legal status of marijuana in many states. Marijuana is currently legal for medicinal and recreational use in many states, and some employers are backing off requirements associated with marijuana when they can—but not all can. Indeed, when the marijuana is used for medicinal reasons, some state courts have concluded that employers may have to treat this like a disability and provide reasonable accommodation.¹⁰⁹ However, regardless of what is taking place at the state level, drug testing is mandated by federal law for many occupations classified as “safety sensitive” jobs regulated by the Transportation Department such as truck drivers, pilots, ship captains, and train engineers. The number of people who tested positive for illegal drugs was less than 2% in these job categories in 2002; however, it increased to 5% in 2017.¹¹⁰ Moreover, this rate is higher in certain occupations and regions of the country. The rate for those working in the mining industry and construction industry is 18%, and the states of Colorado and Washington show the highest in the nation.

A third trend when it comes to drugs at the workplace relates to the increased use of so-called “smart drugs.” Many young job applicants developed the habit of using concentration enhancing drugs like Adderall in high school and college, and this practice rarely ends with graduation. These drugs are certainly not illegal, and in some instances, some employees have actually been encouraged by their supervisors to try the drugs in an effort to improve performance levels or as a short-term response to a spike in workload. Although safe when used as prescribed, if the pressure to use such drugs causes an overdose, this can lead to psychotic episodes that result in hospitalization where the individual has to be treated with even more powerful drugs.¹¹¹ Clearly, as this chapter shows, there are far better ways to make sure one can perform the duties of the job without resorting to performance enhancing drugs.



A LOOK BACK

Validation and Personnel Selection: Strangers No More

In the vignette that opened this chapter, we saw how decisions that organizations make regarding promotion and selection are some of the most important decisions that the firm will make. These decisions should not be based on race or other non-job-related characteristics. These decisions impact the performance and reputation of the company and its executives, as well as the lives of job applicants and the people they engage with as part of their jobs. The importance of these decisions means that they have to be based upon procedures that have been empirically validated and not left to idiosyncratic judgments of untrained individuals who may be subject to making hasty, ill-informed or biased decisions. This chapter has summarized a large and varied set of tactics that firms can use to make the right hiring decisions when it comes to the selection and promotion process.

QUESTIONS

Based on this chapter, what are the best methods of obtaining information about job applicants and how might these have been used at Adidas to prevent many of the problems they experienced when it came to charges of race bias?

What are the best characteristics to look for in applicants, and how does this depend on the nature of the job?

If you could use only two of the methods described in this chapter and could assess only two of the characteristics discussed, which would you choose, and why?

SUMMARY

In this chapter, we examined the five critical standards with which all personnel selection methods should conform: reliability, validity, generalizability, utility, and legality. We also looked at nine different selection methods currently used in organizations and evaluated each with respect to these five standards. [Table 6.4](#) summarizes these selection methods and can be used as a guide in deciding which test to use for a specific purpose. Although we discussed each type of test individually, it is important to note in closing that there is no need to use only one type of test for any one job. Indeed, managerial assessment centers use many different forms of tests over a two- or three-day period to learn as much as possible about candidates for important executive positions. As a result, highly accurate predictions are often made, and the validity associated with the judicious use of multiple tests is higher than that for tests used in isolation.

Table 6.4 A Summary of Personnel Selection Methods

METHOD	RELIABILITY	VALIDITY	GENERALIZABILITY	UTILITY	LEGALITY
Interviews	Low when unstructured and when assessing nonobservable traits	Low if unstructured and nonbehavioral	Low	Low, especially because of expense	Low because of subjectivity and potential interviewer bias; also, lack of validity makes job-relatedness low
Reference checks	Low, especially when obtained from letters	Low because of lack of range in evaluations	Low	Low, although not expensive to obtain	Those writing letters may be concerned with charges of libel
Biographical information	High test-retest, especially for verifiable information	High criterion-related validity; low in content validity	Usually job specific, but have been successfully developed for many job types	High; inexpensive way to collect vast amounts of potentially relevant data	May have adverse impact; thus often develop separate scoring keys based on sex or race
Physical ability tests	High	Moderate criterion-related validity; high content validity for some jobs	Low; pertain only to physically demanding jobs	Moderate for some physical jobs; may prevent expensive injuries and disability	Often have adverse impact on women and people with disabilities; need to establish job-relatedness
Cognitive ability tests	High	Moderate criterion-related validity; content validation inappropriate	High; predictive for most jobs, although best for complex jobs	High; low cost and wide application across diverse jobs in companies	Often have adverse impact on race, especially for African Americans, though decreasing over time
Personality inventories	High	Low to moderate criterion-related validity for most traits; content validation inappropriate	Low; few traits predictive for many jobs, except conscientiousness	Low, although inexpensive for jobs where specific traits are relevant	Low because of cultural and sex differences on most traits, and low job-relatedness in general
Work-sample tests	High	High criterion and content validity	Usually job specific, but have been successfully developed for many job types	High, despite the relatively high cost to develop	High because of low adverse impact and high job-relatedness
Honesty tests	Insufficient independent evidence	Insufficient independent evidence	Insufficient independent evidence	Insufficient independent evidence	Insufficient history of litigation, but will undergo scrutiny
Drug tests	High	High	High	Expensive, but may yield high payoffs for health-related costs	May be challenged on invasion-of-privacy grounds

KEY TERMS

[Reliability, 237](#)

[Validity, 240](#)

[Criterion-related validity, 241](#)

[Predictive validation, 241](#)

[Concurrent validation, 241](#)

[Content validation, 244](#)

[Utility, 245](#)

[Situational interview, 253](#)

[Cognitive ability tests, 258](#)

[Verbal comprehension, 258](#)

[Quantitative ability, 258](#)

[Reasoning ability, 258](#)

[Assessment center, 262](#)

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DISCUSSION QUESTIONS

We examined nine different types of selection methods in this chapter. Assume that you were just rejected for a job based on one of these methods. Obviously, you might be disappointed and angry regardless of what method was used to make this decision, but can you think of two or three methods that might leave you most distressed? In general, why might the acceptability of the test to applicants be an important standard to add to the five we discussed in this chapter?

Video-recording applicants in interviews is becoming an increasingly popular means of getting multiple assessments of those individuals from different perspectives. Can you think of some reasons why video-recording interviews might also be useful in evaluating the interviewer? What would you look for in an interviewer if you were evaluating one on video?

Distinguish between concurrent and predictive validation designs, and discuss why the latter is preferred over the former. Examine each of the nine selection methods discussed in this chapter and determine which of these would have their validity most and least affected by the type of validation design employed.

Some observers have speculated that, in addition to increasing the validity of decisions, employing rigorous selection methods has symbolic value for organizations. What message is sent to applicants about the organization through hiring practices, and how might this message be reinforced by recruitment programs that occur before selection and by training programs that occur after selection?

SELF-ASSESSMENT EXERCISES

A Profile of Your Personality Based on the Five-Factor Model

If you have been assigned this Self-Assessment in Connect, you will find out how your personality as measured could be related to occupational success.

What Are Your Prominent Big Five Personality Traits?

If you have been assigned this Self-Assessment in Connect, you will find out which are your most prominent traits.

EXERCISING STRATEGY

When Strangers Meet in a World with No Background Checks

Most people growing up were probably told by their parents to “never accept a ride from a stranger.” In today’s age of ride-sharing apps, that advice probably seems quaint. Still, although quaint, it may also be tragically true. Ride-sharing companies exploded on the scene only very recently, and they quickly gained a major competitive advantage over traditional taxis and limousine services because of a number of factors, one of which is their hiring model. In traditional driver services employees had to undergo background checks that included fingerprint checks validated by state authorities. These checks are expensive and time consuming, sometimes taking over two weeks. By escaping this part of regulation practice, Uber was able to hire drivers cheaper, faster, and more flexibly relative to the competition. As one industry analyst noted, “Taxis and limos are still required to abide by the old more stringent rules, but with Uber, it’s a free-for-all. It’s become the Wild West.”

There are now questions as to whether this source of competitive advantage is going to be sustainable, however. Recent evidence suggests that Uber was routinely hiring convicted criminals and exposing its customers to risks that they could not possibly have imagined. For example, a simple search on the Internet (a technology we can assume Uber is aware of) would have revealed to the company that Talal Chammout should never have been hired. He had been convicted of shooting a person, hitting his wife with a crowbar, hiring a hitman, and even attempting to smuggle in a rocket launcher as part of a terrorist plot. The young woman who stepped into his car page 267 one night was blithely unaware of this, and was totally unprepared when he followed her into her apartment and sexually assaulted her.

Chammout won’t be driving for Uber for the next 25 years while he serves his sentence in a federal prison, but regrettably, he is not an isolated case. Investigations into Uber drivers have revealed that the company hired thousands of convicted felons. There have been over 100 cases in just the last four years where Uber drivers were arrested for murder, sexual assault, or first degree assault. Although the company has policies that bar drivers from carrying firearms in their vehicles, it is impossible for them to enforce that policy. In order to protect themselves from the total strangers they pick up, many Uber drivers are packing heat, in many cases unregistered firearms.

The only aspect of Uber’s selection practices that might be worse than their hiring standards and enforcement is their active lobbying of local governments to protect their competitive advantage in being not regulated. In many cases, state and city lawmakers would pass bills that were written with language provided by lobbyists for the ride-sharing industry. As Saika Chen, an attorney who specializes in ride-sharing laws, notes, “Lobbying is nothing new, but this is lobbying on steroids.”

The sustainability of this form of competitive advantage is now being challenged however, through lawsuits from both harmed passengers and state law enforcement agencies. Uber was recently fined over \$25 million by the District Attorneys from San Francisco and Los Angeles. Colorado’s Public Utility Service fined Uber over \$4 million for a “failure to protect public safety.” Many other local jurisdictions are considering similar actions against what they see as a vulnerable and deep-pocketed potential defendant. Time will tell if Uber can withstand all of this pressure and survive, but the verdict is already in on its CEO, Travis Kalanick. He was forced to leave the company he founded due to the hostile culture he tolerated when it came to both customers and, ironically, employees. At least with respect to employees, perhaps he knew what he was dealing with.

QUESTIONS

Although not engaging in background checks saves money in the short term, what are some of the long-term drawbacks of not closely vetting people who are going to work for your organization?

Clearly, when you are hitching a ride in a car with a total stranger, you might want to believe that the employer has your back in terms of knowing who you are driving with, but what other types of jobs do you think absolutely demand stringent background checks?

SOURCES: C. Devine, N. Black, D. Griffin, and C. Roberts, "Thousands of Criminals Were Cleared to Be Uber Drivers, Here's How the Rideshare Companies Fought Harder Checks," *CNN Online*, June 1, 2018; R. Ellis and S. Jones, "Uber Driver Held After Fatal Shooting of Passenger in Denver," *CNN Online*, June 2, 2018; "Uber Embraces Major Reforms as Travis Kalanick, the CEO Steps Away," *The New York Times Online*, June 13, 2017.

MANAGING PEOPLE

Drug Testing: The Impact on Employment Opportunities

Columbian Boiler, a manufacturer of galvanized containers in Youngstown, Ohio, provides well-paid jobs that offer full benefits, even though many of the jobs do not even require a high school diploma. The company is doing well; however, it loses over \$200,000 worth of business each month due to a shortage of workers. Where does that business go? According to Michael Sherwin, the CEO of Boiler, "Our main competitor in Germany can get things done more quickly because they have a better labor pool." One might ask, "What does it mean to have a 'better labor pool' when the jobs don't even require a high school education?" The answer is: a labor pool that can pass a drug test. Over 25% of applicants to Boiler fail drug tests. This company's experience is far from extraordinary, but rather representative of a broader national problem that is only getting worse.

The opioid epidemic is part of the culprit in this case, and this has been true for several years. However, increasingly, new laws that allow for the recreational use of marijuana have greatly expanded the number of failed drug tests across the country. Seven states in the U.S. allowed for the recreational use of marijuana in 2017, and in 2018, voters in three more states, Michigan, Utah and Missouri joined their ranks. Still, even though it may be fine for the government to ignore someone's drug use, this is much more difficult for employers. For example, back at Columbian Boiler, Sherwin notes that "the lightest product we make is 1,500 pounds and some go up to 250,000 pounds. If something goes wrong, it won't hurt our workers. It'll kill them." Any such incident such as this would trigger an investigation, and a drug test cannot discriminate whether a worker was doing drugs at work or at home, but this subtle distinction could be easily lost on a judge or jury in a wrongful death suit.

Although few would argue that current drug use is a legitimate knock-out factor when it comes to employment, an additional question arises with respect to what to do with former users or addicts that can pass a test today, but given the evidence for recidivism, may not be able to pass a test tomorrow. Ironically, one of the industries that is most susceptible to hiring workers with drug problems, the restaurant industry, is also one where some of the most innovative "rehabilitation and re-employment initiatives" are being forged.

For example, Rob and Diane Perez founded a restaurant called "DV8" (a play on the word "deviate") that only hires workers who are in treatment for opioid and related addictions. In fact, beyond just hiring these workers, the restaurant makes this unique personnel selection strategy the center of their business model. The name DV8 itself highlights the goal of helping the workers change the paths of their lives which have deviated from the norm. Customers are attracted to the eatery because of the delicious food, but also because it makes them feel good about supporting some of the local folks in the community that are trying to rebuild their lives. The restaurant was opened with a \$300,000 gift from local charities and philanthropists, and works hand in hand with local rehabilitation centers in a joint effort to strengthen the community. In terms of product differentiation, one customer expressed it best when she admitted that "you wouldn't pay \$4 for a cinnamon roll anywhere else, but I don't mind paying a little extra to help people get back on their feet."

DISCUSSION QUESTIONS

How do the high positive rates for drug testing in the U.S. harm its competitive position and what can be done at the national level to help reduce drug use and enhance rehabilitation?

Do you believe the local experiment in the restaurant business described here could be replicated on a national scale, where a whole restaurant chain might be built upon this “dual purpose” business model that seeks to make money at the same time it tries to perform a public service? Can you think of industries other than hospitality that might also be suited, or suited better, for this unique business model?

SOURCES: N. D. Schwartz, “Economy Needs Workers, But Drug Tests Take a Toll,” *The New York Times Online*, July 24, 2017; K. McLaughlin, N. V. Osipova, “A Reckoning with the Dark Side of the Restaurant Industry,” *The Wall Street Journal Online*, November 12, 2018; P. Krishna, “A Restaurant Takes on the Opioid Crisis, One Worker at a Time,” *The New York Times Online*, July 10, 2018.

HR IN SMALL BUSINESS

Nehemiah Manufacturing Provides a Second Chance

Richard Palmer already had a successful track record in the consumer products industry when he decided to start his own company. With another experienced manager, Dan Meyer, he wanted to bring jobs back to their city, Cincinnati, Ohio. They opened Nehemiah Manufacturing Company to make consumer products for Palmer’s former employer, Procter & Gamble. Inspired by their Christian faith, they named the company after the prophet Nehemiah, who inspired the Israelites to rebuild the walls of Jerusalem after years in exile.

The goal was to hire inner-city workers who had lost jobs when businesses moved out of the city into the suburbs. Before long, a local nonprofit approached the company about hiring workers who had been incarcerated. They brought in a few, but the experience was rocky. For many people, prison is just one of many hurdles, accompanied by mental health issues, substance abuse, and homelessness. People in these conditions do not always manage to be reliable or work effectively with others.

Rather than give up on what Palmer now calls the “second-chance population,” he doubled down to make it work. He hired a social-service worker, Dana Merida, to help employees navigate their life challenges. With Merida, who now heads a three-person team, they crafted a careful hiring process that takes into account the need for a transition into stable employment. Early on, candidates work with a member of the social-service team to evaluate candidates’ histories and social support; applicants must allow the team to contact any agencies involved in helping them with housing, drug treatment, or other needs. Half of the candidates pass this initial screening and are hired as temporary workers, assigned to a job coach to help them navigate the norms of the business world. After about six months, about 60% of them are hired full time. Wages are set at about the national average for employees doing the same kinds of work, and compensation includes health insurance, tuition reimbursement, and more. Employees are subject to random drug tests, and the company sometimes pays for treatment for those who fail a test, if the circumstances make it appropriate.

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Today about 80% of the company’s 180 employees have criminal records, and the company’s founders could not be more pleased. Although a few have relapsed into addiction, the founders count the second-chance population as their hardest-working, most stable employees. The turnover rate is about 15%, less than half the 38.5% average for the industry. Palmer notes that Nehemiah is careful about whom it hires, and he is pleased with the qualities he finds in the second-chance population. They may have troubled pasts, but they include people with passion, leadership ability, and a drive to help their co-workers. With the contributions of these people, Nehemiah has expanded its product line, which includes laundry products and baby wipes, and its number of customers while remaining profitable. And they are indeed bringing jobs back to Cincinnati.

QUESTIONS

How has Nehemiah Manufacturing adapted the steps of the basic selection process to meet the needs of recruiting workers with a history of incarceration?

Would you describe Nehemiah's selection methods as valid and practical? Why or why not?

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CHAPTER 7

Training



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO7-1 Discuss how training, informal learning, and knowledge management can contribute to continuous learning and companies' business strategy.](#)

[LO7-2 Explain the role of the manager in identifying training needs and supporting training on the job.](#)

[LO7-3 Conduct a needs assessment.](#)

[LO7-4 Evaluate employees' readiness for training.](#)

[LO7-5 Discuss the strengths and weaknesses of presentation, hands-on, and group training methods.](#)

[LO7-6 Explain the potential advantages of e-learning for training.](#)

[LO7-7 Design a training session to maximize learning.](#)

[LO7-8 Choose appropriate evaluation design and training outcomes based on the training objectives and evaluation purpose.](#)

[LO7-9 Design a cross-cultural preparation program.](#)

[LO7-10 Develop a program for effectively managing diversity.](#)

ENTER THE WORLD OF BUSINESS



“Alexa, Tell Me about Training at [Amazon.com](#), Inc.”

[Amazon.com](#), Inc., a technology company based in Seattle, Washington, focuses on e-commerce, cloud computing, digital streaming, and artificial intelligence. The company strives to be Earth's most customer-centric company. Amazon is guided by four principles: customer obsession rather than competitor focus, passion for invention, commitment to operational excellence, and long-term thinking. You may know Amazon because you have shopped online for Amazon Prime, listened to music on Amazon Music, watched Amazon's original shows, used an Amazon device like Alexa, Echo, or a Fire Tablet, or purchased food or groceries at Amazon Go or Whole Foods. Amazon has about 1 million employees, after hiring 250,000 new workers at the end of 2020 in response to increased e-commerce sales during the coronavirus pandemic.

In the last several years Amazon has received unflattering press such as claims it has an overly stressful and demeaning work culture and didn't do enough to protect the health and safety of its warehouse workers at the beginning of the pandemic. Some have argued that the growth of Amazon has meant the loss of traditional retailers

and jobs across the U.S. However, it is important to consider that Amazon has created thousands of jobs around the world and made considerable investment in training its employees and in its contribution to the education of elementary, secondary, and college students and adults in the U.S. and around the world.

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Amazon has a number of training programs for its employees including the Amazon Technical Academy, Machine Learning University, Associate2Tech, Amazon Apprenticeship, AWS Training, and Career Choice. The availability of these programs is supported by a \$700 million investment Amazon has made in training. Amazon's goal is to retrain one-third of the company's U.S.-based workers, including corporate executives and warehouse employees, on high-tech tasks by 2025. For example, Amazon's Career Choice tuition assistance program helps fulfillment center employees pursue certificates and degrees in high-demand fields. The company constructed dedicated classrooms at its large fulfillment centers to make learning more accessible to participants who may attend class before or after their work shifts, or on days off. Amazon believes Career Choice gives employees the skills they need to pursue their career path at Amazon or with other employers.

Amazon has also pledged to offer free skills training to 29 million people around the world. Much of this training involves mastering skills needed for cloud computing which all organizations are increasingly moving toward. Amazon has made a \$15 million donation to nonprofit [Code.org](https://www.code.org/) to support the development and launch of its Advanced Placement Computer Science programming curriculum. [Code.org](https://www.code.org/)'s goal is expanding access to computer science in schools and increasing participation of young women and students from underrepresented ethnic and racial groups. The dream is for every student in every school to have the opportunity to learn computer science as part of their primary and secondary school education. The new curriculum will teach more students the same tools and concepts as existing advanced placement high school computer science courses which earn students college credit. It is being developed inclusively to take into account the unique cultural perspectives, interests, and experiences of Black, Latino, Native American, and other students.

Amazon Future Engineer is another program which creates partnerships with schools to bring new coding experiences to students. It aims to motivate very young students to explore computer science through its elementary school curriculum, also offers middle and high school courses, and enables teachers to offer computer science courses. The awards made possible through the program include four-year \$10,000 scholarships, guaranteed and paid Amazon internships to gain work experience, and \$25,000 Amazon Future Engineer Teacher of the Year Awards.

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Introduction

As the chapter opener shows, training contributes to Amazon's competitive advantage by ensuring that its employees have the skills they need to succeed in their current jobs and develop for future positions. Amazon recognizes that there is stiff competition for current and potential future employees with technology skills, and for

the company to be successful requires smart, motivated employees.

Why is the emphasis on strategic training important? Companies are in business to make money, and every business function is under pressure to show how it contributes to business success or it may face spending cuts and even outsourcing. To contribute to a company's success, training activities should help the company achieve its business strategy.

There is both a direct and an indirect link between training and business strategy and goals. Training can help employees develop skills needed to perform their jobs, which directly affects the business. Giving employees opportunities to learn and develop creates a positive work environment, which supports the business strategy by attracting talented employees as well as motivating and retaining current employees.

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Why do Amazon and many other companies believe that an investment in training can help them gain a competitive advantage? Training can

- Increase employees' knowledge of foreign competitors and cultures, which is critical for success in foreign markets.

- Ensure that employees have the basic skills needed to work with new technology, such as robots and computer-assisted manufacturing processes.

- Help employees understand how to work effectively in teams to contribute to product and service quality.

- Ensure that the company's culture emphasizes innovation, creativity, and learning.

- Enhance employment security by providing new ways for employees to contribute to the company when their jobs change, their interests change, or their skills become obsolete.

- Prepare employees to accept and work more effectively with each other, particularly members of underrepresented ethnic and racial groups and women.¹

In this chapter, we emphasize the conditions through which training practices can help companies gain competitive advantage and how managers can contribute to effective training and other learning initiatives. We begin by discussing a systematic and effective approach to training design. Next, we review training methods and training evaluation. The chapter concludes with a discussion of special training issues including cross-cultural preparation, managing diversity, and orienting and socializing employees.

Training: Its Role in Continuous Learning and Competitive Advantage

LO 7-1

Discuss how training, informal learning, and knowledge management can contribute to continuous learning and companies' business strategy.

As we discussed in [Chapter 1](#), intangible assets, including human capital, customer capital, social capital, and intellectual capital, help companies gain competitive advantage. Recognizing that formal training, informal learning, and knowledge management are important for the development of intangible assets, many companies now consider training one part of a larger emphasis on continuous learning. [Figure 7.1](#) shows that formal training and development, informal learning, and knowledge management are the key features of a [continuous learning](#)

philosophy that focuses on performance and supports the business strategy. Continuous learning refers to a learning system that requires employees to understand the entire work system; they are expected to acquire new skills, apply them on the job, and share what they have learned with other employees.²

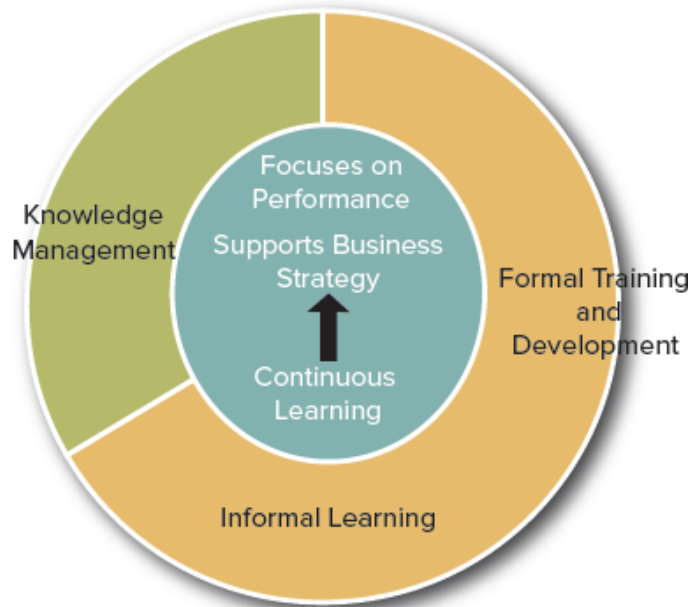


Figure 7.1 Key Features of Continuous Learning

[Continuous learning](#)

A learning system that requires employees to understand the entire work process and expects them to acquire new skills, apply them on the job, and share what they have learned with other employees.

[Training](#) refers to a planned effort by a company to facilitate employees' learning of job-related competencies, knowledge, skills, and behaviors. The goal of training is for employees to master the knowledge, skills, and behaviors emphasized in training and apply them to their day-to-day activities. Traditionally, companies have relied on formal training through a course, a program, or an event to teach employees the knowledge, skills, and behaviors they need to successfully perform their jobs. [Formal training](#) refers to training and development programs, courses, and events that are developed and organized by the company. Typically employees are required to attend or complete these programs, which can include face-to-face training programs (such as instructor-led courses) as well as online programs. U.S. companies make substantial investments in formal training. One estimate is that U.S. organizations spend over \$82 billion on formal employee training and development.³ We will discuss employee development in [Chapter 9](#).

[Training](#)

A planned effort to facilitate the learning of job-related knowledge, skills, and behavior by employees.

[Formal training](#)

Training and development programs and courses that are developed and organized by the company.

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Despite companies' significant investments in formal training and development activities, informal learning is also important for facilitating knowledge and skill acquisition.⁴ [Informal learning](#) refers to learning that is learner initiated, involves action and doing, is motivated by an intent to develop, and does not occur in a formal learning setting.⁵ Informal learning occurs without an instructor, and its breadth, depth, and timing are controlled by the employee. It occurs on an as-needed basis and may involve an employee learning alone or through face-to-face or

technology-aided social interactions. Informal learning can occur through many different ways, including casual unplanned interactions with peers, e-mail, informal mentoring, or company-developed or publicly available social networking websites such as Twitter or Facebook. The application of social media from a marketing strategy to a learning strategy and the availability of social networks, artificial intelligence, microblogs, and wikis give employees easy access to social learning through collaboration and sharing with one or two or more people.⁶ One estimate is that informal learning may account for up to 75% of learning within organizations.

Informal learning

Learning that is learner initiated, involves action and doing, is motivated by an intent to develop, and does not occur in a formal learning setting.

Both formal training and informal learning contribute to the development of intangible assets but especially human capital. Human capital includes knowledge (know what), advanced skills (know how), system understanding and creativity (know why), as well as motivation to deliver high-quality products and services (care why).⁷ One reason informal learning may be especially important is that it may lead to the effective development of *tacit* knowledge, which can be contrasted with *explicit* knowledge.⁸ Explicit knowledge refers to knowledge that is well documented, easily articulated, and easily transferred from person to person. Examples of explicit knowledge include processes, checklists, flowcharts, formulas, and definitions. Explicit knowledge tends to be the primary focus of formal training. Tacit knowledge refers to personal knowledge based on individual experiences that make it difficult to codify. It is best acquired through informal learning. The characteristics of the formal training environment may limit the extent to which tacit knowledge can be acquired, such as the relatively short duration of classroom or online training and limited opportunities for practice. Thus, informal learning is central to the development of tacit knowledge. page 278 Well-designed formal training programs can help employees acquire explicit knowledge. But to acquire tacit knowledge employees need to interact with peers, colleagues, and experts and have learning experiences that are not usually found in formal training. Informal learning does not replace formal training. Formal training is still needed to prepare employees for their jobs and help them progress to future positions. Informal learning complements training by helping employees gain tacit knowledge that formal training cannot provide.

Explicit knowledge

Knowledge that is well documented and easily transferred to other persons.

Tacit knowledge

Knowledge based on personal experience that is difficult to codify.

Knowledge management refers to the process of enhancing company performance by designing and implementing tools, processes, systems, structures, and cultures to improve the creation, sharing, and use of knowledge.⁹ Knowledge management contributes to informal learning. Hilton believes that learning through training programs as well as socially is important for facilitating innovation which the company believes is the responsibility of all employees.¹⁰ To support learning and innovation team members at Hilton are encouraged to collaborate and share knowledge with managers and peers using online virtual communities. Also, Hilton hosts town hall meetings to share its ideas about the business.

Knowledge management

The process of enhancing company performance by designing and using tools, systems, and cultures to improve creation, sharing, and use of knowledge.

It is important for all aspects of continuous learning, including formal training and development, informal learning, and knowledge management, to contribute to and support the business strategy. Continuous learning needs to address performance issues that lead to improved business results. To do so requires that the emphasis on continuous learning aligns with the business strategy; has visible support from senior managers and involves leaders as instructors and teachers; creates a culture or work environment that encourages learning; provides a

wide range of learning opportunities including training, informal learning, knowledge management, and employee development; uses traditional methods and innovative technologies to design and deliver learning; and measures the effectiveness and overall business impact of learning.¹¹

For example, consider the role of learning at BMO Financial Group.¹² During the past year, the talent development team at BMO Financial Group has been piloting another innovative approach to informal learning that offers employees new ways to apply their skills and gain fresh career experiences. Called #HelpWanted, it is a virtual job board where managers can post short-term projects or challenges with which they need help and where employees can volunteer to take on gigs that match their skills. The talent development team vets the projects to ensure they align with program goals. Participants who engage in the projects complete surveys to share their perspectives, which help influence program strategy and direction. The team is ramping up the program to test it at scale, opening it up to more than 10,000 employees over the next year. BMO also offers formal training and development through BMO U. BMO U offers bite-size, high-quality content, such as podcasts, articles, videos, e-books, and a range of online courses. The company reports that employees like the variety of resources and the opportunity to follow curated learning pathways. For every resource, the talent development team posts an estimated time for completion up front, so employees can fit the learning into their busy schedules. Elements of social learning that are embedded in the digital platform have also helped with adoption. Employees can follow other users, track learning, and customize a personal news feed. The creation of employee groups around specific learning topics has generated the most engagement. Key ambassadors in each line of business lead and design those groups; they share relevant best practices and insights, answer employee questions, and host informal brainstorming sessions.

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Designing Effective Formal Training Activities

LO 7-2

Explain the role of the manager in identifying training needs and supporting training on the job.

A key characteristic of training activities that contribute to competitiveness is that they are designed according to the training design process.¹³ [Training design process](#) refers to a systematic approach for developing training programs. Instructional System Design (ISD) and the ADDIE model (analysis, design, development, implementation, evaluation) are two specific types of training design processes you may know. [Figure 7.2](#) presents the six stages of this process, which emphasizes that effective training practices involve more than just choosing the most popular or colorful training method.

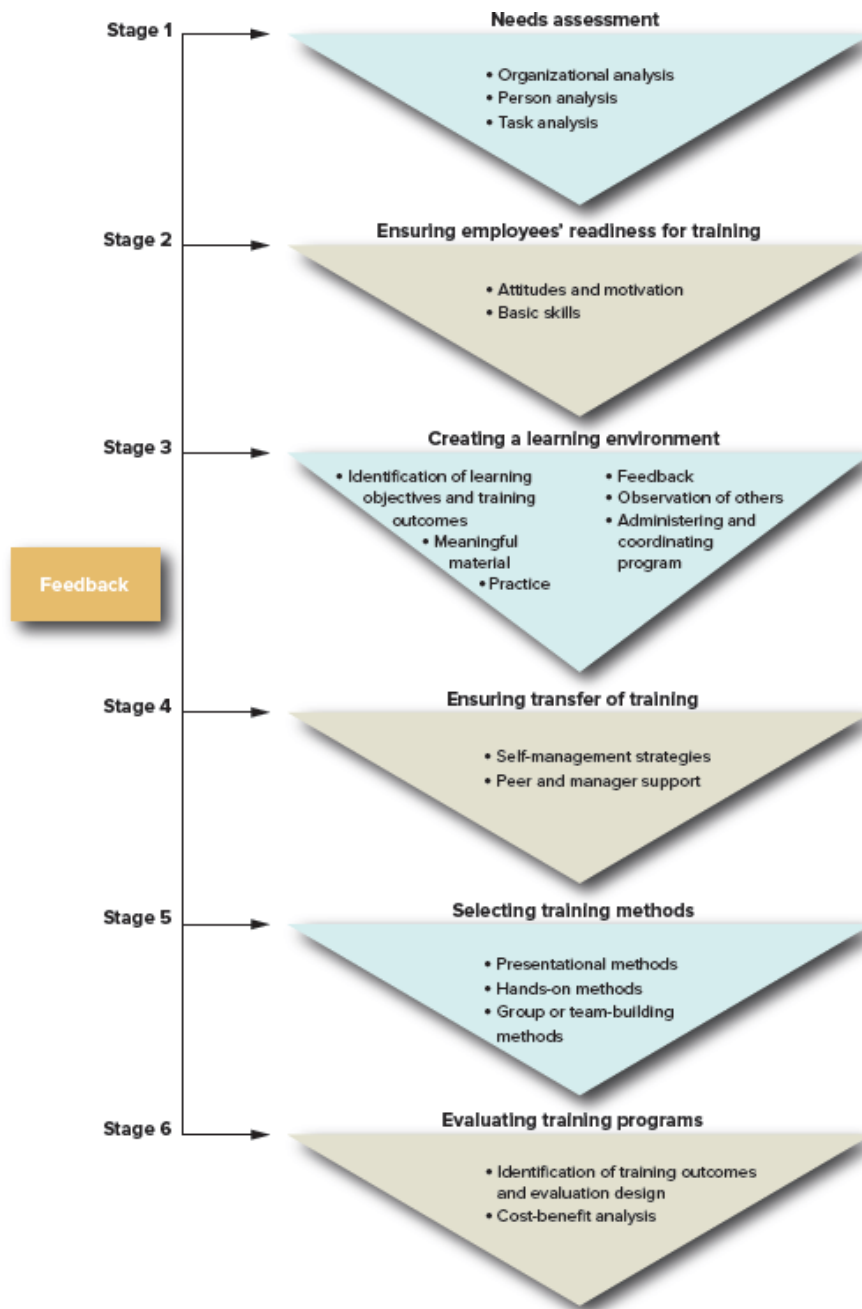


Figure 7.2 The Training Process

Training design process

A systematic approach for developing training programs.

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The first stage is to assess needs to determine if training is needed. Stage 2 involves ensuring that employees have the readiness for training and that they have the motivation and basic skills to master training content. Stage 3 addresses whether the training session (or the learning environment) has the factors necessary for learning to occur. Stage 4 focuses on ensuring that trainees apply the content of training to their jobs. This requires support from managers and peers for the use of training content on the job as well as getting the employee to understand how to take personal responsibility for skill improvement. Stage 5 involves choosing a training method. As we will see in this chapter, a variety of training methods are available ranging from traditional on-the-job training to newer technologies such as social media. The key is to choose a training method that will provide the appropriate learning

environment to achieve the training objectives. Stage 6 is evaluation—that is, determining whether training achieved the desired learning outcomes and/or financial objectives.

The training design process should be systematic yet flexible enough to adapt to business needs. Different steps may be completed simultaneously. Also, feedback from each stage in the process can be useful for the other stages. For example, if transfer of training is difficult, then the learning environment should overemphasize practice and feedback. Keep in mind that designing training unsystematically will reduce the benefits that can be realized. For example, choosing a training method before determining training needs or ensuring employees' readiness for training increases the risk that the method chosen will not be the most effective one for meeting training needs. Also, training may not even be necessary and may result in a waste of time and money. Employees may have the knowledge, skills, or behavior they need but simply not be motivated to use them. In the next several sections, we discuss important aspects of the training design process.

Needs Assessment

LO 7-3

Conduct a needs assessment.

The first step in the instructional design process, [needs assessment](#), refers to the process used to determine if training is necessary. [Figure 7.3](#) shows the causes and outcomes resulting from needs assessment. As the figure illustrates, many different “pressure points” suggest that training is necessary. These pressure points include performance problems, new technology, internal or external customer requests for training, job redesign, new legislation, changes in customer preferences, new products, or employees' lack of basic skills as well as support for the company's business strategy (e.g., growth, global business expansion). Training is not always the correct solution to a pressure point. Consider, for example, a delivery truck driver whose job is to deliver anesthetic gases to medical facilities. The driver mistakenly hooks up the supply line of a mild anesthetic to the supply line of a hospital's oxygen system, page 281contaminating the hospital's oxygen supply. Why did the driver make this mistake, which is clearly a performance problem? The driver may have done this because of a lack of knowledge about the appropriate line hookup for the anesthetic, anger over a requested salary increase that his manager recently denied, or mislabeled valves for connecting the gas supply. Only the lack of knowledge can be addressed by training. The other pressure points require addressing issues related to the consequence of good performance (pay system) or the design of the work environment.



Figure 7.3 The Needs Assessment Process

The process used to determine if training is necessary.

Needs assessment typically involves organizational analysis, person analysis, and task analysis.¹⁴ Organizational analysis considers the context in which training will occur. That is, [organizational analysis](#) involves determining the business appropriateness of training, given the company's business strategy, its resources available for training, and support by managers and peers for training activities.

[Organizational analysis](#)

A process for determining the business appropriateness of training.

Person analysis helps identify who needs training. [Person analysis](#) involves (1) determining whether performance deficiencies result from a lack of knowledge, skills, or abilities (a training issue) or from a motivational or work-design problem; (2) identifying who needs training; and (3) determining employees' readiness for training.

[Task analysis](#) includes identifying the important tasks and knowledge, skills, and behaviors that need to be emphasized in training for employees to complete their tasks. In practice, organizational analysis is usually conducted first because it identifies whether training fits with the company's strategic objectives and whether the company wants to devote time and money to training. Person analysis and task analysis are often conducted at the same time because it can be difficult to determine whether performance deficiencies are a training problem without understanding the tasks and the work environment.

[Person analysis](#)

A process for determining whether employees need training, who needs training, and whether employees are ready for training.

[Task analysis](#)

The process of identifying the tasks, knowledge, skills, and behaviors that need to be emphasized in training.

What outcomes result from a needs assessment? As shown in [Figure 7.3](#), needs assessment shows who needs training and what trainees need to learn, including the tasks in which they need to be trained plus knowledge, skill, behavior, or other job requirements. Needs assessment helps determine whether the company will purchase training from a vendor or consultant or develop training using internal resources.

Organizational Analysis

Three factors need to be considered before choosing training as the solution to any pressure point: the support of managers and peers for training activities, the company's strategy, and the training resources available.

Support of Managers and Peers. Various studies have found that peer and manager support for training is critical. The key factors for success are a positive attitude among peers and managers about participation in training activities; managers' and peers' willingness to tell trainees how they can more effectively use knowledge, skills, or behaviors learned in training on the job; and the availability of opportunities for the trainees to use training content in their jobs.¹⁵ If peers' and managers' attitudes and behaviors are not supportive, then employees are not likely to apply training content to their jobs.

Company Strategy. In [Chapter 2](#), we discussed the importance of business strategy for a company to gain a competitive advantage, and earlier in this chapter we discussed how BMO Financial Group relies on learning to support the company's mission and strategy. As [Figure 7.1](#) highlights, training should help companies achieve their business strategy. [Table 7.1](#) shows possible strategic initiatives and their implications for training practices.

Table 7.1 Examples of Strategic Initiatives and Their Implications for Training Practices

STRATEGIC TRAINING AND DEVELOPMENT INITIATIVES	IMPLICATIONS
Improve customer service	Ensure that employees have product and service knowledge. Ensure that employees have skills needed to interact with customers. Ensure that employees understand their roles and decision-making authority.
Improve employee engagement	Ensure that employees have opportunities to develop. Ensure that employees understand career opportunities and personal growth opportunities. Ensure that training and development addresses employees' needs in current job as well as growth opportunities.
Enhance innovation and creativity	Capture insight and information from knowledgeable employees. Logically organize and store information. Provide methods to make information available (e.g., resource guides, websites). Dedicate physical space to encourage teamwork, collaboration, creativity, and knowledge sharing.
Growth in global markets	Prepare high-potential managers to take over global leadership positions. Prepare expatriates to function cross-culturally. Train local workforce in company culture.

SOURCE: Based on S. Tannenbaum, "A Strategic View of Organizational Training and Learning," in *Creating, Implementing and Managing Effective Training and Development*, ed. K. Kraiger (San Francisco: Jossey-Bass, 2002), pp. 10–52.

It is important to identify the prevailing business strategy and goals to ensure that (1) the company allocates enough of its budget to training, (2) employees receive training on relevant topics, and (3) employees get the right amount of training.¹⁶

The [Integrity in Action](#) box highlights how Verizon used training to help keep its workers employed during the pandemic and contribute to the company's business strategy.

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INTEGRITY IN ACTION

Verizon Uses Training to Keep Employees Working During the Pandemic

Verizon's strategic priorities include to be on the leading edge of technology, to provide customers with the best network experiences in the world, to deliver growth in revenue and profitability, to expand 5G leadership, to sustain value to shareholders, and to enable services that benefit society and make the world a better place. During the pandemic Verizon's learning and development team used training to reskill or upskill nearly 20,000 employees to assume roles across the company and support other business critical needs. This included over 8000 retail team employees who were redeployed due to temporary store closures to customer service and telesales positions. Operations and training activities made it possible for this redeployment to occur. Operations teams shipped employees equipment to enable work-from-home and learning and development teams reskilled the reps for their new roles. Content for the reskilling training was repurposed from existing customer service and telesales onboarding programs and redesigned for virtual instructor-led deployment. The training was delivered via a blend of virtual instructor-led training, self-guided digital learning, digital performance support, post-training trainer support, and daily leader reinforcements. The learning and development team also developed and delivered leadership transition training for retail store leaders temporarily redeployed to telesales leadership roles.

Between April and September 2020, retail sales employees moved to customer service roles handled 4 million customer service calls (15.6% of total call volume). This improved overall average time of the calls by 45 seconds and lowered average speed of answer by 18 seconds across customer service. Retail sales employees moved to telesales roles handled 874,000 sales calls (46% of all telesales calls). They accomplished \$5 higher average accessory sales per device than traditional tele-sales reps. The average call handle time decreased from 532 seconds in the first month they were in their new position to 430 seconds in the third month.

DISCUSSION QUESTION

Do you think Verizon's training investment will continue to benefit the company after the pandemic is over? Explain why or why not.

SOURCE: "Verizon: COVID-19 Redeployment Testing," *training*, March 2021, pp. 82-83; Verizon Communications, "Verizon Outlines 5-G Growth Strategy at Investor Conference," February 21, 2019, [globalnewswire.com](https://www.globalnewswire.com), accessed March 3, 2021.

Training Resources. The company must determine whether it has the budget, time, and expertise for training. For example, if the company is installing computer-based manufacturing equipment in one of its plants, it has three possible strategies to have computer-literate employees. First, the company can use technical experts on staff to train all affected employees. Second, the company may decide that it is more cost effective to identify computer-literate employees by using tests and work samples and replace or reassign employees who lack the necessary skills. Third, if it lacks time or expertise, the company may decide to purchase training from an outside consultant or organization.

[Table 7.2](#) provides examples of questions to ask vendors and consultants to help evaluate whether they can meet the company’s training needs.

Table 7.2 Questions to Ask Vendors and Consultants

How do your products and services fit our needs?
How much and what type of experience does your company have in designing and delivering training?
What are the qualifications and experiences of your staff?
Can you provide demonstrations or examples of training programs you have developed?
Can you provide references from clients for whom you worked?
What evidence do you have that your programs work?
How long will it take to develop the training program?
How much will your services cost?
What instructional design methods do you use?
What about recurring costs, such as those related to administering, updating, and maintaining the training program?
Do you provide technical support?

SOURCES: K. Smith-Jentsch, “Making Smart Investments in Training: The Devil is in the Details,” *Organizational Dynamics* 49 (2020), pp. 1–7; C. Anderson, “Do You Have the Right Business Partners?” *Chief Learning Officer*, March 2014, pp. 48–50; R. Zemke and J. Armstrong, “Evaluating Multimedia Developers,” *training*, November 1996, pp. 33–38; B. Chapman, “How to Create the Ideal RFP,” *training*, January 2004, pp. 40–43; M. Weinstein, “What Vendors Wished You Knew,” *training*, February 2010, pp. 122–25.

Person Analysis

Person analysis helps the manager identify whether training is appropriate and which employees need training. In certain situations, such as the introduction of a new technology or service, all employees may need training. However, when managers, customers, or employees identify a problem (usually as a result of a performance deficiency), it is often unclear whether training is the solution.

A major pressure point for training is poor or substandard performance—that is, when a gap exists between employees’ current performance and their expected performance. Poor performance is indicated by customer complaints, low performance ratings, or on-the-job accidents or unsafe behavior. Another potential indicator of the need for training is if the job changes so that current performance levels need improvement or employees must complete new tasks.

For managers to determine if training is needed to address a performance problem, they must analyze characteristics of the performer, input, output, consequences, and feedback.¹⁷ This can be done by assessing whether

The performance problem is important and has the potential to cost the company a significant amount of money from lost productivity or customers.

Employees do not know how to perform effectively. Perhaps they received little or no previous training or the training was ineffective (person characteristics).

Employees cannot demonstrate the correct knowledge or behavior. Perhaps they were trained but they infrequently or never used the training content (knowledge, skills, etc.) on the job (input problem).

Performance expectations are clear (input) and there are no obstacles to performance such as faulty tools or equipment (output).

There are positive consequences for good performance, whereas poor performance is not rewarded. For example, if employees are dissatisfied with their compensation, their peers or a union may encourage them to slow down their pace of work (consequences).

Employees receive timely, relevant, accurate, constructive, and specific feedback about their performance (feedback).

Other solutions such as job redesign or transferring employees to other jobs are too expensive or unrealistic.

If employees lack the knowledge and skill to perform and the other factors are satisfactory, then training is likely the effective solution. If employees have the knowledge and skill to perform, but input, output, consequences, or feedback are inadequate, then training may not be the best solution. For example, if poor performance results from faulty equipment, training cannot solve this problem, but repairing the equipment will. If poor performance results from a lack of feedback, then employees may not need training, but their managers may need training on how to give performance feedback.

Task Analysis

A task analysis identifies the conditions in which tasks are performed. The conditions include identifying equipment and the environment the employee works in, time constraints (deadlines), safety considerations, or performance standards. Task analysis results in a description of work activities, including tasks performed by the employee and the knowledge, skills, and abilities required to successfully complete the tasks. A *job* is a specific position requiring the completion of specific tasks. A *task* is a statement of an employee's work activity in a specific job. The four steps in a task analysis are (1) identifying the job(s) to be analyzed; (2) developing a list of tasks performed on the job; (3) validating or confirming the tasks; and (4) identifying the knowledge, page 285skills, abilities, and other factors (e.g., equipment, working conditions) needed to successfully perform each task.¹⁸

For example, consider how NTT assesses skills as part of its needs assessment process.¹⁹ The training and development team at NTT uses a skills matrix to track current and future learning needs for key roles and functions. Employees are asked to rate their capabilities in specific skills on a scale of 1 to 5. Their managers verify the ratings and have the ability to change them after discussions with employees. The training and development team analyzes the data from the matrix by using data dashboards that enable the team and business leaders to compare employees' skill sets across different countries, regions, go-to-market areas, per line manager, and so forth. The team can also present the data through heat maps (a method to visualize data using color in two dimensions) which show areas of strong capability or skills gaps. The information has been highly very useful for managers, who can quickly see how their teams are currently performing and what their training needs may be in the future.

The matrix has also proved a highly effective tool for communicating to leaders the importance of training programs and strategic learning initiatives. Each month the team and senior leaders from each business function review the matrix together and identify areas requiring focus or improvement. For example, one review indicated declining client satisfaction. As a result, the training and development team created training focused on call handling and call flows.

Ensuring Employees’ Readiness for Training

LO 7-4

Evaluate employees’ readiness for training.

The second stage in the training design process is to evaluate whether employees are ready for training. [Readiness for training](#) refers to employee characteristics that provide employees with the desire, energy, and focus necessary to learn from training. The desire, energy, and focus is referred to as [motivation to learn](#).²⁰ Various research studies have shown that motivation to learn is related to knowledge gain, behavior change, or skill acquisition in training programs.²¹ [Table 7.3](#) presents factors that influence motivation to learn and the actions that strengthen them. Motivation to learn influences mastery of all types of training content, including knowledge, behavior, and skills. Managers need to ensure that employees’ motivation to learn is as high as possible. They can do this by ensuring employees’ self-efficacy; understanding the benefits of training; being aware of training needs, career interests, and goals; understanding work environment characteristics; and ensuring employees’ basic skill levels.

Table 7.3 Factors That Influence Motivation to Learn

FACTOR	DESCRIPTION	ACTIONS TO ENHANCE OR IMPROVE
Self-efficacy	Employee belief that they can successfully learn the content of the training program	Show employees their peers’ training success. Communicate that the purpose of training is to improve, not identify, area of incompetence. Communicate purpose and activities involved in training. Emphasize that learning is under their personal control.
Benefits or consequences of training	Job-related, personal, career benefits that can result from attending training	Communicate realistic short- and long-term benefits from training.

Awareness of training needs	Knowledge of skill strengths and weaknesses	Communicate why they were asked to attend the training program. Share performance appraisal information. Encourage trainees to complete self-evaluation of all strengths and weaknesses. Give employees input on the choice of training to attend.
Work environment	Proper tools and equipment, materials, supplies, budget time; managers' and peers' willingness to provide feedback and reinforce use of training content	Give employees opportunities to practice skills and apply them to their work. Encourage employees to provide feedback to each other. Encourage trainees to share training experiences and situations where use of training content was beneficial. Acknowledge use of training content in their work. Provide resources necessary for training content to be used in their work.
Basic skills	Cognitive ability, reading and writing skills	Ensure trainees have prerequisite skills needed for understanding and learning training content. Provide remedial training. Use video or other visual training methods. Modify training program to meet trainees' basic skill levels.

Goal orientation	Goals held by employees in a learning situation	Create a learning goal orientation by deemphasizing competition between trainees; allow trainees to make errors and to experiment with new knowledge, skills, and behavior during training; and set learning goals.
Conscientiousness	Tendency to be reliable, hardworking, self-disciplined, and persistent	Communicate need for learning.

SOURCES: Based on J. Colquitt, J. LePine, and R. Noe, "Toward an Integrative Theory of Training Motivation: A Meta-Analytic Path Analysis of 20 Years of Research," *Journal of Applied Psychology* 85 (2000), pp. 678–707; R. Noe and J. Colquitt, "Planning for Impact Training: Principles of Training Effectiveness," in K. Kraiger (ed.), *Creating, Implementing, and Managing Effective Training and Development* (San Francisco: Jossey-Bass, 2002), pp. 53–79.

[Readiness for training](#)

Employee characteristics that provide them with the desire, energy, and focus necessary to learn from training.

[Motivation to learn](#)

The desire of the trainee to learn the content of a training program.

The [Competing through Globalization](#) box shows how companies who employ legal immigrants are helping them develop the basic English language skills they need to progress in a career.

Creating a Learning Environment

Learning permanently changes behavior. For employees to acquire knowledge and skills in the training program and apply this information in their jobs, the training program must include specific learning principles. Educational and industrial psychologists and instructional design specialists have identified several conditions under which employees learn best.²² [Table 7.4](#) shows the events that should take place for learning to occur in the training program and their implications for instruction.

Table 7.4 Conditions for Learning and Their Importance

CONDITIONS FOR LEARNING	IMPORTANCE AND APPLICATION TO TRAINING
Need to know why they should learn	Employees need to understand the purpose or objectives of the training program to help them understand why they need training and what they are expected to accomplish.

Meaningful training content	Motivation to learn is enhanced when training is related to helping learner (such as related to current job tasks, problems, enhancing skills, or dealing with jobs or company changes). The training context should be similar to the work environment.
Opportunities for practice	Trainees need to demonstrate what is learned (knowledge, skill, behavior) to become more comfortable using it and to commit it to memory. Let trainees choose their practice strategy.
Feedback	Feedback helps learners to modify behavior or skill, or to use knowledge to meet objectives. Video, other trainees, and the trainer are useful feedback sources.
Observe, experience, and interact with training content, other learners, and the instructor	Adults learn best by doing. They can gain new perspectives and insights by working with others and can learn by observing the actions of models or by sharing experiences with each other in communities of practice or through social networking. Interacting with and manipulating content through reading or using tools that allow for building ideas and solving problems, such as worksheets and online interactions, is helpful.
Good program coordination and administration	Eliminate distractions that could interfere with learning, such as cell phone calls. Make sure the room is properly organized, comfortable, and appropriate for the training method (e.g., movable seating for team exercises). Trainees should receive announcements of the purpose of training, place, hour, and any pretraining materials such as cases or readings.
Commit training content to memory	Facilitate recall of training content after training. Examples include using concept maps showing relationships among ideas, using multiple types of review (writing, drawing, role-plays), teaching key words, providing a visual image, or asking trainees to reflect on what they learned. Limit instruction to manageable units or chunks that don't exceed memory limits; review and practice over multiple days (overlearning). Use short quizzes or other activities to help trainees retrieve what they learned and emphasize its importance.

SOURCES: K. Kraiger and J. Ford, "The Science of Workplace Instruction: Learning and Development Applied to Work," *Annual Review of Organizational Psychology and Organizational Behavior* 8 (2021), pp. 45–72; R. M. Gagne, "Learning Processes and Instruction," *Training Research Journal* 1 (1995/1996), pp. 17–28; M. Knowles,

The Adult Learner, 4th ed. (Houston: Gulf, 1990); A. Bandura, *Social Foundations of Thought and Action* (Englewood Cliffs, NJ: Prentice Hall, 1986); E. A. Locke and G. D. Latham, *A Theory of Goal Setting and Task Performance* (Englewood Cliffs, NJ: Prentice Hall, 1990); B. Mager, *Preparing Instructional Objectives*, 2nd ed. (Belmont, CA: Lake, 1984); B. J. Smith and B. L. Delahaye, *How to Be an Effective Trainer*, 2nd ed. (New York: Wiley, 1987); K. A. Smith-Jentsch, F. G. Jentsch, S. C. Payne, and E. Salas, "Can Pretraining Experience Explain Individual Differences in Learning?" *Journal of Applied Psychology* 81 (1996), pp. 110–16; H. Nuriddin, "Building the Right Interaction," *T + D*, March 2011, pp. 32–35; R. Feloni, "This Simple Daily Exercise Boosts Employee Performance," *Business Insider India*, www.businessinsider.in.com; G. Di Stefano, F. Gino, G. Pisano, and B. Staats, "Learning by Thinking: How Reflection Aids Performance," Harvard Business School Working Paper 14-093 (March 25, 2014); M. Plater, "Three Trends Shaping Learning," *Chief Learning Officer*, June 2014, pp. 44–47; A. Kohn, "Use It or Lose It," *T + D*, February 2015, pp. 56–61; J. Karpicke and Henry Roediger III, "The Critical Importance of Retrieval for Learning," *Science*, February 2008, pp. 966–68; A. Paul, "Microlearning 101," *HR Magazine*, May 2016, pp. 6–42; M. Cole, *Microlearning: Delivering Bite-Sized Knowledge* (Alexandria, VA: Association for Talent Development, 2017).

Many companies are designing training according to principles of microlearning to get employees more actively involved in learning and facilitate their recall of what they learned. [Microlearning](#) refers to training delivered in small pieces or chunks designed to engage trainees, motivate them to learn, and help facilitate retention.²³ The chunks of learning are presented using videos or games that are typically five to eight minutes long. Microlearning is used to replace longer training courses with one or several short courses. It is also being used to reinforce or supplement formal training (send quizzes after training, share short pieces of training content before the program to generate excitement), and create just-in-time learning content. The primary benefits of microlearning for learners focus on time, that is, they can access learning when it is convenient for them, learning does not take a lot of time, and they can access learning on-the-job when they need it.²⁴ Also, trainees' progress in games or simulations can be tracked and reported, and microlearning content can be linked together based on topic or skills. The primary barrier for effective microlearning is that trainees are not held accountable for learning.

[Microlearning](#)

Training delivered in small pieces or chunks designed to engage trainees, motivate them to learn, and help facilitate retention.

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Consider how several companies are creating a positive learning environment using a variety of training methods.²⁵ Panda Restaurant Group, the largest family owned and operated restaurant group in the U.S. (you may be familiar with Panda Express, Panda Inn, or Hibachi-San) has more than 2000 stores, 1800 managers, and 40,000 associates. To ensure that training programs help associates learn they are designed to engage associates and provide them with the opportunity to interact with fellow trainees as well as the training content. As a result, Panda use a variety of training methods including instructor-led training, videos, e-learning, and on-the-job training. CDK Global, a provider of computing services to automobile dealers, uses microlearning to support the performance of its sales team. Sales team members can access short podcasts while driving to visit their clients and make their own playlists based on the issues and situations they will encounter with their clients. American Dairy Queen uses microlearning for introducing new products and showing the ingredients and steps in the recipe.



COMPETING THROUGH GLOBALIZATION

Language Training Opens the Door for Career Opportunities

As we noted in [Chapter 1](#), many U.S. companies in agriculture, construction, and service industries employ legal immigrants. One estimate is that 1 of every 10 working-age adults in the U.S. has limited English-language

proficiency. Providing employees with language training is difficult because it requires time, practice, and a knowledgeable instructor. Language training also needs to determine and build on employees' proficiency levels and to ensure they are exposed to language and phrases that they will use in their jobs. Language training is important because the inability to speak English prevents workers from advancing to better-paying jobs. Companies that invest in English-language programs can open career paths and retain and promote a diverse workforce.

Agricare, a farm management company, has conducted work-place English language training for three years in Oregon. The company planned to expand its classes to its California locations but had to temporarily delay doing so due to the COVID-19 pandemic. The company manages 10,000 acres of farmland and employs 250 people. Its classes are also open to a sister company, Home-grown Organic Farms, which employs 45 people who sell and distribute the fruits that Agricare grows. To help employees improve their English while not being able to attend classes during the pandemic, the company's HR professional read through books with some of the employee teams virtually. She also encouraged employees to download language apps, and the company purchased and distributed books (in both English and Spanish) to them to help them continue building their vocabulary.

DISCUSSION QUESTIONS

Do you think that employees' motivation to learn is influenced by providing language training? Explain your answer.

SOURCES: National Immigration Forum, *Upskilling New Americans: Innovative English Training for Career Advancement* (Washington, D.C., 2019), immigrationforum.org, accessed February 25, 2021; D. Cope, "English Classes Help Retain Immigrant Workers," Society for Human Resource Management, February 20, 2021, shrm.org/hr-today, accessed February 25, 2021.

Ensuring Transfer of Training

Transfer of training refers to on-the-job use of knowledge, skills, and behaviors learned in training. As [Figure 7.4](#) shows, transfer of training is influenced by manager support, peer support, opportunity to use learned capabilities, technological support, and self-management skills. As we discussed earlier, learning is influenced by the learning environment (such as meaningfulness of the material and opportunities for practice and feedback) and employees' readiness for training (e.g., their self-efficacy and basic skill level). If no learning occurs in the training program, transfer is unlikely.



Figure 7.4 Work Environment Characteristics Influencing Transfer of Training

Transfer of training

The use of knowledge, skills, and behaviors learned in training on the job.

Manager Support

[Manager support](#) refers to the degree to which trainees' managers (1) emphasize the importance of attending training programs and (2) stress the application of training content to the job. [Table 7.5](#) shows what managers should do to support training.

Table 7.5 How Managers Can Support Training

Understand the content of the training.
Know how training relates to what you need employees to do.
In performance appraisals, evaluate employees on how they apply training to their jobs.
Support employees' use of training when they return to work.
Ensure that employees have the equipment and technology needed to use training.
Prior to training, discuss with employees how they plan to use training.
Recognize newly trained employees who use training content.
Give employees release time from their work to attend training.
Explain to employees why they have been asked to attend training.
Give employees feedback related to skills or behavior they are trying to develop.
If possible, be a trainer.

SOURCES: S. Bailey, "The Answer to Transfer," *Chief Learning Officer*, November 2014, pp. 33–41; R. Hewes, "Step by Step," *T + D*, February 2014, pp. 56–61; R. Bates, "Managers as Transfer Agents," in E. Holton III and T. Baldwin (eds.), *Improving Learning Transfer in Organizations* (San Francisco: Jossey-Bass, 2003), pp. 243–70; A. Rossett, "That Was a Great Class, but ...," *Training and Development*, July 1997, p. 21.

[Manager support](#)

The degree to which trainees' managers emphasize the importance of attending training programs and stress the application of training content to the job.

The greater the level of manager support, the more likely that transfer of training will occur.²⁶ The basic level of support that a manager should provide is acceptance, that is, allowing trainees to attend training. The highest level of support is to participate in training as an instructor (teaching in the program). Managers who serve as instructors are more likely to provide lower-level support functions such as reinforcing use of newly learned capabilities, discussing progress with trainees, and providing opportunities to practice. Managers can also facilitate transfer through use of action plans. An [action plan](#) is a written document that includes the steps that the trainee and manager will take to ensure that training transfers to the job. The action plan includes (1) a goal identifying what

training content will be used and how it will be used (project, problem); (2) strategies for reaching the goal, including resources needed; (3) strategies for getting feedback (such as meetings with the manager); and (4) expected outcome (what will be different?). The action plan includes a schedule of specific dates and times when the manager and trainee agree to meet to discuss the progress being made in using learned capabilities on the job.

[Action plan](#)

A document summarizing what the trainee and manager will do to ensure that training transfers to the job.

AARP's CONNECT training program includes instructor-led courses, web-based training, peer teaching, social learning, and on-the job resources that promote transfer of what the trainees learn.²⁷ Trainees focus on learning one competency such as decision making or collaboration. To facilitate learning and transfer of training trainees' page 290managers provide support and encouragement. Managers whose employees are participating in the program are required to attend an online course that helps them become more effective coaches. Managers are asked to meet with the trainee before, during, and after the program to help them understand how their skills can be applied in their current job. For example, after trainees complete the course their managers work with them to use their skills to help achieve department goals. Getting manager support and involvement has resulted in high levels of training transfer. Eighty-eight percent of managers and trainees report they have frequently used the skills they learned on the job.

Peer Support

Transfer of training can also be enhanced by creating a support network among the trainees.²⁸ A [support network](#) is a group of two or more trainees who agree to meet and discuss their progress in using learned capabilities on the job. This may involve face-to-face meetings, communications via e-mail, or interactions on an electronic social network similar to Facebook. Trainees may share successful experiences in using training content on the job. They also might discuss how they obtained resources needed to use training content or how they coped with a work environment that interfered with the use of training content.

[Support network](#)

Trainees who meet to discuss their progress in using learned capabilities on the job.

Trainers also might use a newsletter to show how trainees are dealing with transfer of training issues. Distributed to all trainees, the newsletter might feature interviews with trainees who have been successful in using new skills. Trainers may also provide trainees with a mentor—a more experienced employee, or even a peer who previously attended the same training program. The mentor can provide advice and support related to transfer of training issues (e.g., how to find opportunities to use the learned capabilities). At Signature Consultants, an information technology staffing company, every employee is considered a trainer because they share responsibility for learning.²⁹ Also, mentors trained by the training and development team help current employees understand career paths and development opportunities.

Opportunity to Use Learned Capabilities

Opportunity to use learned capabilities ([opportunity to perform](#)) refers to the extent to which the trainee is provided with or actively seeks experience with newly learned knowledge, skills, and behaviors from the training program.³⁰ Opportunity to perform is influenced by both the work environment and trainee motivation. One way trainees can use learned capabilities is through assigned work experiences (problems or tasks) that require their use. The trainees' manager usually plays a key role in determining work assignments. Opportunity to perform is also influenced by the degree to which trainees take personal responsibility to actively seek out assignments that allow

them to use newly acquired capabilities. Trainees given many opportunities to use training content on the job are more likely to maintain learned capabilities than trainees given few opportunities.³¹

[Opportunity to perform](#)

The trainee is provided with or actively seeks experience using newly learned knowledge, skills, or behavior.

Technological Support: Performance Support and Knowledge Management Systems

[Performance support systems](#) are computer applications that can provide, as requested, skills training, information access, and expert advice.³² Performance support may be used to enhance transfer of training by giving trainees an electronic information source that they can refer to as needed as they attempt to apply learned capabilities on the job.

[Performance support systems](#)

Computer applications that can provide (as requested) skills training, information access, and expert advice.

For example, to help support leadership training designed to foster a more diverse and inclusive culture, North Highland, a management consulting company, developed three-minute microlessons that prompted trainees to reflect and take action on what page 291 they learned.³³ The microlessons could be accessed using smartphones and other mobile devices. Reflections and actions were posted in an online site. Trainees posted almost 900 reflections and actions.

As discussed earlier in the chapter, many companies are using knowledge management systems to improve the creation, sharing, and use of knowledge. Western and Southern Financial Group uses a four-step knowledge transfer process.³⁴ The first step, Identify, involves company leaders and the talent development team identifying expertise possessed by subject experts and creating project teams to capture and retain the knowledge. In Initiate, the second step, teams are trained to share and document knowledge. The third step, Implement, occurs over three to four months during which teams share their knowledge retention and sharing plans. The last step, Inspect and Innovate, involves teams reviewing their and revising their plans. Western & Southern Financial Group also brings together groups to informally discuss business topics. The Knowledge Cafes have facilitated knowledge sharing and increased cooperation among employees.

Knowledge management systems often include [communities of practice](#). Communities of practice are groups of employees who work together, learn from each other, and develop a common understanding of how to get work accomplished. Consider Cathay Insurance's cloud-based community learning platform.³⁵ Employees have been trained to produce five-minute microlearning videos focused on job practices and relevant content and to store and access them on the platform. The platform facilitates knowledge sharing: learners can ask each other questions and participate in discussion groups. To encourage trainees' use of the platform, it includes competitions, point systems, and ranking boards. Ninety-four percent of all employees have downloaded from the platform, over 100 learning communities have been created, and there are over 35,000 messages posted.

[Communities of practice](#)

Groups of employees who work together, learn from each other, and develop a common understanding of how to get work accomplished.

Training programs should prepare employees to self-manage their use of new skills and behaviors on the job.³⁶ Specifically, within the training program, trainees should set goals for using skills or behaviors on the job, identify conditions under which they might fail to use them, identify the positive and negative consequences of using them,

and monitor their use of them. Also, trainees need to understand that it is natural to encounter difficulty in trying to use skills on the job; relapses into old behavior and skill patterns do not indicate that trainees should give up. Finally, because peers and supervisors on the job may be unable to reward trainees using new behaviors or to provide feedback automatically, trainees need to create their own reward system and ask peers and managers for feedback.

As you should have realized by now, learning and transfer of training are closely related. If training does not facilitate learning there is nothing to transfer to the job. Similarly, if employees do learn, transfer of training will not occur if the work environment does not support or actively discourages applying what was learned.

Selecting Training Methods

LO 7-5

Discuss the strengths and weaknesses of presentation, hands-on, and group training methods.

A number of different methods can help employees acquire new knowledge, skills, and behaviors. [Figure 7.5](#) provides an overview of the use of training methods across companies of all sizes. The instructor-led classroom remains the most frequently used training method. However, the use of online learning, mobile learning, social learning, and blended learning (i.e., a combination of approaches) for training continues to increase. Expectations are that this trend will continue.

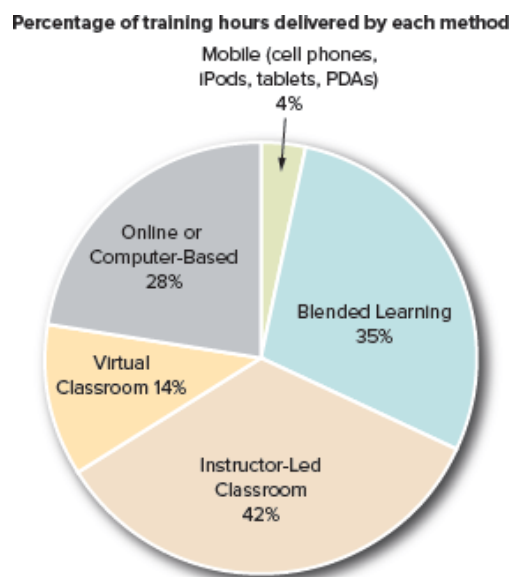


Figure 7.5 Overview of Use of Training Methods

SOURCE: "2020 Training Industry Report," *training*, November–December 2020, pp. 22–37.

Regardless of the training method, for training to be effective it needs to be based on the training design model shown in [Figure 7.2](#). Needs assessment, a positive learning environment, and transfer of training are critical for training program effectiveness.

Presentation Methods

[Presentation methods](#) refer to methods in which trainees are passive recipients of information. Presentation methods include traditional classroom instruction, distance learning, and audiovisual training. They can include the use of personal computers, smartphones, and tablet computers such as iPads. These methods are ideal for presenting new facts, information, different philosophies, and alternative problem-solving solutions or processes.

[Presentation methods](#)

Training methods in which trainees are passive recipients of information.

Instructor-Led Classroom Instruction. Classroom instruction typically involves having the trainer lecture a group. In many cases, the lecture is supplemented with question-and-answer periods, discussion, or case studies. Classroom instruction remains a popular training method despite new technologies such as interactive video and computer-assisted instruction. Traditional classroom instruction is one of the least expensive, least time-consuming ways to present information on a specific topic to many trainees. The more active participation, job-related examples, and exercises that the instructor can build in to traditional classroom instruction, the more likely trainees will learn and use the information presented on the job.

Distance Learning. Distance learning is used by geographically dispersed companies to provide information about new products, policies, or procedures as well as skills training and expert lectures to field locations.³⁷ Distance learning includes virtual classrooms, which have the following capabilities: projection of still, animated, and video images; instructor-participant audio discussion; sharing of computer software applications; interactions using instant polling technology; breakout rooms for learners to meet; and whiteboard marking tools.

Distance learning features two-way communications between people through the use of [webconferencing](#) software such as Zoom or Microsoft Teams.³⁸ First, it can include webconferencing. Webconferencing involves instruction that is provided online through live broadcasts. Trainees attend programs in facilities in which they can communicate with trainers (who are at another location) and other trainees using the telephone or personal computer. Second, distance learning can include a virtual classroom. You have probably personally experienced virtual classes in school or training at work during the pandemic through the use of web conferencing software such as Zoom or Microsoft Teams.

[Webconferencing](#)

Instruction that is provided online through live broadcasts.

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A [virtual classroom](#) refers to using a computer and the Internet to distribute instructor-led training to geographically dispersed employees. The potential advantages of the virtual classroom include its cost savings and convenience: geographically dispersed employees can be brought together for training for several hours each week, and content experts can be brought into the classroom as needed. Also, virtual classrooms offer opportunities for real-time interactions between the instructor and learners. Some of the most popular tools for encouraging interaction include live polls, hand-raising prompts, and video and multimedia streaming.³⁹

[Virtual classroom](#)

Using a computer and the Internet to distribute instructor-led training to geographically dispersed employees.

To continue training activities during the pandemic many companies converted classroom training to virtual instructor-led training. For example, Rollins, LLC, converted all training for its leadership development program for Orkin branch and service manager trainees (Orkin provides residential and commercial pest control services).⁴⁰ Each class has an instructor and a producer. The instructor focuses on delivering the content and engaging learners. The producer sets up breakout rooms, monitors chats and reactions, and cues up videos. Key learning points emphasized in the program are summarized into two-minute bites that are shared post-training with the learners. To ensure that the program was effective the training developers conducted quick polls with the class

each day and then gathered for a debrief to make necessary changes to content, create quizzes for the next day, and make any adjustments to the schedule.

The major disadvantage of distance learning is the potential for lack of interaction between the trainer and the audience. To help ensure that distance learning is effective, a high degree of interaction between trainees and the trainer is necessary.⁴¹ That's why establishing a communications link between employees and the trainer is important. Also, on-site instructors or facilitators should be available to answer questions and moderate question-and-answer sessions.

Audiovisual Training. Audiovisual training includes the use of overheads, slides, and video. It has been used for improving communication skills, interviewing skills, and customer service skills and for illustrating processes or following correct procedures (such as welding or medical procedures such as removing an appendix). Learners may not be required to attend a class. They can work independently, using materials in workbooks or on the Internet. PowerPoint or other presentation software and video or audio clips can also be used to show learning points, real-life experiences, and examples.

Audiovisual training can easily be made available on desktop computers, smartphones, and tablet computers. These devices allow users to access the materials at any time or place. They also allow instruction to include video clips, pod-casts, charts and diagrams, learning points, and lectures. This helps facilitate learning by appealing to a variety of the users' senses and by both communicating and demonstrating knowledge, skills, and behaviors.

For example, Ally Auto used video to show finance employees how cars move from the manufacturers to the dealership to the person who buys the car.⁴² Employees had previously indicated that they wanted to gain a stronger understanding of the big picture of what Ally Auto does. The video is accessible to employees working virtually, onsite, and as field agents. Also, the video uses storytelling and computer animation which appeals to many audiences regardless of their level of experience in the company. Aggreko, a power generation supplier, created a mobile app that employees can use to connect with and share pictures and video with each other.⁴³ All training handouts and handbooks that were printed are now page 294digital, which means they can be accessed as-needed on the job. The app can also be used to post pre- and post-training discussion questions. More than 300 courses can be accessed by employees who are located around the world.



Mobile technology is useful not only for entertainment but also for employees who travel and need to be in touch with the office. Smartphones, tablets, and other digital devices also give employees the ability to listen to and participate in training programs at their leisure.

Onoky Photography/SuperStock

The use of audiovisual training has a number of advantages. First, users have control over the presentation. They can review, slow down, or speed up the lesson, which permits flexibility in customizing the session depending on trainees' expertise. Second, trainees can be exposed to equipment, problems, and events that cannot be demonstrated easily in a classroom. Another advantage is that learners get a consistent presentation.

Most problems from these methods result from having too much content for the trainee to learn, overuse of humor or music, and drama that distracts from the key learning points.⁴⁴

Hands-On Methods

[Hands-on methods](#) are training methods that require the trainee to be actively involved in learning. Hands-on methods include on-the-job training, simulations, business games and case studies, behavior modeling, interactive video, and Web-based training. These methods are ideal for developing specific skills, understanding how skills and behaviors can be transferred to the job, experiencing all aspects of completing a task, and dealing with interpersonal issues that arise on the job.

[Hands-on methods](#)

Training methods that require the trainee to be actively involved in learning.

On-the-Job Training. [On-the-job training \(OJT\)](#) refers to new or inexperienced employees learning through observing peers or managers performing the job and trying to imitate their behavior. OJT can be useful for training newly hired employees, upgrading experienced employees' skills when new technology is introduced, cross-training employees within a department or work unit, and orienting transferred or promoted employees to their new jobs.

[On-the-job training \(OJT\)](#)

Peers or managers training new or inexperienced employees who learn the job by observation, understanding, and imitation.

OJT takes various forms, including apprenticeships and internships (discussed later in this section). OJT is an attractive training method because, compared to other methods, it needs less investment in time or money for materials, trainers' salaries, or instructional design. Managers or peers who are job knowledge experts are used as instructors. OJT must be structured to be effective. [Table 7.6](#) shows the principles of structured OJT.

Table 7.6 Principles of On-the-Job Training

PREPARING FOR INSTRUCTION
Break down the job into important steps.
Prepare the necessary equipment, materials, and supplies.
Decide how much time you will devote to OJT and when you expect the employees to be competent in skill areas.
ACTUAL INSTRUCTION
Tell the trainees the objective of the task and ask them to watch you demonstrate it.

Show the trainees how to do it without saying anything.
Explain the key points or behaviors. (Write out the key points for the trainees, if possible.)
Show the trainees how to do it again.
Have the trainees do one or more single parts of the task and praise them for correct reproduction (optional).
Have the trainees do the entire task and praise them for correct reproduction.
If mistakes are made, have the trainees practice until accurate reproduction is achieved.
Praise the trainees for their success in learning the task.

SOURCES: W. J. Rothwell and H. C. Kazanas, "Planned OJT Is Productive OJT," *Training and Development Journal*, October 1990, pp. 53–55; P. J. Decker and B. R. Nathan, *Behavior Modeling Training* (New York: Praeger Scientific, 1985).

For example, at Nomad Communications Solutions, a company that builds and equips disaster response trailers, each task in the manufacturing process is assigned to an employee expert who breaks every step into simple, easy-to-understand language.⁴⁵ The expert works alongside every new employee explaining the steps needed to complete their assigned task. The expert repeats steps that appear confusing to the new employee and asks questions to ensure that the employee understands what they are doing and are able to remember the steps.

[Apprenticeship](#) is a work-study training method with both OJT and classroom training. To qualify as a registered apprenticeship program under state or federal guidelines, at least 144 hours of classroom instruction and 2,000 hours, or one year, of on-the-job experience are required.⁴⁶ The hours and weeks that must be devoted to completing specific skill units are clearly defined. OJT involves assisting a certified trades-person (a journeyman) at the work site. The on-the-job training portion of the apprenticeship follows the guidelines for effective on-the-job training.⁴⁷ Apprenticeships can be sponsored by individual or groups of companies or by companies cooperating with a professional organization or a union. The majority of apprenticeship programs are in the skilled trades, such as plumbing, carpentry, electrical work, and bricklaying, but apprenticeship programs can be found in other occupations too.

[Apprenticeship](#)

A work-study training method with both on-the-job and classroom training.

For example, the Federation for Advanced Manufacturing Education (FAME) provides employers and apprentices with the skills they need to operate and repair machinery.⁴⁸ FAME pairs employers with community colleges. To be selected for page 295 FAME students interview with employers who evaluate their past grades, standardized test scores, and interpersonal skills. Each week students in FAME spend two days a week in class and three days on the shop floor. They learn how to maintain and repair machinery as well as subjects such as English and math and

teamwork skills. Students complete FAME in five semesters, earning an associate degree. After completing the program students usually work for the company that sponsored them. Dartmouth-Hitchcock Medical Center started its apprenticeship program to identify qualified candidates in medical coding and billing positions.⁴⁹ They couldn't find enough certified coders or individuals to train. Dartmouth-Hitchcock's curriculum includes a 13-week boot camp. All of the apprentices have passed a national coding exam. The program has worked so well and been so successful that the medical center used the apprenticeship model to train medical assistants and pharmacy technicians. The program has helped Dartmouth-Hitchcock find talented individuals who want to work but need to develop their skills to work in the medical field.

A major advantage of apprenticeship programs is that learners can earn pay while they learn. This is important because programs can last several years. Learners' wages usually increase automatically as their skills improve. Also, apprenticeships are usually effective learning experiences because they involve learning why and how a task is performed in classroom instruction provided by local trade schools, high schools, or community colleges. Apprenticeships also usually result in full-time employment for trainees when the program is completed. From the company's perspective, apprenticeship programs meet specific business needs and help to attract talented employees.

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There are several potential disadvantages of apprenticeship programs. One is that there is no guarantee that jobs will be available when the program is completed. Another disadvantage is that employers may not hire apprentices because they believe apprentices are narrowly trained in one occupation or with one company, and program graduates may have only company-specific skills and may be unable to acquire new skills or adapt their skills to changes in the workplace.

An [internship](#) is on-the-job learning sponsored by an educational institution or is part of an academic program. Students are placed in paid positions where they can gain experiences related to their area of study. For example, Ford, Whirlpool, and Rolls-Royce use interns in human resources and engineering positions. If interns perform well, many companies offer them full-time positions after they complete their studies.

[Internship](#)

On-the-job learning sponsored by an educational institution, or part of an academic program.

Simulations. A [simulation](#) is a training method that represents a real-life situation, with trainees' decisions resulting in outcomes that mirror what would happen if they were on the job. Simulations, which allow trainees to see the impact of their decisions in an artificial, risk-free environment, are used to teach production and process skills as well as management and interpersonal skills. Simulations can be used to train teams as well as individual trainees and are used for training pilots, cable installers, and call center employees.

[Simulation](#)

A training method that represents a real-life situation, allowing trainees to see the outcomes of their decisions in an artificial environment.

The Federal Bureau of Investigation (FBI) built a town in Virginia, Hogan's Alley, close to its academy to train FBI agents and other law enforcement officers.⁵⁰ In the town, which has an actual working Subway sandwich shop, FBI recruits and police officers practice different types of scenarios using paint guns and blank ammunition rather than the real thing. Hogan's Alley includes everything you might have in a town: bank, inn, stores, restaurants, homes, warehouses, and a movie theater. At Hogan's Alley, new agents are taught the latest tactical techniques and are immersed in realistic, stressful scenarios where they are expected to incorporate basic tactics, investigative techniques, firearms skills, and defensive tactics in order to make the right decision. Trainees can practice different scenarios in the simulated town including stopping terrorist plots, interviewing witnesses, arresting suspects in their hotel rooms, infiltrating drug smuggling schemes, and securing crime scenes. Suspects, known criminals, and

innocent bystanders (depending on the scenario) are played by paid actors.

One way to enhance simulations is through [virtual reality](#). Virtual reality is a computer-based technology that provides trainees with a three-dimensional (3-D) learning experience. Using specialized equipment or viewing the virtual model on the computer screen, trainees move through the simulated environment and interact with its components.⁵¹ Technology is used to stimulate multiple senses of the trainee.⁵² Devices relay information from the environment to the senses. For example, audio interfaces, gloves that provide a sense of touch, treadmills, or motion platforms are used to create a realistic, artificial environment. Devices also communicate information about the trainee's movements to a computer. These devices allow the trainee to experience the perception of actually being in a particular environment.

[Virtual reality](#)

Computer-based technology that provides trainees with a three-dimensional learning experience. Trainees operate in a simulated environment that responds to their behaviors and reactions.

BNSF Railway uses VR welding training simulators to accelerate employees' mastery of welding techniques and success.⁵³ The welding VR simulates the sights, sounds, and techniques of welding to help learners develop dexterity and muscle memory. Training using VR also saves on the raw materials, wire, and shielding gas that would be used in actual welding training. Instructors can help learners get more repetition and practice, reduce training time, and accelerate the certification process. Instructors can track student performance and progress in real time. The VR welding helmet immerses students in the environment. Instructors can see the welding from the student's viewpoint and give immediate feedback and adjustments. Historically, welding training was static and limited to available materials, tools, and lab set-up. This also led to injuries because employees were not ready for live learning environments.

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As you can see from the examples, simulations can be effective for several reasons.⁵⁴ First, trainees can use them on their desktop, eliminating the need to travel to a central training location. Second, simulations are meaningful, get trainees involved in learning, and are emotionally engaging (they can even be fun). This helps increase employees' willingness to practice, retain, and improve their skills. Third, simulators provide a consistent message of what needs to be learned; trainees can work at their own pace; and, compared to face-to-face instruction, simulators can incorporate more situations or problems that a trainee might encounter. Fourth, simulations can safely put employees in situations that would be dangerous in the real world. Fifth, simulations have been found to result in positive outcomes such as training being completed in a shorter time compared to traditional training courses, and providing a positive return on investment. Disadvantages of simulations include their cost and need for constant updating. This is because simulators must have elements identical to those found in the work environment. The simulator needs to respond exactly as the equipment (or customer) would under the conditioned response given by the trainee.⁵⁵

Augmented Reality. [Augmented reality \(AR\)](#) allows trainees see the physical world around them but their view includes virtual media.⁵⁶ AR brings digital elements into the physical world to enhance the information and context that people experience. The major difference between AR and virtual reality is that the physical reality is always present in AR. That is, AR provides information that supplements the real world the employee is working in while virtual reality creates an entirely artificial environment that the employee trains in.

[Augmented reality \(AR\)](#)

A training method in which trainees see the physical world around them but their view includes virtual media.

For example, NTPC, an India-based utility company, uses mixed reality (both VR and AR) to teach employees the skills needed to dismantle, repair, and reassemble electric turbines.⁵⁷ NTPC uses smartglasses with Microsoft HoloLens technology. The glasses allow trainees to see both the turbine in a virtual environment and the instructor

in the real world.

Games and Case Studies. Games that require trainees to gather information, analyze it, and make decisions as well as case studies (situations that trainees study and discuss) are used primarily for management skill development.

Games can be played face-to-face or accessed through apps or notebook computers. [Serious games](#) refer to games in which the training content is turned into a game but has business objectives.⁵⁸ *Gamification* means that game-based strategies are applied to e-learning programs. Games enhance learning by providing a fun way to learn, use leaderboards to increase learners' motivation by capitalizing on their competitiveness, and incorporate levels that require learners to demonstrate they are competent in prerequisite knowledge and skills (by achieving certain scores) before learning more challenging knowledge and skills.

[Serious games](#)

Games in which the training content is turned into a game but has business objectives.

Games stimulate learning because participants are actively involved and they mimic the competitive nature of business. The types of decisions that participants make in games include all aspects of management practice, including labor relations (such as agreement in contract negotiations), marketing (the price to charge for a new product), and finance (financing the purchase of new technology). A realistic game or case may stimulate more learning than presentation methods (such as classroom instruction) because it is more meaningful.

Consider how PwC and Walmart use games.⁵⁹ PwC uses a live app-based trivia game, PowerUp! The game is designed to motivate the firm's more than 50,000 U.S. employees to obtain knowledge on digital upskilling topic areas such as data, analytics, artificial intelligence, automation, and blockchain. Two live ten-minute games are offered two times each week. Players can join an existing team, form their own team, or play as an individual. Each game includes ten questions focused on a digital topic and strategic initiatives. Results are posted on leaderboards and individuals and team winners receive prizes. Results showed that half of the employees played the game at least once, with 62% playing five or more games. Walmart provides its employees with page 298an app that gives them access to Spark City, a game to help them understand a day in the life of an hourly supervisor. Players design an avatar and then use that avatar to make decisions about inventory, staffing, and customer service in a dry grocery department. Users of the game include employees currently in the department manager supervisor role and others who want to experience the role to see if it interests them such as a cashier who works at a register.

There are many sources of case studies, including Harvard Business School and the Darden Business School at University of Virginia. Cases may be especially appropriate for developing higher-order intellectual skills such as analysis, synthesis, and evaluation. These skills are often required by managers, physicians, and other professional employees. Cases also help trainees develop the willingness to take risks given uncertain outcomes, based on their analysis of the situation. To use cases effectively, the learning environment must let trainees prepare and discuss their case analyses. Also, face-to-face or electronic communication among trainees must be arranged. Because trainee involvement is critical for the effectiveness of the case method, learners must be willing and able to analyze the case and then communicate and defend their positions.

Behavior Modeling. Research suggests that behavior modeling is one of the most effective techniques for teaching interpersonal skills.⁶⁰ Each training session, which typically lasts four hours, focuses on one interpersonal skill, such as coaching or communicating ideas. Each session presents the rationale behind key behaviors, a video of a model performing key behaviors, practice opportunities using role-playing, evaluation of a model's performance in the video, and a planning session devoted to understanding how the key behaviors can be used on the job. In the practice sessions, trainees get feedback regarding how closely their behavior matches the key behaviors demonstrated by the model. The role-playing and modeled performance are based on actual incidents in the employment setting in which the trainee needs to demonstrate success.

Explain the potential advantages of e-learning for training.

E-Learning. [E-learning](#), *computer-based training*, *online learning*, and *Web-based training* refer to instruction and delivery of training by computer through the Internet or the Web.⁶¹ To enhance learning, these training methods can include and integrate the following into instruction: text; interaction using simulations and games; video; collaboration using blogs, wikis, and social networks; and hyperlinks to additional resources including other content and peer and expert networks. Online learning also gives the learner control. That is, the learner determines the pace at which they engage with the content, they can review if necessary, and they can skip over what they already know (often determined by completing a quiz). In some types of computer-based training, content is provided using standalone software with no connection to the Internet. Trainees can still interact with the training content, answer questions, and choose responses regarding how they would behave in certain situations, but they cannot collaborate with other learners.

[E-learning](#)

Instruction and delivery of training by computers through the Internet or company intranet.

Online learning, e-learning, and Web-based training all include delivery of instruction using the Internet or Web. The training program can be accessed using a password through the public Internet or the company's private intranet. There are many potential features that can be included in online learning to help trainees learn and transfer training to their jobs. For example, online programs that use video may make it an interactive experience for trainees. That is, trainees watch the video and have the opportunity to use the keyboard or touch the screen to answer questions, respond with how they would act in certain situations, or identify the steps they would take to solve a problem. Interactive video is especially valuable for helping trainees learn technical or interpersonal skills.

For example, Apple Federal Credit Union recognized that without reinforcing what employees learned they often forget or lapse back to old behaviors within three weeks after completing the courses.⁶² The talent development team designed page 299e-learning refresher modules to help employees retain and apply critical concepts: The five to fifteen minute e-learning modules include animated videos, a maze game, knowledge checks, and quizzes taken during the last module of each course. Results show that over 98% of employees who have completed the e-learning modules have retained the knowledge emphasized in the courses. The company also saved thousands of dollars in offering the refreshers using e-learning rather than instructor-led training.

Massive open online courses (MOOCs) is a new type of e-learning. [Massive open online courses \(MOOCs\)](#) is learning that is designed to enroll a large number of learners (massive); is free and accessible to anyone with an Internet connection (open); takes place online using videos of lectures, interactive course work including discussion groups, and wikis (online); and has specific start and completion dates, quizzes and assessment, and exams (courses).⁶³ MOOCs cover a wide variety of subject matter, including chemistry, math, physics, computer science, philosophy, mythology, health policy, cardiac arrest and resuscitation, and even poetry.

[Massive open online courses \(MOOCs\)](#)

Online learning designed to enroll large numbers of learners who have access to the Internet and composed of interactive coursework including video lectures, discussion groups, wikis, and assessment quizzes.

Popular providers of MOOCs include Coursera, edX (nonprofit founded by Harvard and MIT), and Udacity (a for-profit company founded by a Stanford University Research professor and founder of Google X Labs). The courses are often developed in partnership with colleges and universities and by private companies. For example, Udacity and AT&T created MOOC courses for nanodegrees, which provide AT&T's programmers with the opportunity to take a series of courses that prepare them for high-technology specializations such as software engineering, coding, or Web development. The World Bank developed a four-week MOOC for its clients to learn how to secure financing to achieve sustainable development goals, including eliminating hunger, achieving gender equality, and providing high-quality education and clean water.⁶⁴ The MOOC is taught by five World Bank instructors, government officials, and private-sector experts. Fifty thousand participants from several hundred

countries signed up for the course. The MOOC provided learners with the opportunity to talk to each other as well as listen to presentations. As a final course project, participants were asked to identify a development problem in their community and propose a financing solution based on what they learned in the course. This resulted in over 1,000 digital artifacts that could subsequently be used for developing financing solutions.

MOOCs have several advantages and disadvantages.⁶⁵ Their low cost, accessibility, and wide range of topics make them attractive to learners. They include many features that facilitate learning and transfer: Learning is interactive, learner controlled, involves social interaction, and emphasizes application. Learning happens through engaging short lectures combined with interaction with course materials, other students, and the instructor. It emphasizes applying knowledge and skills using role-plays, cases, and projects. It is semi-synchronous, meaning learners receive the same assignments, video lectures, readings, quizzes, and discussions, but they can complete the coursework on their own time. Also, many MOOCs offer college credit or certificates of completion, which provide incentives for learning and formal acknowledgement. However, despite claims that MOOCs will revolutionize training and education, they have significant disadvantages. Those who enroll in MOOCs tend to interact with them less over time, dropping off after the first two weeks of the course; course completion rates are low (10–20%), and most students who complete the courses don't take the credential exam. Surprisingly, only 5% of employees receive financial support from their companies for enrolling in MOOCs. However, providing employees with financial support for MOOCs does pay off. Employees who receive financial support have higher course completion rates and are less likely to look for job opportunities outside of their current employer.⁶⁶ MOOCs may also be inappropriate for courses where synchronous or real-time collaboration or interaction is needed. Finally, there are security concerns with MOOCs. It is difficult to determine if the person completing the course or program is actually the learner or someone else who is helping them.

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Mobile learning. [Mobile learning](#) refers to training that provides trainees with anytime and anywhere access to instructional resources such as videos, pdfs, simulations, games, or courses.⁶⁷ The instructional resources are accessible through a mobile device such as a smartphone, notebook computer, iPad, or even wearables such as Google Glasses.

[Mobile learning](#)

Training that provides trainees with anytime and anywhere access to instructional resources through a mobile device such as a smartphone, notebook computer, iPad, or even wearables such as Google Glasses.

Mobile learning shares all of the potential features of e-learning or online learning. But mobile learning is different from e-learning because trainees can use a greater variety of devices to access instructional resources. Also, mobile learning offers the opportunity to customize the learning delivered based on the features of the trainees' environment, such as when they are with a client or repairing a machine compared to when they are trying to learn a new skill during their free time.⁶⁸ Mobile learning can involve both formal and informal learning. Formal learning might include e-learning courses, podcasts, or videos on the mobile device. Informal learning includes engaging in communication and messaging with other employees or experts via Twitter, blogs, or Facebook. Mobile learning allows employees to generate content by creating video, taking photos, or recording an interview and sharing it with others. For example, at Two Men and a Truck, the moving company, an app gives employees access to courses available on its learning management system from any mobile device.⁶⁹ Another app links to short training videos employees can access on an as-needed basis while they are on the job.

One disadvantage of mobile learning is that texts, phone calls, alerts, and interruptions from other people at work or at home may distract trainees from learning when they are using their mobile devices. Another disadvantage is that the screen display may be too small (especially on smartphones), making it difficult for the learner to see the details in a video or play a serious game.

The [Competing through Technology](#) box highlights how artificial intelligence is being used to adapt training based on the trainee's current job, career interests, or level of skills or knowledge.

Blended Learning. Many companies are moving to a hybrid, or blended, learning approach because of the limitations of e-learning related to technology (e.g., insufficient bandwidth, lack of high-speed Web connections), trainee preferences for face-to-face contact with instructors and other learners, and employees' inability to find unscheduled time during their workday to devote to learning from their desktops. [Blended learning](#) refers to combining technology methods, such as e-learning, simulations, or social media, with face-to-face instruction, for delivery of learning content and instruction. Providence St. Joseph Health wanted nurse managers to receive training that they could apply to their jobs but didn't require long hours away from work.⁷⁰ They chose a blended learning solution that focused on enhancing leadership skills (such as goal setting, managing teams, leading change). The program consisted of four instructor-led training sessions and an online experience. The instructor-led training included creating small teams of nurse managers who shared ideas face-to-face. The online training included discussion boards allowing the nurses to network and continue to share ideas, additional leadership skill content, and assignments that required them to apply what they learned to their jobs.

[Blended learning](#)

Delivering content and instruction with a combination of technology-based and face-to-face methods.

Learning Management Systems. A [learning management system \(LMS\)](#) refers to a technology platform that can be used to automate the administration, development, and delivery of all of a company's training programs. An LMS can provide employees, managers, and trainers with the ability to manage, deliver, and track learning activities.⁷¹ LMSs are becoming more popular for several reasons. An LMS can help companies reduce travel and other costs related to training, reduce time for program completion, increase employees' accessibility to training across the business, and provide administrative capabilities to track program completion and course enrollments. An LMS allows companies to track all of the learning activity in the business. Restaurant company Yum! Brands is well known for its brands including KFC, Pizza Hut, page 301and Taco Bell.⁷² It has over 48,000 restaurant locations and a global workforce of over 1 million associates in 145 countries. To maintain the quality and consistent products and customer service it is known for, Yum! Brands needs high-quality and standardized training which it offers through its LMS (the "Learning Zone"). Yum! Brands has found that compared to traditional face-to-face instructor-led training, the Learning Zone allows for more employees to access and benefit from training while also cutting costs. On the LMS, Yum! employees can participate in serious games and access over 10,000 specific training courses that are unique to each of the three Yum! Brands. After completing training, employees are rewarded with a digital badge or points. In just six months after implementing Learning Zone, Yum! saw its employee training completion rates go from 15 percent to 79 percent.

[Learning management system \(LMS\)](#)

Technology platform that automates the administration, development, and delivery of a company's training program.



COMPETING THROUGH TECHNOLOGY

Artificial Intelligence Knows What Employees Need and Want to Learn

Artificial intelligence (AI) refers to the development of a system, such as a computer, a computer-controlled robot, or software, that can think intelligently like humans. AI is developed by studying how we think, learn, decide, and work while trying to solve a problem and then using this information to build intelligent software and systems.

Machine learning refers to artificial intelligence systems that learn. The systems learn by applying algorithms to data to identify user trends and patterns that inform future suggestions and data searches. Software can monitor

what trainees do and how they engage with online training content and then “learn” what types of other training courses it should suggest, when to provide training content, and provide training in the format (audio, video) that trainees prefer. Also, machine learning can be used to create a more personalized and customized learning experience for trainees similar to how Netflix works for television and Spotify for music.

For example, LinkedIn Learning is a website offering thousands of video-based courses in several languages. The topics include technical skills such as marketing with social media and using various kinds of software, as well as soft skills such as communication and time management. Many companies are providing employees with access to LinkedIn Learning because of the number of courses available, the variety of content, and its use of artificial intelligence to provide employees with training course recommendations based on their job title, completed courses, search history, and skills. Rosedin, an electrical construction services company, provides employees with competency maps which list the skills they need for their position. Each competency map provides recommendations to LinkedIn Learning content. Rosedin has found that LinkedIn Learning helps employees take greater control over their own training and engage in more training than if they just had the opportunity to take the courses the company offered. To help employees learn and practice important interpersonal skills Farmers Insurance is using VR and artificial intelligence (AI). The training scenarios use virtual environments, speech recognition, natural language processing, and realistic body language to simulate conversations with vendors and customers.

DISCUSSION QUESTION

How does the use of AI improve training effectiveness? Consider both the trainee’s and the company’s perspectives.

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Group- or Team-Building Methods

[Group- or team-building methods](#) are training methods designed to improve team or group effectiveness. Training is directed at improving the trainees’ skills as well as team effectiveness. In group-building methods, trainees share ideas and experiences, build group identity, understand the dynamics of interpersonal relationships, and get to know their own strengths and weaknesses and those of their co-workers. Group techniques focus on helping teams increase their skills for effective teamwork. All involve examination of feelings, perceptions, and beliefs about the functioning of the team; discussion; and development of plans to apply what was learned in training to the team’s performance in the work setting. Group-building methods fall into three categories: experiential programs, team training, and action learning.

[Group- or team-building methods](#)

Training methods that help trainees share ideas and experiences, build group identity, understand the dynamics of interpersonal relationships, and get to know their own strengths and weaknesses and those of their co-workers.

Experiential Programs. [Experiential programs](#) involve gaining conceptual knowledge and theory; taking part in a behavioral simulation or activity; analyzing the activity; and connecting the theory and activity with on-the-job or real-life situations.⁷³

[Experiential programs](#)

Training programs in which trainees gain knowledge and theory, participate in behavioral simulations, analyze the activity, and connect the theory and activity with on-the-job situations.

For experiential training programs to be successful, several guidelines should be followed. The program needs to tie in to a specific business problem. The trainees need to be moved outside their personal comfort zones but within limits so as not to reduce trainee motivation or ability to understand the purpose of the program. Multiple learning modes should be used, including audio, visual, and kinesthetic. When preparing activities for an experiential training program, trainers should ask trainees for input on the program goals. Clear expectations about the purpose, expected outcomes, and trainees' roles in the program are important. Finally, training programs that include experiential learning should be linked to changes in employee attitudes, behaviors, and other business results.

DaVita HealthCare Partners provides kidney-related health care services such as dialysis.⁷⁴ DaVita contracted with a training provider to develop a three-hour experiential learning activity that would be collaborative; have a sense of purpose; and reinforce the company's values of teamwork, fulfillment, and fun. The goals of the program were to understand the importance of their work, understand how team members relate to patients and to each other, and how to address challenges. The activity started with a discussion of the importance of communicating and collaborating for successful teamwork on the job. The 3000 employees who participated in the learning activity were divided into three-member teams and given the task of building prosthetic hands that would be donated to organizations serving amputees. Building the prostheses provided an opportunity for the achievement of the program's goals. The teams built more than 1,400 prostheses during the three-hour activity. The activity concluded with a discussion of ways to apply what they learned to their jobs at DaVita.

[Adventure learning](#), a type of experiential program, develops teamwork and leadership skills using structured outdoor activities.⁷⁵ Adventure learning appears to be best suited for developing skills related to group effectiveness, such as self-awareness, problem solving, conflict management, and risk taking. Adventure learning may involve strenuous, challenging physical activities such as dogsledding or mountain climbing. It can also use structured individual and group outdoor activities such as climbing walls, going through rope courses, making trust falls, climbing ladders, and traveling from one tower to another using a device attached to a wire that connects the two towers.

[Adventure learning](#)

Learning focused on the development of teamwork and leadership skills by using structured outdoor activities.

For example, 20 coders, marketing executives, and product team members from RealScout left their office and spent a day in the California mountains learning survival skills such as constructing shelters, purifying water, and starting a fire without matches.⁷⁶ The program cost \$2,000, in addition to the \$7,000–\$10,000 lost by shutting down the business for the day. RealScout executives believed the benefits of the adventure would outweigh its costs. They believed it helps develop stronger teams, allows employees to better know each other even if they don't work together on a daily basis, and gives employees a fun experience that will aid in retention.

Adventure learning can also include demanding activities that require coordination and place less of a physical strain on team members. For example, Cookin' Up Change is one of many team-building courses offered around

the United States by chefs, caterers, hotels, and cooking schools.⁷⁷ These courses have been used by companies such as Honda and Microsoft. The underlying idea is that cooking classes help strengthen communication and networking skills by requiring team members to work together to create a multiple-course meal. Each team has to decide who does what kitchen tasks (e.g., cooking, cutting, cleaning) and who prepares the main course, salads, or dessert. Often team members are required to switch assignments in the middle of preparation to see how the team reacts to change.

For adventure learning programs to succeed, the exercises should be related to the types of skills that participants are expected to develop. Also, after the exercises, a skilled facilitator should lead a discussion about what happened in the exercise, what was learned, how the exercise relates to the job situation, and how to set goals and apply what was learned on the job.⁷⁸

Does adventure learning work? Participants often report that they gained a greater understanding of themselves and the ways they interact with their co-workers. One key to the success of an adventure learning program may be the insistence that whole work groups participate together so that group dynamics that inhibit effectiveness can emerge and be discussed.

The physically demanding nature of adventure learning and the requirement that trainees often have to touch each other in the exercises may increase the company's risk for negligence claims due to personal injury, intentional infliction of emotional distress, and invasion of privacy. Also, the Americans with Disabilities Act (discussed in [Chapter 3](#)) raises questions about requiring employees with disabilities to participate in physically demanding training experiences.

Team Training. Team training coordinates the performance of individuals who work together to achieve a common goal. Such training is an important issue when information must be shared and individuals affect the overall performance of the group. For example, in the military as well as the private sector (think of nuclear power plants or commercial airlines), much work is performed by crews, groups, or teams. Success depends on team performance, coordination of individual activities to make decisions, and readiness to deal with potentially dangerous situations (like an overheating nuclear reactor).

Team training strategies include cross-training and coordination training.⁷⁹ In [cross-training](#), team members understand and practice each other's skills so that members are prepared to step in and take another member's place. [Coordination training](#) trains the team in how to share information and decisions to maximize team performance. Coordination training is especially important for commercial aviation and surgical teams, who monitor different aspects of equipment and the environment but must share information to make the most effective decisions regarding patient care or aircraft safety and performance. [Team leader training](#) refers to training of the team manager or facilitator. This may involve training the manager on how to resolve conflict within the team or how to help the team coordinate activities or other team skills.

[Cross-training](#)

Training in which team members understand and practice each other's skills so that members are prepared to step in and take another member's place should he or she temporarily or permanently leave the team.

[Coordination training](#)

Training a team in how to share information and decision-making responsibilities to maximize team performance.

[Team leader training](#)

Training of the team manager or facilitator.

For example, United Airlines had its supervisors "lead" ramp employees in attending Pit Instruction & Training (Pit Crew U), which focuses on the preparation, practice, and teamwork of NASCAR pit crews. United used the training to develop standardized methods to safely and efficiently unload, load, and send off its airplanes.⁸⁰ Pit Instruction &

Training, located outside of Charlotte, North Carolina, has a quarter-mile race track and a pit road with places for six cars. The school offers programs to train new racing pit crews, but most of its business comes from companies interested in having their teams work as safely, efficiently, and effectively as NASCAR pit crews. The training was part of a multimillion-dollar investment that includes updating equipment and providing luggage scanners. The purpose of the training is to reinforce the need for ramp teams to be orderly and communicate, to help standardize tasks of ramp team members, to help shorten the time an airplane is serviced at the gate, and to improve morale.

The keys for safety, speed, and efficiency for NASCAR pit crews are that each member knows what tasks to do (change tires, use an air gun, add gasoline, clean up spills) and when the crew has finished servicing the race car, it moves new equipment into position anticipating the next pit stop. The United training involved the ramp workers actually working as pit crews. They learned how to handle jacks, change tires, and fill fuel tanks on race cars. They were video-recorded and timed just like real pit crews. They received feedback from professional pit crew members who work on NASCAR teams and trainers. Also, the training requires them to deal with circumstances they might encounter on the job. For one pit stop, lug nuts had been sprinkled intentionally in the area where the car stops to see if the United employees would notice them and clean them up. On their jobs, ramp employees are responsible for removing debris from the tarmac so that it doesn't get sucked into jet engines or harm equipment. For another pit stop, teams had to work with fewer members, as sometimes occurs when ramp crews are understaffed due to absences.

Action Learning. In [action learning](#), teams or work groups get an actual business problem, work on solving it and commit to an action plan, and are accountable for carrying out the plan.⁸¹ Typically, action learning involves between 6 and 30 employees; it may also include customers and vendors. There are several variations on the composition of the group. In one variation, the group includes a single customer for the problem being dealt with. Sometimes the groups include cross-functional team members (members from different company departments) who all have a stake in the problem. Or the group may involve employees from multiple functions who all focus on their own functional problems, each contributing to helping solve the problems identified. Action learning is often part of quality improvement processes such as Six Sigma training and Kaizen. *Kaizen*, the Japanese word for improvement, is one of the underlying principles of lean manufacturing and total quality management (lean thinking is discussed in [Chapter 1](#)).

[Action learning](#)

Training in which teams work on an actual business problem, commit to an action plan, and are accountable for carrying out the plan.

Consider how University Health System and PepsiCo used action learning to solve important and complex business problems.⁸² At University Health System, nine cross-functional teams of managers who otherwise would not work together worked on separate business problems. These problems included how to increase patient satisfaction, reduce billing errors, and enhance inventory control. Each team was asked to present its solution to what was called the Shark Tank—three senior executives and the CEO for pediatric services, who served as “sharks.” As each team presented their ideas, the sharks provided coaching and feedback. The problem solutions helped University Health System save millions of dollars and improved patient satisfaction. PepsiCo employed action learning when it wanted to train managers to take a global perspective on the company's strategy. Leslie Teichgraeber, who led the training programs, observed that most managers were familiar only with their local or national markets. So she assembled teams of managers from various locations and assigned each team to solve problems related to business needs that had been identified by the heads of their units. At the end of nine months, they presented their ideas to PepsiCo executives.

Advice for Selecting a Training Method

LO 7-7

Design a training session to maximize learning.

Given the large number of available training methods, the task of choosing one may seem difficult. One way to choose a training method is to compare methods. The first step in choosing a method is to identify the type of learning outcome the training is to influence. These outcomes include verbal information, intellectual skills, cognitive strategies, attitudes, motor skills, or some combination. Training methods may influence one or several learning outcomes.

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There is considerable overlap between learning outcomes across the training methods. Group-building methods are unique because they focus on individual as well as team learning (e.g., improving group processes). One of the group-building methods (e.g., experiential learning, team training, action learning) would be appropriate if the goal is to improve the effectiveness of groups or teams. Second, comparing the presentation methods to the hands-on methods illustrates that most hands-on methods provide a better learning environment and transfer of training than do the presentation methods.

E-learning or blended learning can be an effective training method for geographically dispersed trainees. E-learning and other technology-driven training methods have higher development costs, but travel and housing cost savings will likely offset development costs over time. A blended learning approach can take advantage of the positive features of both face-to-face and technology-based instruction. For example, Bankers Life, an insurance company, revised its new sales agents training program to appeal to the way millennials want to learn and use new technology. It segments learning into small modules that build on each other.⁸³ Each module includes online coursework, debrief, role-play, and training in the field. Intermedia Inc., a business services company, uses virtual instructor-led training including video, e-learning modules, lab activities, and role plays to train its agents.⁸⁴ Agents are able to access any of the training content after they are back in the field, which helps them review what they have learned and keep their skills updated.

A final but important consideration is the training budget. If the budget for developing new training methods is limited, then structured on-the-job training is a good choice. It is a relatively inexpensive yet effective hands-on method. Hands-on methods that facilitate transfer of training, such as simulators, are feasible with a larger budget.

Evaluating Training Programs

LO 7-8

Choose appropriate evaluation design and training outcomes based on the training objectives and evaluation purpose.

Training evaluation can provide useful information, including the program's strengths and weaknesses, identifying which learners benefited most and least from participating, determining the program's financial benefits and costs, and allowing the comparison of the benefits and costs of different programs.

Examining the outcomes of a program helps in evaluating its effectiveness. These outcomes should be related to the program objectives, which help trainees understand the purpose of the program. [Training outcomes](#) can be categorized as cognitive outcomes, skill-based outcomes, affective outcomes, results, and return on investment.⁸⁵ [Table 7.7](#) shows the types of outcomes used in evaluating training programs and what is measured and how it is measured.

Table 7.7 Outcomes Used in Evaluating Training Programs

OUTCOME	WHAT IS MEASURED	HOW IT IS MEASURED	EXAMPLE
Cognitive outcomes	Acquisition of knowledge	- Pencil-and-paper tests - Work sample	- Safety rules - Electrical principles - Steps in appraisal interview
Skill-based outcomes	- Behavior - Skills	- Observation - Work sample - Ratings	- Jigsaw use - Listening skills - Coaching skills - Airplane landings
Affective outcomes	- Motivation - Reaction to program - Attitudes	- Interviews - Focus groups - Attitude surveys	- Satisfaction with training - Beliefs regarding other cultures
Results	Company payoff	- Observation - Data from information system or performance records	- Absenteeism - Accidents - Patents
Return on investment	Economic value of training	Identification and comparison of costs and benefits of the program	Dollars

Training outcomes

A way to evaluate the effectiveness of a training program based on cognitive, skill-based, affective, and results outcomes.

Verizon created Sales Leadership Academy (SLA) for all of the company's over 6,000 Verizon Wireless Retail Sales leaders.⁸⁶ The objective of SLA was to engage, enable, and empower the retail leaders to deliver strong financial results while providing the leadership needed to change the retail business over the next three years. Verizon uses several outcomes to evaluate the effectiveness of SLA. The outcomes included participants' confidence they could apply the knowledge and skills emphasized in the program on the job (affective outcomes), actual knowledge gained (cognitive outcomes), survey results of leadership behaviors such as engaging and empowering their direct reports (skill-based outcomes), and key retail performance indicators, including average transaction time and average credits per sales transaction (results outcomes).

Which training outcomes measure is best? The answer depends on the training objectives. For example, if the instructional objectives identified business-related outcomes such as increased customer service or product quality, then results outcomes should be included in the evaluation. Both reaction and cognitive outcomes are usually collected before the trainees leave the training site. As a result, these measures do not help determine the extent to which trainees actually use the training content in their jobs (transfer of training). Skill-based, affective, and results outcomes measured following training can be used to determine transfer of training—that is, the extent to which training has changed behavior, skills, or attitudes or directly influenced objective measures related to company effectiveness (such as sales).

Evaluation Designs

As shown in [Table 7.8](#), a number of different evaluation designs can be applied to training programs. [Table 7.8](#) compares each evaluation design on the basis of who is involved (trainees and/or a comparison group that does not receive training or receives a different type of training), when outcome measures are collected (pre-training, posttraining), the costs, the time needed to conduct the evaluation, and the strength of the design for ruling out alternative explanations for the results (e.g., are improvements due to factors other than the training?). In general, designs that use pretraining and posttraining measures of outcomes and include a comparison group reduce the risk that factors other than training itself are responsible for the evaluation results. This builds confidence to use the results to make decisions. The trade-off is that evaluations using these designs are more costly and time consuming to conduct than evaluations not using pretraining or posttraining measures or comparison groups.

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Table 7.8 Comparison of Evaluation Designs

DESIGN	GROUPS	MEASURES				
		PRETRAINING	POSTTRAINING	COST	TIME	STRENGTH
Posttest only	Trainees	No	Yes	Low	Low	Low
Pretest/posttest	Trainees	Yes	Yes	Low	Low	Medium
Posttest only with comparison group	Trainees and comparison	No	Yes	Medium	Medium	Medium
Pretest/posttest with comparison group	Trainees and comparison	Yes	Yes	Medium	Medium	High
Time series	Trainees	Yes	Yes, several	Medium	Medium	Medium

For example, if a manager is interested in comparing the effectiveness of two programs—that is, determining how much outcomes (knowledge, affect, skills, behavior, results) have changed as a result of one program compared to another—then a pretest/posttest comparison group design is necessary. The [Evidence-Based HR](#) box highlights PwC’s use of a post-test only with comparison group design comparing three different training methods for a diversity and inclusion course.

Many companies are interested in determining the financial benefits of learning, including training courses and programs, and development activities (see [Chapter 9](#)). One way to do this is by determining return on investment (ROI). [Return on investment \(ROI\)](#) refers to the estimated dollar return from each dollar invested in learning. Keep in mind that ROI is not a substitute for outcomes that also provide an indication of the success or usefulness of learning, such as trainees’ reactions, knowledge acquisition, or behavior change. Also, ROI is best suited for outcomes that can be quantified, such as quality, accidents, or turnover. Otherwise, you will have to make an educated guess about the value of the outcome. For example, how do you value increased leadership skills?

[Return on investment \(ROI\)](#)

Refers to the estimated dollar return from each dollar invested in learning.



EVIDENCE-BASED HR

PwC was interested in determining the effectiveness of a diversity and inclusion class offered in three different instructional formats (in class, online, and using virtual reality (VR) technology). The in-class format ran for two hours; facilitators used videos, reflection exercises, and discussion topics. For the online version, learners were afforded increased flexibility and could use their laptops to complete the 45-minute course at any time. Learners were guided through the same activities as the classroom version. The learners who used VR wore head-mounted displays. Instead of watching a video, the learner would be one of the team members participating in the discussion. Post-training measures supported the use of VR technology for training. VR learners were more confident in discussing issues of diversity and inclusion as well as in acting on what they had learned.

SOURCE: Based on D. Thompson, "Is VR the Solution for Softskills Training?" *TD*, January 2021, pp. 10–11.

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Determining the Financial Benefits of Learning

To make an ROI analysis, follow these steps:⁸⁷

Identify outcomes (e.g., quality, accidents).

Place a value on the outcomes.

Determine the change in performance after eliminating other potential influences on training results.

Obtain an annual amount of benefits (operational results) from training by comparing results after training to results before training (in dollars).

Determine the training costs (direct costs + indirect costs + development costs + overhead costs + compensation for trainees).

Calculate the total savings by subtracting the training costs from benefits (operational results).

Calculate the ROI by dividing benefits (operational results) by costs. The ROI gives an estimate of the dollar return expected from each dollar invested in training.

ROI can be measured and communicated based on a percentage or a ratio. For example, assume that a new safety training program results in a decline of 5% in a company's accident rate. This provides a total annual savings (the benefit) of \$150,000 in terms of lost workdays, material and equipment damage, and workers' compensation costs. The training program costs \$50,000 to implement (including both direct and indirect costs). To calculate the ROI, you need to subtract the training costs from the benefits, divide by the costs, and multiply by 100. That is, $ROI = [(150,000 - 50,000) \div 50,000] \times 100\% = 200\%$. The ROI for this program is 200%. Another way to think about ROI is to consider it as a ratio based on the return for every dollar spent. In this example, the company gained a net benefit of \$2 for every dollar spent. This means the ROI is 2:1. Verizon compared a group of customer service representatives who had the opportunity to watch customer service scenarios, practice and record their responses, and receive feedback (the training group) with another group who only watched the videos but did not practice (comparison group).⁸⁸ They found that the training group had a 71% increase in acquiring new customers compared to the comparison group. To calculate the ROI, Verizon considered development costs, compensation costs, and costs for materials, instructors, and coaches. They found that the training resulted in a \$1.4 million increase in revenue over three months.

Special Training Issues

LO 7-9

Design a cross-cultural preparation program.

To meet the competitive challenges of sustainability, globalization, and technology discussed in [Chapter 1](#), companies must successfully deal with several special training issues. The special training issues include preparing employees to work in different cultures abroad, managing workforce diversity, and orienting and socializing new employees.

Cross-Cultural Preparation

As we mentioned in [Chapter 1](#), companies today are challenged to expand globally. Because of the increase in global operations, employees often work outside their country of origin or work with employees from other countries. An [expatriate](#) works in a country other than his or her country of origin. The most frequently selected locations for long-term expatriate assignments include the United States, China, Germany, United Kingdom, and France.⁸⁹ Many U.S. companies are using expatriate assignments as a training tool. For example, through cross-cultural assignments expatriates can acquire knowledge, skills, build their professional network, gain economically by earning a higher salary, and stimulate creativity and innovation.⁹⁰

[Expatriate](#)

Employee sent by his or her company to manage operations in a different country.

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We discuss international human resource management in detail in [Chapter 15](#). Here the focus is on understanding how to prepare employees for expatriate assignments. [Cross-cultural preparation](#) educates employees (expatriates) and their families who are to be sent to another country. To successfully conduct business in the global marketplace, employees must understand the business practices and the cultural norms of different countries.

[Cross-cultural preparation](#)

The process of educating employees (and their families) who are given an assignment in a foreign country.

Steps in Cross-Cultural Preparation

To succeed overseas, expatriates (employees on foreign assignments) need to be

- Competent in their areas of expertise.

- Able to communicate verbally and nonverbally in the host country.

- Flexible, tolerant of ambiguity, and sensitive to cultural differences.

- Motivated to succeed; able to enjoy the challenge of working in other countries; and willing to learn about the host country's culture, language, and customs.

- Supported by their families.⁹¹

One reason U.S. expatriates often fail is that companies place more emphasis on developing employees' technical skills than on preparing them to work in other cultures. This has resulted in failed overseas assignments, which

means companies don't fully capitalize on business opportunities and incur costs for replacing employees who leave the company after returning to the United States.⁹² Research suggests that the comfort of an expatriate's spouse and family is the most important determinant of whether the employee will complete the assignment.⁹³ Studies have also found that personality characteristics are related to expatriates' desire to terminate the assignment and also their performance in the assignment.⁹⁴ Expatriates who were extroverted (outgoing), agreeable (cooperative and tolerant), and conscientious (dependable, achievement oriented) were more likely to want to stay on the assignment and perform well. This suggests that cross-cultural training may be effective only when expatriates' personalities predispose them to be successful in assignments in other cultures. The key to a successful foreign assignment is a combination of training and career management for the employee and family.

Predeparture Phase

Before departure, employees need to receive language training and an orientation to the new country's culture and customs. English is the common language at many multinational companies. But failing to speak the native language can cause employees to risk being misinterpreted or fail to understand informal conversations. Speaking and understanding the local language can help employees avoid misunderstandings and gain greater respect from business partners, subordinates, and customers. For example, Campari Group, the beverage company known for its adult beverages including Grand Marnier, Skyy Vodka, and Wild Turkey, has 4000 employees around the world.⁹⁵ Although the English language is often the choice when communicating with clients and other employees from different countries, speaking it is a challenge for those for whom it is not their native language. As a result, Campari hired a training company to develop an English language program that includes self-paced lessons and virtual classes that are customized to the types of business conversations employees are likely to experience in their work. The language program includes content on current events and trends which keeps learners interested in understanding it. It also provides learners with the opportunity to gain exposure to common expressions and casual conversational terms that are often used by native English-speaking employees and clients.

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Cross-cultural training methods include presentational techniques, such as lectures that expatriates and their families attend on the customs and culture of the host country, immersion experiences, or actual experiences in the home country in culturally diverse communities.⁹⁶ Sodexo provides instructor-led courses for its global leaders on how to build a globally competent workforce and how to develop trust, collaborate, and communicate effectively across cultures.⁹⁷ Sodexo also provides research summaries, TED Talks, and articles on topics such as managing global virtual teams and communication across culture that company leaders can access from the company's intranet. Experiential exercises allow expatriates to spend time with a family from the ethnic group of the host country while still in the United States.

It is critical that the family be included in orientation programs.⁹⁸ Expatriates and their families need information about housing, schools, recreation, shopping, and health care facilities in the areas where they will live. Expatriates also must discuss with their managers how the assignment fits into their career plans and what types of positions they can expect upon return.

Research suggests that the degree of difference between the United States and the host country (cultural novelty), the amount of interaction with host country citizens and host nationals (interaction), and the familiarity with new job tasks and work environment (job novelty) all influence the "rigor" of the cross-cultural training method used.⁹⁹ Hands-on and group-building methods are most effective (and most needed) in assignments with a high level of cultural and job novelty that require a good deal of interpersonal interaction with host nationals.

On-Site Phase

On-site training involves continued orientation to the host country and its customs and cultures through formal programs or through a mentoring relationship. Expatriates should be encouraged to develop social relationships both inside and outside of the workplace.¹⁰⁰ Expatriates and their families may be paired with an employee from the host country who helps them understand the new, unfamiliar work environment and community.¹⁰¹ Companies are also using the Web to help employees on expatriate assignments get answers to questions.¹⁰² Expatriates can use a website to get answers to questions such as, How do I conduct a meeting here? or What religious philosophy might have influenced today's negotiation behavior? Knowledge management software allows employees to contribute, organize, and access knowledge specific to their expatriate assignment.

A major reason employees refuse expatriate assignments is that they can't afford to lose their spouse's income or are concerned that their spouse's career could be derailed by being out of the workforce for a few years.¹⁰³ Some "trailing" spouses decide to use the time to pursue educational activities that could contribute to their long-term career goals. But it is difficult to find these opportunities in an unfamiliar place. To avoid these problems, companies are introducing more flexible expatriate assignments. This can include reducing the amount of time on the assignment, commuting between the home country and host country assignment, and rotational assignments in which employees alternate between working abroad and living back home.¹⁰⁴ Also, to help reduce the stress expatriate assignments can place on spouses and families who are living apart, companies are supporting more frequent family visits to the expatriate in their host country and expatriate visits to home. A Cypriot working at the World Bank in Washington, D.C., does several things to stay connected to home.¹⁰⁵ She and her children visit frequently. She pays for satellite television so that her children can relate to Cypriot pop culture so they share a common bond with their friends. She also employs a nannie who speaks Greek and lives in an area where there is a strong Greek and Cypriot community.

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Repatriation Phase

[Repatriation](#) prepares expatriates for return to the parent company and country. Expatriates and their families are likely to experience high levels of stress and anxiety when they return because of the changes that have occurred since their departure. Employees should be encouraged to self-manage the repatriation process.¹⁰⁶ Before they go on the assignment, they need to consider what skills they want to develop and the types of jobs that might be available in the company for an employee with those skills. Because the company changes and colleagues, peers, and managers may leave while the expatriate is on assignment, they need to maintain contact with key company and industry contacts. Otherwise, on return the employees' reentry shock will be heightened when they have to deal with new colleagues, a new job, and a company culture that may have changed. This includes providing expatriates with company newsletters and community newspapers and ensuring that they receive personal and work-related mail from the United States while they are on assignment. Employees and their families sometimes have to readjust to a lower standard of living in the United States than they had in the host country, where they may have enjoyed maid service, a limousine, private schools, and clubs. Salary and other compensation arrangements should be worked out well before employees return from overseas assignments.

[Repatriation](#)

The preparation of expatriates for return to the parent company and country from a foreign assignment.



Visit your instructor's Connect® course and access your eBook to view this video.



“Diversity is when you’re invited to the party. Inclusion is when someone actually asks you to dance.”

—Mirian M. Graddick-Weir Executive Vice President, Human Resources, Merck

Video produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Film-works

Aside from reentry shock, many expatriates decide to leave the company because the assignments they are given upon returning to the United States have less responsibility, challenge, and status than their assignments in other countries.¹⁰⁷ For example, consider how Monsanto Company, Asurion, and L’Oreal help employees with repatriation.¹⁰⁸ Monsanto identifies potential return positions before employees even begin their overseas assignment. Asurion, the phone, electronics, and appliance insurer, assigns expatriates to higher level managers who are responsible for finding them a new position when they return. To help expatriates integrate back into the company and feel welcome when they return, L’Oreal invites them to attend orientation and socialization programs as if they were new employees. This is especially important for expatriates on long assignments who are likely not familiar with changes in processes, products, and services and new employees who joined the company.

Managing Workforce Diversity and Inclusion

LO 7-10

Develop a program for effectively managing diversity.

Companies are using training and management practices to foster and capitalize on diversity, equity, and inclusion. Recall our discussion of diversity, equity, and inclusion in [Chapter 1. Managing diversity, equity, and inclusion](#) involves creating an environment that allows all employees to contribute to organizational goals and experience personal growth. This environment includes access to jobs, as well as fair and positive treatment of all employees. The company must develop employees who are comfortable working with people from a wide variety of ethnic, racial, and religious backgrounds. Managing diversity may require changing the company culture. It includes the company’s standards and norms about how employees are treated, competitiveness, results orientation, innovation, and risk taking. The value placed on diversity is grounded in the company culture. Diversity, equity, and inclusion can help companies gain a competitive advantage. Important outcomes expected from diversity practices include improved public image of the company, improved financial bottom line, decreased complaints and litigation, and retention and recruitment of a page 312diverse workforce.¹⁰⁹ Also, companies that actively recruit and support talent from underrepresented groups are 70% more likely to capture new markets than organizations that do not.

[Managing diversity, equity, and inclusion](#)

Involves creating an environment that allows all employees to contribute to organizational goals, feel a sense of belongingness and being fairly treated, and experience personal growth.

Diversity training, unconscious bias training, and ally training are important parts of managing diversity and inclusion but alone they are insufficient to capitalize on the value of a diverse workforce.¹¹⁰ [Diversity training](#) refers to learning efforts designed to change employee attitudes about diversity or to develop skills needed to work with a diverse workforce. The goals of diversity training are (1) to eliminate values, stereotypes, and managerial practices that inhibit employees' personal development; and therefore (2) to allow employees to contribute to organizational goals regardless of their race, sexual orientation, gender, family status, religious orientation, or cultural background.¹¹¹

[Diversity training](#)

Refers to learning efforts that are designed to change employees' attitudes about diversity and/or develop skills needed to work with a diverse workforce.

Research shows that diversity training has the largest effect on understanding and awareness of diversity and significant but smaller effects on behavior and attitudes. The positive effects of diversity training are greater when it is part of a larger managing-diversity effort, focused on both awareness and skills development, and sufficient time is devoted to it.¹¹² The most common area addressed through diversity training is the pervasiveness of stereotypes, assumptions, and biases.¹¹³

Unconscious bias is one specific type of bias that companies are addressing through training. [Unconscious bias](#) is a judgment outside of our consciousness that affects decisions based on background, culture, and personal experience. We are all subject to unconscious bias. For example, one way unconscious bias can affect us is through the attributions or reasons we use to explain performance (we will discuss this in [Chapter 8](#)). Many companies recognizing the importance of reducing unconscious bias in performance evaluations, promotion decisions, and access to development programs are requiring employees to participate in unconscious bias training programs.¹¹⁴ These training programs are designed to make employees aware of unconscious bias and reduce its impact by slowing down decision making and carefully considering the reasoning and language used in judgments. For example, Kaiser Permanente is training employees to help them recognize their own unconscious biases.¹¹⁵ The company is also working on implementing training for leaders in the company so they can mitigate how their biases might be impacting their decision making and communication so they can ultimately change how they direct and talk to their departments. The training is part of Kaiser Permanente's larger effort to manage diversity and inclusion and create a work culture that emphasizes equity for all employees.

[Unconscious bias](#)

A judgment outside of our consciousness that affects decisions based on background, culture, and personal experience.

To help further ensure their company culture supports diversity, equity, and inclusion some companies are engaging in ally training. [Ally training](#) refers to training that encourages employees to have conversations about difficult topics and perspectives without fear of blame or shame.¹¹⁶ Some ally training programs encourage white employees (or those who are in the majority) to support employees who are in the minority in the workplace by offering them support and speaking up for them when they experience unfair treatment. The goal of Microsoft's ally training is to provide employees with the language and skills they need to discuss different perspectives and difficult issues in a way that offers empathy and inclusion to all.¹¹⁷ Through allyship training Microsoft wants to encourage employees to talk to each other in order to learn how to offer support and help. To do so Microsoft's training emphasizes that in conversations with others it is best to speak from our own personal perspective rather than on behalf of others, listen and ask good questions, suspend judgment, separate behavior from the person and focus on the impact of the behavior on others, and see mistakes as an opportunity to learn rather than a reason to get defensive. The Microsoft Allyship Program consists of 10 parts. Employees can take online, self-paced classes, watch video scenarios with actors portraying and discussing various work situations, and participate in facilitated sessions focused on building skills and practicing behaviors. The program emphasizes that all employees can benefit from page 313greater inclusion and everyone can be an ally and receive the benefits of allyship. Surveys

conducted since the training started show that employees are feeling more safety and comfort in speaking up even when conversations are difficult. Ally training may be effective because it helps employees break down barriers based on demographics and instead shows that all employees share the similar need to be heard, respected, and supported.¹¹⁸

[Ally training](#)

Training that encourages employees to have conversations about difficult topics and perspectives without fear of blame or shame.



COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Making a Genuine Commitment to Managing Diversity, Equity, and Inclusion

Ten years ago Kimberly-Clark made diversity, equity, and inclusion a strategic objective because it was the right thing to do both ethically and for the business. Kimberly-Clark's customer base for its paper products, diapers, and feminine hygiene products is largely women so to keep their business the company needs to provide them with quality products but also show them it provides opportunities for women in the business. Also recognizing the importance of race and social justice, Kimberly-Clark decided that they had to help employees have conversations about these issues. To do so, Kimberly-Clark first issued a statement expressing the company's obligation to help eliminate bias, discrimination and injustices affecting its employees, consumers, and communities. Next, they developed a global virtual town hall on race and racism that was attended or watched by over 5000 employees. Training sessions on understanding inclusion were held for the company's top 600 leaders. Conversations among small groups of employees on racism and bias were held. For managers, a virtual library of resources was provided.

Comcast Corporation, the global media and technology company that includes Comcast Cable, NBCUniversal & Sky, created a plan to allocate \$100 million to fight injustice and inequality against any race, ethnicity, gender identity, sexual orientation, or ability. This included a commitment to educate all employees to better understand race-related issues and encourage them to have important yet uncomfortable conversations through Town Hall meetings, speaker series, and mandatory anti-racism and anti-bias training. The company expanded its financial commitment and support for its employee resource groups. It pledged to provide further support to organizations representing minority ethnic groups and to small businesses owned by people from underrepresented ethnic groups, and to expand free Internet services to low-income areas. It also pledged to use its media resources to highlight Black voices and Black stories and educate its audience on diverse and inclusive cultures, perspectives, and experiences.

Siemens USA is known as a leader in power generation and distribution, intelligent infrastructure, and distributed energy systems. The company's diversity, equity, and inclusion (DEI) focus areas include workplace, workspace, and the marketplace. To support the workplace pillar Siemens strives to create a culture where everyone is valued. One way to accomplish this is through its ten employee resource groups. These groups are based on affinity and gender but also include other interests such as those related to veterans (Siemens Veterans Network), individuals focused on climate change (Green), and supporters of people with special needs (SiemensAbility). The resource groups provide a supportive community that provide opportunities to network, find a mentor, and facilitate personal and professional development.

Using their mobile devices employees can access a Strengths in Diversity channel on Siemens's learning management system. This channel gives employees access to DEI resources, including microlearning, e-learning, and assessments, as they need them. These resources cover topics such as unconscious bias, how to build relationships, benefits of diversity in the workplace, understanding neurodiversity and celebrating it in making business decisions, and how to promote equity and inclusion.

DISCUSSION QUESTION

Which of the components of managing diversity, equity, and inclusion are included in these companies' efforts? Which of these components do you believe are most critical for effectively managing diversity, equity, and inclusion? Why?

SOURCES: Based on N. Parsi, "Career Lessons from Erin Mitchell Richeson: Seeing Through the DE&I Lens," *HR Magazine*, Winter 2020, www.shrm.org, accessed February 6, 2021; "Diversity, Equity, & Inclusion," <https://corporate.comcast.com/values/diversity-equity-inclusion>, accessed February 3, 2021; L. Lang and N. Grant, "Two Teams, One Goal," *TD*, December 2020, pp. 46-51; "Siemens USA: Our Mission for Diversity, Equity, and Inclusion (DEI)," <https://new.siemens.com/us/en/company/about/diversity.html>, accessed February 7, 2021.

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Diversity training, unconscious bias training, and ally training are most effective when they are part of a larger effort to manage diversity, equity and inclusion rather than a standalone program. This means that a company will see the success of its diversity efforts only if it makes a long-term commitment to managing diversity, equity, and inclusion. To effectively manage diversity, equity, and inclusion companies need to emphasize the key components shown in [Table 7.9](#).

The [Competing through Environmental, Social, and Governance Practices](#) box shows the commitment that Kimberly-Clark, Comcast Corporation, and Siemens have made to managing diversity, equity, and inclusion which benefits employees, the company, and local communities. These companies' commitment provides examples of the key components shown in [Table 7.9](#). As should be apparent from this discussion, successful diversity programs involve more than just an effective training program. They require an ongoing process of culture change that includes top management support, a position in charge of managing diversity (chief diversity officer), as well as diversity policies and practices in the areas of recruitment and hiring, training and development, and administrative structures, such as conducting diversity surveys and evaluating managers' progress on diversity goals.¹¹⁹ They also focus on enhancing diversity and inclusion with suppliers, vendors, and in the communities where the company conducts business.

Onboarding or Socialization

[Onboarding](#), or socialization, refers to the process of helping new hires adjust to social and performance aspects of their new jobs.¹²⁰ This process is important to help employees adjust to their jobs by establishing relationships to increase satisfaction; clarifying goals and expectations to improve performance; and providing feedback, coaching, and follow-up activities to reduce turnover. Effective onboarding is a process that takes several days, weeks, or even months. As you probably have experienced, employee orientation is an event in which employees receive information about their job, the company, work rules, travel reimbursement; complete tax forms; and learn how to complete time sheets. Although onboarding programs vary widely across companies, effective onboarding involves the four steps shown in [Figure 7.6](#). Effective onboarding does include understanding mundane tasks such as completing tax forms and knowing how to complete time sheets or travel reimbursement forms, but it includes much more. Effective socialization includes enhancing new hires' self-confidence and their feeling socially comfortable and accepted by their peers and manager; ensuring that new hires understand their role and job expectations, responsibilities, and performance requirements; and helping them "fit in" to and understand the company culture. Effective onboarding is related to many important outcomes for the employee and the company, including higher job satisfaction, organizational commitment, lower turnover, higher performance, reduced stress, and career effectiveness.¹²¹

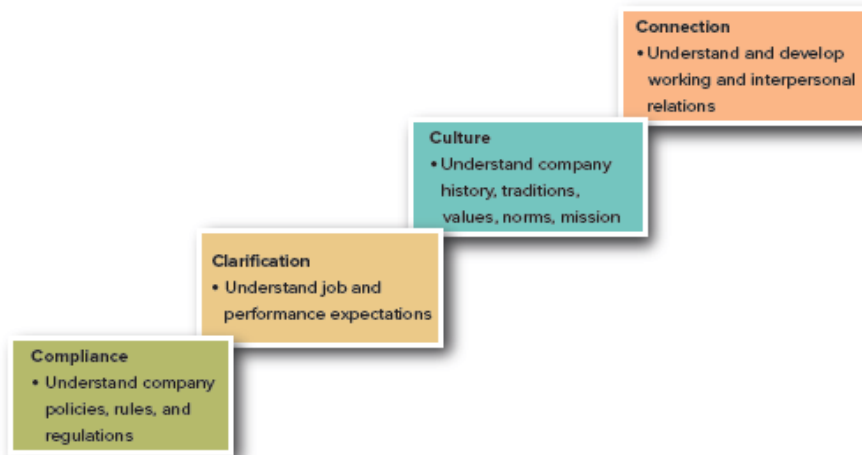


Figure 7.6 The Four Steps in Onboarding

SOURCE: Based on T. Allen, L. Eby, G. Chao, and T. Bauer, "Taking Stock of Two Relational Aspects of Organizational Life: Tracing the History and Shaping the Future of Socialization and Mentoring Research," *Journal of Applied Psychology* 102 (2017), pp. 324–37; T. Bauer, *Onboarding New Employees: Maximizing Success* (Alexandria, VA: SHRM Foundation, 2010); G. Chao, A. O'Leary-Kelly, S. Wolf, H. Klein, and P. Gardner, "Organizational Socialization: Its Content and Consequences," *Journal of Applied Psychology* 79 (1994), pp. 730–43.

Onboarding

Refers to the process of helping new hires adjust to social and performance aspects of their new jobs.

Table 7.10 shows the characteristics of effective onboarding programs. In particular, effective onboarding programs actively involve the new employee. Several companies offer onboarding programs that include some of these characteristics.¹²²

Domino's, the pizza provider, changed new employee orientation. They moved from a large-group classroom experience conducted in a central location to an individual or small-group in-store experience that a store manager facilitates. The change was made to save new employees time from having to travel to a training site rather than the store where they will work. Also, they wanted to create a more beneficial and enjoyable first day work experience. To do so they developed Natalie, a virtual, animated co-facilitator who works alongside the store manager. To begin orientation the store manager taps a button on a notebook or tablet computer and Natalie appears, providing a welcome and introductory information. She stands to one side of the PowerPoint screen, explaining the images, information, hyperlinks, and directions on display next to her. At various points during orientation Natalie asks the store manager or the new employee to take over the session. For example, she might ask the manager to show the new employee the store, explain the work stations, and introduce the other employees working in the store. Natalie also helps the new employee and manager build a personal relationship by asking conversation building questions such as about their favorite pizza types.

Table 7.9 Key Components of Effective Diversity Management Programs

Top Management Support

Make the business case for diversity.

Include diversity as part of the business strategy and corporate goals.

Participate in diversity programs, and encourage all managers to attend.

Ensure that the composition of the executive management team mirrors the diversity of the workforce.

Recruitment and Hiring

Ask search firms to identify wider arrays of candidates.

Enhance the interviewing, selection, and hiring skills of managers.

Expand college recruitment at institutions that serve minority ethnic groups.

Talent Identification and Development

Form a partnership with internship programs that target students from minority ethnic and racial groups for management careers.

Establish a mentoring process.

Refine the company's global succession planning system to improve identification of talent.

Improve the selection and development of managers and leaders to help ensure that they are capable of maximizing team performance.

Ensure that all employees, especially women and minority ethnic and racial groups, have access to management development and leadership programs.

Employee Support

Form resource groups or employee network groups, including employees with common interests, and use them to help the company develop business goals and understand the issues they are concerned with (e.g., Asian Pacific employees, women, gays, lesbians, transgender employees, American Indians, veterans, Hispanics).

Celebrate cultural traditions, festivities, and holidays.

Make work-life balance initiatives (such as flextime, telecommuting, and eldercare) available to all employees.

Fair Treatment

Conduct extensive diversity, unconscious bias, and ally training.

Implement an alternative dispute resolution process.

Include women and minority ethnic and racial groups on all human resources committees throughout the company.

Manager Accountability

Link managers' compensation to their success in meeting diversity goals and creating openness and inclusion in the workplace.

Use employee attitude or engagement surveys to track employees' attitudes on inclusion, fairness, opportunities for development, work-life balance, and perceptions of the company culture.

Implement 360-degree feedback for all managers and supervisors.

Relationships with External Stakeholders

Increase marketing to diverse communities.

Provide customer service in different languages.

Broaden the company's base of suppliers and vendors to include businesses owned by people from minority ethnic and racial groups and women.

Provide scholarships and educational and neighborhood grants to diverse communities and their members.

SOURCES: F. Dobbins and A. Kalev, "Why Diversity Programs Fail," *Harvard Business Review*, July/August 2016, pp. 52–60; B. Groysberg and K. Connolly, "Great Leaders Who Make the Mix Work," *Harvard Business Review*, September 2013, pp. 68–76; K. Bezrvkova, K. Jehn, and C. Spell, "Reviewing Diversity Training: Where Have We Been and Where Should We Go?" *Academy of Management Learning & Education* 11 (2012), pp. 207–27; R. Anand and M. Winters, "A Retrospective View of Corporate Diversity Training from 1964 to the Present," *Academy of Management Learning & Education* 7 (2008), pp. 356–72; C. Chavez and J. Weisinger, "Beyond Diversity Training: A Social Infusion for Cultural Inclusion," *Human Resource Management* 47 (2008), pp. 331–50.

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C&A Industries provides staffing and recruitment services for medical businesses seeking nurse practitioners. New employees attend a twelve-week onboarding program that helps them learn the basics of the recruiting and staffing industry such as how to overcome objections and build relationships. They are assigned a trainer and a manager who serves as a mentor for the first three weeks of the program. In the remaining eight weeks of the program, the new hires work in their jobs and meet weekly with their mentors. Following participating in the onboarding program over the next twelve weeks, the new hires take three professional development courses that help them further their communications and relationship-building skills.

Table 7.10 Characteristics of Effective Onboarding Programs

Employees are encouraged to ask questions.
Program includes information on both technical and social aspects of the job.
The employee manager has some onboarding responsibility.
Debasing or embarrassing new employees is avoided.
Employees learn about the company culture, history, language, products, services, and customers.
Follow-up of employee progress occurs at different points up to one year after joining the company.
Program involves participation, active involvement, and formal and informal interaction between new hires and current employees.
Relocation assistance is provided (such as house hunting or information sessions on the community for employees and their significant others).

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A LOOK BACK

Amazon

Amazon has made a sizable monetary investment in training its employees, students, and people around the world in the skills they need for emerging and currently in-demand jobs.

QUESTIONS

What is the value that Amazon hopes to gain from its training investment in students and people around the world?

Does Amazon's investment in learning support its business strategy? Explain your answer.

Provide Amazon with a recommendation regarding the metrics it should collect to show the success of its training and education efforts. List the training and education initiative and the metrics you recommend for it. Provide a rationale for the metrics you recommend.

SUMMARY

Technological innovations, new product markets, and a diverse workforce have increased the need for companies to reexamine how their training practices contribute to learning. In this chapter, we discussed a systematic approach to training, including needs assessment, design of the learning environment, consideration of employee readiness for training, and transfer-of-training issues. We reviewed numerous training methods and stressed that the key to successful training is to choose a method that will best accomplish the objectives of training. We also emphasized how training can contribute to effectiveness by establishing a link with the company's strategic direction and demonstrating through cost–benefit analysis how training contributes to profitability. Cross-cultural preparation and managing diversity, equity, and inclusion are two relevant training issues, given companies' needs to capitalize on global markets and a diverse work-force. Onboarding or socialization is critical for helping new hires feel comfortable and connected in their new job.

KEY TERMS

[Continuous learning, 276](#)

[Training, 276](#)

[Formal training, 276](#)

[Informal learning, 277](#)

[Explicit knowledge, 277](#)

[Tacit knowledge, 277](#)

[Knowledge management, 278](#)

[Training design process, 279](#)

[Needs assessment, 280](#)

[Organizational analysis, 281](#)

[Person analysis, 281](#)

[Task analysis, 281](#)

[Readiness for training, 285](#)

[Motivation to learn, 285](#)

[Microlearning, 285](#)

[Transfer of training, 288](#)

[Manager support, 288](#)

[Action plan, 289](#)

[Support network, 290](#)

[Opportunity to perform, 290](#)

[Performance support systems, 290](#)

[Communities of practice, 291](#)

[Presentation methods, 292](#)

[Webconferencing, 292](#)

page 318[Virtual classroom, 293](#)

[Hands-on methods, 294](#)

[On-the-job training \(OJT\), 294](#)

[Apprenticeship, 294](#)

[Internship, 296](#)

[Simulation, 296](#)

[Virtual reality, 296](#)

[Augmented reality \(AR\), 297](#)

[Serious games, 297](#)

[E-learning, 298](#)

[Massive open online courses \(MOOCs\), 299](#)

[Mobile learning, 300](#)

[Blended learning, 300](#)

[Learning management system \(LMS\), 300](#)

[Group- or team-building methods, 302](#)

[Experiential programs, 302](#)

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[Training outcomes, 305](#)

[Return on investment \(ROI\), 307](#)

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[Managing diversity, equity, and inclusion, 311](#)

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[Unconscious bias, 312](#)

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[Onboarding, 314](#)

DISCUSSION QUESTIONS

Noetron, a retail electronics store, recently invested a large amount of money to train sales staff to improve customer service. The skills emphasized in the program include how to greet customers, determine their needs, and demonstrate product convenience. The company wants to know whether the program is effective. What outcomes should it collect? What type of evaluation design should it use?

"Melinda," bellowed Toran, "I've got a problem, and you've got to solve it. I can't get people in this plant to work together as a team. As if I don't have enough trouble with the competition and delinquent accounts, now I have to put up with running a zoo. It's your responsibility to see that the staff gets along with each other. I want a human relations training proposal on my desk by Monday." How would you determine the need for human relations training? How would you determine whether you actually had a training problem? What else could be responsible for the situation?

Assume you are the general manager of a small seafood company. Most training is unstructured and occurs on the job. Currently, senior fish cleaners are responsible for teaching new employees how to perform the job. Your company has been profitable, but recently wholesale fish dealers that buy your product have been complaining about the poor quality of your fresh fish. For example, some fillets have not had all the scales removed and abdomen parts remain attached to the fillets. You have decided to change the on-the-job training received by the fish cleaners. How will you modify the training to improve the quality of the product delivered to the wholesalers?

A training needs analysis indicates that managers' productivity is inhibited because they are reluctant to delegate tasks to their subordinates. Suppose you had to decide between using adventure learning and a lecture using a virtual classroom for your training program. What are the strengths and weaknesses of each technique? Which would you choose? Why? What factors would influence your decision?

To improve product quality, a company is introducing a computer-assisted manufacturing process into one of its assembly plants. The new technology is likely to modify jobs substantially. Employees will also be required to learn statistical process control techniques. The new technology and push for quality will require employees to attend numerous training sessions. More than 50% of the employees who will be affected by the new technology completed their formal education more than 10 years ago. Only about 5% of the company's employees have used the tuition reimbursement benefit. How should management maximize employees' readiness for training?

A training course was offered for maintenance employees in which trainees were supposed to learn how to repair and operate a new, complex electronics system. On the job, maintenance employees were typically told about a symptom experienced by the machine operator and were asked to locate the trouble. During training, the trainer would pose various problems for the maintenance employees to solve. He would point out a component on an electrical diagram and ask, "What would happen if this component was faulty?" Trainees would then trace the circuitry on a blueprint to uncover the symptoms that would appear as a result of the problem. You are receiving complaints about poor troubleshooting from maintenance supervisors of employees who have completed the program. The trainees are highly motivated and have the necessary prerequisites. What is the problem with the training course? What recommendations do you have for fixing this course?

What factors contribute to the effectiveness of e-learning training programs?

Choose a job you are familiar with. Design a new employee onboarding program for that job. Explain how your program contributes to effective socialization.

What features of games motivate learning?

Why might employees prefer blended learning to training using only iPads?

Are augmented reality (AR) and virtual reality (VR) the same training method? Why or why not?

What learning condition do you think is most necessary for learning to occur? Which is least critical? Why?

What can companies do to encourage informal learning?

List and discuss the steps in cross-cultural preparation.

SELF-ASSESSMENT EXERCISES



What Is Your Motivation to Learn?

If you have been assigned this Self-Assessment in Connect, you will gain a better understanding of how motivated you are to learn.

Do You Appreciate and Value Diversity?

If you have been assigned this Self-Assessment in Connect, you will take a quick survey which will get you to think about diversity issues and evaluate the behaviors you exhibit that reflect your level of appreciation of those who are different than you are.

EXERCISING STRATEGY

Best Buy's High Tech Approach to Learning

You may be familiar with Best Buy because you have purchased a computer, smartphone, or a television online or from one of their stores. Best Buy, with headquarters outside of Minneapolis, Minnesota, has operations in the U.S., Mexico, and Canada employing 125,000 full-time, part-time, and seasonal employees. Best Buy's purpose is to enrich lives through technology. The company's Building the New Blue strategy is designed to deliver on that purpose through using technology and touch to meet everyday human needs and add new customers while strengthening relationships with current ones. Best Buy's business strategy is supported by four values: Having Fun While Being the Best, Learning from Challenge and Change, Showing Respect, Humility and Integrity, and Unleashing the Power of Our People.

Pandemic or no pandemic, offering high-quality services and assistance for its customers requires a highly trained and engaged workforce. Best Buy's Learning and Development (L&D) team created a new virtual learning environment to prepare employees for the holiday sales period, enhanced technology to aid distribution and reinforcement of learning, and focused on recruiting and developing a workforce representative of the diversity in its customers and communities where it operates.

The Virtual Holiday Learning Environment (VHLE) replaced two annual meetings that occurred before the holiday season each year. These meetings were held for leaders to communicate with employees, present holiday selling strategies, and give vendors an opportunity to showcase their latest products and their selling features. The VHLE replicates the annual meeting using Best Buy's learning management system. This virtual environment replicated every aspect of an in-person event. Employees were brought into a visually identical replica of the actual conference center in which the annual meeting was usually held. Once inside, they were greeted by a virtual host and provided instructions for the event. The vendor show had 55 booths, each with a two-minute video highlighting popular holiday products. Employees were required to visit 15 to 20 booths depending on their role. They also could activate "missions," which would reorganize the vendor hall for additional learning. Employees were rewarded for their learning activity by earning points and badges that were displayed in the page 320 learning management systems. Employees could use the points to purchase electronics products. VHLE was a success from both a learning and business perspective. Employees completed over one million booth visits and missions involving

approximately 36,000 training hours. More than 90% of employees completed one training elective. The VHLE resulted in a 19% reduction in travel expenses, extended the number of employees participating in the meeting from 13,000 to 85,000, and helped the company exceed its holiday performance goal by 3%.

Best Buy also uses innovative technology to deliver training to its employees. For example, to help employees use the skills they learn in training on the job Best Buy utilizes Bounce Back. As employees complete a course, the decisions they make in response to assignments and scenarios are captured in a database and can be compared to other employees. To help employees use what they learned Bounce Back can schedule follow-up questions and supplemental information to be delivered after the completion of the training. The L&D team also uses Vyond, an online animation software tool, to rapidly and creatively develop and make available training videos on topics including loss prevention, safety, and product and sales training. Using Vyond has given employees more opportunities to learn in a way that captures their attention and helps them retain the content. Best Buy's knowledge management system gives employees the opportunity to self-author content that will help others perform better in their role, as well as share feedback to eliminate information that is incorrect or needs improvement.

QUESTIONS

Is Best Buy's approach to training strategic? Why or why not?

What are the advantages and disadvantages of the different training tools used at Best Buy?

SOURCES: M. Weinstein, "Best Buy's Best-in-Class Learning and Development," *training*, March/April 2020, pp. 30-32; "Our Culture," "Our Values," "Inclusion and Diversity," <https://www.bestbuy-jobs.com>, accessed January 13, 2020; "Best Buy Fiscal 2000 Annual Report," <http://investors.bestbuy.com/investor-relations/financial-info/annual-reports-and-proxy-statements/default.aspx>, accessed January 13, 2021.

MANAGING PEOPLE

Using Gaming for Training at PepsiCo

PepsiCo, the food and beverage company, is teaching Six Sigma to all employees. Six Sigma is a quality control method providing practices and tools for process improvement. Prior to the pandemic, PepsiCo conducted Six Sigma training in face-to-face classes. A key part of the face-to-face Six Sigma training was sessions that used building blocks to simulate real-life situational challenges. When COVID-19 forced employees to work remotely, the training needed to be converted to an online program. The online training included PowerPoint slides, discussions, and quizzes to measure knowledge retention. But trainees found the online training boring and that it did not engage them in the same way as the face-to-face classes. The rate of trainees' satisfaction with the course dropped 25% and the failure rate for the quizzes was too high. What was missing was the opportunity for trainees to practice using the Six Sigma tools and techniques in real situations.

Marco Rodriguez Tapia, who was responsible for the Six Sigma training in PepsiCo's European locations, was looking for ways to improve the online program. He shared with his son his frustration at being unable to find training that had a high level of realism and involved the learners. Tapia and his son often spent time playing the video game Minecraft. His son suggested that they should consider using Minecraft to simulate a factory floor so the trainees could practice what they were learning. Minecraft lets players create three-dimensional worlds where they can solve challenges, go on adventures, and interact with monsters. It can be adapted to create any type of environment or experience. In two days his son Alexander made a prototype of a simulated PepsiCo plant where trainees could practice problem solving and complete productivity challenges while building simulated pallets using virtual LEGO-style bricks. In the game trainees face challenges and compete against other teams who are trying to build their pallets faster and with fewer errors.

PepsiCo's training team reviewed the prototype and encouraged father and son to take it to a Minecraft custom developer to translate all of the activities used in the in-person class into the game. PepsiCo's training team and other experts reviewed the final version of the new Six Sigma course making sure every tested aspect was consistent, user-friendly and appropriate to teach Six Sigma's key concepts. They tested the game for "bugs" to make sure it worked. The game was also translated into seven languages to meet the needs of PepsiCo's global workforce.

Although many trainees may actively play Minecraft and are familiar with how the game works, many were not. The designers created a pre-training area where trainees could get comfortable with how to play the game before entering the simulation of the factory floor. Those familiar with the game can walk through the pre-training area directly into the simulation. The game is based on an imaginary distribution company that produces pallets of different products. The company needs to ship the pallets to a warehouse which sends them to customers based on their orders. Inefficiencies in the process create waste and reduce profitability but trainees can apply the Six Sigma training to fix these problems. Teams of trainees collect different colored blocks and arrange them in order on a pallet according to a set of instructions. The teams have to collaborate to assign functions, check their work, and identify ways to improve the process. As they progress, the challenges get more complicated through introducing missing parts and blocks scattered around the factory floor. This means trainees have to use more advanced problem-solving techniques to successfully complete each challenge. After the game is complete (it takes 45 minutes), teams virtually debrief and discuss what they learned and strategies they could use to improve. Results of the new-game-based approach were positive. Both trainees' satisfaction and passing rates on the quizzes were better than for the original online version of the Six Sigma training.

QUESTIONS

What instructional feature or learning concept did the game-based Six Sigma training include that was most responsible for its positive results? Identify the aspect included in the game and explain its relationship to the instructional feature.

What additional outcomes should PepsiCo collect to further understand the effectiveness of the game-based training program? Identify the outcomes and explain why they should collect them.

What are the potential disadvantages of using a game-based simulation in training? List them and explain the reason for each disadvantage you provide.

SOURCES: "Boosting PepsiCo's Productivity with ... Minecraft?" December 15, 2020, pepsico.com/news, accessed February 28, 2021; S. Gale, "Case Study: PepsiCo Leverages Minecraft for Lean Six Sigma Training," February 16, 2021, *Chief Learning Officer*, chieflearningofficer.com, accessed February 23, 2021; R. Golden, "PepsiCo Turns to Minecraft, Moving Virtual Training Away from 'Zoom Fatigue,'" January 21, 2021, hrdive.com/news, accessed February 28, 2021.

HR IN SMALL BUSINESS

PM Mold Company Draws In Talent by Training

Finding, equipping, and keeping talent has been difficult for manufacturers, in part because many people making career decisions are unfamiliar with the kinds of work involved. They might think of production jobs as dirty and dangerous, or they might think the only exciting work involves engineering robots. They might overlook a business like Schaumburg, Illinois-based PM Mold Company. In fact, mold making has been and still is a highly creative type of work that is essential to producing an enormous variety of products we depend on. PM Mold and similar companies assess a particular product to be made, and then they design and produce finely detailed molds out of steel, which their customers use to make parts of all sizes out of plastic or rubber. A good mold delivers precise, accurate, and consistent results.

Carrying out this work requires a combination of problem solving, creative thinking, and careful craftsmanship. PM Mold looks for people with thinking skills and then uses an apprenticeship program to train them to apply those skills to mold making. In response to the challenge of recruiting for these jobs, the company has become creative in making the apprenticeship program motivational as well as informational.

Apprentices at PM Mold attend classes and engage in on-the-job learning as they earn a starting wage. In addition to these basics, the apprentices are asked to work together on a creative mold-making project. One year, for example, the company had decided to produce a specialty golf tee for a trade show. Tom White, the company's vice president of operations and business development, asked the apprentices to go out and look at golf tees on the market to see what features and functions caught their eye. They discussed their findings and brainstormed how to incorporate the most beneficial ideas into the giveaway tees. The apprentices agreed on a design and built the mold to make the tees. At the trade show, a golf company executive happened to see the giveaway tees and expressed interest in working with PM Mold to make something similar for sale. After some discussion of his needs, the golf executive wound up placing an order for a mold to use in making a modified version of what the apprentices had developed.

Although the group project amounts to less than 10% of the training time, White considers it a key part of apprentices' training. Making something valuable gets them excited about what they are learning, and that page 322 makes them think harder and learn more. It helps them envision not just their first job but also a career path they can follow at PM Mold as they gain experience.

QUESTIONS

Based on the information given, what is your assessment of apprentices' readiness for training at PM Mold? How does the company enable readiness for training?

Recommend two measures for PM Mold to use in determining the success of its apprenticeship training.

SOURCES: Company website, "About Us" and "PM Mold Apprenticeship," <https://www.pmmold.com>, accessed April 16, 2020; Schaumburg Business Association member list, <https://members.schaumburgbusiness.com>, accessed April 16, 2020; Cynthia Kustush, "Workforce Development with a Twist," *MoldMaking Technology*, March 2019, pp. 32-37.

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PART THREE Assessment and Development of Human Resources

CHAPTER 8

Performance Management



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

LO8-1 Identify the major parts and limitations of the traditional performance management process.

LO8-2 Discuss the features of a continuous performance management process and why companies are adopting this approach.

LO8-3 Discuss the six purposes of performance management.

LO8-4 Identify the five criteria for effective performance management systems.

LO8-5 Discuss five approaches to performance management, the specific techniques used in each approach, and the way these approaches compare with the criteria for effective performance management systems.

LO8-6 Choose the most effective approach to performance measurement for a given situation.

LO8-7 Discuss the advantages and disadvantages of the different sources of performance information.

LO8-8 Choose the most effective source(s) for performance information for any situation.

LO8-9 Discuss the potential advantages of social performance management and electronic monitoring for performance management.

LO8-10 Distinguish types of rating errors, and explain how to minimize each in a performance evaluation.

LO8-11 Conduct an effective performance feedback session.

LO8-12 Identify the cause of a performance problem.

ENTER THE WORLD OF BUSINESS



Effective Performance Management Supports the Business in All Conditions

One characteristic of effective performance management systems is that they reflect the realities of the business environment the company is facing. For example, Wipro Limited's global clients expect the company to provide state-of-the-art technology solutions. Because of rapid changes in technology Wipro's employees have to continuously evaluate and improve their skills. This is critical because Wipro's employees move to a different project every six to eight months. As a result, Wipro developed a more timely and continuous performance management system. The system includes quarterly reviews with ongoing coaching conversations between employees and managers. Employees are encouraged to discuss their career interests and development needs with their manager and create development plans. Employees can receive feedback about their performance from several sources as appropriate including their manager, peers, direct reports, and internal or external customers.

Due to the pandemic, Zenefits, a human resource technology company, changed from its annual performance review to monthly performance conversations between managers and their employees. The process begins by the manager and employee agreeing on performance goals. The monthly performance conversations focus on evaluating progress toward achieving the performance goals. Employees are encouraged to provide their managers with feedback.

To ensure its performance management system supported high performance and the company's quality emphasis, UL, a safety certification company, designed a new one. The performance management system eliminates the yearly performance review and ratings. Instead, it focuses on continuous and timely feedback to support a high-performance culture and encourages employees to grow their careers. The system includes ongoing discussions and feedback between employees, their peers, and their managers (Get Connected). It also includes an emphasis on career development activities (Get Growing). A feedback tool is provided to help employees understand how to request feedback, share feedback, and set dynamic career and performance goals.

SOURCES: "Best of the Best: Wipro Limited," *TD*, October 2019, p. 69; P. Thomas and K. Dill, "Companies Hold Off on Performance Firings," *The Wall Street Journal*, March 12, 2021, pp. B1, B2; "Best of the Best: UL," *TD*, October 2019, p. 91.

Introduction

Companies that seek competitive advantage through employees must be able to manage the behavior and results of all employees. [Performance management](#) is the process or system through which managers ensure that employees' behaviors and results are congruent with the organization's goals. Performance management systems have three parts: defining performance, measuring performance, and feeding back performance information. First, a performance management system specifies which aspects of performance are relevant to the organization, primarily through job analysis (discussed in [Chapter 4](#)). Second, it measures those aspects of performance through [performance appraisal](#), which is only one method for managing employee performance. Third, it provides feedback to employees through [performance feedback](#) sessions so that they can adjust their performance to the organization's goals. Performance feedback is also fulfilled through tying rewards to performance via the compensation system (such as through merit increases or bonuses), a topic to be covered in [Chapters 11](#) and [12](#).

[Performance management](#)

The means through which managers ensure that employees' activities and outcomes are congruent with the organization's goals.

[Performance appraisal](#)

The process through which an organization gets information on how well an employee is doing his or her job.

[Performance feedback](#)

The process of providing employees information regarding their performance effectiveness.

Traditionally, and in some companies it is still the case today, performance appraisal is considered an administrative duty performed by managers and is primarily the responsibility of the human resource function. Managers view performance appraisal as an annual ritual—they quickly complete the form and use it to catalog all the negative information they have collected on an employee over the previous year. Because they may dislike confrontation and feel that they don't know how to give effective evaluations, some managers spend as little time as possible giving employees feedback. Not surprisingly, most managers and employees dislike performance appraisals. "Time-consuming," "frustrating," "dread," "burden," and "pain" are some of the words that come to employees' minds when giving or receiving performance reviews.¹ Several surveys show that more than 50% of

managers believe that their performance management process has not had a positive effect on either employee or company performance (and 70% of companies believe they need to improve their page 331performance management practices!). Fifty percent of employees are surprised by the evaluations they receive, and 90% of those are unhappy because they expected a more positive evaluation.² Reasons for these reactions include the lack of consistency of use of performance appraisals across the company; the inability to differentiate among performance levels; the inability of the appraisal system to help employees build their skills and competencies; excessive time burdens on managers to complete evaluations; and performance discussions that were limited to only once or twice a year and tended to be backward rather than future focused.³

Some people have argued that all performance appraisal systems are flawed to the point that they are manipulative, abusive, autocratic, and counterproductive. However, doing away with performance reviews entirely has been found to lead to lower-quality performance conversations between managers and employees and a decrease in employee engagement. This occurs because, without reviews, managers have difficulty explaining to employees how they have performed and what they need to do to improve.⁴ It is important to realize that the criticisms of performance appraisals are not the result of evaluating employee performance. Rather, they result from how the entire performance management system is developed and used. If done correctly, performance management can provide valuable benefits to both employees and the company. As a result, many companies have changed their performance management systems. In fact, one estimate is that more than one-third of U.S. companies are now using performance management systems that have changed the emphasis of performance appraisals. In these systems more frequent manager–employee performance conversations are encouraged, the number of formal appraisal meetings has been reducing or eliminated, and the appraisal may not require the managers to provide an overall rating of each employee’s performance. These new systems help meet all employees’ need for feedback, coaching, and development opportunities.

In this chapter, we examine a variety of approaches to performance management. First, we provide a brief summary of current performance management practices. Next, we present a model of performance that helps us examine the system’s purposes. Then we discuss specific approaches to performance management and the strengths and weaknesses of each. We also look at various sources of performance information. The errors resulting from subjective assessments of performance are presented, as well as the means for reducing those errors. Then we discuss some effective components to performance feedback. Finally, we address components of a legally defensible performance management system.

The Performance Management Process

LO 8-1

Identify the major parts and limitations of the typical performance management process.

Although performance management does include the once- or twice-a-year formal appraisal or evaluation meeting, effective performance management is a process, not an event. [Figure 8.1](#) shows the typical performance management process. As shown in the process model, providing feedback and the formal performance appraisal or evaluation are important, but they are not the only important parts of an effective performance management process that contribute to the company’s competitive advantage.⁵ Also, visible CEO and senior management support for the system are necessary. This ensures that the system is used consistently across the company, appraisals are completed on time, and giving and receiving performance feedback is an accepted part of the company culture.

The typical performance management process involves the six steps shown in [Figure 8.1](#). The first two steps of the performance management process involve identifying what the company is trying to accomplish (goals or objectives) and a set of key performance dimensions that represent critical factors or drivers that influence page

332the goals or objectives, and then developing performance measures for the key performance dimensions.⁶ The first step in the performance management process starts with understanding and identifying important performance outcomes or results. Typically, these outcomes or results benefit customers, the employee's peers or team, and the organization itself. The company's and department's or team's strategy, mission, and values play an important part in determining these outcomes. [Chapter 2](#) pointed out that most companies pursue some type of strategy to reach revenue, profit, and market share goals. Divisions, departments, teams, and employees must align their goals and behaviors, and choose to engage in activities that help achieve the organization's strategy and goals. The second step of the process involves understanding the process (or how) to achieve the goals established in the first step. This includes identifying measurable goals, behaviors, and activities that will help employees achieve the performance results. The goals, behaviors, and activities should be measurable so that the manager and the employee can determine if they have been achieved. The goals, activities, and behaviors should be part of the employee's job description.

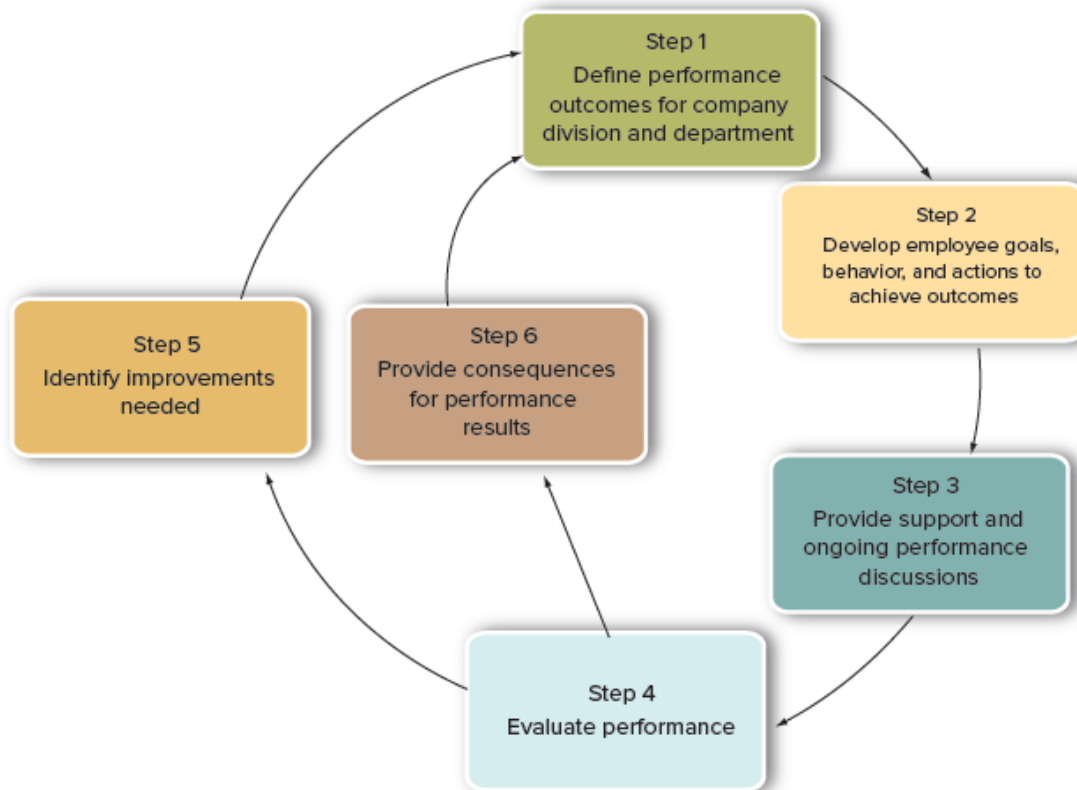


Figure 8.1 Traditional Performance Management Process

SOURCES: E. Pulakos, R. Hanson, S. Arad, and N. Moya, "Performance Management Can Be Fixed: An On-the-Job Experiential Learning Approach for Complex Behavior Change," *Industrial and Organizational Psychology*, March 2015, pp. 51–76; E. Pulakos, R. Mueller-Hanson, R. O'Leary, and M. Meyrowitz, *Building a High-Performance Culture: A Fresh Look at Performance Management* (Alexandria, VA: SHRM Foundation, 2012); H. Aguinis, "An Expanded View of Performance Management," in J. W. Smith and M. London (eds.), *Performance Management* (San Francisco: Jossey-Bass, 2009), pp. 1–43; J. Russell and L. Russell, "Talk Me through It: The Next Level of Performance Management," *T + D*, April 2010, pp. 42–48.

The third step in the process, organizational support, involves providing employees with training, necessary resources and tools, and frequent feedback communication between employees and managers focusing on accomplishments as well as issues and challenges influencing performance. For effective performance management, managers and employees have to value feedback and regularly exchange it. Managers need to make time to provide feedback as well as train in how to give and receive page 333it. The fourth step involves performance evaluation, that is, when the manager and the employee discuss and compare the targeted

performance goals and supporting behaviors with the actual results. This typically involves the annual or biannual formal performance appraisal.

The final steps of the performance management cycle involve the employee and the manager identifying what the employee (with help from the manager) can do to capitalize on performance strengths and address weaknesses (step 5) and providing consequences for achieving (or failing to achieve) performance outcomes (step 6). This includes identifying training needs; adjusting the type or frequency of feedback the manager provides to the employee; clarifying, adjusting, or modifying performance outcomes; and discussing behaviors or activities that need improvement or relate to new priorities based on changes or new areas of emphasis in organizational or department goals. Achieving performance results may relate to compensation (salary increases, cash bonuses), recognition, promotion, development opportunities, and continued employment. This depends on the purposes the company decides on for the performance management system (see the section [Purposes of Performance Management](#)).



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“Overwhelmingly, our people said, ‘we want ratings. We don’t want you to eliminate ratings [in performance assessments], we think it’s important to know where we stand.’”

—Mirian M. Graddick-Weir Executive Vice President, Human Resources, Merck

Video Produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Film-works

What employees accomplish (or fail to accomplish) and the consequences of those accomplishments (or lack thereof) help shape changes in the organizational business strategy and performance goals and the ongoing performance management process. Evaluating the effectiveness of the performance management system is necessary to determine needed changes. This could include gathering comments about managers' and employees' concerns about the system, analyzing rating data to determine if they are being affected by rating errors, reviewing objectives for their quality, and studying the relationship between employees' meeting objectives and department and organizational results.

Today, many companies are moving away from the typical performance management process and adopting a continuous performance management process. A [continuous performance management process](#) refers to an approach that encourages ongoing conversations between managers, their direct reports, and teams focused on work progress, providing feedback, accomplishment and necessary adjustment of goals, and development needs.⁷ It includes collecting performance feedback data from members of the employee's social network, including managers, peers, customers, and direct reports, who observe their work. Performance feedback is easily provided and accessible for review using apps and websites.

[Continuous performance management process](#)

An approach that encourages ongoing conversations between managers, their direct reports, and teams focused on work progress, providing feedback, accomplishment and necessary adjustment of goals, and development needs.

LO 8-2

Discuss the features of a continuous performance management process and why companies are adopting this approach.

Table 8.1 shows the reasons why companies are moving to a continuous performance management process. To successfully compete companies need to quickly change goals to ensure they respond to changing economic and competitive forces. In the typical performance management process by the time employees are involved in setting performance goals that are related to department and business goals, those goals are often outdated, and employees have difficulty identifying what they need to do to help achieve them. Also, employees want to take personal ownership for their performance. In order to do so they want to know how they are performing, decide what work needs to be completed and how to do it, and make adjustments when needed.

Table 8.1 Reasons Why Companies Are Moving to Continuous Performance Management

Employees want more regular feedback and transparency, clarity, and responsibility for work.
Managers don't closely supervise employees' work. Work is increasingly being performed in teams or remotely, meaning that peers and customers should provide feedback and evaluate behaviors and results.
Managers are becoming more responsible for developing and coaching employees.
Biannual or even quarterly or weekly business unit, team, and individual performance goals need to be adapted or current goals need to be modified to better account for changing business conditions.
Apps and software are available to allow managers and employees to provide just-in time feedback and recognition to each other using smartphones, tablets, or notebook computers.

SOURCES: E. Pulakos, R. Mueller-Hanson, and S. Arad, "The Evolution of Performance Management: Searching for Value," *Annual Review of Organizational Psychology and Organizational Behavior* 6 (2019), pp. 249–71; A. Colquitt, *Next Generation Performance Management* (Charlotte, NC: Information Age Publishing, 2017); Deloitte Development LLC, "Continuous Performance Management," 2017, <http://marketing.berstin.com>, accessed January 22, 2019.

Table 8.2 compares the features of typical performance management and continuous performance management. Consider some of the differences between traditional performance management and continuous performance management.⁸ Performance management is not just based on formal scheduled performance appraisal sessions page 334that occur once or twice per year (midyear and end-of-year) but includes ongoing performance conversations and feedback as well as more frequent, formal check-ins that can occur weekly, monthly, or quarterly. Managers, peers, direct reports, and even customers can provide feedback. Traditional performance management is considered "backward focused" because relying on only a once- or twice-a-year formal performance appraisal means that the focus tends to be on the manager evaluating how the employee has performed in the prior evaluation periods. Continuous performance management is "forward-facing" because employees receive performance feedback more frequently, and if necessary, it gives them the opportunity to adjust performance goals and change their behavior. The performance management process becomes more developmental and managers take on the role of coaching employees to improve.

Table 8.2 Comparison of the Features of the Typical and Continuous Performance Management Processes

Feature	Typical	Continuous
When does it occur?	Midyear and annual review.	Ongoing combined with more formal quarterly, midyear, and/or annual reviews.
Who is involved?	Manager.	Manager, peers, direct reports.
What is the focus?	Backward-focused (focus on goals/behavior set at beginning of previous appraisal period).	Forward-facing (focus on helping to achieve goals/change behavior). Goals are fluid, adjusted as necessary.
How is it conducted?	Ratings and results measured on a formal performance appraisal form.	Emphasizes face-to-face performance conversations. Can include ratings and feedback provided using social media.
What is the level of transparency?	Goal setting and goal progress is based on private conversation between manager and employee.	Feedback, recognition, goal setting, progress, and achievement is public and transparent. Goals are fluid, adjusted as necessary.

SOURCES: K. Murphy, "Performance Evaluation Will Not Die, But It Should," *Human Resource Management Journal* 30 (2020), pp. 13–31; Deloitte Development LLC, "Continuous Performance Management," 2017, <http://marketing.bersin.com>, accessed January 22, 2019; N. Sloan, D. Agarwal, S. Garr, and K. Pastakia, "Performance Management: Playing a Winning Hand," December 28, 2017, <https://www2.deloitte.com/insights/us/en/focus/human-capital-trends/2017/redesigning-performance-management.html>, accessed January 22, 2019; E. Pulakos, R. Mueller-Hanson, and S. Arad, "The Evolution of Performance Management: Searching for Value," *Annual Review of Organizational Psychology and Organizational Behavior* 6 (2019), pp. 249–71; A. Colquitt, *Next Generation Performance Management* (Charlotte, North Carolina: Information Age Publishing, 2017).

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It is important to consider that many companies are moving away from the typical performance management system emphasizing only the traditional midyear and formal end-of-year performance appraisal to continuous performance management. One estimate is that over 75% of company executives feel that redesigning their performance management system is a high priority.⁹ Keep in mind that as we discuss this evolution many companies have adopted some, but not all, of the features of continuous performance management. Also, making this change requires several years because it takes time for managers and employees to understand how to give and receive positive and negative feedback and feel comfortable doing so.

For example, consider the changes that Paycor made to its performance management system.¹⁰ Paycor adopted 12-week performance discussion cycles, which better fit the company's business model. Employees and the manager meet frequently during the 12 weeks to quickly review results that have been accomplished, performance goals for the next cycle, and the employee's development. Paycor stresses that both manager and employees

share responsibilities for preparing for and holding the discussion. The goal is for the discussions to be informal, occur frequently, and focus on both positive and negative aspects of performance.

Purposes of Performance Management

LO 8-3

Discuss the six purposes of performance management.

Table 8.3 shows the six purposes of performance management: strategic, administrative, developmental, communication, organizational maintenance, and documentation.¹¹ Despite the importance of these purposes it is difficult for the performance management system to fulfill all of them. One reason is that many managers are reluctant to properly perform their role in them. For example, managers can feel uncomfortable evaluating others and giving feedback. As a result, they tend to evaluate everyone high or the same, making the appraisal information relatively useless. Another reason is that performance management users may have differing and sometimes conflicting expectations. Employees want performance management to give them feedback, recognize their performance, and earn appropriate pay and promotions. But managers and company leaders want a system that enables them to differentiate performance to distribute rewards. This can lead to employees who don't receive rewards and recognition feeling they were treated unfairly (and managers gaming the system by inflating performance ratings to provide pay increase). This is why in many new continuous performance management systems providing daily feedback is stressed, ratings that are difficult to understand and justify are being eliminated, and instead, goals are used as the basis for compensation and other administrative decisions.

Table 8.3 Purposes of Performance Management

Purpose	Description
Strategic	Link employee behavior and expected results with organizational goals.
Administrative	Used in salary administration (pay raises), promotions, retention–termination, layoffs, recognition of employee performance.
Developmental	Identify employee strengths and weaknesses for managers to use in providing feedback and coaching and development and career planning.
Communication	Emphasize what employees are expected to do, how they are performing, and what they need to improve. Indicate important company values and principles.
Organization Maintenance	Show workforce performance, training, and development and talent acquisition needs.
Documentation	Record for administrative decisions and information for litigation and investigations.

SOURCES: A. Colquitt, *Next Generation Performance Management* (Charlotte, North Carolina: Information Age Publishing, 2017); H. Aguinis, *Performance Management*, 4th ed. (Chicago: Chicago, University Press, 2019); J. Cleveland, K. Murphy, and R. Williams, "Multiple Uses of Performance Appraisal: Prevalence and Correlates," *Journal of Applied Psychology* 74 (1989, pp. 130–35).

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Consider how TD Bank's Personal Performance and Development process contributes to the strategic, developmental, and communication purposes of performance management.¹² Employees and managers work together during the process to ensure there is a mutual understanding about performance objectives and expectations. Managers help employees see how their performance relates to the success of the bank. Managers are expected to provide employees with both formal and informal feedback. Managers are expected to help coach employees, helping them understand their career goals, skill strengths and weaknesses, and provide them with on-the-job experiences that can help them grow. Based on the performance management process employees are expected to take advantage of the development opportunities TD Bank provides including tuition assistance, online courses, and classroom-based training and workshops.

An important step in performance management is to develop the measures by which performance will be evaluated. We next discuss the issues involved in developing and using different measures of performance.



Performance management is critical for executing a talent management system and involves one-on-one contact with managers to ensure that proper training and development are taking place.

Stockbyte/Getty Images

Performance Measures Criteria

LO 8-4

Identify the five criteria for effective performance management systems.

In [Chapter 4](#) we discussed how, through job analysis, one can analyze a job to determine exactly what constitutes effective performance. Once the company has determined, through job analysis and design, what kind of performance it expects from its employees, it needs to develop ways to measure that performance. This section presents the criteria underlying job performance measures. Later sections discuss approaches to performance measurement, sources of information, and errors.

Although people differ about the criteria to use to evaluate performance management systems, we believe that five stand out: strategic congruence, validity, reliability, acceptability, and specificity. The [Competing through Globalization](#) box describes how PetroChina is using performance contracts.

Strategic Congruence

[Strategic congruence](#) is the extent to which a performance management system elicits job performance that is congruent with the organization's strategy, goals, and culture. If a company emphasizes customer service, then its performance management system should assess how well its employees are serving the company's customers. Strategic congruence emphasizes the need for the performance management system to guide employees in contributing to the organization's success. This requires systems flexible enough to adapt to changes in the company's strategic posture.

[Strategic congruence](#)

The extent to which the performance management system elicits job performance that is consistent with the organization's strategy, goals, and culture.

Many companies use critical success factors (CSFs) or key performance indicators (KPIs) in their performance management systems.¹³ CSFs are factors in a company's business strategy that give it a competitive edge. Companies measure employee behavior that relates to attainment of CSFs, which increases the importance of these behaviors for employees. Employees can be held accountable and rewarded for behaviors that directly relate to the company attaining the CSFs.

Google's performance management system includes objectives and key results (OKRs) for the entire company, as well as at the team, managerial, and employee levels.¹⁴ The idea is that everyone has a short list of clear, relevant, and challenging objectives to achieve. Employees have four to five OKRs. OKRs are determined on an annual and quarterly basis. The annual OKRs can change but the quarterly ones do not. At the end of each quarter, key results are rated using a 0–1 scale. Employees are not expected to achieve 1s because they likely indicate the expected results were too easy to reach. All objectives and key results are public. Employees can see the objectives and key results for the CEO as well as their peers.



COMPETING THROUGH GLOBALIZATION

Performance Contracts at PetroChina Company Limited

PetroChina Company Limited is China's biggest oil and gas producer. PetroChina uses a very accurate and efficient performance evaluation system. PetroChina uses performance contracts to ensure performance supports its business strategy. All managers in nationwide companies, regional companies, senior management, and several functional departments are required to sign the contract. The contract identifies specific KPIs used in assessment and emphasizes meeting budget targets. KPI targets are discussed and then set by the CEO, senior management, and the company's general manager before being sent for approval to the budget commission and the board of directors. The KPI targets for an individual regional company are jointly determined by the general manager of the nationwide company and that particular company's top management. All values are clearly mentioned in these performance contracts, which are first signed by the board of directors and then by managers from nationwide and regional companies. PetroChina also involves its middle- and low-management officials in the budgeting process. Managers submit annual budget drafts to top-level decision-makers. The budgets include specific annual targets, goals, and action programs for each product line company. At the end of the year, senior managers are awarded bonuses based on their achievements in the performance contract. The performance contract score includes two components: a contribution score and actual performance score. These two scores added together represent the performance contract score for a senior manager.

DISCUSSION QUESTION

Which of the performance measures criteria are influenced by the performance contracts? Explain your answer.

SOURCE: C. Stoia, "PetroChina--Performance within State-owned Enterprises," February 25, 2021, performancemagazine.org, accessed March 20, 2021.

One challenge that companies face is how to measure customer loyalty, employee satisfaction, and other nonfinancial performance areas that affect profitability. To effectively use nonfinancial performance measures several steps are necessary.¹⁵ First, nonfinancial performance measures that likely link to the company's strategic goals need to be identified. Second, find existing data on key nonfinancial performance measures (e.g., customer satisfaction, employee satisfaction surveys). If data are not available, identify a performance area that affects the company's strategy and performance. Third, use statistical and qualitative methods for testing the relationship between the nonfinancial performance measures and financial outcomes. Regression and correlation analysis as well as focus groups and interviews can be used. For example, studies show that employees' involvement, satisfaction, and enthusiasm for work are significantly related to business performance, including customer satisfaction, productivity, and profitability.¹⁶

Finally, review the nonfinancial performance measures to ensure they are appropriate and should be added. This is important to understand the drivers of financial performance and to ensure that the model is appropriate as the business strategy and economic conditions change.

It is important to recognize that when the company's business strategy changes, its performance management system needs to at least be reviewed, and if necessary revised. This is to ensure that the performance management system is motivating employees to demonstrate the behaviors and results necessary to support the strategy. If the performance management system is not revised, it is likely to be seen by managers as having little impact on a firm's effectiveness.

Validity

[Validity](#) is the extent to which a performance measure assesses all the relevant—and only the relevant—aspects of performance. This is often referred to as *content validity*. For a performance measure to be valid, it must not be deficient or contaminated. As you can see in [Figure 8.2](#), the circle on the right represents "true" job performance—all the aspects of performance relevant to success in the job. The circle on the left represents the performance measures that the company actually uses. These measures might include supervisory ratings of performance on a set of dimensions or measures of the objective results on the job (such as OKRs discussed above). Validity is concerned with maximizing the overlap between actual job performance and the measure of job performance (the green portion in the figure).

[Validity](#)

The extent to which a performance measure assesses all the relevant—and only the relevant—aspects of job performance.



Figure 8.2 Contamination and Deficiency of a Job Performance Measure

A performance measure is deficient if it does not measure all aspects of performance (the brown portion in the figure). An example is a system at a large university that assesses faculty members based more on research than teaching, thereby relatively ignoring a relevant aspect of performance.

A contaminated measure evaluates irrelevant aspects of performance or aspects that are not job related (the gold portion in the figure). The performance measure should seek to minimize contamination, but its complete elimination is seldom possible. An example of a contaminated measure is the use of actual sales figures for evaluating salespeople across very different regional territories. Often sales are highly dependent upon the territory (number of potential customers, number of competitors, economic conditions) rather than the actual performance of the salesperson. A salesperson who works harder and better than others might not have the highest sales totals because the territory simply does not have as much sales potential as others. Thus, these figures alone would be a measure that is strongly affected by things beyond the control of the individual employee.

Reliability

[Reliability](#) refers to the consistency of a performance measure. One important type of reliability is *interrater reliability*: the consistency among the individuals who evaluate the employee's performance. A performance measure has interrater reliability if two individuals give the same (or close to the same) evaluations of a person's job performance. Evidence seems to indicate that most subjective supervisory measures of job performance exhibit low reliability.¹⁷ With some measures, the extent to which all the items rated are internally consistent is important (*internal consistency reliability*).

[Reliability](#)

The consistency of a performance measure; the degree to which a performance measure is free from random error.

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In addition, the measure should be reliable over time (*test-retest reliability*). A measure that results in drastically different ratings depending on when the measures are taken lacks test-retest reliability. For example, if salespeople are evaluated based on their actual sales volume during a given month, it would be important to consider their consistency of monthly sales across time. What if an evaluator in a department store examined sales only during May? Employees in the lawn and garden department would have high sales volumes, but those in the men's clothing department would have somewhat low sales volumes. Clothing sales in May are traditionally lower than in other months. One needs to measure performance consistently across time.

Acceptability

[Acceptability](#) refers to whether the people who use a performance measure accept it. Many elaborate performance measures are extremely valid and reliable, but they consume so much of managers' time that they refuse to use them. Alternatively, those being evaluated by a measure may not accept it.

[Acceptability](#)

The extent to which a performance measure is deemed to be satisfactory or adequate by those who use it.

Acceptability is affected by the extent to which employees believe the performance management system is fair. As [Table 8.4](#) shows, there are three categories of perceived fairness: procedural, interpersonal, and outcome fairness. The table also shows specifically how the performance management system's development, use, and outcomes

affect perceptions of fairness. In developing and using a performance management system, managers should take the steps shown in the column labeled “Implications” in [Table 8.4](#) to ensure that the system is perceived as fair. Research suggests that performance management systems that are perceived as unfair are likely to be legally challenged, be used incorrectly, and decrease employee motivation to improve.¹⁸

Table 8.4 Categories of Perceived Fairness and Implications for Performance Management Systems

FAIRNESS CATEGORY	IMPORTANCE FOR PERFORMANCE MANAGEMENT SYSTEM	IMPLICATIONS
Procedural fairness	Development	Give managers and employees opportunity to participate in development of system. Ensure consistent standards when evaluating different employees. Minimize rating errors and biases. Managers should collaborate with employees to set goals and key performance indicators.
Interpersonal fairness	Use	Give timely and complete feedback. Allow employees to challenge the evaluation. Provide feedback in an atmosphere of respect and courtesy. Individual, team, and company goals and key performance indicators should be transparent to all employees.

Outcome fairness	Outcomes	Communicate expectations regarding performance evaluations and standards. Communicate expectations regarding rewards. The rationale for compensation and development decisions should be communicated and understood.

SOURCES: B. Hancock, E. Hioe, and B. Schaninger, "The Fairness Factor in Performance Management," April 2018, <https://www.mcvkinsey.com>, accessed January 10, 2019; *HBR Guide to Performance Management* (Boston MA: Harvard Business Review Press, 2017); S. W. Gilliland and J. C. Langdon, "Creating Performance Management Systems That Promote Perceptions of Fairness," in *Performance Appraisal: State of the Art in Practice*, ed. J. W. Smither (San Francisco: Jossey-Bass, 1998).

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For example, consider the steps Facebook took to ensure that its system is fair and transparent, and that it focuses on development.¹⁹ Facebook conducts performance reviews every six months based on self-evaluations and insights provided by an employee's manager and peers. The reviews are conducted every six months to account for the quickly changing nature of the business. Evaluators are asked to provide ratings on specific performance dimensions, such as technical contributions, before they make their overall performance rating. Peers' evaluations are shared with each other and their managers. Managers are trained to stay up to date on employees' projects and provide employees with feedback and help, if necessary. Managers attend meetings and discuss their direct reports, defending and advocating for them and considering their peer evaluations. The goal of these meetings is to reduce the effect of individual managers being hard or easy evaluators. After the managers write their performance reviews, they examine them for bias (e.g., if words such as *aggressive* or *abrasive* are used more often to describe women and result in lower evaluations). The overall performance ratings are then converted directly into compensation decisions using a formula. This allows managers to focus on making accurate performance evaluations rather than on having to painstakingly deliberate about compensation. Facebook has eliminated the problem of employees being categorized as excellent, good, or poor employees from one year to the next, whether they deserve it or not, by using stretch goals (what they call 50–50 goals). These goals are challenging: There is an equal chance that employees will or will not reach these goals. As a result, employees have a chance of just one in three that they will receive the same overall performance rating each year.

Specificity

Specificity is the extent to which a performance measure tells employees what is expected of them and how they can meet these expectations. Specificity is relevant to both the strategic and developmental purposes of performance management. If a measure does not specify what an employee must do to help the company achieve its strategic goals, then it does not achieve its strategic purpose. Additionally, if the measure fails to point out employees' performance problems, it is almost impossible for the employees to correct their performance.

Specificity

The extent to which a performance measure gives detailed guidance to employees about what is expected of them and how they can meet these expectations.

Deloitte's performance management system for its project teams meets most of the criteria for a good performance management system.²⁰ Deloitte's goals are to recognize, observe, and motivate performance through the annual compensation decision, the project performance snapshot, and the weekly performance conversations. Deloitte's client needs tend to involve both short- and long-term projects that are too complex for any one employee to have the expertise needed to carry them out. So to meet its clients' needs Deloitte relies on employee teams. These teams include a team leader and employees who each bring a different skill set. To evaluate each team member's performance, Deloitte asks team leaders to answer four questions. These questions ask if the leader would award the person the highest possible compensation increase and bonus (measures overall performance and unique value to the organization), always want them on their team (measures ability to work well with others), if the person is a risk for low performance (identifies problems that might harm the customer), and is ready for promotion today (measures potential). These four questions each represent a specific performance dimension (pay, teamwork, poor performance, promotion) that is relevant to Deloitte's project teams. The team leaders were chosen as the raters because they were in the best position to see the performance of team members and in their role must make subjective judgments. The questions were used page 341 after they were tested to see if they differentiated ineffective from effective team members and were correlated with other performance outcomes measured in other ways such as engagement surveys.

For short-term projects, team member evaluations occur at the end of each project, and longer-term project evaluations occur quarterly. To ensure that the evaluations are driving team performance and are accepted by team members, every team leader has to check in with each team member once each week. During these conversations, team leaders discuss expectations, review priorities, and provide feedback on recent work. Team members are encouraged to initiate check-ins with team leaders who may otherwise forget to have the discussions because they have many demands on their time. Once each quarter, Deloitte's business leaders use the evaluations to review a group of employees, such as those with critical skills or who are eligible for promotion, to discuss the actions that need to be taken to develop that group. The questions provide input into compensation decisions made at the end of the year by business leaders who also consider the difficulty of project assignments and other contributions team members have made to Deloitte.

Approaches to Measuring Performance

LO 8-5

Discuss five approaches to performance management, the specific techniques used in each approach, and the way these approaches compare with the criteria for effective performance management systems.

An important part of effective performance management is establishing how we evaluate performance. This is difficult to do because performance is complex—it includes how employees perform their individual work tasks as well as contribute to teams and behave in ways that support their peers and the company.²¹ What is considered effective performance and when, what, and how it is measured likely varies across positions. For example, what is measured often differs depending on if employees are in management or professional jobs (called “exempt”) or not (“nonexempt”).²² The top measure for nonexempt employees is quality of work, whereas measures of the work quality of management and professional employees more often apply categories such as communication, decision making, leadership, and problem solving. Job knowledge, which formerly was the top measure for all jobs, more recently shows up only as a measure for exempt employees.

In this section, we explore different ways to evaluate performance: the comparative approach, the attribute approach, the behavioral approach, the results approach, and the quality approach. We also evaluate these

approaches against the criteria of strategic congruence, validity, reliability, acceptability, and specificity. As you will see, all of these approaches have strengths and weaknesses. As a result, many companies' performance evaluations use a combination of approaches.

There is no one best approach to measuring performance. But to effectively contribute to organizational business strategy and goals and motivate employees, effective performance evaluation systems should measure both what gets accomplished (objectives) and how it gets accomplished (behaviors). Regardless of the approach used, the key is to provide employees with accurate and timely feedback about their performance, emphasize frequent performance discussions between managers and employees rather than one-way manager-led conversations, and simplify appraisal forms. For example, Adobe's performance management system called "The Check-In" emphasizes ongoing feedback.²³ Check-In encourages managers and employees to have informal performance discussions at least every other month. Managers are asked to focus performance discussions around employees' performance objectives or goals and what resources they need to succeed. Also, employees' career development needs are part of the conversations. Managers are given complete freedom to decide how often and in what ways they want to set goals and provide feedback. The discussion is future focused. That is, both the employee and the manager consider what to page 342change to increase the likelihood that performance will be effective. Survey results show that 80% of employees responded that they had regular performance meetings with their managers and felt supported by them. Since Check-In was introduced, voluntary turnover has decreased by 25%.

[Figure 8.3](#) shows an example of a performance management system that evaluates behavior and results. The results (project development) are linked to the goals of the business. The performance standards include behaviors that the employee must demonstrate to reach the results. The system provides feedback to the employee and holds both the employee and the manager accountable for changing behavior.

The Comparative Approach

The comparative approach to performance measurement requires the rater to compare an individual's performance with that of others. This approach usually uses some overall assessment of an individual's performance or worth and seeks to develop some ranking of the individuals within a work group. At least three techniques fall under the comparative approach: ranking, forced distribution, and paired comparison.

Ranking

Simple ranking requires managers to rank employees within their departments from highest performer to poorest performer (or best to worst). *Alternation ranking*, by contrast, consists of a manager looking at a list of employees, deciding who is the best employee, and crossing that person's name off the list. From the remaining names, the manager decides who the worst employee is and crosses that name off the list—and so forth.

Ranking has received specific attention in the courts. As discussed in [Chapter 3](#), in the *Albemarle Paper v. Moody* case, the validation of the selection system was conducted using employee rankings as the measure of performance. The Court stated, "There is no way of knowing precisely what criteria of job performance that supervisors were considering, whether each supervisor was considering the same criteria—or whether, indeed, any of the supervisors actually applied a focused and stable body of criteria of any kind."²⁴

Forced Distribution

The *forced distribution* method also uses a ranking format, but employees are ranked in groups. This technique requires the manager to put certain percentages of employees into predetermined categories. Most commonly, employees are grouped into three, four, or five categories, usually of unequal size, indicating the best workers, the worst workers, and one or more categories in between. [Table 8.5](#) shows four groups of employees and the percentage of employees that managers need to assign to each category.

Table 8.5 Performance and Development Based on Forced Distribution and Ranking

RANKING OR DISTRIBUTION CATEGORY		PERFORMANCE AND DEVELOPMENT PLAN
A	Above average Exceptional A1 performer 15% of Employees	Accelerate development through challenging job assignments Provide mentor from leadership team Recognize and reward contributions Praise employee for strengths Consider leadership potential Nominate for leadership development programs
B	Average Meets expectations Steady performer 60% of Employees	Offer feedback on how B can become a high performer Encourage development of strengths and improvement of weaknesses Recognize and reward employee contributions Consider enlarging job

C	Below expectations 15% of Employees	Give feedback and agree upon what specific skills, behavior, and/or results need to be improved, with timetable for accomplishment Move to job that better matches skills
D	Poor performance 10% of Employees	Placed on Performance Improvement Plan Terminate

SOURCES: B. Axelrod, H. Handfield-Jones, and E. Michaels, "A New Game Plan for C Players," *HBR*, January 2002, pp. 80–88; A. Walker, "Is Performance Management as Simple as ABC?" *T + D*, February 2007, pp. 54–57; T. De Long and V. Vijayaraghavan, "Let's Hear It for B Players," *HBR*, June 2003, pp. 96–102.

Advocates of these systems say that they are the best way to identify high-potential employees who should be given training, promotions, and financial rewards and to identify the poorest performers who should be helped or asked to leave. Top-level managers at many companies have observed that despite corporate performance and return to shareholders being flat or decreasing, compensation costs have continued to spiral upward and performance ratings continue to be high. They question how there can be such a disconnect between corporate performance and employees' evaluations and compensation. Forced distribution systems provide a mechanism to help align company performance and employee performance and compensation. These managers argue that employees ranked in the bottom category (poorest performance) cause performance standards to be lowered, influence good employees to leave, and keep good employees from joining the company.

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Accountabilities and Key Results	Performance Standards	Interim Feedback	Actual Results	Performance Rating	Areas for Development	Action
Key result areas that the employee will accomplish during the review period. Should align with company values, business goals, and job description.	How the key result area will be measured (quality, cost, quantity). Focus on work methods and accomplishments.	Employee and manager discuss performance on an ongoing basis.	Review actual performance for each key result.	Evaluate performance on each key result. 1 = Outstanding 2 = Highly effective 3 = Acceptable 4 = Unsatisfactory	Specific knowledge, skills, and behaviors to be developed that will help employee achieve key results.	What employee and manager will do to address development needs.
Project Development Manage the development of project scope, cost estimate studies, and schedules for approval.	Develop preliminary project material for approval within four weeks after receiving project scope. Eighty percent of new projects receive approval. Initial cost estimates are within 5% of final estimates.	Preliminary project materials are developed on time.	By end of year, approvals were at 75%, 5% less than standard.	3	Increase knowledge of project management software.	Read articles, research, and meet with software vendors.

Figure 8.3 Example of a Performance Management System That Includes Behavior and Results

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A forced distribution system helps managers tailor development activities to employees based on their performance. For example, as shown in [Table 8.5](#), poor performers are given specific feedback about what they need to improve in their job and a timetable is set for their improvement. If they do not improve their performance,

they are dismissed. Top performers are encouraged to participate in development activities such as job experiences, mentoring, and completion of leadership programs, which will help prepare them for top-management positions. The use of a forced distribution system is seen as a way for companies to increase performance, motivate employees, and open the door for new talent to join the company to replace poor performers.²⁵

Advocates say these systems force managers to make hard decisions about employee performance based on job-related criteria, rather than to be lenient in evaluating employees. Critics, by contrast, say the systems in practice are arbitrary, erroneously assume that employees' performance can be best summarized by a normal distribution, may be illegal, and cause poor morale.²⁶ For example, one work group might have 20% poor performers while another might have only high performers, but the process mandates that 10% of employees be eliminated from both groups. Also, in many forced distribution systems, an unintended consequence is that the bottom category tends to consist of members of ethnic minority groups, women, and people over 40 years of age, causing discrimination lawsuits (we discuss legal issues affecting performance management later in the chapter). Finally, it is difficult to rank employees into distinctive categories when criteria are subjective or when it is difficult to differentiate employees on the criteria (such as teamwork or communications skills).

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Research simulating different features of a forced system and other factors that influence company performance (e.g., voluntary turnover rate, validity of selection methods) suggests that forced distribution rating systems can improve the potential performance of a company's workforce.²⁷ The majority of improvement appears to occur during the first several years the system is used, mainly because of the large number of poorly performing employees who are identified and fired.

Despite the potential advantages of forced choice systems, the potential negative side effects on morale, teamwork, recruiting, and shareholder perceptions pose a question whether companies should adopt such a system or keep it if they already use it for performance management. Many companies are emphasizing the linkage between employees' performance and their development plan without using a forced distribution or ranking system. For example, Microsoft is no longer requiring its managers to evaluate its employees against one another and rank them on a scale from 1 to 5.²⁸ The system was abandoned because many employees complained that it resulted in unfair rankings, power struggles between managers over which of their employees could receive the more favorable rankings, and aggressive competition between employees. Also, the system was inconsistent with Microsoft's strategic emphasis on teamwork.

Paired Comparison

The *paired comparison* method requires managers to compare every employee with every other employee in the work group, giving an employee a score of 1 every time that employee is considered the higher performer. Once all the pairs have been compared, the manager computes the number of times each employee received the favorable decision (i.e., counts up the points), and this becomes the employee's performance score.

The paired comparison method tends to be time consuming for managers and will become more so as organizations become flatter with an increased span of control. For example, a manager with 10 employees must make 45 ($10 \times \frac{9}{2}$) comparisons. However, if the group increases to 15 employees, 105 comparisons must be made.

Evaluating the Comparative Approach

The comparative approach to performance measurement is an effective tool in differentiating employee performance; it virtually eliminates problems of leniency, central tendency, and strictness. This is especially valuable if the results of the measures are to be used in making administrative decisions such as pay raises and promotions. In addition, such systems are relatively easy to develop and in most cases easy to use; thus, they are often accepted by users.

One problem with these techniques, however, is their common failure to be linked to the strategic goals of the organization. Although raters can evaluate the extent to which individuals' performances support the strategy, this link is seldom made explicit. In addition, because of the subjective nature of the ratings, their validity and reliability depend on the raters themselves. Some firms use multiple evaluators to reduce the biases of any individual, but most do not. At best, we could conclude that their validity and reliability are modest.

These techniques lack specificity for feedback purposes. Based only on their relative rankings, individuals are completely unaware of what they must do differently to improve their ranking. This puts a heavy burden on the manager to provide specific feedback beyond that of the rating instrument itself. Finally, many employees and managers are less likely to accept evaluations based on comparative approaches. Evaluations depend on how employees' performance relates to that of other employees in a group, team, or department (normative standard) rather than on absolute standards of excellent, good, fair, and poor performance.

The Attribute Approach

The attribute approach to performance management focuses on the extent to which individuals have certain attributes (characteristics or traits) believed desirable for the company's success. The techniques that use this approach define a set of traits—such as initiative, leadership, and competitiveness—and evaluate individuals on them.

Graphic Rating Scales

The most common form that the attribute approach to performance management takes is the *graphic rating scale*. [Table 8.6](#) shows a graphic rating scale used in a manufacturing company. As you can see, a list of traits is evaluated by a five-point (or some other number of points) rating scale. The manager considers one employee at a time, circling the number that signifies how much of that trait the individual has. Graphic rating scales can provide a number of different points (a discrete scale) or a continuum along which the rater simply places a check mark (a continuous scale).

Table 8.6 Example of a Graphic Rating Scale

The following areas of performance are significant to most positions. Indicate your assessment of performance on each dimension by circling the appropriate rating.

PERFORMANCE DIMENSION	RATING				
	DISTINGUISHED	EXCELLENT	COMMENDABLE	ADEQUATE	POOR
Knowledge	5	4	3	2	1
Communication	5	4	3	2	1
Judgment	5	4	3	2	1
Managerial skill	5	4	3	2	1
Quality performance	5	4	3	2	1
Teamwork	5	4	3	2	1
Interpersonal skills	5	4	3	2	1
Initiative	5	4	3	2	1
Creativity	5	4	3	2	1
Problem solving	5	4	3	2	1

Mixed-Standard Scales

Mixed-standard scales were developed to get around some of the problems with graphic rating scales. To create a mixed-standard scale, we define the relevant performance dimensions and then develop statements representing good, average, and poor performance along each dimension. These statements are then mixed with the statements from other dimensions on the actual rating instrument. An example of a mixed-standard scale is presented in [Table 8.7](#).

As we see in the table, the rater is asked to complete the rating instrument by indicating whether the employee's performance is above (+), at (0), or below (–) the statement. A special scoring key is then used to score the employee's performance for each dimension. Thus, for example, an employee performing above all three statements receives a 7. If the employee is below the good statement, at the average statement, and above the poor statement, a score of 4 is assessed. An employee below all three statements is given a rating of 1. This scoring is applied to all the dimensions to determine an overall performance score.

Note that mixed-standard scales were originally developed as trait-oriented scales. However, this same technique has been applied to instruments using behavioral rather than trait-oriented statements as a means of reducing rating errors in performance appraisal.²⁹

Table 8.7 An Example of a Mixed-Standard Scale

Three traits being assessed:			Levels of performance in statements:		
Initiative (INTV)			High (H)		
Intelligence (INTG)			Medium (M)		
Relations with others (RWO)			Low (L)		
Instructions: Please indicate next to each statement whether the employee's performance is above (+), equal to (0), or below (-) the statement.					
INTV	H	1.	This employee is a real self-starter. The employee always takes the initiative and the superior never has to prod this individual.		<u>+</u>
INTG	M	2.	While perhaps this employee is not a genius, the employee is a lot more intelligent than many people I know.		<u>+</u>
RWO	L	3.	This employee has a tendency to get into unnecessary conflicts with other people.		<u>0</u>
INTV	M	4.	While generally this employee shows initiative, occasionally the superior must prod the employee to complete work.		<u>+</u>
INTG	L	5.	Although this employee is slower than some in understanding things, and may take a bit longer in learning new things, the employee is of average intelligence.		<u>+</u>
RWO	H	6.	This employee is on good terms with everyone and can get along with people even when the employee does not agree with them.		<u>-</u>
INTV	L	7.	This employee has a bit of a tendency to sit around and wait for directions.		<u>+</u>
INTG	H	8.	This employee is extremely intelligent and learns very rapidly.		<u>-</u>
RWO	M	9.	This employee gets along with most people. Only very occasionally does the employee have conflicts with others on the job, and these are likely to be minor.		<u>-</u>
Scoring Key:					
STATEMENTS				SCORE	
HIGH		MEDIUM		LOW	
+		+		+	
+		+		+	
+		+		+	
-		0		+	
-		-		+	
-		-		0	
-		-		-	
Example score from preceding ratings:					
STATEMENTS				SCORE	
HIGH		MEDIUM		LOW	
Initiative		+		+	
Intelligence		0		+	
Relations with others		-		0	

Evaluating the Attribute Approach

Attribute-based performance methods are quite easy to develop and are generalizable across a variety of jobs, strategies, and organizations. In addition, if much attention is devoted to identifying those attributes relevant to job performance and carefully defining them on the rating instrument, they can be as reliable and valid as more elaborate measurement techniques.

However, these techniques fall short on several of the criteria for effective performance management. There is usually little congruence between the techniques and the company's strategy. These methods are used because of the ease in developing them and because the same method (list of traits, comparisons) is generalizable across any organization and any strategy. In addition, these methods usually have vague performance standards that are open to different interpretations by different raters. Because of this, different raters often provide extremely different ratings and rankings. The result is that both the validity and reliability of these methods are usually low. This can lead to legal challenges. For example, the validity of graphic rating scales was questioned in the *Brito v. Zia* case.³⁰ In this case, Spanish-speaking employees had been terminated as a result of their performance appraisals. These appraisals consisted of supervisors' rating subordinates on a number of undefined dimensions such as volume of work, quantity of work, job knowledge, dependability, and cooperation. The court criticized the subjective appraisals and stated that the company should have presented empirical data demonstrating that the appraisal was significantly related to actual work behavior.

Virtually none of these techniques provides any specific guidance on how an employee can support the company's goals or correct performance deficiencies. In addition, when raters give feedback, these techniques tend to elicit defensiveness from employees. For example, how would you feel if you were told that on a five-point scale, you were rated a "2" in maturity? Certainly you might feel somewhat defensive and unwilling to accept that judgment, as well as any additional feedback. Also, being told you were rated a "2" in maturity doesn't tell you how to improve your rating.

The Behavioral Approach

The behavioral approach to performance management attempts to define the behaviors an employee must exhibit to be effective in the job. The various techniques define those behaviors and then require managers to assess the extent to which employees exhibit them. We discuss three techniques that rely on the behavioral approach.

Behaviorally Anchored Rating Scales

A *behaviorally anchored rating scale (BARS)* is designed to specifically define performance dimensions by developing behavioral anchors associated with different levels of performance.³¹ An example of a BARS is presented in [Figure 8.4](#). As you can see, the performance dimension has a number of examples of behaviors that indicate specific levels of performance along the dimension.

To develop a BARS, we first gather a large number of critical incidents that represent effective and ineffective performance on the job. These incidents are classified into performance dimensions, and the ones that experts agree clearly represent a particular level of performance are used as behavioral examples (or anchors) to guide the rater. The manager's task is to consider an employee's performance along each dimension and determine where on the dimension the employee's performance fits using the behavioral anchors as guides. This rating becomes the employee's score for that dimension.

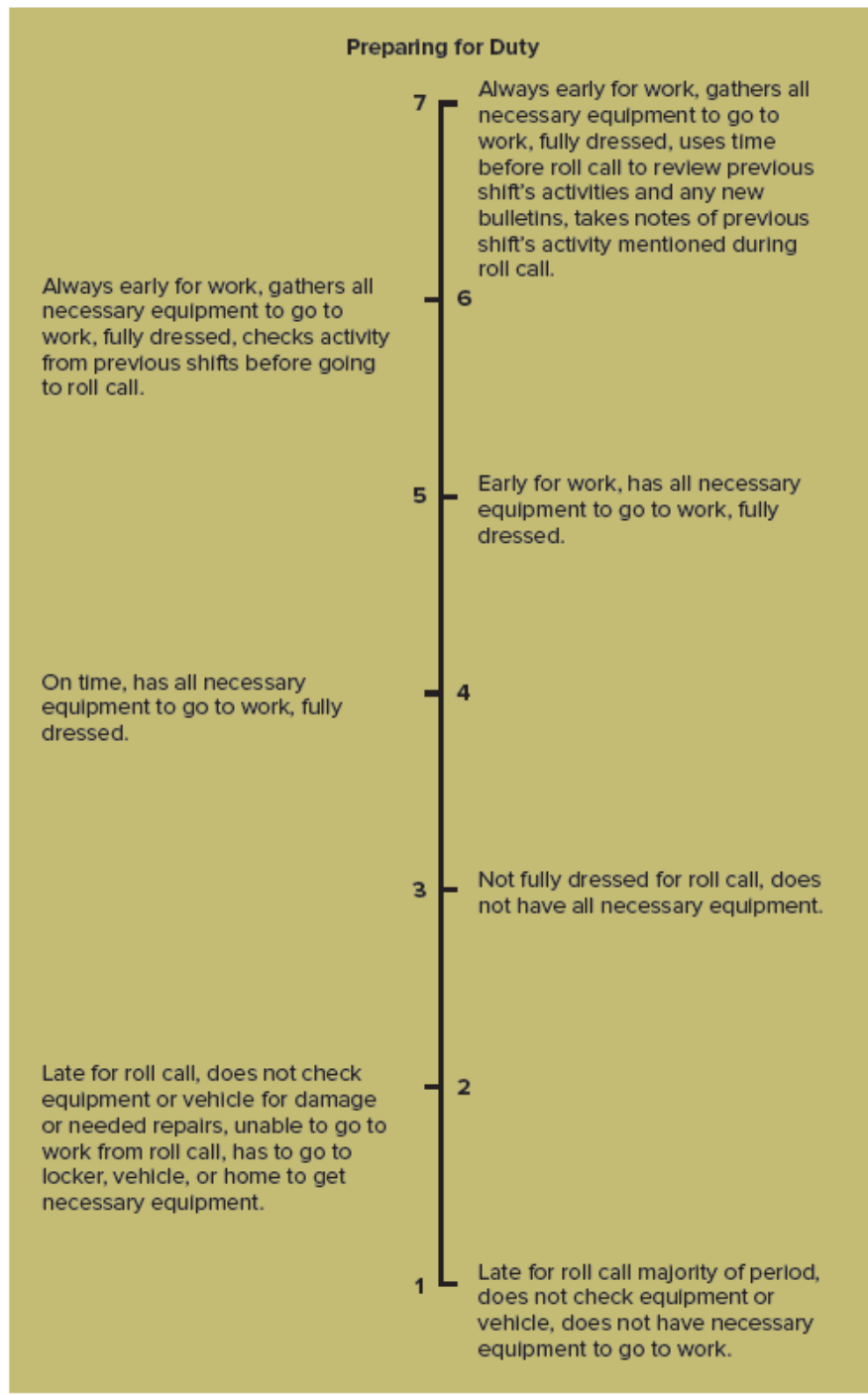


Figure 8.4 Task-BARS Rating Dimension: Patrol Officer

SOURCE: R. Harvey, "Job Analysis," in *Handbook of Industrial & Organizational Psychology*, 2nd ed., ed. M. Dunnette and L. Hough (Palo Alto, CA: Consulting Psychologists Press, 1991), p. 138.

Behavioral anchors have advantages and disadvantages. They can increase interrater reliability by providing a precise and complete definition of the performance dimension. A disadvantage is that they can bias information recall—that is, behavior that closely approximates the anchor is more easily recalled than other behavior.³² Research has also demonstrated that managers and their subordinates do not make much of a distinction between BARS and trait scales.³³

Behavioral Observation Scales

A *behavioral observation scale (BOS)* is a variation of a BARS. Like a BARS, a BOS is developed from critical incidents.³⁴ However, a BOS differs from a BARS in two basic ways. First, rather than discarding a large number of the behaviors that exemplify effective or ineffective performance, a BOS uses many of them to more specifically define all the behaviors that are necessary for effective performance (or that would be considered ineffective performance). Instead of using, say, 4 behaviors to define 4 levels of performance on a particular dimension, a BOS may use 15 behaviors. An example of a BOS is presented in [Table 8.8](#).

A second difference is that rather than assessing which behavior best reflects an individual's performance, a BOS requires managers to rate the frequency with which the employee has exhibited each behavior during the rating period. These ratings are then averaged to compute an overall performance rating.

The major drawback of a BOS is that it may require more information than most managers can process or remember. A BOS can have 80 or more behaviors, and the manager must remember how frequently an employee exhibited each of these behaviors over a 6- or 12-month rating period. This is taxing enough for one employee, but managers often must rate 10 or more employees.

A direct comparison of BOS, BARS, and graphic rating scales found that both managers and employees prefer BOS for differentiating good from poor performers, maintaining objectivity, providing feedback, suggesting training needs, and being easy to use among managers and subordinates.³⁵

Table 8.8 An Example of a Behavioral Observation Scale (BOS) for Evaluating Job Performance

Teamwork						
(1)	Works with team members to achieve common goals.					
	Almost Never	1	2	3	4	5 Almost Always
(2)	Seeks input from team members.					
	Almost Never	1	2	3	4	5 Almost Always
(3)	Communicates work due date changes to team members.					
	Almost Never	1	2	3	4	5 Almost Always
(4)	Listens to team members concerns.					
	Almost Never	1	2	3	4	5 Almost Always
(5)	Participates in team meetings.					
	Almost Never	1	2	3	4	5 Almost Always
(6)	Helps team members with their work					
	Almost Never	1	2	3	4	5 Almost Always
Total = _____						
Below Adequate	Adequate		Full		Excellent	Superior
6–10	11–15		16–20		21–25	26–30

Scores are set by management.

Competency Models

[Competencies](#) are sets of skills, knowledge, abilities, and personal characteristics that enable employees to successfully perform their jobs.³⁶ A [competency model](#) identifies and provides descriptions of competencies that are common for an entire occupation, organization, job family, or a specific job. Competency models can be used for performance management. However, one of the strengths of competency models is that they are useful for a variety of HR practices including recruiting, selection, training, and development. Competency models can be used to help identify the best employees to fill open positions, and as the foundation for development plans that allow the employee and the manager to target specific strengths and development areas.

[Competencies](#)

Sets of skills, knowledge, and abilities and personal characteristics that enable employees to perform their jobs.

[Competency model](#)

Identifies and provides a description of competencies that are common for an entire occupation, organization, job family, or specific job.

[Table 8.9](#) shows the competency model used by Voya Financial, a company that specializes in retirement planning and investment.³⁷ These competencies are used in performance management to assess how employees achieved their results and serve as the basis for the company's leadership development programs. Providence St. Joseph Health conducts a standardized competency assessment for new graduate registered nurses.³⁸ Previously each hospital across the Providence St. Joseph system had been managing competencies individually, with great variation across the system and among specialties. The new standardized process assesses nurses in fourteen areas and is intended for use by a registered nurse's supervisor. The tool can also be used to define goals and demonstrate level of development of each competency during a nurse's orientation period.

Table 8.9 Examples of Competencies at Voya Financial

Demonstrate Integrity

Focus on the Customer

Build a Strong Organization

Create & Lead Change

Deliver Results

Excel at Execution

Lead with Passion & Clarity

Develop People & Self

Work as One Company

SOURCE: "Voya's Leadership Model,"

<https://www.voya.com/page/why-voya#:~:text=Leadership%20development%20plays%20an%20integral,transition%20to%20a>
accessed March 22, 2021.

To use competency models effectively for performance evaluation, they must be up to date, drive business performance, be job-related (valid), be relevant (or customized) for all of the company's business units, and provide sufficient detail to make an accurate assessment of employees' performance.

Evaluation of the Behavioral Approach

The behavioral approach can be very effective. It can link the company's strategy to the specific behavior necessary for implementing that strategy. It provides specific guidance and feedback for employees about the performance expected of them. Most of the techniques rely on in-depth job analysis, so the behaviors that are identified and measured are valid. Because those who will use the system develop the measures, the acceptability is also often high. Finally, with a substantial investment in training raters, the techniques are reasonably reliable.

The major weaknesses have to do with the organizational context of the system. Although the behavioral approach can be closely tied to a company's strategy, the behaviors and measures must be continually monitored and revised to ensure that they are still linked to the strategic focus. This approach also assumes that there is page 352 "one best way" to do the job and that the behaviors that constitute this best way can be identified. One study found that managers seek to control behaviors when they perceive a clear relationship between behaviors and results. When this link is not clear, they tend to rely on managing results.³⁹ The behavioral approach might be best suited to less complex jobs (where the best way to achieve results is somewhat clear) and least suited to complex jobs (where there are multiple ways, or behaviors, to achieve success).

The Results Approach

The results approach focuses on managing the objective, measurable results of a job or work group. This approach assumes that subjectivity can be eliminated from the measurement process and that results are the closest indicator of one’s contribution to organizational effectiveness.⁴⁰ We examine three performance management systems that use results: the use of objectives, the balanced scorecard, and the productivity measurement and evaluation system.

The Use of Objectives

In a performance management system that uses objectives the top-management team first defines the company's strategic goals for the coming year. These goals are passed on to the next layer of management, and these managers define the goals they must achieve for the company to reach its goals. This goal-setting process cascades down the organization so that all managers set goals that help the company achieve its goals.⁴¹ These goals are used as the standards by which an individual's performance is evaluated.⁴²

For example, a company goal might be to increase sales by 6% in the next year. This goal is linked to the sales team goal of achieving \$500,000 in new sales. As a result of the team goal, the individual salesperson’s goal is to achieve \$100,000 in new sales this year, which represents a 10% improvement in sales over the previous year.

Results-based systems have three common components.⁴³ They require setting effective goals. The most effective goals are SMART goals. That is, the goals are specific (clearly stated, defining the result to be achieved), measurable (compared to a standard), attainable (difficult but achievable), relevant (linked to organizational success factors or goals), and timely (measured in deadlines, due dates, cycles, or schedules). Different types of measurements can be used for goals or objectives, including timeliness (e.g., responds to requests within 12 hours), quality (report provided clear information with no revisions necessary), quantity (increased sales by 25%), or financial metrics (e.g., reduced purchasing costs by 10%). An example of objectives used in a financial services firm is presented in [Table 8.10](#). Goals are not usually set unilaterally by management but with the managers’ and subordinates’ participation. And the manager gives objective feedback throughout the rating period to monitor progress toward the goals.

Table 8.10 An Example of an Objectives Measure of Job Performance

KEY RESULT AREA	OBJECTIVE	% COMPLETE	ACTUAL PERFORMANCE
Loan portfolio management	Increase portfolio value by 10% over the next 12 months	90	Increased portfolio value by 9% over the past 12 months
Sales	Generate fee income of \$30,000 over the next 12 months	150	Generated fee income of \$45,000 over the past 12 months

At Asana, a software company, everyone has clear goals and responsibilities, coupled with a high degree of authority.⁴⁴ This exists within an environment of constant observation, learning, and improvement. In this context, performance management is about enabling employees to continue improving along with the entire company. Goal setting is used to achieve continuous improvement. Asana presents the company’s purpose as a pyramid. At the top is the mission, to “help humanity thrive by enabling all teams to work together effortlessly.” Below that is an easily understood three-part strategy of making a product that enables effortless teamwork, getting the product to all teams, and making Asana the company that does both of these better than any other. To carry out the strategy, the company sets roughly a dozen business, product, and internal objectives for the year. Every team has key results to achieve some of these objectives, and every employee works at projects aimed at the key

results. Cross-functional teams define the higher-level goals in twice-yearly meetings to review the previous six months' performance. And once a year, each employee defines personal goals that align with the objectives in the pyramid. Asana's planning process identifies every task and piece of work, with a deadline for each. Each one is called an area of responsibility (AOR), and each is assigned to one person, the AOR holder, based on the person's expertise. AOR holders are encouraged to discuss issues with their colleagues, but they have the full authority to make decisions within their area.

Research on objectives has revealed two important findings regarding their effectiveness.⁴⁵ Of 70 studies examined, 68 showed productivity gains, while only 2 showed productivity losses, suggesting that objectives usually increase productivity. Also, productivity gains tend to be highest when there is substantial commitment to the objectives program from top management: an average increase of 56% when commitment was high, 33% when commitment was moderate, and 6% when commitment was low.

Clearly, use of an objectives system can have a positive effect on an organization's performance. Considering the process through which goals are set (involvement of staff in setting objectives), it is also likely that use of an objectives system effectively links individual employee performance with the firm's strategic goals. Evaluation of objectives, based on results or business-based metrics, removes the subjectivity from the evaluation process—employees either meet the objectives or they do not.

Table 8.11 shows how to best use objectives or goals in performance management. Waiting for goals to cascade down from company leaders, to division, function, and their team, takes too much time and employees have a difficult time understanding how their goals are related to company goals (line of sight). As a result, employees should set goals that as much as possible are linked to organizational goals. Goals should be SMART but also meaningful.⁴⁶ Rewards and incentives are best for motivating employees to achieve performance goals in jobs in which the results are easily measured and under employees' control.

Table 8.11 Best Practices in Goal Setting

Employees and managers should discuss and set no more than three to five goals.
Goals should be brief, meaningful, challenging, and include the results the employee is expected to achieve.
The time frame for goal achievement should be related to when they are expected to be accomplished.
The relationship between goals and rewards should be appropriate.
Goals should be “linked up” rather than “cascaded down.” This means that functions, teams, and employees should set their own goals that are related to company goals.
Employees will be more committed to achieving their goals and performance will be higher if they make their goals known to someone higher in perceived relative status (such as their manager or a mentor).

SOURCES: H. Klein, R. Lount Jr., H. Park, and B. Linford, “When Goals Are Known: The Effects of Audience Relative Status on Goal Commitment and Performance,” *Journal of Applied Psychology* 105 (2020), pp. 372–89; R.

Hanson and E. Pulakos, *Putting the "Performance" Back in Performance Management* (Alexandria, VA: Society for Human Resource Management, 2015); R. Noe and L. Inks, *It's about People: How Performance Management Helps Middle Market Companies Grow Faster* (Columbus, OH: National Center for the Middle Market, Ohio State University Fisher College of Business, GE Capital, 2014); D. Grote, *How to Be Good at Performance Appraisals* (Boston, MA: Harvard University Press, 2011); A. Fox, "Put Plans into Action," *HR Magazine*, April 2013, pp. 27–31.

Goals typically focus just on results, not on behaviors, values, or how things get done. If you want employees to behave in certain ways (or avoid behaving in certain ways) in achieving goals, you need to ensure that your performance management system includes evaluation of behaviors or values. For example, consider what happened at Wells-Fargo.⁴⁷ Employees opened as many as 2 million deposit and credit card accounts without customers' knowledge. Employees created fake accounts, invented personal identification numbers, and moved funds between customers' accounts without authorization. The aggressive cross-selling practices were motivated by extremely challenging performance objectives linked to incentives that rewarded employees and their managers for sales of products like checking accounts and credit cards. These objectives were based on Wells Fargo's business model, which depended on selling additional products to its customers who had checking and savings accounts. As a result of this scandal, Wells Fargo had to pay over \$600 million dollars in legal fines, its reputation was tarnished, it likely lost potential customers, and senior management and employees responsible were fired.

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The [Integrity in Action](#) box shows how NextRoll adapted employees' goals during the pandemic.



INTEGRITY IN ACTION

Flexible Goals During the Pandemic

NextRoll is a marketing and data technology company. During the pandemic NextRoll gave its employees the opportunity to work with their managers and adjust their quarterly goals. Employees were encouraged to pivot from unattainable and potentially demoralizing goals to those that were more realistic and in their control. For example, the company's marketing team is responsible for acquiring more customers. Typical goals for marketing employees would focus on in-person event planning. But during the pandemic marketing employees changed their goals to reach customers through social media and other electronic platforms. Goals for employees in customer-facing roles now focus on relationship building for longer-term results. NextRoll encourages employees to publicly post their goals using a performance management dashboard accessible to their peers and manager. Making goals public helps all employees understand what their peers are working on and allows them to help each other. Employees and their managers have frequent check-ins to discuss goal progress, if goals need to be changed, and resources needed to accomplish them.

DISCUSSION QUESTION

Did the way that NextRoll handled employees' goals influence their commitment and motivation to reach them? Explain your answer.

SOURCE: "How NextRoll Is Adjusting Goal Setting During a Time of Crisis," The Reflektive Team, July 10, 2020, reflektive.com/blog, accessed March 20, 2021.

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Balanced Scorecard

Some companies use the balanced scorecard to measure performance (we discussed the use of the balanced scorecard in [Chapter 1](#)). The balanced scorecard includes four perspectives of performance, including financial, customer, internal or operations, and learning and growth (see [Table 1.8](#) in [Chapter 1](#)). The financial perspective focuses on creating sustainable growth in shareholder value, the customer perspective defines value for customers (e.g., service, quality), the internal or operations perspective focuses on processes that influence customer satisfaction, and the learning and growth perspective focuses on the company's capacity to innovate and continuously improve. Each of these perspectives is used to translate the business strategy into organizational, managerial, and employee objectives. Employee performance is linked with the business strategy through communicating and educating employees on the elements of the balanced scorecard, translating strategic objectives into measures for departments and employees, and linking rewards to performance measures.⁴⁸ Employees need to know the corporate objectives and how they translate into objectives for each business unit, and then develop their own and team objectives that are consistent with the business unit and company objectives. Effective balanced scorecards allow employees to understand the business strategy by looking only at the scorecard and the strategy map (the cause-and-effect relationships among the measures).

For example, for the customer perspective of the balanced scorecard, an airline might have on-time performance as a critical success factor.⁴⁹ Gate agents, ground crews, maintenance, and scheduling represent groups of employees who affect on-time performance. Gate agents have four roles that can influence boarding speed including check-in timeliness, effectively dealing with connections, flight documentation, and the boarding process. Gate agents' performance in these four roles should be evaluated because they influence key performance indicators related to on-time performance including cost savings, customer satisfaction, customer losses, and operational costs.

Productivity Measurement and Evaluation System (ProMES)

The main goal of the Productivity Measurement and Evaluation System (ProMES) is to motivate employees to improve team or company-level productivity.⁵⁰ It is a means of measuring and feeding back productivity information to employees.

Team members try to map the relationship between specific outcomes and productivity and the relationships between effect and performance, performance and outcomes, and outcomes relationship to satisfaction of employee needs. ProMES consists of four steps. First, people in an organization identify the products, or the set of activities or objectives, the organization expects to accomplish. The organization's productivity depends on how well it produces these products. At a repair shop, for example, a product might be something like "quality of repair." Second, the staff defines indicators of the products. Indicators are measures of how well the products are being generated by the organization. Quality of repair could be indicated by (1) return rate (percentage of items returned that did not function immediately after repair) and (2) percentage of quality-control inspections passed. Third, the staff establishes the contingencies between the amount of the indicators and the level of evaluation associated with that amount. Fourth, a feedback system is developed that provides employees and work groups with information about their specific level of performance on each of the indicators. An overall productivity score can be computed by summing the effectiveness scores across the various indicators.

Research suggests that ProMES is effective in increasing productivity. ([Figure 8.5](#) illustrates the productivity gains in the repair shop described previously.) The research also suggests the system is an effective feedback mechanism. However, users found it time consuming to develop the initial system.

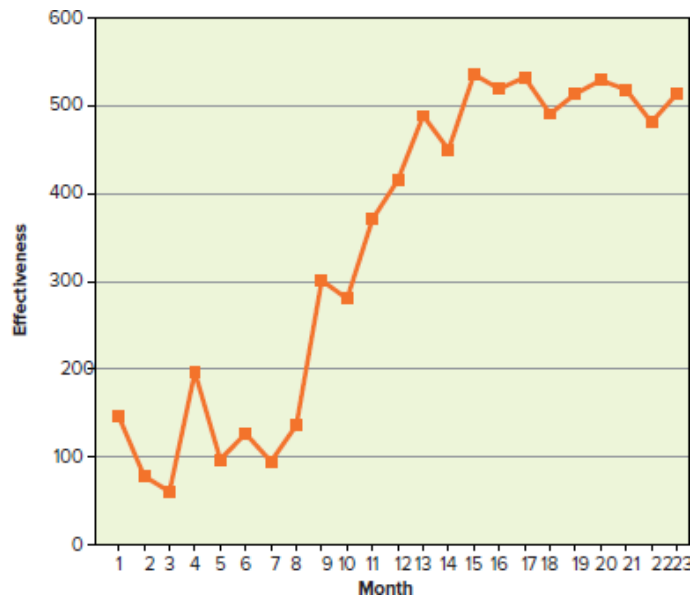


Figure 8.5 Increases in Productivity for a Repair Shop Using ProMES Measures

SOURCE: P. Pritchard, S. Jones, P. Roth, K. Stuebing, and S. Ekeberg, "The Evaluation of an Integrated Approach to Measuring Organizational Productivity," *Personnel Psychology*, 42 (1989), pp. 69–115.

Evaluation of the Results Approach

The results approach minimizes subjectivity, relying on objective, quantifiable indicators of performance. Thus, it is usually highly acceptable to both managers and employees. Another advantage is that it links an individual's results with the organization's strategies and goals.

However, there are a number of challenges in using objective performance measures. Objective measurements can be both contaminated and deficient—contaminated because they are affected by things that are not under the employee's control and deficient because not all the important aspects of job performance are amenable to objective measurement. For example, consider how an economic recession can influence sales goals or, for a teacher, parental support for studying can influence student's achievement test scores. Another disadvantage is that individuals may focus only on aspects of their performance that are measured, neglecting those that are not. For example, if the large majority of employees' goals relate to productivity, it is unlikely they will be concerned with customer service. One study found that objective performance goals led to higher performance but that they also led to helping co-workers less.⁵¹ It is important to identify if goals should be set at the individual, team, or department level. Setting employees' objectives may not be appropriate if work is team based. Individual objectives may undermine behaviors related to team success such as sharing information and collaboration. A final disadvantage is that, although results measures provide objective feedback, the feedback may not help employees learn how they need to change their behavior to increase their performance. If baseball players are in a hitting slump, simply telling them that their batting average is 0.190 may not motivate them to raise it. Feedback focusing on the exact behavior that needs to be changed (like taking one's eye off the ball or dropping one's shoulder) would be more helpful.⁵²

Kimberly-Clark and Zulily take specific actions to deal with the challenges in using objectives.⁵³ At Kimberly-Clark, salaried employees use an online tool to set goals and report their progress, record accomplishments or mistakes, and ask for and give feedback to peers or employees at levels above or below them. The online tool collects the feedback, which can be viewed by the employee's manager. It also stores data on employees' strengths, development needs, and performance ratings and an assessment of their turnover risk. The CEO reviews senior managers' performance plans each year to make sure their goals are challenging and align with the businesses

goals. At Zulily, employees can set their own goals and review their managers' and senior leaders' goals every quarter to see what they are focused on, ask questions, and help align their goals with the direction the company is going.

The Quality Approach

Fundamental characteristics of the quality approach include a customer orientation, a prevention approach to errors, and continuous improvement. Improving customer satisfaction is the primary goal of the quality approach. Customers can be internal or external to the organization. A performance management system designed with a strong quality orientation can be expected to do the following:

- Emphasize an assessment of both person and system factors in the measurement system.

- Emphasize that managers and employees work together to solve performance problems.

- Involve both internal and external customers in setting standards and measuring performance.

- Use multiple sources to evaluate person and system factors.⁵⁴

Based on this chapter's earlier discussion of the characteristics of an effective performance management system, it should be apparent to you that these characteristics are not just unique to the quality approach but are characteristics of an effective appraisal system.

Advocates of the quality approach believe that most U.S. companies' performance management systems are incompatible with the quality philosophy for a number of reasons:

- Most existing systems measure performance in terms of quantity, not quality.

- Employees are held accountable for good or bad results (based on sales or managers ratings) to which they contribute but do not completely control.

- Companies do not share the financial rewards of successes with employees according to how much they have contributed to them.

- Rewards are not connected to business results.⁵⁵

Quality advocates suggest that the major focus of performance evaluations should be to provide employees with feedback about areas in which they can improve. Two types of feedback are necessary: (1) subjective feedback from managers, peers, and customers about the personal qualities of the employee and (2) objective feedback based on the work process itself using statistical process control methods.

At Just Born, the company that makes Peeps and Mike and Ike candy, the performance management process is designed with a strong quality orientation.⁵⁶ The performance management system is designed to facilitate employee improvement (a forward-looking approach) rather than focus entirely on what the employee has accomplished during the past year. Also, managers and employees are encouraged to work together to solve performance problems.

The performance management system is part of the company's broader people development system (PDS), which is designed to ensure that learning and development align with business strategy and drive business results while ensuring employees have the skills needed to succeed in their current and future jobs. The PDS includes the performance management process, learning and career development processes, and a succession planning process. Information from each of these systems is shared to ensure that employees are developing the skills needed for their current jobs through training and on-the-job experiences, as well as preparing for their

future career interests. Just Born's performance management system starts with a planning meeting between the employee and his or her manager. At this meeting, the employee's role and strategic goals of the department are discussed. The manager and the employee agree on up to four personal objectives that will help the department meet its objectives and the employee achieve the specific deliverables described in the job description. Two competencies that the employee needs to deliver or improve on are identified. The manager and the employee work together to develop a learning plan to help the employee gain the competencies. During the year, the employee and the manager meet to discuss the progress in meeting the deliverables and improving the competencies. Pay decisions made at the end of each fiscal year are based on the achievement of performance objectives and learning goals.

Just Born also uses the Wow ... Now improvement process, a customized Kaizen process to improve business processes and results. The Wow ... Now improvement process includes teaching employees how to identify improvement opportunities, collect data, make improvements, measure results, and, based on the results, refine practices. Kaizen, the Japanese word for improvement, is one of the underlying principles of lean manufacturing and total quality management (we discussed lean thinking in [Chapter 1](#)). [Kaizen](#) refers to practices participated in by employees from all levels of the company that focus on continuous improvement of business processes.⁵⁷ As the Wow ... Now improvement process illustrates, Kaizen involves considering a continuous cycle of activities including planning, doing, checking, and acting (PDCA).

[Kaizen](#)

Practices participated in by employees from all levels of the company that focus on continuous improvement of business processes.

Statistical process control techniques are important in the quality approach. These techniques provide employees with an objective tool to identify causes of problems and potential solutions. These techniques include process-flow analysis, cause-and-effect diagrams, Pareto charts, control charts, histograms, and scattergrams. *Process-flow analysis* identifies each action and decision necessary to complete work, such as waiting on a customer or assembling a television set. Process-flow analysis is useful for identifying redundancy in processes that increase manufacturing or service time. In *cause-and-effect diagrams*, events or causes that result in undesirable outcomes are identified. Employees try to identify all possible causes of a problem. The feasibility of the causes is not evaluated, and as a result, cause-and-effect diagrams produce a large list of possible causes. A *Pareto chart* highlights the most important cause of a problem. In a Pareto chart, causes are listed in decreasing order of importance, where *importance* is usually defined as the frequency with which that cause resulted in a problem. The assumption of Pareto analysis is that the majority of problems are the result of a small number of causes. [Figure 8.6](#) shows a Pareto chart listing the reasons managers give for not selecting current employees for a job vacancy. *Control charts* involve collecting data at multiple points in time. By collecting data at different times, employees can identify what factors contribute to an outcome and when they tend to occur. [Figure 8.7](#) shows the percentage of employees hired internally for a company for each quarter between 2013 and 2015. Internal hiring increased dramatically during the third quarter of 2014. The use of control charts helps employees understand the number of internal candidates who can be expected to be hired each year. Also, the control chart shows that the amount of internal hiring conducted during the third quarter of 2014 was much larger than normal. *Histograms* display distributions of large sets of data. Data are grouped into a smaller number of categories or classes. Histograms are useful for understanding the amount of variance between an outcome and the expected value or average outcome.

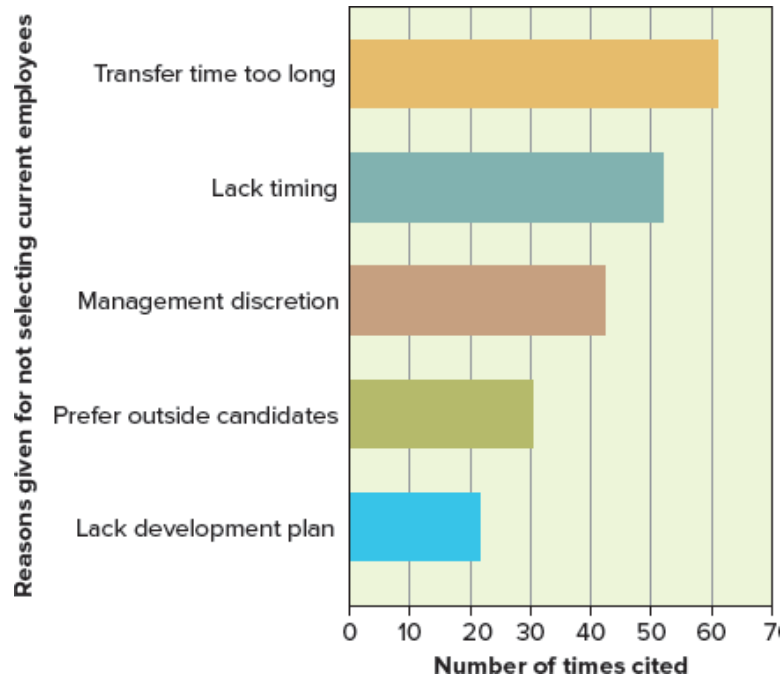


Figure 8.6 Pareto Chart

SOURCE: Clara Carter, *HR Magazine*, 1992.

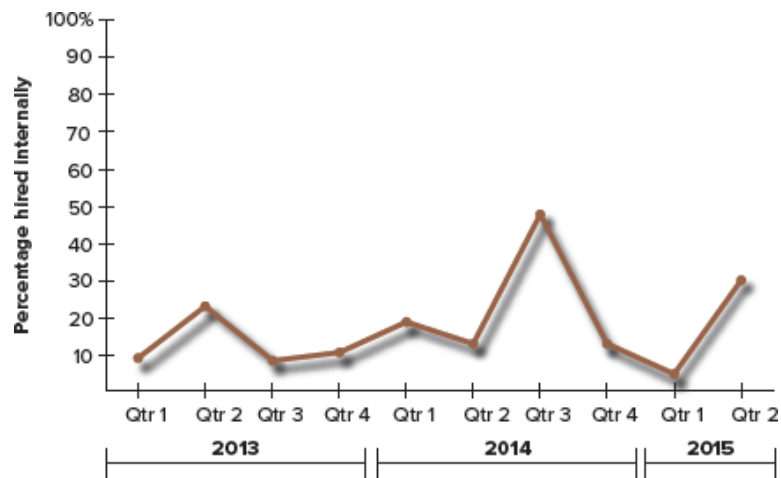


Figure 8.7 Control Chart

SOURCE: Clara Carter, *HR Magazine*, 1992.

Scattergrams show the relationship between two variables, events, or different pieces of data. Scattergrams help employees determine whether the relationship between two variables or events is positive, negative, or zero.

Evaluation of the Quality Approach

LO 8-6

Choose the most effective approach to performance measurement for a given situation.

The quality approach relies primarily on a combination of the attribute and results approaches to performance measurement. However, traditional performance appraisal systems focus more on individual employee performance, whereas the quality approach adopts a systems-oriented focus.⁵⁸ Many companies may be unwilling to completely abandon their traditional performance management system because it serves as the basis for personnel selection validation, identification of training needs, or compensation decisions. Also, the quality approach advocates evaluation of personal traits (such as cooperation), which are difficult to relate to job performance unless the company has been structured into work teams.

In summary, organizations can take five approaches to measuring performance: comparative, attribute, behavioral, results, and quality. [Table 8.12](#) summarizes the page 360various approaches to measuring performance based on the criteria we set forth earlier and illustrates that each approach has strengths and weaknesses. As a result, effective performance evaluations involve a combination of approaches including assessment of objectives and behaviors.

Table 8.12 Evaluation of Approaches to Performance Measurement

APPROACH	CRITERIA				
	STRATEGIC CONGRUENCE	VALIDITY	RELIABILITY	ACCEPTABILITY	SPECIFICITY
Comparative	Poor, unless manager takes time to make link	Can be high if ratings are done carefully	Depends on rater, but usually no measure of agreement used	Moderate; easy to develop and use but resistant to normative standard	Very low
Attribute	Usually low; requires manager to make link	Usually low; can be fine if developed carefully	Usually low; can be improved by specific definitions of attributes	High; easy to develop and use	Very low
Behavioral	Can be quite high	Usually high; minimizes contamination and deficiency	Usually high	Moderate; difficult to develop, but accepted well for use	Very high
Results	Very high	Usually high; can be both contaminated and deficient	High; main problem can be test–retest—depends on timing of measure	High; usually developed with input from those to be evaluated	High regarding results, but low regarding behaviors necessary to achieve them
Quality	Very high	High, but can be both contaminated and deficient	High	High; usually developed with input from those to be evaluated	High regarding results, but low regarding behaviors necessary to achieve them

Choosing a Source for Performance Information

LO 8-7

Discuss the advantages and disadvantages of the different sources of performance information.

Whatever approach to performance management is used, it is necessary to decide whom to use as the source of the performance measures. Each source has specific strengths and weaknesses. We discuss five primary sources: managers, peers, direct reports, self, and customers. Many companies include manager and self-assessment of

performance. This helps facilitate a conversation about performance during the appraisal meeting and on a more frequent basis.

Managers

LO 8-8

Choose the most effective source(s) for performance information for any situation.

Managers are the most frequently used source of performance information. It is usually safe to assume that supervisors have extensive knowledge of the job requirements and that they have had adequate opportunity to observe their employees—in other words, that they have the ability to rate their employees. In addition, because supervisors have something to gain from the employees' high performance and something to lose from low performance, they are motivated to make accurate ratings.⁵⁹ Finally, page 361 feedback from supervisors is strongly related to performance and to employee perceptions of the accuracy of the appraisal if managers attempt to observe employee behavior or discuss performance issues in the feedback session.⁶⁰

Whirlpool's performance management system involves setting and aligning goals with the business strategy, providing feedback and engaging in performance conversations, and evaluating progress toward the goals.⁶¹ Whirlpool found that its managers were spending too much time on evaluating goal progress, which took time away from aligning goals and providing feedback and having performance conversations, the most important parts of the performance management process. To help managers reallocate their time, Whirlpool provided them with coaching and development resources. The "Manager Minute" consisted of videos, blogs, and discussion forums provided by Whirlpool's leaders that offered tips, advice, and stories to inspire managers to become great at managing their employees' performance. Seventy-three percent of the managers reported they were using the Manager Minute for advice and were acting on it.

Problems with using supervisors as the source of performance information can occur in particular situations. In some jobs, for example, the supervisors do not have an adequate opportunity to observe employees performing their job duties. For example, in outside sales jobs, the supervisors do not have the opportunity to see the salespeople at work most of the time. This usually requires that managers occasionally spend a day accompanying the salespeople on sales calls. However, on those occasions, employees will be on their best behavior, so there is no assurance that performance that day accurately reflects performance when the manager is not around.

Also, some supervisors may be so biased against a particular employee that to use the supervisor as the sole source of information would result in less-than-accurate measures for that individual. Favoritism is a fact of organizational life, but it is one that must be minimized as much as possible in performance management.⁶² Thus, the performance evaluation system should seek to minimize the opportunities for favoritism to affect ratings. One way to do this is not to rely on only a supervisor's evaluation of an employee's performance.

Peers

Another source of performance information is the employee's co-workers. Peers are an excellent source of information in a job such as law enforcement, where the supervisor does not always observe the employee. Peers have expert knowledge of job requirements, and they often have the most opportunity to observe the employee in day-to-day activities. Also, peers are often in the best position to praise and recognize each other's performance on a daily basis. Peer evaluations can be even more motivating than managers' evaluations because, unlike managers, peers are not expected to provide feedback.

For example, at Etsy, employees can request feedback from their peers and direct reports.⁶³ Feedback providers can choose to give their comments anonymously, and feedback receivers have the choice to seek training or coaching from an HR business partner or manager. We discuss how technology has made it easier for employees to seek feedback from their peers and managers (and to provide it) later in the chapter.

Peers also bring a different perspective to the evaluation process, which can be valuable in gaining an overall picture of the individual's performance. In fact, peers have been found to provide extremely valid assessments of performance in several different settings.⁶⁴

One disadvantage of using peer ratings is the potential for friendship to bias ratings.⁶⁵ Little empirical evidence suggests that this is often a problem, however. Another disadvantage is that when the evaluations are made for administrative page 362decisions, peers often find the situation of being both rater and ratee uncomfortable. When these ratings are used only for developmental purposes, however, peers react favorably.⁶⁶

Direct Reports

Direct reports are employees who report to a manager. Direct reports are an especially valuable source of performance information when managers are evaluated. Direct reports often have the best opportunity to evaluate how well a manager treats employees. [Upward feedback](#) refers to appraisals that involve collecting subordinates' evaluations of a manager's behavior or skills. One study found that managers viewed receiving upward feedback more positively when receiving feedback from subordinates who were identified, but subordinates preferred to provide anonymous feedback. When subordinates were identified, they inflated their ratings of the manager.⁶⁷ To attract and keep talented employees, Dell Inc., the Texas-based computer company, recently took steps to focus not only on financial goals but also on making the company a great place to work.⁶⁸ Dell uses upward feedback to help sustain its "culture code" and develop its leaders. To be a successful leader at Dell requires humility: having confidence in your ability, being willing to take on challenges, but always welcoming feedback. Managers are rated by their employees on semiannual "Tell Dell" surveys. Managers who receive less than 50% favorable scores on five statements receive less favorable compensation, bonus, and promotion opportunities and are required to take additional training. [Table 8.13](#) shows the five statements. Managers are expected to work continuously to improve their scores. Their goal is to receive at least 75% favorable ratings from employees on the five statements.

[Upward feedback](#)

A performance appraisal process for managers that includes subordinates' evaluations.

Table 8.13 Example of Upward Feedback Survey Statements from "Tell Dell" Surveys

Even if I were offered a comparable position with similar pay and benefits at another company, I would stay at Dell.
I receive ongoing feedback that helps me to improve my performance.
My manager/supervisor supports my efforts to balance my work and personal life.
My manager/supervisor is effective at managing people.
I can be successful at Dell and still retain my individuality.

SOURCE: A. Pomeroy, "Agent of Change," *HR Magazine*, May 2005, pp. 52–56.

The [Evidence-Based HR](#) box shows the relationship between employee engagement, turnover, and employee evaluations of their managers' behavior at Kronos.

One problem with subordinate evaluations is that they give subordinates power over their managers, thus putting the manager in a difficult situation.⁶⁹ This can lead to managers' emphasizing employee satisfaction over productivity. However, this happens only when administrative decisions are based on these evaluations. As with peer evaluations, it is a good idea to use subordinate evaluations only for developmental purposes. To assure subordinates that they need not fear retribution from their managers, it is necessary to use anonymous evaluations and at least three subordinates for each manager.

Self

Although self-ratings are not often used as the sole source of performance information, they can still be valuable.⁷⁰ Obviously, individuals have extensive opportunities to observe their own behavior, and they usually have access to information regarding their results on the job. An important aspect of performance management at Analysis page 363Group, a firm that provides economic, financial, and strategy consulting to law firms, corporations, and government agencies, is the self-evaluation that every partner completes.⁷¹ The self-evaluation summarizes each partner's accomplishments for the year, including business sold and whom they hired and mentored. This reflects a performance emphasis on both how the partner is contributing to the firm's financial health as well as what the partner is doing to ensure the future health and growth of the business. Meetings are held throughout the year to discuss each person's contributions and identify their development objectives.



EVIDENCE-BASED HR

Kronos was interested in trying to improve employee engagement which they believed was highly related to managers' leadership skills. They researched the behaviors and practices of managers in the highest- and lowest-performing areas of the company and compared these with management practices at highly admired companies. As a result of their research they identified four dimensions of successful managers at Kronos: open and honest communication, encouragement of employee development, empowerment of employees, and holistic support of employees. They wrote questions about each of these dimensions and included them on the employee engagement survey. Employees were asked to answer these questions about their manager. Each employee's answers to the questions was used to calculate a Manager Effectiveness Index (MEI). Every manager with at least three employees received a report with their MEI. The report also included an internal benchmark to let them know how they compared among all managers at Kronos. To encourage the managers to develop and improve, the first round of the MEI was shared only with them and not their boss. Many managers found the results helpful. For example, a director in his first management position was surprised to learn that his employees did not find him available to talk. With guidance from HR, he addressed the concerns and dramatically improved his scores in the first year. The Kronos CEO received ratings that his executive team wasn't having developmental discussions with him—something he hadn't considered that they would want. He held one-on-one discussions and was surprised by how much he hadn't known about his direct reports. The results showed that in the first year there was a 6% increase in MEI scores, a 3% increase in engagement scores, a 2% increase in employees' self-reported intent to stay with the company, and a 1% decrease in voluntary turnover.

SOURCE: David Almeda and Kim Nugent, "The Case for Measuring Managers at Kronos," *HR People + Strategy*, Winter 2019, <https://www.hrps.org>; V. Fuhrmans, "These Employees Rate Their Bosses Twice Each Year," *The Wall Street Journal*, January 4, 2018, p. B7.

One problem with self-ratings, however, is a tendency toward inflated assessments. Research has found that self-ratings for personal traits as well as overall performance ratings tend to be lenient, compared to ratings from other sources.⁷² This stems from two sources. If the ratings are going to be used for administrative decisions (e.g., for pay raises), it is in the employees' interests to inflate their ratings. Ample evidence in the social psychology literature indicates that individuals attribute their poor performance to external causes, such as a co-worker who they think has not provided them with timely information. Although self-ratings are less inflated when supervisors provide frequent performance feedback, it is not advisable to use them for administrative purposes.⁷³ The best use of self-ratings is as a prelude to the performance feedback session to get employees thinking about their performance and to focus discussion on areas of disagreement.

Customers

Many companies are involving customers in their evaluation systems. One writer has defined *services* this way: "Services is something which can be bought and sold but page 364 which you cannot drop on your foot."⁷⁴ Because of the unique nature of services—the product is often produced and consumed on the spot—supervisors, peers, and subordinates often do not have the opportunity to observe employee behavior. Instead, the customer is often the only person present to observe the employee's performance and thus is the best source of performance information.

Most companies in service industries use customer evaluations of employee performance. Marriott Corporation provides a customer satisfaction card in every room and mails surveys to a random sample of customers after their stay in a Marriott hotel. Whirlpool's Consumer Services Division requires service technicians to ask customers to use their notebook computer to complete a survey immediately after they have serviced their appliances. Umami Burger restaurants provide three jars for customers to evaluate their experience: happiness with service (green), average feelings (yellow), and below expectations (red).⁷⁵ Customers are asked to toss a chip in the jar that best matches their experience. This provides Umami's managers with immediate feedback every time a customer places a chip in a jar, as well as cumulative feedback on customer experiences during the day. They can use this feedback to discuss with the restaurant team what's working and what needs to be fixed.

Using customer evaluations of employee performance is appropriate in two situations.⁷⁶ The first is when an employee's job requires direct service to the customer or linking the customer to other services within the company. Second, customer evaluations are appropriate when the company is interested in gathering information to determine what products and services the customer wants. That is, customer evaluations serve a strategic goal by integrating marketing strategies with human resource activities and policies. Customer evaluations collected for this purpose are useful for both evaluating the employee and helping to determine whether changes in other HRM activities (such as training or the compensation system) are needed to improve customer service.

The weakness of customer surveys is their expense, particularly if printing, postage, telephone, and labor are involved. On-site surveys completed using handheld computers help eliminate these expenses.

In conclusion, the best source of performance information often depends on the particular job. One should choose the source or sources that provide the best opportunity to observe employee behavior and results. Often, eliciting performance information from a variety of sources results in a performance management process that is accurate and effective. In fact, one recent popular trend in organizations is called [360-degree appraisal](#).⁷⁷ This technique consists of having multiple raters (boss, peers, subordinates, customers) provide input into a manager's evaluation. For example, at PwC managers' performance includes an assessment of their performance on leadership, business acumen, technical capabilities, global acumen, and relationships.⁷⁸ Managers at PwC can use 360-degree appraisal to collect data on these attributes from their boss, peers, and subordinates. Data are collected through a combination of surveys, reports, and coaching and collaboration tools. BlueJeans uses 360-degree appraisals for employees to get feedback on their performance from their peers and feedback on their

strengths and areas of improvement from their managers.⁷⁹ The 360-degree appraisal also gives employees the opportunity to give feedback to their boss about what they can do to help improve teamwork. The major advantage of the technique is that it provides a means for minimizing bias in an otherwise subjective evaluation technique. It has been used primarily for strategic and developmental purposes and is discussed in greater detail in [Chapter 9](#).⁸⁰

[360-degree appraisal](#)

A performance appraisal process for managers that includes evaluations from a wide range of persons who interact with the manager. The process includes self-evaluations as well as evaluations from the manager's boss, subordinates, peers, and customers.

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Use of Technology in Performance Management

LO 8-9

Discuss the potential advantages of social performance management and electronic monitoring for performance management.

Technology is influencing performance management systems in three ways. First, many companies are moving to Web-based online paperless performance management systems. These systems help companies ensure that performance goals across all levels of the organization are aligned, they provide managers and employees with greater access to performance information, and they provide tools for understanding and using the performance management process.⁸¹

Second, social media tools similar to Facebook and Twitter are increasingly being used to deliver timely feedback. [Social performance management](#) refers to systems similar to Facebook, LinkedIn, and Yammer and apps that allow employees to quickly exchange information, talk to each other, provide coaching, and receive recognition. Providing apps helps facilitate performance conversations in continuous performance management systems. It also provides employees with the opportunity to receive timely (and valued) feedback from peers and co-workers who observe their behavior and performance on a more frequent basis than their manager.

[Social performance management](#)

Social media and microblogs similar to Facebook, LinkedIn, and Yammer that allow employees to quickly exchange information, talk to each other, provide coaching, and receive feedback and recognition in the form of electronic badges.

For example, General Electric (GE) provides employees and their managers with the company's performance development (PD) app.⁸² Recipients of feedback know who is providing it, which promotes a culture of candor and transparency. PD feedback is visible only to those providing and receiving it. However, employees can choose to share feedback received from their peers with their manager. Managers and employees work together to create a performance summary using the feedback. The summary involves two types of feedback. "Continue insights" are behaviors that already make an employee impactful and effective, and "consider insights" are behaviors that will improve the employee's impact and effectiveness. Both types of feedback are used in making talent management decisions related to training, development, and job movement. The [Competing through Technology](#) box describes another way employees' interactions with others are being used in performance management.

Third, companies are relying on electronic tracking and monitoring systems to ensure that employees are working when and how they should be and to block access to certain websites (such as those containing pornographic

images). These systems include handprint and fingerprint recognition systems, global positioning systems (GPS), cameras, sensors, and software that can track employees using smartphones, notebook computers, and wearables.

For example, SiteTech Systems, a property-evaluation company, uses ActivTrak on employees' laptops to track their working hours.⁸³ The company uses the tool to track web browsing and time spent on work-related applications such as Excel. The tool also allows employees who are working more flexible schedules, especially during the pandemic, to get credit for their work hours. Each employee has access to their own data and can review how they work and what they are spending time on.

In the trucking industry, drivers are monitored continually.⁸⁴ An onboard computer records whether the driver is on or off duty, documents the driver's gas mileage, and tells the driver where to get gas. If the truck stops while the driver is on duty, the driver is asked to provide an explanation. The electronic monitoring system built in to the computer tells the driver which route to follow and records even slight deviations from the route due to traffic or accidents. UPS uses a computer analysis program to monitor its delivery drivers. This helps them avoid wasting time and fuel on left-hand turns on their routes. It also helps promote driver safety by documenting seat-belt usage and how many feet a driver backs up, which is a dangerous maneuver. Shuttle Express company vans are equipped with cameras, which allows the company to determine if accidents are the driver's fault.

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COMPETING THROUGH TECHNOLOGY

Using Digital Exhaust in Performance Management

High-performing employees are often identified based on performance appraisals provided by their manager. But these appraisals can be subjective and prone to error. As a result, some companies are beginning to rely on relationship analytics (also called organizational network analysis) to identify high performers. Relationship analytics focuses on understanding employees' social network. That is, understanding whom the employee knows including peers, managers, customers, suppliers, and vendors and the strength of the relationships. For example, Equinix asks employees whom they work with, find helpful, and trust, to help determine the most-connected and influential staffers. Workday Inc. has a feedback tool that allows employees to thank their peers for help on a project or for assisting them through a thorny problem. The company uses the tool to identify employees in the company who others turn to for guidance or insight. To identify employees' social network companies examine e-mails, chats, and file transfers. They also can use employees' ID badges to track their movement in the office or store, whom they talk to, and the length of the conversations. The data are analyzed to try to find patterns in the network. For example, a pattern that can be identified is one in which one or two employees from the same function or department or team (their network) communicate with people in other networks in a way that makes them more likely to get information that can generate new ideas. Another pattern might show influential employees, that is, those who have few, but strong connections to others. Once the patterns are identified they are correlated to performance measures such as efficiency or innovation. For example, analysis of project teams at a research and development company found that internal density and external range of team member contacts were related to team performance. Internal density shows the amount of interaction and interconnectedness among team members. Higher density helps build trust, risk taking, and likelihood of agreeing on important issues. External range means that team members have unique contacts outside the team who can provide expertise. This helps in getting the resources and knowledge the team needs to solve problems and meet project goals.

DISCUSSION QUESTION

How can relationship analytics improve the effectiveness of performance management?

SOURCE: P. Leonardi and N. Contractor, "Better People Analytics," *Harvard Business Review*, November/December 2018, pp. 70–81; C. Cutter, "Finding the Hidden Stars Holding the Company Together," *The Wall Street Journal*, July 20–21, 2019, pp. B6, B7; K. Gee, "Why Bosses Are Tracking Employees," *The Wall Street Journal*, March 22, 2017, p. B5.

To ensure employees are adhering to guidelines designed to stop the spread of COVID-19, companies are using a variety of monitoring devices. For example, thermal cameras are being used to measure employees' body temperature as they enter office buildings in New York City.⁸⁵ Artificial-intelligence sensors are tracking the number of employees occupying office and meeting spaces and their physical distance from each other.⁸⁶ Using a smartphone app managers can see employee spacing in real time and can be alerted if employees are overcrowded and less than six feet from each other in offices, meeting rooms, and public spaces.

Companies are using software that analyzes employees' computers and creates a profile.⁸⁷ Over time the software is able to create a baseline of normal behavior, including where they log in, what programs and databases they use, and which external websites they browse. It also provides a score for users (a risk score) based on page 367 what dangers they may pose to the company, such as stealing data or new product designs or viewing pornography. Software called Scout can be used to evaluate the content of employees' e-mail and other communications. The software scans for variations in language usage in the e-mails such as an increase in the use of phrases such as "medical bills" or "missed payments," which may mean the employee is at an increased risk for stealing.

Wearables allow us to track our sleep, steps, and exercise levels. Wearables can also be used to track our movements and personal interactions.⁸⁸ For example, at Florida Hospital Celebration Health, nurses and patient care technicians wear badges with sensors that allow tracking of their visits to patients' rooms and nurses' stations. The tracking helped the hospital determine that nurses were spending more time finding medicines that were understocked at certain nursing stations. The monitoring helped the hospital improve its supply procedures.

Despite the potential increased productivity and efficiency benefits that can result from these systems, they still present concerns.⁸⁹ Critics argue that these systems threaten to reduce the workplace to an electronic sweatshop in which employees are treated as robots that are monitored to maximize productivity for every second they are at work. Electronic monitoring systems threaten employees' right to privacy and dignity to work without being monitored. Also, time-tracking software may be inaccurate. Federal and state lawsuits have been filed against several companies that use time-tracking software, including American Airlines and Kroger.⁹⁰ These lawsuits allege that employees' work hours are not correctly counted, and as a result, they are being paid less wages than they earned for the amount of time they are working. For example, an employee may work 7 hours and 15 minutes each day but the tracking software rounds their hours worked to 7 hours. This means for every five-day work-week, they are not receiving wages for one and a quarter hours of work. Over several years this can result in employees losing thousands of dollars from their pay!

Some critics argue that electronic tracking systems are needlessly surveilling and tracking employees when there is no reason to believe that anything is wrong. Good managers know what their employees are doing, and electronic systems should not be a substitute for good management. Critics also argue that such systems result in less productivity and motivation, demoralize employees, and create unnecessary stress. A mentality is created that employees always have to be at their desks to be productive. Wearable devices have the potential to gather a much broader range of information than other types of monitoring technology. But most employees don't know what data are being collected, and health and personal data collected by a wearable are not necessarily private or secure.

However, despite these concerns electronic monitoring has some significant benefits.⁹¹ It can ensure that time is not abused, can improve scheduling, can assure employee safety, and can protect employees from sexual harassment and cyberbullying. It also serves as a deterrent against data theft and can help motivate workers and improve performance. To avoid employees feeling they are being unfairly monitored and controlled, managers must

communicate to employees why they are being monitored. Monitoring can be helpfully used for coaching and development. For example, it can be used for managers or more experienced employees to coach less experienced employees. Employees should also have access to the data being monitored so they can see how they are behaving, spending their time, and the focus of their activities. This gives them the opportunity to make changes to improve their productivity, behavior, or allocation of work time.

Reducing Rater Errors, Politics, and Increasing Reliability and Validity of Ratings

LO 8-10

Distinguish types of rating errors, and explain how to minimize each in a performance evaluation.

Research consistently reveals that humans have tremendous limitations in processing information. Because we are so limited, we often use *heuristics*, or simplifying mechanisms, to make judgments, whether about investments or about people.⁹² These heuristics, which appear often in subjective measures of performance, cause different types of bias, which can lead to rater errors and incorrect attributions or reasons we use to explain an employee's performance.⁹³ Confirmation bias results in the evaluator seeking, interpreting, and remembering information that confirms previously held beliefs. Ingroup–outgroup bias refers to evaluators' favoritism toward employees who are in the groups they belong to.

As we discussed in [Chapter 7](#), unconscious bias is a judgment outside of our consciousness that affects decisions based on background, culture, and personal experience. We are all subject to unconscious bias. In performance management, research has shown that women's written performance reviews were more likely to contain vague feedback that did not offer specific details of what they had done well and what they could do to advance.⁹⁴ Men tend to receive more feedback linked to a business outcome than do women. For example, women were more likely to be told, for example, to “do more work in person” with no explanation about the issue to overcome or the goal of the change. It doesn't matter whether the manager conducting the performance evaluation was a man or a woman. Also, men were more likely to receive longer reviews that focused on their technical skills, compared to shorter reviews for women that were more concerned with their communication skills.

[Table 8.14](#) shows the different types of rating errors. The “similar to me” error is based on in-group out-group bias.⁹⁵ Halo and horns errors are based in confirmation bias. Leniency, strictness, and central tendency are known as distributional errors because the rater tends to use only one part of the rating scale.

Table 8.14 Typical Rater Errors

RATER ERROR	DESCRIPTION
Similar to me	Individuals who are similar to us in race, gender, background, interest, beliefs, and the like receive higher ratings than those who are not.
Contrast	Ratings are influenced by comparison between individuals instead of an objective standard (e.g., employee receives lower-than-deserved ratings because he or she is compared to outstanding peers).

Leniency	Rater gives high ratings to all employees regardless of their performance.
Strictness	Rater gives low ratings to all employees regardless of their performance.
Central tendency	Rater gives middle or average ratings to all employees despite their performance.
Halo	Rater gives employee high ratings on all aspects of performance because of an overall positive impression of the employee.
Horns	Rater gives employee low ratings on all aspects of performance because of an overall negative impression of the employee.

[Appraisal politics](#) refer to evaluators purposefully distorting a rating to achieve personal or company goals. Research suggests that several factors promote appraisal politics. These factors are inherent in the appraisal system and the company culture. Appraisal politics are most likely to occur when raters are accountable to the employee being rated, there are competing rating goals, and a direct link exists between performance appraisal and highly desirable rewards. Also, appraisal politics are likely to occur if top executives tolerate distortion or are complacent toward it, and if distortion strategies are part of “company folklore” and are passed down from senior employees to new employees.

[Appraisal politics](#)

A situation in which evaluators purposefully distort a rating to achieve personal or company goals.

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There are four approaches to reducing rating errors.⁹⁶ They include rater error training, frame-of-reference training, unconscious bias training, and calibration meetings. *Rater error training* attempts to make managers aware of rating errors and helps them develop strategies for minimizing those errors.⁹⁷ These programs consist of having the participants view video-recorded vignettes designed to elicit rating errors such as “contrast.” They then make their ratings and discuss how the error influenced the ratings. Finally, they get tips to avoid committing those errors. This approach has been shown to be effective for reducing errors, but there is evidence that reducing rating errors can also reduce accuracy.⁹⁸

Rater accuracy training, also called *frame-of-reference training*, attempts to emphasize the multidimensional nature of performance and to get raters to understand and use the same idea of high, medium, and low performance when making evaluations. This involves providing examples of performance for each dimension and then discussing the actual or “correct” level of performance that the example represents.⁹⁹ Accuracy training seems to increase accuracy, provided that the raters are held accountable for ratings, job-related rating scales are used, and raters keep records of the behavior they observe.¹⁰⁰

In addition to these approaches (as we discussed in [Chapter 7](#)), many companies, such as Microsoft, Google, Facebook, and Dow Chemical, are requiring employees to participate in unconscious bias training programs to reduce the potential influence of unconscious bias in performance evaluations and other work-related decisions (e.g., promotions).¹⁰¹ These training programs focus on making employees aware of unconscious bias and reducing its impact by slowing down decision making and carefully considering reasons behind and language used

in judgments.

An important way to help ensure that performance is evaluated consistently across managers and to reduce the influence of unconscious bias, rating errors, and appraisal politics is to hold calibration meetings.¹⁰² [Calibration meetings](#) provide a way to discuss employees' performance with the goal of ensuring that similar standards are applied to their evaluations. These meetings include managers responsible for conducting performance appraisals and their managers; they are facilitated by an internal HR representative or an external consultant. In the meetings, each employee's performance rating and the manager's reasons for the ratings are discussed. Managers have the opportunity to discuss the definition of each performance rating and ask questions. The calibration meetings help managers identify if their ratings are too positive or negative or tend to be based on employees' most recent performance. Managers are more likely to provide accurate evaluations that are well documented when they know they may have to justify them in a calibration meeting. Research shows that calibration meetings result in changes in about one-quarter of performance ratings, mostly those that varied significantly from the average.¹⁰³ The meetings resulted in performance ratings lowered four times as often as they were increased. As a result of calibration meetings, over time managers' ratings became less extremely positive or negative. Also, employees viewed the calibration process as fair but managers saw it as increasing the demands on their time.

[Calibration meetings](#)

A way to discuss employees' performance with the goal of ensuring that similar standards are applied to their evaluations.

Calibration meetings can also help eliminate politics by discussing how performance ratings relate to business results. To minimize appraisal politics, managers also should keep in mind the characteristics of a fair appraisal system, shown in [Table 8.4](#). Thus, managers should also do the following:

- Build top-management support for the appraisal system and actively discourage distortion.

- Give raters some latitude to customize performance objectives and criteria for their rates.

- Recognize employee accomplishments that are not self-promoted.

- Provide employees with access to information regarding which behaviors are desired and acceptable at work.

- Encourage employees to actively seek and use feedback to improve performance.

- Make sure that constraints such as the budget do not drive the process.

- Make sure that appraisal processes are consistent across the company.

- Foster a climate of openness to encourage employees to be honest about weaknesses.¹⁰⁴

Performance Feedback

LO 8-11

Conduct an effective performance feedback session.

Once the expected performance has been defined and employees' performances have been measured, it is necessary to feed that performance information back to the employees so that they can correct any deficiencies. The performance feedback process is complex and provokes anxiety for both the manager and the employee.

Few of us feel comfortable sitting in judgment of others. The thought of confronting others with what we perceive to be their deficiencies causes most of us to shake in our shoes. If giving negative feedback is painful, receiving it can

be excruciating—thus the importance of the performance feedback process.

The Manager's Role in an Effective Performance Feedback Process

If employees are not made aware of how their performance is not meeting expectations, their performance will almost certainly not improve. In fact, it may get worse. Effective managers provide specific performance feedback to employees in a way that elicits positive behavioral responses. Because of the importance of performance feedback for an effective performance management system, many companies are training managers on how to provide feedback. Below are several recommendations for effective feedback.¹⁰⁵

Feedback Should Be Given Frequently, Not Once a Year

Frequent feedback is important for several reasons. First, managers have a responsibility to correct performance deficiencies immediately on becoming aware of them. If performance is subpar in January, waiting until December to appraise the performance could mean an 11-month productivity loss. Second, in effective feedback sessions the employee is not surprised by the evaluation. An easy rule to follow is that employees should receive such frequent performance feedback that they already know almost exactly what will be discussed in their formal evaluation. Third, many employees want more frequent and candid performance feedback from their managers beyond what is provided once or twice a year during their formal performance review.¹⁰⁶

Consider Adobe's Check-In, which emphasizes ongoing feedback.¹⁰⁷ Check-In encourages managers and employees to have performance discussions at least every other month. Managers are asked to focus performance discussions around employees' performance objectives or goals and what resources they need to succeed. Also, employees' career development needs are part of the conversations. Managers are given complete freedom to decide how often and in what ways they want to set goals and provide feedback. The discussion is future-focused. That is, both the employee and the manager consider what to change to increase the likelihood that performance will be effective. Employees are evaluated on the basis of how they have performed against their goals rather than how they compare to other employees.

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Create the Right Context for the Discussion

Managers should choose a neutral location for the feedback session. The manager's office may not be the best place for a constructive feedback session because the employee may associate the office with unpleasant conversations. Managers should describe the meeting as an opportunity to discuss the role of the employee, the role of the manager, and the relationship between them. Managers should also acknowledge that they would like the meeting to be an open dialogue.

Ask Employees to Rate Their Performance before the Session

Having employees complete a self-assessment before the feedback session can be very productive. It requires employees to think about their performance over the past rating period, and it encourages them to think about their

weaknesses. Although self-ratings used for administrative decisions are often inflated, there is evidence that they may actually be lower than supervisors' ratings when done for developmental purposes. Another reason a self-assessment can be productive is that it can make the session go more smoothly by focusing discussion on areas where disagreement exists, resulting in a more efficient session. Finally, employees who have thought about past performance are more able to participate fully in the feedback session.

For example, at USANA Health Sciences Inc. employees (and their manager) are asked to consider three questions to prepare for performance discussions held once each business quarter.¹⁰⁸ The questions include, What did you do well in the past three months? (including things to keep doing and to do more of), What could you have done better? (including things to start doing and to stop doing), and What are your goals for the next three months?

Have Ongoing, Collaborative Performance Conversations

Managers should use a “problem-solving” or collaborative approach to work with employees to solve performance problems in an atmosphere of respect and encouragement. When employees participate in the feedback session, they are consistently satisfied with the process. (Recall the discussion of fairness earlier in this chapter.) Participation includes allowing employees to voice their opinions of the evaluation, as well as to discuss performance goals and development needs.

Moving to an ongoing collaborative performance conversation is necessary to reduce the anxiety, uncertainty, and feelings of lack of fairness and control that employees typically experience in a manager-driven “tell-and-sell” or “tell-and-listen” approach.¹⁰⁹ One study found that, other than satisfaction with one's supervisor, participation was the single most important predictor of satisfaction with the feedback session.¹¹⁰ [Table 8.15](#) provides examples of questions that managers can use to start a collaborative ongoing performance conversation with their employees.

Table 8.15 Examples of Questions That Start a Collaborative, Ongoing Performance Conversation

What's working?
Where did you get stuck?
How can I help?
What have you learned?
What would you do differently next time?
What skills would you like to develop?
What would you like to discuss today?
What do you think the next steps are?
When can I check in with you next?

SOURCE: J. Folkman and J. Zenger, “Resolving the Feedback Quandary,” *Chief Learning Officer*, November 2019, pp. 44–53; M. Buckingham, “Out with the Old in with ...,” *TD*, August 2016, pp. 44–48; “Goodyear Performance

Recognize Effective Performance through Praise

One usually thinks of performance feedback sessions as focusing on the employee's performance problems. This should never be the case. The purpose of the session is to give accurate performance feedback, which entails recognizing effective performance as well as poor performance. Praising effective performance provides reinforcement for that behavior. It also adds credibility to the feedback by making it clear that the manager is not just identifying performance problems.

Focus on Solving Problems

A common mistake that managers make in providing performance feedback is to try to use the session as a chance to punish poorly performing employees by telling them how utterly lousy their performance is. This only reduces the employees' self-esteem and increases defensiveness, neither of which will improve performance.

To improve poor performance, a manager must attempt to solve the problems causing it. This entails working with the employee to determine the actual cause and then agreeing on how to solve it. For example, a salesperson's failure to meet a sales goal may be the result of lack of a proper sales pitch, lack of product knowledge, or stolen sales by another salesperson. Each of these causes requires a different solution. Without a problem-solving approach, however, the correct solution might never be identified.

Focus Feedback on Behavior or Results, Not on the Person

One of the most important things to do when giving negative feedback is to avoid questioning the employee's worth as a person. This is best accomplished by focusing the discussion on the employee's behaviors or results, not on the employee. Saying, “You're screwing up! You're just not motivated!” will bring about more defensiveness and ill feelings than saying, “You did not meet the deadline that you agreed to because you spent too much time on another project.”

Minimize Criticism

One way to avoid personalizing poor performance is to focus on the situation (where the problem behavior occurred), specific behaviors that occurred in the situation, and the results of the behavior for peers, customers, and if appropriate, for themselves.¹¹¹ Having been confronted with a performance, a change is in order. However, if the manager personalizes poor performance, the employee may get defensive, fail to listen to the feedback, and as a result not change their performance.

Agree to Specific Goals and Set a Date to Review Progress

The importance of goal setting cannot be overemphasized. It is one of the most effective motivators of performance.¹¹² Research has demonstrated that it results in increased satisfaction, motivation to improve, and performance improvement.¹¹³ Besides setting goals, the manager must also set a specific follow-up date to review the employee's performance toward the goals. This provides an added incentive for the employee to take the goal seriously and work toward achieving it.

Penn Station East Coast Subs specializes in grilled submarine sandwiches, hand-cut fries, and hand-squeezed lemonade. Penn Station trains its managers to use the feedback model shown in [Table 8.16](#).¹¹⁴ The STEAKS model incorporates many of the recommendations provided above.

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Table 8.16 Penn Station East Coast Subs Feedback Model (STEAKS)

Set up the conversation (S)	Communicate the purpose of the conversation to the employees so they know what to expect.
Take turns evaluating behavior (T)	Give the employees the opportunity to provide their opinion of their work behavior. Letting the employees provide their opinion helps prevent employees from becoming defensive, thus avoiding conflict and creating conditions for a productive performance conversation.
Communicate the effect of the performance (E)	Let the employees know how their behavior affects customers, their peers, or the overall business.
Align with standards (A)	Explain work policies and standards, and why they are necessary, and highlight differences between employees' performance and the policies or standards.
Focus on specific improvements (K)	Emphasize the behaviors the employee needs to change.
Summarize the conversation (S)	Gain agreement on what was discussed, necessary changes, and next steps.

What Managers Can Do to Diagnose Performance Problems and Manage Employees' Performance

LO 8-12

Identify the cause of a performance problem.

As we emphasized in the previous section, employees need performance feedback to improve their current job performance. As we discuss in [Chapter 9](#), performance feedback is also needed for employees to develop their knowledge and skills for the future. In addition to understanding how to effectively give employees performance

feedback, managers need to be able to diagnose the causes of performance problems and take actions to improve and maintain employee performance. For example, giving performance feedback to marginal employees may not be sufficient to improve their performance.

Diagnosing the Causes of Poor Performance

Many different reasons can cause an employee's poor performance. For example, poor performance can be due to lack of employee ability, misunderstanding of performance expectations, lack of feedback, or the need for training an employee who does not have the knowledge and skills needed to meet the performance standards. When diagnosing the causes of poor performance, it is important to consider whether the poor performance is detrimental to the business. That is, is poor performance critical to completing the job, and does it affect business results? If it is detrimental, then the next step is to conduct a performance analysis to determine the cause of poor performance. The different factors that should be considered in analyzing poor performance are shown in [Figure 8.8](#). For example, if an employee understands the expected level of performance, has been given sufficient feedback, understands the consequences, but lacks the knowledge and skills needed to meet the performance page 374 standard, this suggests that the manager may want to consider training the employee to improve performance, moving the employee to a different job that better fits that person's skills, or discharging the employee and making sure that selection methods to find a new employee measure the level of knowledge and skills needed to perform the job.

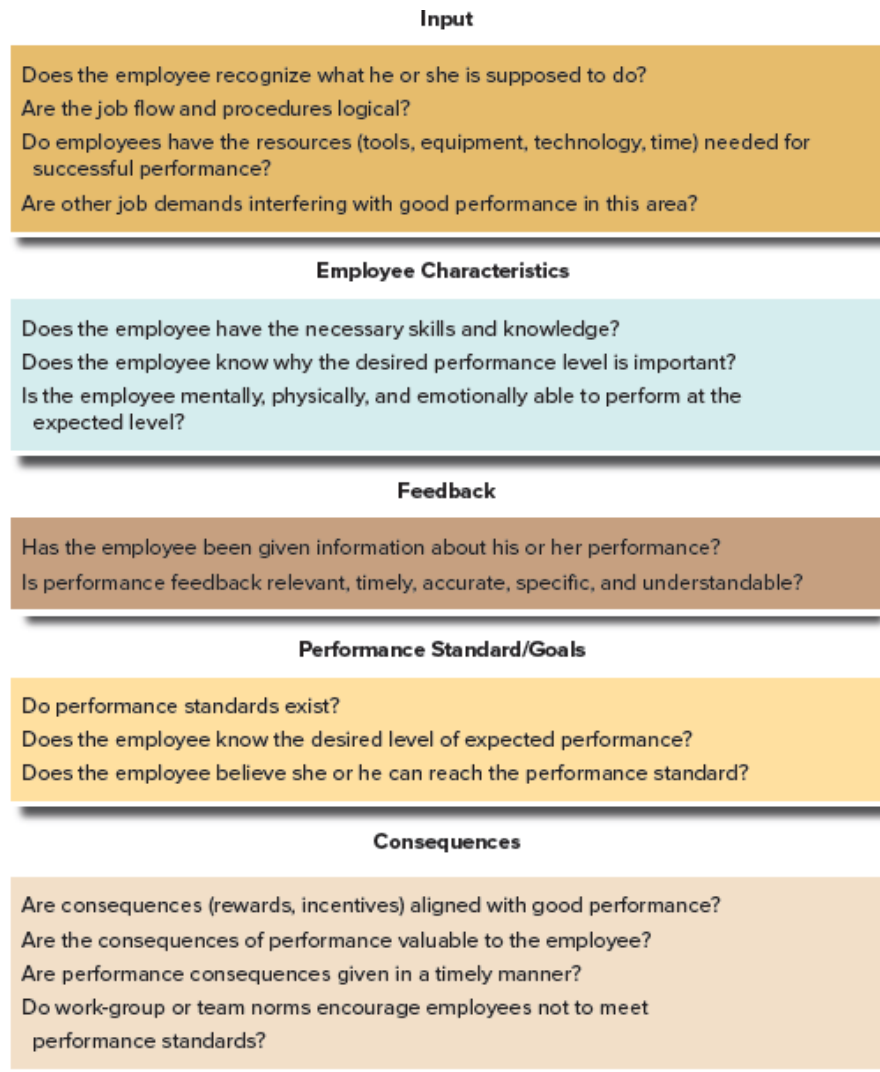


Figure 8.8 Factors to Consider in Analyzing Poor Performance

SOURCES: Based on G. Rummler, "In Search of the Holy Performance Grail," *Training and Development*, April 1996, pp. 26–31; C. Reinhart, "How to Leap over Barriers to Performance," *Training and Development*, January 2000, pp. 20–24; F. Wilmoth, C. Prigmore, and M. Bray, "HPT Models: An Overview of the Major Models in the Field," *Performance Improvement* 41 (2002), pp. 14–21.

After conducting the performance analysis, the manager should meet with the employee to discuss the results, agree to the next steps that the manager and employee will take to improve performance (e.g., training, providing resources, giving more feedback), discuss the consequences of failing to improve performance, and set a time line for improvement. This type of discussion is most beneficial if it occurs more frequently than the quarterly or yearly performance review, so that performance issues can be dealt with quickly, before they have adverse consequences for the company (and the employee). In the next section, we discuss the actions that should be considered for different types of employees.

Actions for Managing Employees' Performance

[Table 8.17](#) shows actions for the manager to take with four different types of employees. As the table highlights, managers need to take into account employees' ability, motivation, or both in considering ways to improve performance. To determine an employee's level of ability, a manager should consider if the employee has the knowledge, skills, and abilities needed to perform effectively. Lack of ability may be an issue if an employee is new or the job has changed recently. To determine employees' level of motivation, managers need to consider if employees are doing a job they want to do and if they feel they are being appropriately paid or rewarded. A sudden negative change in an employee's performance may indicate personal problems.

Employees with high ability and motivation include likely good and outstanding performers (*solid performers*). [Table 8.17](#) emphasizes that managers should not ignore employees with high ability and high motivation. Managers should provide development opportunities to keep them satisfied and effective. Some individuals who are outstanding or good performers may be candidates for leadership positions within the company. They will need challenging development experiences and exposure to different aspects of the business. We discuss development experiences in [Chapter 9](#). Other employees may not desire positions with managerial responsibility. These employees need development opportunities to help keep them engaged in their work and to avoid obsolescence.

Table 8.17 Ways to Manage Employees' Performance

	ABILITY	
	HIGH	LOW
HIGH	Solid performers Reward good performance Identify development opportunities Provide honest, direct feedback	Misdirected effort Coaching Frequent performance feedback Goal setting Training or temporary assignment for skill development Restructured job assignment
MOTIVATION	Underutilizers	Deadwood

LOW	Give honest, direct feedback Provide counseling Use team building and conflict resolution Link rewards to performance outcomes Offer training for needed knowledge or skills Manage stress levels	Withholding pay increases Demotion Outplacement Firing Specific, direct feedback on performance problems

SOURCES: Based on M. London, *Job Feedback* (Mahwah, NJ: Lawrence Erlbaum Associates, 1997), pp. 96–97; H. Aguinis and E. O'Boyle, Jr., "Star Performers in the Twenty-First Century," *Personnel Psychology* 67 (2014), pp. 313–50; D. Grote, *How to Be Good at Performance Appraisals* (Boston: Harvard University Press, 2011); J. Conger and A. Church, "The 3 Types of C Players and What to Do About Them," February 1, 2018, <https://hbr.org>, accessed January 10, 2019.

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Finally, there are different reasons why employees are considered poor performers (see [Table 8.17](#)). Poor performance resulting from lack of ability but not motivation (*misdirected effort*) may be improved by skill development activities such as training or temporary assignments. Managers with employees who have the ability but lack motivation (*underutilizers*) need to consider actions that focus on interpersonal problems or incentives. These actions include making sure that incentives or rewards that the employee values are linked to performance and making counseling available to help employees deal with personal problems or career or job dissatisfaction. Chronic poor performance by employees with low ability and motivation (*deadwood*) indicates that outplacement or firing may be the best solution.

Many companies use a performance improvement plan to try to improve poorly performing employees.¹¹⁵ A [performance improvement plan \(PIP\)](#) refers to a plan that describes the performance changes that a poorly performing employee needs to make in a specified time period or face termination. In a PIP, a manager needs to be specific about both the changes the employee is expected to make and the time frame for doing so. The manager is expected to try to help the employee improve his or her performance through coaching, training, and feedback. If the desired changes are not made in the expected time frame, the employee is notified that they will be fired if job performance does not improve in another time period, typically 30–60 days. It is important to recognize that firing an employee for poor performance that is not an immediately dismissible offense (caught stealing company property) is the last step in a process of trying to help the employee improve.¹¹⁶ If terminating the employee becomes necessary the manager will need to prepare and clearly deliver the message. The termination meeting should not focus on debating, defending, or negotiating the termination decision. It is important to acknowledge the employee's reaction. The firing will have less of an impact on the employee's remaining co-workers' engagement and satisfaction if the employee has been treated courteously and with respect. Severance arrangements including pay, benefits, health insurance, return of company equipment, and transition away from company property need to be communicated. The manager or another employee (such as an HR representative) needs to be able to answer the employee's questions about severance. The [Competing through Environmental, Social, and Governance Practices](#) box provides insight into how some companies handled poor

performers during the pandemic.

[Performance improvement plan \(PIP\)](#)

A plan that describes the performance changes that a poorly performing employee needs to make in a specified time period or face termination.

Performance tends to vary over time due to changes in tasks, assignments, and business goals.¹¹⁷ As a result, managers should consider the categories shown in [Table 8.17](#) but give employees the chance to change. One way to do this is to have frequent performance conversations with employees, which helps them recognize the need to either change or maintain their performance. Actively managing employees by setting expectations, making project assignments based on their skills and interests, and holding employees accountable for their performance makes a difference.

Developing and Implementing a System That Follows Legal Guidelines

We now discuss the legal issues and constraints affecting performance management. Because performance measures play a central role in administrative decisions such as promotions, pay raises, and discipline, employees who sue an organization over these decisions ultimately attack the measurement systems on which the decisions were made. Two types of cases have dominated: discrimination and unjust dismissal.

In discrimination suits, the plaintiff often alleges that the performance measurement system unjustly discriminated against the plaintiff because of age, race, gender, or national origin. Many performance measures are subjective, and we have seen that page 377 individual biases can affect them, especially when those doing the measuring harbor racial or gender stereotypes.



COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Keeping Poor Performers During the Pandemic

The pandemic has caused many companies to reconsider giving low performance ratings or terminating poor performing employees. Poor performing employees are getting the benefit of the doubt for several reasons. One reason is that the pandemic has impacted employees' ability to accomplish tasks and finish projects. Another reason is that performance expectations might be too high due to working conditions created by the pandemic. Pre-pandemic performance expectations might have been unrealistic because the employee had to devote more time to caring for children attending virtual school or elderly or vulnerable parents living alone. For example, Facebook decided to rate all of its full-time employees as "exceeds expectations" so they received pay bonuses. ServiceNow Inc., a cloud computing company, is now more carefully considering other reasons for poor performance such as physical or mental health issues, long days working remotely from home, or child care problems. Previously high performing employees and those hired during the pandemic are not being placed on performance improvement plans (PIP). Employees who are placed on PIP have been typically terminated. Instead, these employees meet with their manager virtually and discuss potential reasons for their poor performance such as lack of training or issues affecting their personal lives. At Progeneration Energy, poorly performing employees' manager gives them time to improve, allocates some of their work to other employees, and asks about personal or other issues that might be affecting their work.

DISCUSSION QUESTION

Has it been a good idea during the pandemic to give poor performers many opportunities to improve and perhaps delay terminating them? Why or why not? Should this treatment of poor performers be extended after the pandemic is over?

SOURCES: Based on R. Feintzeig, "The Kinder, Gentler Performance Review," *The Wall Street Journal*, December 7, 2020, p. A11; Brian O'Connell, "Conducting Better Performance Reviews During the Pandemic," *HR Magazine*, Winter 2020, shrm.org, accessed March 16, 2021; P. Thomas and K. Dill, "Companies Hold Off on Performance Firings," *The Wall Street Journal*, March 12, 2021, pp. B1, B2; "Best of the Best: UL," *TD*, October 2019, p. 91; S. Ladika, "Difficult Conversations: More Difficult Than Ever," *HR Magazine*, Winter 2020, shrm.org, accessed March 20, 2021.

In *Brito v. Zia*, the Supreme Court essentially equated performance measures with selection tests.¹¹⁸ It ruled that the *Uniform Guidelines on Employee Selection Procedures* apply to evaluating the adequacy of a performance appraisal instrument. This ruling presents a challenge to those involved in developing performance measures because a substantial body of research on race discrimination in performance rating has demonstrated that both white and black raters give higher ratings to members of their own racial group, even after rater training.¹¹⁹ There is also evidence that the discriminatory biases in performance rating are worse when one group makes up a small percentage of the work group. When the vast majority of the group is male, females receive lower ratings; when the minority is male, males receive lower ratings.¹²⁰

In the second type of suit, an unjust dismissal suit, the plaintiff claims that the dismissal was for reasons other than those the employer claims. For example, an employee who works for a defense contractor might blow the whistle on the company for defrauding the government. If the company fires the employee, claiming poor performance, the employee may argue that the firing was, in fact, because of blowing the whistle on the employer—in other words, that the dismissal was unjust. The court case will likely focus on the performance measurement system used as the basis for claiming the employee's performance was poor. Unjust dismissal also can result from terminating for poor performance an employee who has a history of favorable reviews page 378and raises. This may occur especially when a new evaluation system is introduced that results in more experienced older employees receiving unsatisfactory reviews. Rewarding poor performers or giving poor performers positive evaluations because of an unwillingness to confront a performance issue undermines the credibility of any performance management system. This makes it difficult to defend termination decisions based on a performance appraisal system.

For example, MVM Inc., a security services company, paid \$1.6 million dollars to settle a national origin and retaliation discrimination lawsuit by the EEOC.¹²¹ According to the lawsuit MVM discriminated against Africans based on their national origin and retaliated against employees for complaining. MVM provided security services for the National Institute of Health (NIH) on each of its research campuses. A project manager who oversaw approximately 400 security personnel, about half of whom were foreign-born Africans, complained that there were too many African employees, made fun of their accents, and wanted to take away their jobs. As a result, MVM denied leave to African employees; forced them to work on their days off; subjected them to heightened scrutiny, suspension, threats of termination, and undeserved charges of misconduct and poor performance; and fired them without cause. Erickson Living Management, LLC, a company which builds and manages retirement communities, paid \$151,000 to resolve a federal retaliation lawsuit filed by the EEOC.¹²² A director at Erickson Living complained to a human resources representative that she believed the company had mistreated a subordinate employee because of their disabilities. She also said she feared she would be retaliated against for reporting what she believed was a discriminatory abuse of the company's performance management system. Erickson Living terminated the director and her subordinate employee for reasons they claimed were related to a company restructuring.

Because of the potential costs of discrimination and unjust dismissal suits, an organization needs to determine exactly what the courts consider a legally defensible performance management system. Based on reviews of such court decisions, we offer the following characteristics of a system that will withstand legal scrutiny:¹²³

The system should be developed by conducting a valid job analysis that ascertains the important aspects of job performance. The requirements for job success should be clearly communicated to employees.

The system should be based on either behaviors or results; evaluations of ambiguous traits should be avoided. Also, performance discussions should focus on work behavior and results other than questioning potential underlying reasons for behavior and results, such as a physical or mental disability.

Raters should be trained in how to use the system rather than simply given the materials and left to interpret how to conduct the appraisal.

There should be some form of review by upper-level managers of all the performance ratings, and there should be a system for employees to appeal what they consider to be an unfair evaluation.

The organization should provide some form of performance counseling or corrective guidance to help poor performers improve their performance before being dismissed. Both short- and long-term performance goals should be included.

Multiple raters should be used, particularly if an employee's performance is unlikely to be seen by only one rating source such as a manager or customer. At a minimum, employees should be asked to comment on their appraisals. There should be a dialogue between the manager and the employee.

Performance evaluations need to be documented.

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A LOOK BACK

Effective Performance Management Systems

The chapter opener highlighted changes that Wipro, UL, and Zenefits made to their performance management systems to better support their business and the conditions it was facing.

QUESTIONS

What changes the companies made will help improve the effectiveness of their performance management systems?

Do you think employees perceive these systems as fair? Why or why not?

All of the performance management systems described emphasize feedback. What characteristics does feedback need to have so that it is useful for changing behavior, and in turn, improving performance?

SUMMARY

Measuring and managing performance is challenging but is one of the keys to gaining competitive advantage. Companies are moving toward a continuous feedback approach for performance management that encourages ongoing performance conversations between managers, their direct reports and teams, adjustment of goals, if necessary, and a developmental focus. Performance management serves several purposes—strategic, administrative, developmental, communication, organizational maintenance, and documentation purposes—and their importance cannot be overstated. A performance measurement system should be evaluated against the criteria of strategic congruence, validity, reliability, acceptability, and specificity. Measured against these criteria, the comparative, attribute, behavioral, results, and quality approaches have different strengths and weaknesses.

Thus, deciding which approach and which source of performance information are best depends on the job in question. Effective managers need to be aware of the issues involved in determining the best method or combination of methods for their particular situations. In addition, once performance has been measured, a major component of a manager's job is to provide frequent informal as well as formal feedback during performance evaluations in a way that results in improved performance rather than defensiveness and decreased motivation. Technologies can be potentially useful in streamlining the performance management process and providing employees with feedback and other information, which can motivate them to perform effectively. Managers should take action based on the causes for poor performance: ability, motivation, or both. Managers must be sure that their performance management system can meet legal scrutiny, especially if it is used to discipline or fire poor performers.

KEY TERMS

[Performance management, 330](#)

[Performance appraisal, 330](#)

[Performance feedback, 330](#)

[Continuous performance management process, 333](#)

[Strategic congruence, 336](#)

[Validity, 338](#)

[Reliability, 338](#)

[Acceptability, 339](#)

[Specificity, 340](#)

[Competencies, 351](#)

[Competency model, 351](#)

[Kaizen, 358](#)

[Upward feedback, 362](#)

[360-degree appraisal, 364](#)

[Social performance management, 365](#)

[Appraisal politics, 368](#)

[Calibration meetings, 369](#)

[Performance improvement plan \(PIP\), 376](#)

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DISCUSSION QUESTIONS

What are examples of administrative decisions that might be made in managing the performance of professors? Developmental decisions?

What would you consider the strategy of your university (e.g., research, undergraduate teaching, graduate teaching, a combination)? How might the performance management system for faculty members fulfill its strategic purpose of eliciting the types of behaviors and results required by this strategy?

Explain the differences between the typical and continuous performance management process.

What sources of performance information would you use to evaluate faculty members' performance?

Why are companies changing their performance management systems? Is this a good idea?

Think of the last time you had a conflict with another person, either at work or at school. Using the guidelines for performance feedback, how would you provide effective performance feedback to that person?

Explain what fairness has to do with performance management.

Why might a manager unintentionally distort performance ratings or the reasons used to explain an employee's performance? What would you recommend to minimize this problem?

Can electronic monitoring of performance ever be acceptable to employees? Explain.

Customer satisfaction surveys completed after a service call show that a call center representative is having difficulty answering customers' questions about their cell phone bills. How would you diagnose the cause of this performance problem? Explain.

How can the use of apps benefit the performance management process? How can they detract from it?

What would you do to ensure that a results or objective focus of performance management is effective?

SELF-ASSESSMENT EXERCISES



The Prediction of Rating Error

If you have been assigned this 2-part Self-Assessment in Connect, you will use the Performance Appraisal Discomfort Scale (PADS) to assess the level of discomfort you have in giving performance feedback and taking performance-related action.

Performance Appraisal Characteristics Questionnaire

If you have been assigned this Self-Assessment in Connect, you will respond to each of the items. Your responses will be scored in terms of the probability that the organization can prevail in a lawsuit involving the appraisal system.

Do You Like Receiving Feedback?

If you have been assigned this Self-Assessment in Connect, you will test your attitudes toward obtaining feedback from others.

EXERCISING STRATEGY

Continuous Performance Management at Patagonia

Patagonia makes outdoor clothing for climbing, skiing, snowboarding, surfing, fly fishing, mountain biking, and trail running. Patagonia is known for using innovative fabrics and vivid colors in its clothing as well as using environmentally conscious materials such as recycled polyester and organic rather than man-made cotton. The company culture encourages employees to treat work as play and consider themselves the ultimate customers for the products they produce. Patagonia places a high emphasis on transparency and working collaboratively to come up with innovative problems and solutions to problems. To help facilitate collaboration, Patagonia tends to recruit and hire employees based on current employees' informal network of friends, colleagues, and business associates.

When Dean Carter joined Patagonia as vice president of human resources, he was surprised that the company still used only the traditional annual performance review page 381 and didn't supplement it with a continuous feedback system. Carter made the case for adding a continuous feedback system to Patagonia's CEO, arguing that this type of system represented the future of performance management and aligned with Patagonia's emphasis on transparency and collaboration. He was so convinced that Patagonia's traditional performance management system needed to be revised that he told the CEO she could replace him if his recommended approach didn't work out.

The additions to Patagonia's performance management system that Carter helped implement included an emphasis on both annual and quarterly goals, continuous feedback, and quarterly manager–employee check-in meetings. Annual goals focused on targets such as sales, expenses, and cost reduction are used for traditional end-of-year formal performance reviews linked to compensation and bonus decisions. Quarterly stretch goals are developmentally focused yet designed to help employees make progress toward their annual goals. Patagonia encourages employees to set truly challenging stretch goals to encourage them to seek out feedback at any time from managers and peers on their progress toward these goals, which in turn, can help them improve their progress toward their annual goal in the subsequent quarter. Feedback can be requested and provided through an app that employees and managers can access on their notebook computers, tablets, or smartphone. This gives employees the opportunity to receive highly motivating and rewarding social recognition from the people they work with. At quarterly employee–manager check-in meetings, discussions focus on quarterly goal progress, potential changes in goals for the next quarter, and what the employee learned from the feedback they received and how it will change their behavior during the next quarterly performance period.

The changes to the performance management system were implemented in steps starting with encouraging quarterly employee-led conversations with managers and then adding a focus on the importance of continuous feedback and understanding how to give and receive it. At first, the feedback employees provided to each other tended to be positive but gradually it included areas that could be improved. The emphasis on providing feedback helped start a reinforcing cycle in which the employee who was asked to provide feedback felt comfortable asking others for feedback on their performance.

Setting stretch goals and participating in the continuous feedback process using the app is optional. But many employees are motivated to use the continuous feedback approach after considering data showing that those who do are more likely to achieve their annual goals and receive 6% higher bonuses than those who do not participate. Further, since the new system was implemented Patagonia's employees report that they have a greater understanding of what is expected of them and have greater trust in their manager. The more frequent conversations have also increased managers' beliefs that employees have the abilities to take on additional job responsibilities. Also, when Carter asks employees at Town Hall meetings how many of them have changed their behavior as a result of the feedback they received, over 70% raise their hands.

QUESTIONS

How well do you think Patagonia's approach to performance management seems to meet the (a) strategic, (b) administrative, (c) developmental, (d) communication, (e) organizational maintenance, and (f) documentation purposes of performance management? Use evidence from the case to support your opinions.

What characteristics does feedback need to have so that it is useful for changing behavior, and in turn, performance?

Which part of Patagonia's performance management process contributes most to its effectiveness? Explain.

SOURCES: J. Ramirez, "Future of Feedback," *Human Resource Executive*, March 2018, pp. 23–24; "Culture & Life at Patagonia," "Company Information," and "Company History," www.patagonia.com, accessed January 9, 2019; Dean Carter, "Patagonia's Unconventional HR," http://leaphr-retail.com/wp-content/uploads/sites/206/2018/01/Patagonia_Unconventional_HR_Dean_Carter.pdf,

accessed January 10, 2019; “Research Report: Continuous Performance Management,” Deloitte Development LLC, 2017, http://marketing.bersin.com/rs/976-LMP-699/images/Continuous_Performance_Management.pdf, accessed January 10, 2019; “Patagonia Uses HighGround to Align Its Performance Management to Business Values,” <https://www.high-ground.com/resources/patagonia-case-study>, accessed January 10, 2019.

MANAGING PEOPLE

Helping to Encourage Frequent and Productive Performance Conversations

Genpact is a global business consulting firm. Its more than 90,000 employees help the world's large corporations improve their business processes. The firm, which started as a division of General Electric, applies data analytics to a wide variety of business problems. To explore its performance in satisfying customers, Genpact brought page 382in a leader in the field, Peter Gloor, a research scientist at MIT who also runs a consulting firm called Galaxy Advisors, which specializes in the field of network analysis, or the study of communications patterns.

Gloor observed that Genpact's client communications contained data that Galaxy's Condor system could gather and analyze to identify relevant performance measures. At Genpact, 176 teams of up to several hundred members worked with key accounts. Galaxy would assign 26 teams to its analysis, and the other 150 would be a control group, continuing with its normal practices. Condor would not read the contents of Genpact's messages to clients but would collect information *about* the e-mail between team members and clients: the frequency of the Genpact employee responding without checking with a supervisor, the simplicity of language in the subject line, the speed of responding, and the extent to which the client dealt with only one employee. The data would become performance feedback that teams could use to identify areas for improvement.

Over a two-year period, Condor analyzed more than 4.5 million messages. Twice a year, Genpact conducted a customer satisfaction survey in which clients indicated their likelihood to recommend Genpact. The early results confirmed Gloor's prediction that teams whose communications were direct (no supervisor needed), simple, and speedy and that continued with the same Genpact employee would be associated with greater customer satisfaction. Each month during this period, team leaders met to learn their team's performance on the four measures, and they took this information back to their teams, so all the participating employees could see which measures needed improvement.

The employees received performance feedback—data on communication patterns—once each quarter. Initially, results were provided at the level of the individual team member, in order to contribute to individual improvement. However, this raised concerns that lower-performing employees could feel punished for participating in the project. So the feedback shifted to a team-level focus. Even without the individual feedback, Genpact employees could see what needed to improve, and they shifted their communication behaviors to ones associated with client satisfaction. By the end of the test program, client satisfaction scores in the group using the Condor data rose 5%, while they fell by 12% for teams in the control group, resulting in a 17-percentage-point gap in favor of the teams getting the feedback on their communication behavior.

QUESTIONS

How well do you think Genpact's network analysis approach to performance management met the criteria for effectiveness? Explain.

If you were in Genpact's human resource department, would you recommend that the company roll out the same kind of performance feedback to the remaining teams? Why or why not?

In addition to identifying effective communications behaviors, what other insights could use of this data provide?

SOURCES: Genpact, <https://www.genpact.com>, accessed March 23, 2021; Galaxy Advisors, <http://www.galaxyadvisors.com>, accessed March 23, 2021; “A Novel Way to Boost Client Satisfaction,” *Harvard Business Review*, March–April 2019, pp. 17–21; Edmund Tados, “Companies Track Staff Emails to Monitor

Dissent and Predict Unrest,” *Financial Review*, April 23, 2019, <https://www.afr.com>.

HR IN SMALL BUSINESS

A New Foundation for Performance Management at RiverRock

RiverRock Real Estate Group provides property management services to owners of office, industrial, and retail properties in California and Arizona. It also offers construction management and accounting services. RiverRock, which calls its employees “RockStars,” was founded in 2003 and nearly doubled in size within its first two decades. Its strategy is to provide superior customer service at a fair price. In support of its customer-centric approach, the firm recently hired as chief strategy officer David Pogue, who has a background in implementing socially responsible strategies.

The firm has taken a flexible approach to performance management. According to Kathy Valentine, RiverRock’s vice president of human resources, RiverRock at one point shifted away from a rigid system of annual performance reviews. Instead, the company would expect managers to provide “constant feedback.” Valentine said most employees were happy with the informal approach, but after a while, some employees began requesting a more structured process. Valentine observed that the requests came mainly from employees in the millennial generation, and she interpreted this as a sign that employees in the early part of their career are seeking more guidance or are less confident to ask for informal feedback. In her experience, the long-tenured employees feel they get enough feedback from informal conversations.

RiverRock’s next approach was intended to balance informal communication and a structured system. Managers are expected to meet with employees in what the firm calls “RAP [review, analyze, plan] sessions.” A RAP session is a meeting to discuss performance relative to goals set in the previous session, followed by a discussion of goals for the next period. The discussion is supposed to be based on answers to several open-ended questions on a one-page document. The goal of these sessions is to provide coaching and career planning; their content is unconnected to compensation decisions.

Valentine says the more structured process has improved communication overall at RiverRock. Some supervisors mentioned to her that they were surprised at what they learned from employees about their career goals, information that has become useful for succession planning. RiverRock’s founder and principal, John Combs, agrees that the RAP session format is an improvement and a way to ensure feedback in support of high performance.

QUESTIONS

Imagine that Kathy Valentine hired you to consult on RiverRock’s approach to performance management. What would you tell her are the strengths and weaknesses of the firm’s current methods?

2. As a small, people-oriented business, RiverRock might not have the capabilities for a sophisticated, data-driven approach to performance management. Even so, suggest a few steps the firm could take to improve this process.

SOURCES: RiverRock Real Estate Group, “About Us,” <https://www.riverrockreg.com>, accessed April 24, 2020; “RiverRock Embarks on Company-Wide Strategic Business Plan Adding Chief Strategy Officer David Pogue,” news release, <https://www.riverrockreg.com>, accessed April 24, 2020; Kelsi Maree Borland, “RiverRock Launches New Business Model,” *GlobeSt.com*, January 31, 2020, <https://www.globest.com>; Nancye J. Kirk, “Under Review,” *JPM*, March/April 2019, pp. 20–23.

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CHAPTER 9

Employee Development



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO9-1 Explain how employee development contributes to strategies related to employee retention, development of intellectual capital, and business growth.](#)

[LO9-2 Discuss the steps in the development planning process.](#)

[LO9-3 Explain the employees' and company's responsibilities in planning development.](#)

[LO9-4 Discuss current trends in using formal education for development.](#)

[LO9-5 Relate how assessment of personality type, work behaviors, and job performance can be used for employee development.](#)

[LO9-6 Explain how job experiences can be used for skill development.](#)

[LO9-7 Develop successful mentoring programs.](#)

[LO9-8 Describe how to train managers to coach employees.](#)

[LO9-9 Discuss what companies are doing to melt the glass ceiling.](#)

[LO9-10 Use the 9-box grid for identifying where employees fit in a succession plan and construct appropriate development plans for them.](#)

ENTER THE WORLD OF BUSINESS



Employee-Driven Development at Danone Turkey

Danone Turkey is part of the French global food and beverage company Danone. Danone has over 100,000 employees in over 55 different countries. Their largest percentage of sales are made in the U.S. followed by China and France. Danone consists of three different companies that focus on nutrition, plant-based and dairy products, and waters. The company wants to be a major force in meeting consumers' demands for healthier and responsibly produced food and drinks. One of Danone's four pillars of what the company believes in ("Our Promise") is Growth, which highlights the importance and support for learning and development in the company. The other pillars focus on employees making the world healthier (Make an Impact), the importance of networks, relationships, and collaboration (People Centric), and valuing entrepreneurship and innovation (Step Out).

All of Danone Turkey's learning and development programs are based in employees' career aspirations, which are identified in yearly development conversations. Employees understand that they drive what they learn and where

they want to go in the company but their managers and the company's human resource and training professionals are available to support them. Each year employees have page 392 development conversations with their managers. Managers are coached before they have the conversations to make sure they understand that their role is not to tell employees what to do. Rather, their role is to help employees understand the time and effort it will take to reach their career aspirations and support them along the way. To reinforce employees' ownership of their development, in preparation for the development conversation they are asked to identify their short- and long-term career goals, their strengths, and one area they want to improve. They are also asked to identify specific training and development opportunities they want to participate in during the year, positions or temporary assignments they are interested in, and if they are willing to relocate to another Danone location. Employees share this information with their manager prior to the development conversation.

During the development conversation managers will share potential training or career opportunities the employee may be interested in. They work together to finalize the employee's development goals and activities for the next year. Managers do check-in with employees during the upcoming year to see their progress and provide additional help if they ask for it. However, it is entirely up to the employees to work toward their development goals. Danone believes that by giving employees ownership for their own development it has helped make them aware of the training and development opportunities offered by the company. These include on-the-job learning, mentoring, coaching, and online learning.

SOURCES: S. Castellano, "Driven from Within," *TD*, October 2019, pp. 74–77; "About Us," <https://www.danone.com/investor-relations/danone-at-a-glance/facts-and-figures.html>, accessed February 1, 2021; "Our Promise," <https://careers.danone.com/en-global/our-promise/>, accessed February 1, 2021.

Introduction

Employee development is a necessary component of a company's talent management efforts. Talented employees expect support for development, otherwise they will look for opportunities with other companies. Employee development is a key contributor to a company's competitive advantage by helping employees advance in their careers to meet their personal growth needs and gain the necessary skills for management roles that they might want to pursue. This helps attract and retain valuable employees who might otherwise leave to join clients or competitors. Employee development is critical for ensuring that employees have the competencies necessary to serve customers and create new products and customer solutions. As we noted in [Chapter 1](#), employee commitment and retention are directly related to how employees are treated by their managers.

This chapter begins by discussing the relationships among development, training, and careers. Choosing an approach is one part of development planning. Before employees choose development activities, the employee and the company must have an idea of the employee's development needs and the purpose of development. Identifying the needs and purpose of development is part of the planning process, which this chapter describes in detail. Employee and company responsibilities at each step of the process are emphasized. The chapter also looks at development approaches, including formal education, assessment, job experiences, and interpersonal relationships, with a focus on the types of skills, knowledge, and behaviors that are strengthened by each development method. The chapter concludes with a discussion of special issues in employee development, including succession planning and using development to help women and minorities move into upper-level management positions (referred to as "melting the glass ceiling").

The Relationships among Development, Training, and Careers

Development and Training

LO 9-1

Explain how employee development contributes to strategies related to employee retention, development of intellectual capital, and business growth.

[Development](#) refers to formal education, job experiences, relationships, and assessment of personality and abilities that help employees prepare for the future. As the Danone Turkey example in the chapter opener illustrates, companies who recognize the importance of employee development support the necessary processes for employees to grow, such as goal setting and development conversations. But employees are expected to take the lead in shaping their development plan, activities, and career aspirations. Because it is future-oriented, development involves learning that is not necessarily related to the employee’s current job.¹

[Development](#)

The acquisition of knowledge, skills, and behaviors that improve an employee’s ability to meet changes in job requirements and in client and customer demands.

Traditionally, *training* focuses on helping employees’ performance in their current jobs. *Development* prepares them for other positions in the company and increases their ability to move into jobs that may not yet exist.² Development also helps employees prepare for changes in their current jobs that may result from new technology, work designs, new customers, or new product markets. [Table 9.1](#) shows the differences between training and development.

Table 9.1 Comparison between Training and Development

	TRAINING	DEVELOPMENT
Focus	Current	Future
Use of work experiences	Low	High
Goal	Preparation for current job	Preparation for changes
Participation	Required	Voluntary

Development is especially critical for talent management, particularly for senior managers and employees with leadership potential (recall our discussion of attracting and retaining talent in [Chapter 1](#)). Companies report that the most important talent management challenges they face include developing existing talent and attracting and retaining existing leadership talent.³ Also, development provides opportunities for all employees to grow their skills and use them in different ways, which has been shown to contribute to high levels of engagement and satisfaction.⁴

[Chapter 7](#) emphasized the strategic role of training. As training continues to become more strategic (i.e., related to business goals), the distinction between training and development will blur. Both training and development will be required and will focus on current and future personal and company needs.

Development and Careers

Today's careers are known as *protean careers*.⁵ A [protean career](#) is based on self-direction with the goal of psychological success in one's work. Employees take major responsibility for managing their careers. For example, an engineer may decide to take a sabbatical from her position to work in management at the United Way for a year. The purpose of this assignment could be to develop her managerial skills as well as help her personally evaluate if she likes managerial work more than engineering.

[Protean career](#)

A career that is changing frequently due to both changes in the person's interests, abilities, and values and changes in the work environment.

The protean career has several implications for employee development. The goal of the new career is [psychological success](#): the feeling of pride and accomplishment that comes from achieving life goals that are not limited to achievements at work (such as raising a family and having good physical health). Psychological success is self-determined rather than determined solely through signals the employee receives from the company (like salary increases and promotions). Consider the Florida real estate agent who left her job in real estate to capture pythons, which because of their voraciousness and size have become a nuisance in the Everglades.⁶ After reading about one of the snakes exploding when it swallowed a six-foot alligator she decided she wanted to help remove pythons from areas around the Everglades where they were considered an invasive species. She made more money in real estate, but she feels her minimum-wage job working for the Southern Florida Waste Management District python eradication program is more satisfying and is a way to give back to the community where she was raised. She believes her work is more important and exciting than selling real estate because it helps protect the animals and birds in the Everglades.

[Psychological success](#)

The feeling of pride and accomplishment that comes from achieving life goals.

Employees need to develop new skills rather than rely on a static knowledge base. This has resulted from companies' need to be more responsive to customers' service and product demands. As we emphasized in [Chapter 7](#), learning is continuous, often informal, and involves creating and sharing knowledge.

The emphasis on continuous learning has altered the direction and frequency of movement within careers (known as a *career pattern*).⁷ Traditional career patterns consisted of a series of steps arranged in a linear hierarchy, with higher steps related to increased authority, responsibility, and compensation. Expert career patterns involve a lifelong commitment to a field or specialization (such as law, medicine, or management). These types of career patterns will not disappear. Rather, career patterns involving movement across specializations or disciplines (a spiral career pattern) will become more prevalent. These new career patterns mean that to be competitive companies should focus on developing employees (as well as employees taking control of their own careers), which will require providing them with the opportunity to (1) determine their interests, skill strengths, and weaknesses and (2) based on this information, seek appropriate development experiences that will likely involve job experiences and relationships as well as formal courses.

The most appropriate view of today's careers is that they are "boundaryless and often change."⁸ A career may include movement across several employers (job hopping) or even different occupations. The pandemic has affected this, but not fundamentally changed it. Survey results show that younger employees still plan to leave their employers at some point, although at a lower rate than before the pandemic. For the first time since 2016, more millennials want to stay with their employers for five or more years than leave within two years.⁹ Those who would leave in two years or less dropped from 49% in 2019 to 31% in 2020, while those who'd prefer to stay long-term jumped from 28% in 2019 to 35% in 2020. Gen Zs were more interested in moving, but only half said they'd like to change jobs within two years, down from 61% in 2019.

The reality is that employees will be unlikely to stay at one company for their entire career or even a significant part of their career. This means that companies and employees should add value to each other.¹⁰ Development can

potentially reduce employees' job hopping because they do not feel they need to change employers to build their skill sets or gain valuable job experiences. Regardless of how long employees stay, developing them can help the company develop itself, that is, adapt to changing business conditions and strategies by providing new skill sets and managerial talent.

ESL Federal Credit Union career counseling services encourages employees to proactively manage their career growth.¹¹ ESL provides several resources that employees can use, including a self-service channel where employees can explore departmental career lattices and register for job shadowing; and one-on-one coaching with a career coach who can help with resume building, interview skills, and career development planning. ESL provides microinternships that allow employees to experience a new role to broaden their skill set and prepare for a potential future job opportunity. Providing these resources and the microinternships has helped ESL maintain its 4% turnover rate and fill 73% of open positions with current employees.

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Boundaryless means that careers may involve identifying more with a job or profession than with the present employer. A career can also be considered boundaryless in the sense that career plans or goals are influenced by personal or family demands and values. One way that employees cope with changes in their personal lives as well as in employment relationships is to rearrange and shift their roles and responsibilities. Employees can change their careers throughout their lives based on awareness of strengths and weaknesses, perceived need to balance work and life, and their need to find stimulating and exciting work.¹² Career success may not be tied to promotions so much anymore, but to achieving goals that are personally meaningful and empowering to the employee (rather than those set by parents, peers, or the company). As we discuss later in the chapter, careers are best managed through partnerships between employees and their company that create a positive relationship through which employees are committed to the organization but can take personal control for managing their own careers to benefit themselves, and the company.

As this discussion suggests, to retain and motivate employees, companies need to provide systems to identify and meet employees' developmental needs. This is especially important to retain good performers and employees who have potential for managerial positions. Such systems are often known as [development planning systems](#), or career management systems. We discuss these systems in the next section.

[Development planning system](#)

A system to retain and motivate employees by identifying and meeting their development needs (also called *career management systems*).

Development Planning Systems

LO 9-2

Discuss the steps in the development planning process.

Companies' development planning systems vary in the level of sophistication and the emphasis they place on different components of the process. Steps and responsibilities in the development planning system are shown in [Figure 9.1](#).

Self-Assessment

LO 9-3

Explain the employees' and company's responsibilities in planning development.

Self-assessment refers to the use of information by employees to determine their career interests, values, aptitudes, and behavioral tendencies. It often involves psychological tests such as the Myers-Briggs Type Indicator (described later in the chapter), the Strong Interest Inventory, and the Self-Directed Search. The Strong Interest Inventory helps employees identify their occupational and job interests; the Self-Directed Search identifies employees' preferences for working in different types of environments (like page 396 sales, counseling, landscaping, and so on). Tests may also help employees identify the relative values they place on work and leisure activities. Keep in mind that any person (e.g., a trainer or consultant) using and interpreting psychological tests or other types of assessments should be qualified and trained to do so.

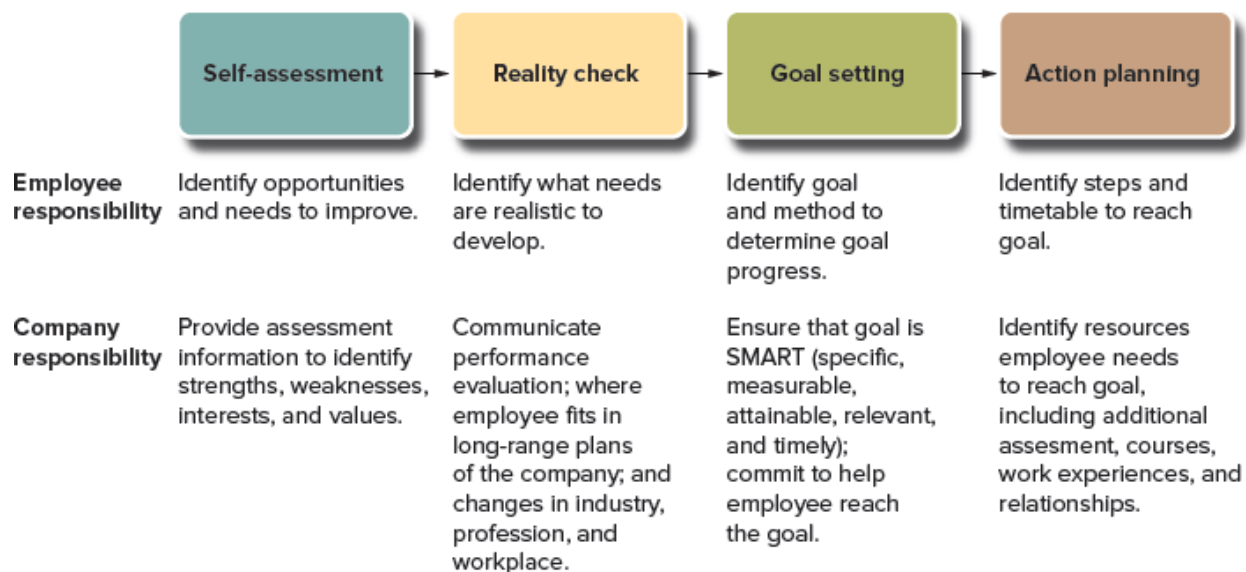


Figure 9.1 Steps and Responsibilities in the Development Planning Process

Through the assessment, a development need can be identified. This need can result from gaps between current skills and/or interests and the type of work or position the employee wants. CarMax, the automobile retailer, makes available to its associates a Career Conversation Guide that helps them take ownership of their own development by assessing the competencies and behaviors they need to be successful in an entry-level management position.¹³ After completing the guide, associates are encouraged to initiate a career conversation with their manager. Eighty-three percent of associates who completed the assessment had a career conversation with their manager. The guide provides the basis for an informed discussion about the associates' development needs and possible career paths.

Reality Check

Reality check refers to the information employees receive about how the company evaluates their skills and knowledge and where they fit into the company's plans (potential promotion opportunities, lateral moves). Usually this information is provided by the employee's manager as part of performance appraisal. Some companies also use the 360-degree feedback assessment, which involves employees completing a self-evaluation of their behaviors or competencies while managers, peers, direct reports, and even customers provide smaller evaluations. (360-degree feedback is discussed later in the chapter.) It is not uncommon in well-developed systems for the manager to hold separate performance appraisals and development discussions. In the development discussions the manager focuses on discussing the employees' values and career interests, the strengths and weaknesses of their skills or competencies, and how to capitalize on their strengths and develop their weaknesses.¹⁴

For example, UL, a safety certification company, helps provide employees with a reality check through its Navigate myCareer approach.¹⁵ Navigate myCareer includes ongoing discussions and feedback between employees, managers, and their peers. Each month UL's learning and development team releases new training modules and resources to help managers and employees gain the skills they need to have successful discussions. For example, some of the monthly offerings have included a coaching program for managers and conversation guides to help managers and employees have effective development discussions.

Goal Setting

Goal setting refers to the process of employees developing short- and long-term development objectives. These goals usually relate to desired positions (e.g., becoming sales manager within three years), level of skill application (using one's budgeting skills to improve the unit's cash flow problems), work setting (moving to corporate marketing within two years), or skill acquisition (learning how to use the company's human resource information system). These goals are usually discussed with the manager and written into a development plan. A sample development plan for a product manager is shown in [Figure 9.2](#). Development plans usually include descriptions of strengths and weaknesses, career goals, and development activities for reaching the career goal. An effective development plan is simple, clear, and realistic, and it focuses on developmental needs that are most relevant to both the individual's career and the organization's strategic objectives.¹⁶

Name:	Title: Project Manager	Immediate Manager:
Competencies		
<i>Please identify your three greatest strengths and areas for improvement.</i>		
Strengths		
• Strategic thinking and execution (confidence, command skills, action orientation) • Results orientation (competence, motivating others, perseverance) • Spirit for winning (building team spirit, customer focus, respect colleagues)		
Areas for Improvement		
• Patience (tolerance of people or processes and sensitivity to pacing) • Written communications (ability to write clearly and succinctly) • Overly ambitious (too much focus on successful completion of projects rather than developing relationships with individuals involved in the projects)		
Development Goals		
<i>Please describe your overall career goals.</i>		
• Long-term: Accept positions of increased responsibility to a level of general manager (or beyond). The areas of specific interest include but are not limited to product and brand management, technology and development, strategic planning, and marketing. • Short-term: Continue to improve my skills in marketing and brand management while utilizing my skills in product management, strategic planning, and global relations.		
Next Assignments		
<i>Identify potential next assignments (including timing) that would help you develop toward your goals.</i>		
• Manager or director level in planning, development, product, or brand management. Timing estimated to be Fall 2023.		
Training and Development Needs		
<i>List both training and development activities that will either help you develop in your current assignment or provide overall development.</i>		
• Master's degree classes will allow me to practice and improve my written communications skills. The dynamics of my current position, teamwork, and reliance on other individuals allow me to practice patience and to focus on individual team members' needs along with the success of the projects.		
Employee _____	Date _____	
Immediate Manager _____	Date _____	
Mentor _____	Date _____	

Figure 9.2 Sample Development Plan

Procter & Gamble's promotion-from-within policy is supported by the development plans completed by every employee.¹⁷ These plans identify what type of experience the employee needs for their next job as well as future jobs they might hold. page 397 Employees post their resumes online to show managers the skills they are building as well as communicating whether they are willing to take a different job. At monthly meetings for each business unit, employee career paths and resumes are reviewed.

Action Planning

During this phase, employees complete an action plan. An [action plan](#) is a written strategy that employees use to determine how they will achieve their short- and long-term career goals. Action plans may involve any one or a combination of development approaches such as enrolling in courses and seminars, getting additional assessment, obtaining new job experiences, or finding a mentor or coach (see the section **Approaches to Employee**

Development).¹⁸ The development approach used depends on the needs and developmental goal. Wells Fargo's online iDevelop site helps page 398employees prioritize their development needs and create development plans.¹⁹ Employees use the site to identify their competencies. They use the competencies they consider as strengths to choose development activities including training programs and online resources.

Action plan

A document summarizing what the trainee and manager will do to ensure that training transfers to the job.

Examples of Development Planning and Career Management Systems

Effective development planning systems include several important features (see [Table 9.2](#)). For example, consider the career management and development systems at Penn Station and Genentech.²⁰ Penn Station, a restaurant chain that specializes in sub sandwiches, provides employees with My Penn Path Development Tool. Employees use My Penn Path Development to see the skills needed for each level of employment at the company and identifies how the employee can learn them. Print media, video and online learning, and experiences on the job are used in programs that develop the skills employees need. The biotechnology company Genentech Inc. developed CareerLab to help employees perform well in their current job and provide opportunities for job enrichment and lateral career moves. CareerLab is a physical and virtual place where employees can consider their skill strengths, their weaknesses, and their interests, and take ownership of their development. CareerLab includes the opportunity to get career advice from consultants, participate in LearningLabs (webinars and class sessions that cover different topics such as networking for career growth and managing your personal brand), receive mentoring, and attend career workshops. CareerLab also provides access to online career resources including assessments that cover personal style, values, skills, strengths, and interests. Genentech has found that employees who use CareerLab have a high level of engagement with their work, improved productivity, better career conversations with their managers, and a greater likelihood of staying with the company.

Table 9.2 Design Features of Effective Development Systems

System is positioned as a response to a business need or supports the business strategy.

Employees and managers participate in development of the system.

Employees are encouraged to take an active role in career management and development.

Evaluation is ongoing and used to improve the system.

Business units can customize the system for their own purposes (with some constraints).

Employees have access to development and career information sources (including advisors and positions available).

Senior management and the company culture support the development system.

The development system is linked to other human resource practices such as performance management, training, and recruiting systems.

A large, diverse talent pool is created.

Development plans and talent evaluation information are available and accessible to all managers.

SOURCES: B. Kaye and C. Smith, "Career Development: Shifting from Nicety to Necessity," *T + D*, January 2012, pp. 52–55; M. Weinstein, "Paths to Success: Responsibility vs. Promotion," *training*, July/August 2014, pp. 52–54; D. Hall, *Careers In and Out of Organizations* (Thousand Oaks, CA: Sage, 2002).

The [Competing through Technology](#) box shows how companies are using virtual reality and artificial intelligence for different aspects of development planning systems.

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COMPETING THROUGH TECHNOLOGY

Virtual Reality (VR) and Artificial Intelligence (AI) Assist in Development and Career Management

Rapid7, a software development company with 1300 employees, uses VR headsets to create an interactive game experience based on adapting the game *National Geographic Explore VR*. The experience helps managers learn to engage employees in career conversations and educate them about career paths. Managers work in pairs crossing a large glacier as either the climber (employee) or the coach (manager). As they move, they answer questions designed to help the coaches identify a strategy to move their employees closer to their individual climbing destination (career goals). At the game's conclusion, managers debrief each other and view recap videos. Since making the experience available to its managers Rapid7 has seen an over 10% decrease in career advancement being mentioned in exit interviews as the primary reason for leaving the company.

Tech Mahindra, a global provider of digital transformation and IT services to large companies, uses artificial intelligence to help employees identify and choose their career paths. Upskilling as a Service's (UaaS) platform recommends possible career paths employees can choose based on their current skills and available job opportunities. After employees choose a career path, they can access online learning with content and

assessments customized for their chosen path. UaaS also makes available a software solution which helps employees match their skills with job opportunities within the company. This helps employees further develop their skills by getting involved in projects.

At IBM employees interact with Myca (My Personal Career Advisor) to answer questions about their career, get job recommendations, identify new career paths, and identify training programs that fit their interests. Myca has artificial intelligence and uses natural language processing and machine learning to have a conversation with employees. Myca becomes acquainted with each employee through reviewing their resume, job history at IBM, and any other important work and educational experiences they submit in their personal profile.

DISCUSSION QUESTIONS

Could VR or AI replace the managers' role in development and career planning? Explain.

What are some of the potential advantages of using VR and AI in development and career management?

SOURCES: C. Umbrell, "VR Catches On," *TD* (2020 Best Practices), p. 41; P. Harris, "Employees Take Charge," *TD* (2020 Best Practices), pp. 35–36; S. Castellano, "Artificial Intelligence, Genuine Learning," *TD*, October 2019, pp. 92–95; "Welcome to IBM Watson Career Coach," https://www.ibm.com/support/knowledgecenter/en/SLLJN/IBM_Watson_Career_Coach_Client_Guide/clientwelcome.html, accessed January 27, 2021.

Approaches to Employee Development

Four approaches are used to develop employees: formal education, assessment, job experiences, and interpersonal relationships.²¹ Many companies use a combination of these approaches. Asurion provides insurance for smartphones, tablets, consumer electronics, appliances, satellite receivers, and jewelry.²² Asurion uses a variety of development approaches including group discussion, peer observation, formal coaching and mentoring, and formal classroom instruction. The retailer Gap has development programs that include online training, coaching, job experiences, and monthly development discussions. [Figure 9.3](#) shows the frequency of use of different employee development practices. Both high-visibility assignment and stretch opportunities are considered developmental job experiences.

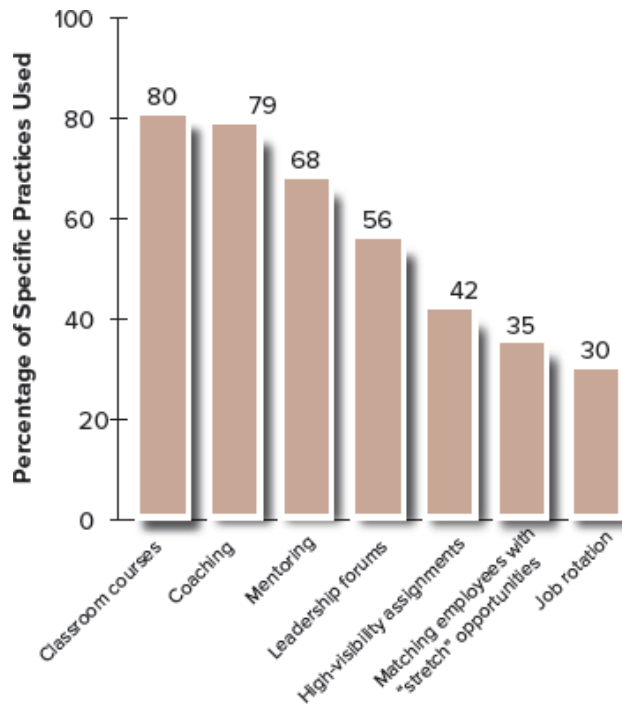


Figure 9.3 Frequency of Use of Employee Development Practices

SOURCE: EFMD, Network of Corporate Academies, Society for Human Resource Management, "Leadership Development: The Path to Greater Effectiveness," 2016, www.shrm.org, accessed February 1, 2021.

Although much development activity is targeted at managers, all levels of employees may be involved in development. For example, most employees typically receive performance appraisal feedback (a development activity related to assessment) at least once per year. As part of the appraisal process (see [Chapter 8](#)), employees are typically asked to complete individual development plans outlining (1) how they plan to change their weaknesses and (2) their future plans (including positions or locations desired and education or experience needed). Next we explore each type of development approach.

Formal Education

LO 9-4

Discuss current trends in using formal education for development.

[Formal education programs](#) include off-site and on-site programs designed specifically for the company's employees, leadership development programs, short courses offered by consultants or universities, executive MBA programs, and other graduate degree programs. These programs may involve lectures by business experts, business games and simulations, adventure learning, and meetings with customers.

[Formal education programs](#)

Employee development programs, including short courses offered by consultants or universities, executive MBA programs, and university programs.

Many companies, such as McDonald's and General Electric, rely primarily on in-house development programs offered by training and development centers or corporate universities, rather than sending employees to programs offered by universities.²³ Companies rely on in-house programs because they can be tied directly to business needs, can be easily evaluated using company metrics, and can get senior-level management involved.

Leadership development programs are prevalent types of formal education programs. Consider the leadership development program offered by MasTec Utility Services.²⁴ The “Leadership Excellence and Development” program (LEAD) has four tiers, each including a one-year curriculum. The first tier, The Employee Development Program (EDP), is designed for individual contributors. It is a foundational curriculum that provides leadership training and coaching. The second tier, The Supervisor Development Program (SDP), builds upon the EDP curriculum for supervisors and provides people management skills. The third tier, the Advanced Development Program (ADP), is designed for managers who have the ability and potential for director or vice president positions. The fourth tier, The Professional Development Program page 401(PDP), is a competitive program for sponsored leaders as part of the company’s succession planning. These leaders are being developed for executive positions within the next one to two years. Each tier within LEAD consists of online learning, instructor-led training, and hands-on practice exercises to be applied while on the job. All participants receive a mentor to guide them through the program. After participants complete a tier they are eligible to enroll in the next one.

Deltek, a company that provides solutions and services for project-based businesses, has 3000 employees in twenty-two locations around the world.²⁵ Deltek believes that the development of every employee is important for the company’s success. As a result, it has formal education programs for directors, managers, and individual contributors. The programs are shown in [Table 9.3](#).

Table 9.3 Leadership Programs at Deltek

PROGRAM	LEVEL	PROGRAM LENGTH	SUMMARY
Leadership Engagement with Awesome People (LEAP)	Director	4 months (no more than 17 participants)	Focus is on proactive strategic thinking and teamwork. Includes online self-directed learning, social networking with senior leaders, senior leaders provide challenge project and participants present their solutions.
Leadership Accelerator Management Program (LAMP)	Manager	6 months	Focus on management competencies, recruitment practices, performance management, leading and building teams. Includes self-directed learning, reflection, and debriefs with senior management.
Leadership Exploration and Discovery (LEAD)	Individual Contributor	30 days	Focuses on company values which include collaboration, success for customers, innovation, driving results. Includes a self-directed curriculum, reflection, and goal setting.
LEAD 2	Team Leads	2 times each year (small groups)	Emphasizes how to facilitate team productivity through project management and coaching. Includes role plays for practice, sharing feedback with each other, mentoring from managers, senior leader as a speaker.

SOURCES: J. Atkinson, “Growth and Leadership,” *TD*, June 2020, pp. 22–24; “LEAD2019 Recognizes Deltek for the Second Year in a Row for Its Leadership Development Programs,” May 8, 2019, <https://www.deltek.com/en/about/media-center>, accessed February 2, 2021.

General Electric (GE) offers a two-year digital technology leadership development program for individuals with bachelor’s degrees in majors such as computer science, computer engineering, and software engineering.²⁶ Program participants work within a GE business alongside experts in various locations. They complete four, six-month rotational assignments within a business covering diverse projects including those in data analytics, information technology operations, and software development. They also attend instructor-led training focusing on business, technical, and leadership skills.

The thousands of restaurant managers and owner-operators who attend McDonald’s Hamburger University each year in Chicago, Illinois, get classroom training and participate in simulations on how to run a business that delivers consistent service, quality, and cleanliness. They also receive coaching and peer support face-to-face and online. The company’s highest-performing executives participate in a nine-month leadership institute at Hamburger U,

where they tackle major issues facing the company.

Some companies are partnering with universities to design customized leadership development programs and graduate degrees. Companies are doing so to ensure that the leadership programs or degrees meet the business needs while capitalizing on the strengths that university faculty can offer. EY, an accounting and consulting company, page 402 has a partnership with Hult International Business School to offer a management degree.²⁷ The technology-focused degree can be completed for free by employees. EY decided to enter into the partnership because it felt that new M.B.A. hires didn't have technology and data science skills that its clients wanted. To earn the degree employees must earn sixteen badges by completing courses in data science, cybersecurity, leadership, and other business topics, and a final project. It takes approximately 300 hours to complete the degree, which involves online learning and demonstrating applications of what was learned in the courses.

A number of institutions in the United States and abroad provide executive education, including Harvard, Stanford, Columbia, INSEAD, Michigan, and Ohio State University. Executive education includes executive MBA programs, as well as specialized curriculum on topics such as leadership, entrepreneurship, change, innovation, and global business.²⁸ Executive education programs typically involve a blended learning approach (blended learning was discussed in [Chapter 7](#)). This means that managers visit campus for face-to-face instruction and, between sessions, work online on assignments such as team projects, cases, or reading assignments.

For over 50 years, The Center for Creative Leadership has been offering leadership development and executive education programs for individuals, teams, managers, and executives.²⁹ At the Center for Creative Leadership managers who attend a development program take psychological tests; receive feedback from managers, peers, and direct reports; participate in group-building activities (like adventure learning, discussed in [Chapter 7](#)); receive counseling; and set improvement goals and write development plans.

Enrollment in executive education programs or MBA programs may be limited to managers or employees identified to have management potential. As a result, many companies also provide tuition reimbursement as a benefit for all employees to encourage them to develop. [Tuition reimbursement](#) refers to the practice of reimbursing employees' costs for college and university courses and degree programs. Companies that have evaluated tuition reimbursement programs have found that the programs increase employee retention rates, enhance readiness for promotion, and improve job performance.³⁰ The [Integrity in Action](#) box highlights how several companies are paying for employees education expenses to help them get the formal education they need to succeed in their careers.

[Tuition reimbursement](#)

The practice of reimbursing employees' costs for college and university courses and degree programs.

Assessment

LO 9-5

Relate how assessment of personality type, work behaviors, and job performance can be used for employee development.

[Assessment](#) involves collecting information and providing feedback to employees about their behavior, communication style, or skills.³¹ The employees, their peers, managers, and customers may provide information. Assessments are used for several reasons. First, assessment is used most frequently to identify employees with managerial potential and to measure current managers' strengths and weaknesses. Assessment is also used to identify managers with the potential to move into higher-level executive positions, and it can be used with work teams to identify the strengths and weaknesses of individual team members and the decision processes or communication styles that inhibit the team's productivity. Assessments can help employees understand their

tendencies, their needs, the type of work environment they prefer, and the type of work they might prefer to do.³² This information, along with the performance evaluations they receive from the company, can help employees decide what type of development goals might be most appropriate for them (e.g., leadership position, increased scope of their current position).

Assessment

Collecting information and providing feedback to employees about their behavior, communication style, or skills.

Companies vary in the methods and the sources of information they use in developmental assessment. Many companies use employee performance evaluations. Companies with sophisticated development systems use psychological tests to measure employees' skills, interests, personality types, and communication styles. Self, peer, and managers' ratings of employees' interpersonal styles and behaviors may also be collected. Popular assessment tools include personality tests, assessment center performance appraisal, and 360-degree feedback.



INTEGRITY IN ACTION

Footing the Bill for Employee Development

Typically, companies require employees to complete the required formal education they need for obtaining their job. To advance in their careers to higher paying jobs, employees often need additional education but lack the financial resources necessary to pay for it. To help employees reach their career goals, Lockheed Martin, Discover Financial Services, Amazon, and Walmart are paying the cost of employees' tuition, fees, books, and other educational expenses. Typically, companies pay at least the \$5,250 in annual reimbursement, the tax-free minimum established by the IRS, but many cover costs above this limit. Also, some companies directly pay the tuition and other costs to the educational provider so that the employees don't have to pay the expenses themselves and then wait for reimbursement.

Lockheed Martin, the aerospace, defense, and advanced technologies company, updated its tuition assistance policy to include both degree-based courses and coverage of certificate programs. The company made the change because over half of its jobs require STEM skills but not a college degree. To determine the certifications to pay for through the tuition reimbursement policy, talent development leaders compared their current policy with those of other companies in their industry, investigated what courses were eligible for certification in other industries, and asked engineering and operation executives at Lockheed to identify what STEM skills they most needed. As a result, Lockheed offers 150 non-degree certifications in areas such as information security architecture and Linux software language.

For eligible U.S.-based employees, Discover will pay 100% of their tuition for schools that are part of The Discover College Commitment program, and provide tuition assistance or reimbursement for others. Discover partners with Guild Education to administer these benefits. The program gives employees the choice to pursue a variety of master's, bachelor's, and associate degrees offered by several universities including the University of Florida, Brandman University, and Wilmington University. The degrees are in areas where the company needs talent such as in cybersecurity, computer engineering, and business. Employees attend classes online when it fits their schedule. They can get personalized support and counseling to answer questions about the college application process, possible majors, and graduation requirements.

Amazon will pre-pay 95% of tuition and fees for any employee (part or full-time) after one year of continuous employment. The tuition and fees can be used by employees to earn certificates and associate degrees in high-demand occupations like aircraft mechanics, computer-aided design, medical lab technologies, nursing, and many other fields.

Part-time and full-time employees who have been at Walmart for at least 90 days can earn college degrees in high-demand fields at one of their partner online colleges. The online colleges include University of Florida, Brandman University, Bellevue University, Southern New Hampshire University, Purdue University Global, and Wilmington University. Walmart pre-pays for the cost of all tuition and fees but requires employees to pay a \$1 per day charge.

DISCUSSION QUESTIONS

Is development planning necessary for employees and companies to fully recognize the benefits of the education expense programs described? Explain.

How might the benefits of educational expense programs vary depending on the labor market? 3. What do educational expense programs say to you about the values of these companies?

SOURCES: L. Weber, "List of Training Options Vexes Employees," *The Wall Street Journal*, January 9, 2020, p. B6; "Discover Education Assistance," <https://jobs.discover.com/culture-and-benefits/>, accessed March 28, 2021; K. Gee, "Employers Offer to Pay for College," *The Wall Street Journal*, January 3, 2019, p. B5; "25+ Companies with Tuition Reimbursement Programs," February 28, 2021, getschooled.com, accessed March 28, 2021.

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Personality Tests and Inventories

Tests are used to determine if employees have the personality characteristics necessary to be successful in specific managerial jobs or jobs involving international assignments. Personality tests typically measure five major dimensions: extraversion, adjustment, agreeableness, conscientiousness, and openness to experience (see [Table 6.3](#) in [Chapter 6](#)).

Three frequently used assessment tools are the MBTI, StrengthsFinder and DiSC. These tools can be used to help employees better understand how to adapt and change their behavior to be a more effective leader or team member. These tools can be used to place employees in job experiences they will be most successful in, give them experiences that will require them to adapt their behavior or personality, or assign a mentor or coach who can help them learn how to adapt to different situations.

The [Myers-Briggs Type Inventory \(MBTI\)](#) refers to an assessment that is based on Carl Jung's personality type theory. This theory emphasizes that we have a fundamental personality type that shapes and influences how we understand the world, process information, and socialize. The assessment determines which one of 16 personality types fits best. The 16 unique personality types are based on preferences for introversion (I) or extraversion (E), sensing (S) or intuition (N), thinking (T) or feeling (F), and judging (J) or perceiving (P). The assessment tool identifies individuals' preferences for energy (introversion versus extraversion), information gathering (sensing versus intuition), decision making (thinking versus feeling), and lifestyle (judging versus perceiving).³³ Each personality type has implications for work habits and interpersonal relationships. For example, individuals who are introverted, sensing, thinking, and judging (known as ISTJs) tend to be serious, quiet, practical, orderly, and logical. These persons can organize tasks, be decisive, and follow through on plans and goals. ISTJs have several weaknesses because they do not tend to use the opposite preferences: extraversion, intuition, feeling, and perceiving. These weaknesses include problems dealing with unexpected opportunities, appearing too task-oriented or impersonal to colleagues, and making overly quick decisions. A similar analysis is possible for other personality types. Visit the website www.cpp.com for more information on the personality types.

[Myers Briggs Type Inventory \(MBTI\)](#)

A psychological test used for team building and leadership development that identifies employees' preferences for energy, information gathering, decision making, and lifestyle.

StrengthsFinder is an assessment that measures patterns of thoughts, feelings, and behaviors to identify areas where the individuals have the best chance for building on their strengths. Signature Consultants uses StrengthsFinder assessments for all employees.³⁴ Employees receive coaching to help them understand the results and use them to find career paths that align with their strengths and interests.

The DiSC assessment measures personality and behavioral style, including dominance (direct, strong-willed, forceful), influence (sociable, talkative), steadiness (gentle accommodating), and conscientiousness (private, analytical).³⁵ See www.discprofile.com for more information on DiSC. Guckenheimer, a corporate restaurant management and catering company, has its managers complete DiSC to understand their communication style.³⁶ Then, managers complete training to develop their skill in adjusting their communication style to improve their interactions with their employees.

CareSource uses personality tests and inventories.³⁷ CareSource, a Medicaid-managed care provider in Dayton, Ohio, has a defined process for identifying and developing employees who have the potential to be strong leaders and effective managers. Assessment of fit with the organization's values and culture, which emphasize serving the underserved, begins with the recruiting process. The company uses multiple assessment tools to evaluate managers' competencies (recall the discussion of competencies in [Chapter 8](#)). These assessments include the Myers-Briggs Type Indicator; StrengthsFinder to identify managers' strengths and develop plans for using their strengths with their employee team; and the Leadership Practices Inventory, which provides managers with an idea of their leadership skills as evaluated by peers, their page 405boss, and their own self-assessment and is used to build a personal leadership development plan. Also, twice a year, managers are evaluated on competencies and behavior that CareSource believes are characteristics of an effective leader and manager: a service orientation, organizational awareness, teamwork, communications, and organizational leadership. Based on the assessment results, managers with high leadership potential are encouraged to participate in a variety of development activities.

Assessment Center

At an [assessment center](#), multiple raters or evaluators (assessors) evaluate employees' performance on a number of exercises.³⁸ An assessment center is usually at an off-site location such as a conference center. Between 6 and 12 employees usually participate at one time. Assessment centers are used primarily to identify if employees have the personality characteristics, administrative skills, and interpersonal skills needed for managerial jobs. They are also increasingly being used to determine if employees have the necessary skills to work in teams.

[Assessment center](#)

A process in which multiple raters evaluate employees' performance on a number of exercises.

The types of exercises used in assessment centers include leaderless group discussions, interviews, in-baskets, and role-plays.³⁹ In a [leaderless group discussion](#), a team of five to seven employees is assigned a problem and must work together to solve it within a certain time period. The problem may involve buying and selling supplies, nominating a subordinate for an award, or assembling a product. In the [interview](#), employees answer questions about their work and personal experiences, skill strengths and weaknesses, and career plans. An [in-basket](#) is a simulation of the administrative tasks of the manager's job. The exercise includes a variety of documents that may appear in the in-basket on a manager's desk. The participants read the materials and decide how to respond to them. Responses might include delegating tasks, scheduling meetings, writing replies, or even ignoring a memo. In a [role-play](#), the participant takes the part or role of a manager or another employee. For example, an assessment center participant may be asked to take the role of a manager who has to give a negative performance review to a subordinate. The participant is told about the subordinate's performance and is asked to prepare for and actually

hold a 45-minute meeting with the subordinate to discuss the performance problems. The role of the subordinate is played by a manager or other member of the assessment center design team or company. The assessment center might also include interest and aptitude tests to evaluate an employee's vocabulary, general mental ability, and reasoning skills. Personality tests may be used to determine if employees can get along with others, their tolerance for ambiguity, and other traits related to success as a manager.

[Leaderless group discussion](#)

Process in which a team of five to seven employees solves an assigned problem within a certain time period.

[Interview](#)

Employees are questioned about their work and personal experiences, skills, and career plans.

[In-basket](#)

A simulation of the administrative tasks of a manager's job.

[Role-play](#)

A participant taking the part or role of a manager or other employee.

Assessment center exercises are designed to measure employees' administrative and interpersonal skills. Skills typically measured include leadership, oral and written communication, judgment, organizational ability, and stress tolerance. [Table 9.4](#) shows an example of the skills measured by the assessment center. Each exercise gives participating employees the opportunity to demonstrate several different skills. For example, the exercise requiring scheduling to meet production demands evaluates employees' administrative and problem-solving ability. The leaderless group discussion measures interpersonal skills such as sensitivity toward others, stress tolerance, and oral communication skills.

Table 9.4 Examples of Skills Measured by Assessment Center Exercises

	EXERCISES				
	IN-BASKET	SCHEDULING EXERCISE	LEADERLESS GROUP DISCUSSION	PERSONALITY TEST	ROLE-PLAY
SKILLS					
Leadership (dominance, coaching, influence, resourcefulness)	X		X	X	X
Problem solving (judgment)	X	X	X		X
Interpersonal (sensitivity, conflict resolution, cooperation, oral communication)			X	X	X
Administrative (organizing, planning, written communications)	X	X	X		
Personal (stress tolerance, confidence)			X	X	X

NOTE: X indicates skill measured by exercise.

Managers are usually used as assessors. The managers are trained to look for employee behaviors that are related to the skills that will be assessed. Typically, each assessor observes and records one or two employees' behaviors in each exercise. The assessors review their notes and rate each employee's level of skills (e.g., 5 = high level of leadership skills, 1 = low level of leadership skills). After all employees have completed the exercises, the assessors discuss their observations of each employee. They compare their ratings and try to agree on each employee's rating for each of the skills.

As we mentioned in [Chapter 6](#), research suggests that assessment center ratings are related to performance, salary level, and career advancement.⁴⁰ Assessment centers may also be useful for development because employees who participate in the process receive feedback regarding their attitudes and skill strengths and weaknesses.⁴¹ For example, Steelcase, the office furniture manufacturer based in Grand Rapids, Michigan, has used assessment centers for first-level managers.⁴² The assessment center exercises include in-basket, interview simulation, and a timed scheduling exercise requiring participants to fill positions created by absences. Managers are also required to confront an employee on a performance issue, getting the employee to commit to improve. Because the exercises relate closely to what managers are required to do at work, feedback given to managers based on their performance in the assessment center can target specific skills or competencies that they need to become successful managers.

Performance Appraisals and 360-Degree Feedback Systems

As we described in [Chapter 8](#), *performance appraisal* is the process of measuring employees' performance. Performance appraisal information can be useful for employee development under certain conditions.⁴³ The appraisal system must tell employees specifically about their performance problems and how they can improve their performance. This includes providing a clear understanding of the differences between current performance and expected performance, identifying causes of the performance discrepancy, and developing action plans to improve performance. Managers must be trained in frequent performance feedback. Managers also need to monitor employees' progress in carrying out action plans.

Wipro Limited, a provider of technology solutions, has a performance review process that encourages development.⁴⁴ The PerformanceNxt process includes reviews four times a year emphasizing conversations focused on development needs. The conversations encourage employees to discuss and plan their career and learning goals with their manager. Input for the conversations is based on feedback provided to employees from not only their managers but also their peers, direct reports, and internal or external customers who may interact with them.

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A recent trend in performance appraisals for management development is the use of upward feedback and 360-degree feedback. [Upward feedback](#) refers to appraisal that involves collecting subordinates' evaluations of managers' behaviors or skills. The 360-degree feedback process is a special case of upward feedback. In [360-degree feedback systems](#), employees' behaviors or skills are evaluated not only by subordinates but also by peers, customers, their bosses, and the employees themselves. The raters complete a questionnaire asking them to rate the person on a number of different dimensions. [Table 9.5](#) illustrates the types of skills related to management success that are rated in a 360-degree feedback questionnaire. Typically, raters are asked to assess the manager's strength in a particular area or whether development is needed. Raters may also be asked to identify how frequently they observe a competency or skill (e.g., always, sometimes, seldom, never).

[Upward feedback](#)

A performance appraisal process for managers that includes subordinates' evaluations.

[360-degree feedback systems](#)

A performance appraisal process for managers that includes evaluations from a wide range of persons who interact with the manager. The process includes self-evaluations as well as evaluations from the manager's boss, subordinates, peers, and customers.

Table 9.5 Skills Related to Managerial Success

Resourcefulness	Can think strategically, engage in flexible problem solving, and work effectively with higher-level management
Doing whatever it takes	Has perseverance and focus in the face of obstacles
Being a quick study	Quickly masters new technical and business knowledge
Building and mending relationships	Knows how to build and maintain working relationships with co-workers and external parties
Leading subordinates	Delegates to subordinates effectively, broadens their opportunities, and acts with fairness toward them
Compassion and sensitivity	Shows genuine interest in others and sensitivity to subordinates' needs
Straightforwardness and composure	Is honorable and steadfast
Setting a developmental climate	Provides a challenging climate to encourage subordinates' development
Confronting problem subordinates	Acts decisively and fairly when dealing with problem subordinates
Team orientation	Accomplishes tasks through managing others
Balance between personal life and work	Balances work priorities with personal life so that neither is neglected
Decisiveness	Prefers quick and approximate actions to slow and precise ones in many management situations
Self-awareness	Has an accurate picture of strengths and weaknesses and is willing to improve
Hiring talented staff	Hires talented people for the team
Putting people at ease	Displays warmth and a good sense of humor
Acting with flexibility	Can behave in ways that are often seen as opposites

SOURCE: C. D. McCauley, M. M. Lombardo, and C. J. Usher, "Diagnosing Management Development Needs: An Instrument Based on How Managers Develop," *Journal of Management* 15 (1989), pp. 389–403.

The results of a 360-degree feedback system show how the manager was rated on each item. The results also show how self-evaluations differ from evaluations from the other raters. Typically managers review their results, seek clarification from the raters, and set specific development goals based on the identified strengths and weaknesses.⁴⁵ [Table 9.6](#) shows the type of activities involved in using 360-degree feedback for development.⁴⁶

Table 9.6 Activities Involved in Using 360-Degree Feedback for Development

Understand strengths and weaknesses Review ratings for strengths and weaknesses Identify skills or behaviors where self and others' (manager's, peers', customers') ratings agree and disagree
Identify a development goal Choose a skill or behavior to develop Set a clear, specific goal with a specified outcome
Identify a process for recognizing goal accomplishment
Identify strategies for reaching the development goal Establish strategies such as reading, job experiences, courses, and relationships Establish strategies for receiving feedback on progress Establish strategies for reinforcing the new skill or behavior

The benefits of 360-degree feedback include collecting multiple perspectives of managers' performance, allowing employees to compare their own personal evaluations with the views of others, and formalizing communications about behaviors and skills ratings between employees and their internal and external customers. Several studies have shown that performance improves and behavior changes as a result of participating in upward feedback and 360-degree feedback systems.⁴⁷ The most change occurs in individuals who receive lower ratings from others than they gave themselves (overraters).

Potential limitations of 360-degree feedback include the time demands placed on the raters to complete the evaluations, managers seeking to identify and punish raters who provided negative information, the need to have a facilitator help interpret results, and companies' failure to provide ways that managers can act on the feedback they receive (development planning, meeting with raters, taking courses).

In effective 360-degree feedback systems, reliable or consistent ratings are provided, raters' confidentiality is maintained, the behaviors or skills assessed are job related (valid), the system is easy to use, and managers receive and act on the feedback.⁴⁸

Technology allows 360-degree questionnaires to be delivered online to the raters. This increases the number of completed questionnaires returned, makes it easier to process the information, and speeds feedback reports to

managers.

Regardless of the assessment method used, the information must be shared with the employee for development to occur. Along with assessment information, the employee needs suggestions for correcting skill weaknesses and using skills already learned. Suggestions might include participating in training courses or developing skills through new job experiences. Based on the assessment information and available development opportunities, employees should develop action plans to guide their self-improvement efforts.

Midcontinent Independent System Operator, Inc. (MISO), a not-for-profit organization that delivers electric power across the U.S. and Canada, uses 360-degree feedback in its career exploration program.⁴⁹ The 360-degree feedback instrument asks program participants' peers and managers to evaluate their skills and give their opinion on whether they are the best fit for a technical or leadership position. Throughout the program participants learn more about themselves, the organization's career ladders, and what it takes to be successful in each. The feedback, along with what they learned in the program, is used by participants to develop their personal brand, which includes their choice of career path, rationale for that choice, and next developmental steps.

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Job Experiences

LO 9-6

Explain how job experiences can be used for skill development.

Most employee development occurs through [job experiences](#):⁵⁰ relationships, problems, demands, tasks, or other features that employees face in their jobs. A major assumption of using job experiences for employee development is that development is most likely to occur when employees are given stretch assignments. [Stretch assignments](#) refer to assignments in which there is a mismatch between the employee's skills and past experiences and the skills required for success on the job. To succeed in their jobs, employees must stretch their skills—that is, they are forced to learn new skills, apply their skills and knowledge in a new way, and master new experiences.⁵¹ New job assignments help take advantage of employees' existing skills, experiences, and contacts, while helping them develop new ones.⁵²

[Job experience](#)

The relationships, problems, demands, tasks, and other features that employees face in their jobs.

[Stretch assignments](#)

Job assignments in which there is a mismatch between an employee's skills and past experiences and the skills required for success on the job.

Consider how Steelcase and BMO Financial Group use stretch assignments.⁵³ At Steelcase employees can volunteer to work on projects outside their own functions. This benefits both the company and its employees. The company can quickly locate employees who have the motivation and skills necessary for project teams. Employees gain experience and develop new skills in ways that their current jobs simply don't allow. BMO Financial Group provides employees with a virtual job board on which managers post short-term projects. The projects give employees the opportunity to apply their current skills as well as develop new skills, build their personal network, and gain new career experiences. Managers benefit from the program because they can more quickly form teams for new projects and emerging business needs.

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“We believe everybody, in HR or in any other function, should be in a situation or a job in which they are stretched—I would almost use the word ‘uncomfortable’—because learning happens when people are outside of their comfort zones.”

—Susan P. Peters, Senior Vice President, Human Resources, GE

Video Produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Filmworks

Most of what we know about development through job experiences comes from a series of studies conducted by the Center for Creative Leadership.⁵⁴ Executives were asked to identify key career events that made a difference in their managerial styles and the lessons they learned from these experiences. The key events included those involving the job assignment (such as fixing a failing operation), those involving interpersonal relationships (getting along with supervisors), and the specific type of transition required (situations in which the executive did not have the necessary background). The job demands and what employees can learn from them are described in [Table 9.7](#).

Table 9.7 Job Demands and What Employees Can Learn from Them

Job Demands	What Employees Can Learn
Transitions	Handling responsibilities that are new, different, or broader than those in previous job
Change	Developing new strategic direction, reorganizing, growing or reducing staff, or responding to rapid change; dealing with poorly performing employees
High Level of Responsibility	Making highly visible and important decisions that impact the business; managing multiple groups, functions, products, or departments; dealing with external stakeholders such as unions, government agencies, local politicians
Nonauthority Relationships	Getting work done by influencing persons over whom you have no direct authority, such as peers, boss, and external stakeholders

Obstacles	Coping and succeeding despite adverse business conditions, a lack of top management or peer support and encouragement, or working with a boss who has poor management skills or a different management style

SOURCES: C. McCauley and M. McCall Jr. (eds.), *Using Experience to Develop Leadership Talent* (San Francisco: Jossey-Bass, 2014); C. D. McCauley, L. J. Eastman, and J. Ohlott, "Linking Management Selection and Development through Stretch Assignments," *Human Resource Management* 84 (1995), pp. 93–115; W. Macaux, "Making the Most of Stretch Assignments," *TD*, June 14, 2010; G. Morris and K. Rogers, "High Potentials Are Still Your Best Bet," *T + D*, February 2013, pp. 58–62.

One concern regarding the use of demanding job experiences for employee development is whether they are viewed as positive or negative stressors. Job experiences that are seen as positive stressors challenge employees to stimulate learning. Job challenges viewed as negative stressors create high levels of harmful stress for employees exposed to them. Recent research findings suggest that all of the job demands, with the exception of obstacles, are related to learning.⁵⁵ Managers reported that obstacles and job demands related to creating change were more likely to lead to negative stress than the other job demands. This suggests that companies should carefully weigh the potential negative consequences before placing employees in development assignments that involve obstacles or create change.

Although the research on development through job experiences has focused on executives and managers, line employees can also learn from job experiences. As we noted earlier, for a work team to be successful, its members now need the kinds of skills that only managers were once thought to need (such as dealing directly with customers, analyzing data to determine product quality, and resolving conflict among team members). Besides the development that occurs when a team is formed, employees can further develop their skills by switching work roles within the team.

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Figure 9.4 shows the various ways that job experiences can be used for employee development. These include enlarging the current job, job rotation, transfers, promotions, downward moves, and temporary assignments. For companies with global operations (multinationals), employee development sometimes involves international assignments that require frequent travel or relocation. The [Competing through Globalization](#) box shows how Hershey is using global volunteering for employee development.

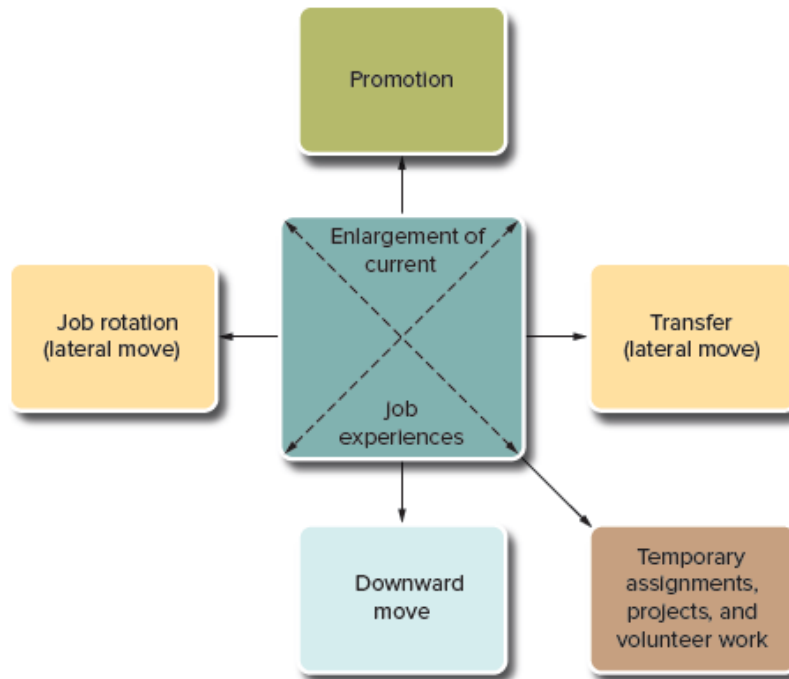


Figure 9.4 How Job Experiences Are Used for Employee Development

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COMPETING THROUGH GLOBALIZATION

Developing Employees through Worldwide Job Experiences

Since its start, investing in community has been a part of The Hershey Company. Milton Hershey, the company's founder, focused not only on creating tasty chocolate that everyone could afford, but also on a community where his workers would enjoy living and working. Hershey today focuses on three key areas that can help a community thrive: supporting basic needs, educating the work-force of tomorrow, and investing in social and economic development efforts that bring people together.

Employees volunteer their expertise in areas such as marketing, manufacturing, and product development to small communities in West Africa that produce cocoa for Hershey. The volunteering opportunities provide employees with exposure to emerging markets, practice leading virtual teams, and the challenge of innovating when resources are scarce. Also, these opportunities help develop the coaching and mentoring capabilities needed by the company's future leaders.

DISCUSSION QUESTIONS

What kinds of value does Hershey receive from the volunteer program?

Would you consider participating in the volunteer program to be a stretch assignment? Why or why not?

What would be your potential concerns about using this type of volunteer assignment for employee development?

SOURCES: T. Bingham and P. Galagan, "Unleashing Talent at Hershey," *TD*, August 2019, pp. 26–30; "Sustainability," https://www.thehersheycompany.com/en_us/sustainability.html, accessed March 28, 2021; "The

Enlarging the Current Job

[Job enlargement](#) refers to adding challenges or new responsibilities to employees' current jobs. This could include special project assignments, switching roles within a work team, or researching new ways to serve clients and customers. For example, an engineering employee may join a task force developing new career paths for technical employees. Through this project work, the engineer may lead certain aspects of career path development (such as reviewing the company's career development process). As a result, the engineer not only learns about the company's career development system but also uses leadership and organizational skills to help the task force reach its goals. Some companies are enlarging jobs by giving two managers the same responsibilities and job title and allowing them to divide the work (two-in-a-box).⁵⁶ This helps managers learn from a more experienced employee; helps companies fill jobs that require multiple skills; and, for positions requiring extensive travel, ensures that one employee is always on site to deal with work-related issues. For example, at Cisco Systems, the head of the Cisco routing group, who was trained as an engineer but now works in business development, shared a job with an engineer. Each employee was exposed to the other's skills, which has helped both perform their jobs better.

[Job enlargement](#)

Adding challenges or new responsibilities to an employee's current job.

Job Rotation and Lateral Moves

[Job rotation](#) gives employees a series of job assignments in various functional areas of the company or movement among jobs in a single functional area or department. Job rotation involves a planned sequence of jobs that the employee is expected to hold, whereas lateral moves may not necessarily involve a predetermined sequence of jobs or positions. Job rotation helps employees gain an overall appreciation of the company's goals, increases their understanding of different company functions, develops a network of contacts, and increases employees' skills.⁵⁷

[Job rotation](#)

The process of systematically moving a single individual from one job to another over the course of time. The job assignments may be in various functional areas of the company, or movement may be between jobs in a single functional area or department.

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Clothing retailer H&M makes job rotation part of the employee development process for all its office and warehouse employees, even executives.⁵⁸ When the company hires a new employee, that person begins by spending up to 13 weeks working in a store. The employee first staffs the fitting rooms, then tries sales positions, and for management jobs, works on store and cash management. That way, employees who work behind the scenes understand the challenges of the store workers, as well as how customer service, store environment, and other factors contribute to the company's performance. Haskell provides job rotation opportunities at its Packaging Center of Excellence in Atlanta for design engineers to work with a design team.⁵⁹ They also provide the opportunity to rotate into the Systems Analytics group whose responsibilities include process improvement and simulation testing for manufacturing systems. This helps engineers understand the importance of data-driven decisions based on complex testing. The rotation has resulted in fewer manufacturing errors, improved designs, and the reduction of time and costs for project installations. The job rotations also have helped identify engineers

who were ready for promotion. Two-thirds of the promotions at the Atlanta location occurred because of job rotation.

Despite the advantages of job rotation, there are several potential problems for both the employee and the work unit. The rotation may cause employees to adopt a short-term perspective when problem solving. Employees' satisfaction and motivation may be adversely affected because they find it difficult to develop functional specialties and they don't spend enough time in one position to receive a challenging assignment. Productivity losses and workload increases may be experienced by both the department gaining a rotating employee and the department losing the employee due to training demands and loss of a resource.

Consider how Atrium Health, a nonprofit health care network, deals with a potential problem of job rotation.⁶⁰ Atrium Health uses a rotation program to help employees develop new skills. Employees can do a one-month rotation at a smaller, high-performing hospital. The rotation program helps employees understand a different culture that achieves consistent success. But their managers can be unsupportive of rotation opportunities because they have to rebalance the workload and they are losing high performing employees for a lengthy time period. Atrium Health addresses this issue by "backfilling" positions with high-potential employees to provide them with a development and skill-building experience when an employee is doing a rotation.

Transfers, Promotions, and Downward Moves

Upward, lateral, and downward mobility is available for development purposes in most companies.⁶¹ In a [transfer](#), an employee is assigned a job in a different area of the company. Transfers do not necessarily increase job responsibilities or compensation. They are likely lateral moves (a move to a job with similar responsibilities). [Promotions](#) are advancements into positions with greater challenges, more responsibility, and more authority than in the previous job. Promotions usually include pay increases. Luz Damaris Rosario now oversees one of Goya Foods' largest food production plants.⁶² Two years after joining the company she was promoted to a laboratory management position overseeing a team of scientists in a Puerto Rico plant which produced canned beans and tomato sauce. The promotion gave her greater access to senior company executives and helped her gain a better understanding of how Goya Foods operated.

[Transfer](#)

The movement of an employee to a different job assignment in a different area of the company.

[Promotions](#)

Advances into positions with greater challenge, more responsibility, and more authority than the employee's previous job.

A [downward move](#) occurs when an employee is given less responsibility and authority.⁶³ This may involve a move to another position at the same level (lateral demotion), a temporary cross-functional move, or a demotion because of poor performance. Temporary cross-functional moves to lower-level positions, which give employees experience working in different functional areas, are most frequently used for employee development. For example, engineers who want to move into management often take lower-level positions (like shift supervisor) to develop their management skills.

[Downward move](#)

A job change involving a reduction in an employee's level of responsibility and authority.

Because of the psychological and tangible rewards of promotions (such as increased feelings of self-worth, salary, and status in the company), employees are more willing to accept promotions than lateral or downward moves. Promotions are more readily available when a company is profitable and growing. When a company is restructuring

or experiencing stable or declining profits—especially if numerous employees are interested in promotions and the company tends to rely on the external labor market to staff higher-level positions—promotion opportunities may be limited.⁶⁴

Transfers, job rotation, promotions, lateral moves, and downward moves may involve relocation within the United States or to another country. This can be stressful not only because the employee's work role changes, but if the employee is in a two-career family, the spouse also must find new employment. In addition, the family has to join a new community. Transfers disrupt employees' daily lives, interpersonal relationships, and work habits.⁶⁵ People have to find new housing, shopping, health care, and leisure facilities, and they may be many miles from the emotional support of friends and family. They also have to learn a new set of work norms and procedures; they must develop interpersonal relationships with their new managers and peers; and they are expected to be as productive in their new jobs as they were in their old jobs even though they may know little about the products, services, processes, or employees for whom they are responsible.

Because transfers can provoke anxiety, many companies have difficulty getting employees to accept them. Research has identified the employee characteristics associated with a willingness to accept transfers:⁶⁶ high career ambitions, a belief that one's future with the company is promising, and a belief that accepting a transfer is necessary for success in the company. Employees who are not married and not active in the community are generally most willing to accept transfers. Among married employees, the spouse's willingness to move is the most important influence on whether an employee will accept a transfer.

Unfortunately, many employees have difficulty associating transfers and downward moves with development. They see them as punishments rather than as opportunities to develop skills that will help them achieve long-term success with the company. Many employees decide to leave a company rather than accept a transfer. Companies need to successfully manage transfers not only because of the costs of replacing employees but also because of the costs directly associated with them. For example, one estimate is that a full-service relocation for an employee and his or her family who own a home is between \$61,000 and \$80,000.⁶⁷ To help encourage employees to reduce relocation costs and to give employees control over how to spend relocation allowances to best meet their needs, many companies are providing lump sums for relocation. That is, employees are given a set amount of money to pay for relocation costs. They are typically not required to submit receipts for expenses. Also, some companies provide employees with a network of recommended service providers so that the employees don't feel burdened by identifying responsible vendors.

To ensure that employees accept transfers, promotions, and downward moves as development opportunities, companies can provide

- Information about the content, challenges, and potential benefits of the new job and location.

- Involvement in the transfer decision by sending the employees to preview the new location and giving them information about the community.

- Clear performance objectives and early feedback about their job performance.

- page 414A host at the new location to help them adjust to the new community and workplace.

- Information about how the job opportunity will affect their income, taxes, mortgage payments, and other expenses.

- Reimbursement and assistance in selling and purchasing or renting a place to live.

- An orientation program for the new location and job.

- Information on how the new job experiences will support the employee's career plans.

- Assistance for dependent family members, including identifying schools and child care and elder care options.

Temporary Assignments, Projects, Volunteer Work, and Sabbaticals

[Temporary assignments](#) refer to job tryouts such as employees taking on a position to help them determine if they are interested in working in a new role, employee exchanges, sabbaticals, and voluntary assignments. All temporary assignments have a predetermined ending date after which the employees return to their permanent position. For example, Mondelez International, a snack company with 100,000 employees, wanted to help its managers learn about how to market its products using mobile devices. For several days, they sent their managers to nine small mobile-technology companies to help them gain an understanding of their entrepreneurial spirit and how quickly these companies generated ideas and built and tested prototypes of new marketing efforts.⁶⁹ An associate brand manager from PepsiCo's New York headquarters spent a week at Airbnb, a San Francisco-based online travel rental business. Managers from the two companies hoped to learn from each other's brand management practices. Both companies have casual, collaborative work environments. But compared to PepsiCo's brand management, Airbnb's brand management is based more on instinct than on data analysis and the ideas of marketing agencies. Marketing managers at Airbnb were interested in learning about how PepsiCo built data sets of market research. To develop a broad understanding of the business, directors at Genentech Inc. spend 10% of their time over six to nine months in a different function working on special projects, participating in task forces, and shadowing business leaders.⁷⁰

[Temporary assignment](#)

Job tryouts such as employees taking on a position to help them determine if they are interested in working in a new role.

Employee exchange is another type of temporary assignment. Procter & Gamble (P&G) and Google have swapped employees.⁷¹ Employees from the two companies participated in each other's training programs and attended meetings where business plans were discussed. Both companies hoped to benefit from the employee swap. Procter & Gamble was trying to increase its understanding of how to market laundry detergent, toilet paper, and skin cream products to a new generation of consumers who spend more time online than watching television. Google wanted to gain more ad revenue by persuading companies to shift from showcasing their brands on television to video-sharing sites such as YouTube.

Temporary assignments can include a sabbatical or a volunteer assignment. Both sabbaticals and volunteer assignments can help improve employees' well-being through reducing stress, avoiding burnout, and providing new energy. They also help employees acquire new skills and broaden their perspectives.⁷² A [sabbatical](#) is an actual leave of absence from the company to renew or develop new skills. Employees on sabbatical often receive full pay and benefits. Sabbaticals also allow employees more time for personal pursuits such as writing a book or spending more time with young children. Sabbaticals are common in a variety of industries, ranging from consulting firms to the fast-food industry.⁷³ For example, BrewDog, a craft beer brewer, offers its employees a four-week paid sabbatical every five years. Patagonia, the outdoor clothing company, offers its employees two months of paid sabbatical leave. Employees can only qualify for a sabbatical by choosing an environmental initiative or group and working for them during the sabbatical. PwC requires a sabbatical for all newly promoted senior managers to recharge. The firm offers four weeks off, paying for three weeks, to give employees a chance to pursue a lifelong goal, volunteer, or do nothing at all.

[Sabbatical](#)

A leave of absence from the company to renew or develop skills.

[Volunteer assignments](#) allow employees to develop their skills by serving the local or global community through membership on public or private nonprofit boards, taking on leadership roles in professional associations or clubs, or agreeing to speak at and/or organize conferences or forums. Volunteer assignments may give employees opportunities to manage change, teach, have a high level of responsibility, and be exposed to other job demands shown earlier in [Figure 9.4](#). For example, the former chairman and CEO of Allergan served on company boards outside of the pharmaceutical industry throughout his career. This helped him meet commercial partners, better identify trends, and gain a new perspective on potential product markets.⁷⁴

[Volunteer assignments](#)

Employees develop skills by serving the local or global community through membership on public or private nonprofit boards, taking on leadership roles in professional associations or clubs, or agreeing to speak at and/or organize conferences or forums.

The [Evidence-Based HR](#) box shows the types of outcomes that The Guardian Life Insurance Company measures to determine the effectiveness of its leadership development programs.



EVIDENCE-BASED HR

At The Guardian Life Insurance Company, measuring the success of leadership development includes tracking the retention and mobility of participants within the company. The measurement strategy used depends on the length and intensity of the program. For shorter programs such as one-day workshops Guardian relies on participants' post-program self-assessment of their competencies and skills. For longer programs and those intended to have larger impact, Guardian measures retention of talent, advancement, and business impact. For example, for its Emerging Leader Development Program (ELDP), it has retained 98% of graduates since the start of the program three years ago. Ninety-five percent of the program graduates reported an increase in their personal network; 70% indicated an increase in their knowledge of the businesses that represent the enterprise; and 55% of graduates have been promoted or moved on to other roles within the organization. Of the 55% of graduates who moved to other roles, 68% were promotions and 7% moved to vastly different parts of the organization. Also, many of the leadership development programs include business-related projects. Guardian measures the investment, implementation, and results of those projects. For example, the Commercial and Government Markets division recently invested \$350,000 to pilot a project using artificial intelligence to create an enhanced client experience.

SOURCE: M. Weinstein, "Measuring Leadership Development," *training*, May/June 2019, pp. 26–30.

Interpersonal Relationships

LO 9-7

Develop successful mentoring programs.

Employees can also develop skills and increase their knowledge about the company and its customers by interacting with a more experienced organization member. Mentoring and coaching are two types of interpersonal relationships that are used to develop employees.

Mentoring

A [mentor](#) is an experienced, productive senior employee who helps develop a less experienced employee (the protégé). Because of the lack of potential mentors, and recognizing that employees can benefit from relationships with peers and colleagues, some companies have initiated and supported group and peer mentoring.

Mentor

An experienced, productive senior employee who helps develop a less experienced employee.

Most mentoring relationships develop informally as a result of interests or values shared by the mentor and the protégé. Research suggests that employees with certain personality characteristics (like emotional stability, the ability to adapt their behavior based on the situation, and high needs for power and achievement) are most likely to seek a mentor and be an attractive protégé for a mentor.⁷⁵ Mentoring relationships can also develop as part of a formal mentoring program, that is, a planned company effort to bring together successful senior employees with less experienced employees. [Table 9.8](#) shows examples of how companies are using formal mentoring programs. Mentoring programs have many important purposes, including socializing new employees, developing managers, and providing opportunities for women and members of underrepresented ethnic and racial groups to share experiences and gain the exposure and skills needed to move into management positions (see our discussion under **Melting the Glass Ceiling** later in the chapter).

Table 9.8 Examples of Mentoring Programs

Cisco Systems—To reduce the time it takes new board of director members to be effective, they are paired with a more experienced board director who serves as a mentor. The mentor helps them understand board of directors meeting norms, provides the content for members beliefs, explains terms used in briefing materials, and gives advice on the right place to sit in the board meeting room.

Microsoft—The mentoring program includes career development mentoring and peer mentoring. Career development mentoring focuses on career and professional development through structured, year-long cross-group mentoring. Peer mentoring is less structured and focuses on transfer of work-related knowledge among members of the same work team.

Sodexo—Peer-to-peer mentoring is a program managed directly by Sodexo's Network Groups. Networks are organized around a common dimension of diversity and are created by employees who want to raise awareness in Sodexo of their identity groups. They include network groups based on national origin, race, sexual orientation, military service, and intergenerations. The Spirit of Mentoring Bridge Programs are informal divisional pairings in which newly hired and front-line managers come together to expand professional development opportunities and increase the depth and diversity of Sodexo's management.

Mariner Finance—The company uses technology such as chat functions, video, and specific websites for mentors and protégés to enable more timely communications between themselves as well as between all employees participating in the mentoring program.

Michigan Medicine—MicroMentors provides early and midcareer emerging leaders with the opportunity to spend up to 60 minutes of uninterrupted time with a mentor discussing important issues such as salary negotiations, managing disruptive employees, and career development.

Vistage Worldwide—Teams of 15–20 employees provide opportunities for advice on personal or professional challenges. A trained peer-group facilitator guides the discussion and helps the team listen, paraphrase, and ask probing questions in order to provide new perspectives on the issue and potential solutions.

United Shore's Underwriter Mentoring Program—Begins immediately after underwriter training, and in just three weeks, participants (mentees) must demonstrate proficiency with 35 on-the-job skill competencies while also underwriting six loans a week to graduate.

SOURCES: M. Weinstein, "Training Ensures United Shore's Success," *training*, March/April 2020, pp. 38–40; J. Lublin, "New in Board-rooms: Buddy System," *The Wall Street Journal*, September 20, 2017, p. B7; C. Elton and A. Gostick, "Impact and Learning Span the Generations," *Chief Learning Officer*, December 2018, p. 62; "Training Top 125: Aditya Birla Minacs," *training*, January/February 2014, p. 101; Sodexo, Inc., www.sodexousa.com, accessed March 26, 2017; "Training Top 125: Vistage Worldwide," *training*, January/February 2017, p. 69; M. Weinstein, "Mentoring in the Digital Age," *training*, September/October 2016, pp. 28–31; R. Emelo, "Shift Your Focus with Modern Mentoring," *TD*, September 2015, pp. 36–41; R. Emelo, "Conversations with Mentoring Leaders," *T + D*, June 2011, pp. 32–37.

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Developing Successful Mentoring Programs. One major advantage of formalized mentoring programs is that they ensure access to mentors for all employees, regardless of gender or race. An additional advantage is that participants in the mentoring relationship know what is expected of them.⁷⁶ One limitation of formal mentoring programs is that mentors may not be able to provide counseling and coaching in a relationship that has been created artificially.⁷⁷ To overcome this limitation, it is important that mentors and protégés spend time discussing work styles, their personalities, and their backgrounds, which helps build the trust needed for both parties to be comfortable with their relationship.⁷⁸ Toshiba America Medical Systems doesn't have a formal mentoring program. However, Toshiba encourages informal mentoring from the first day employees are hired. Both managers and HR business partners take the time to help new employees meet their colleagues and show them around the workplace.⁷⁹ **Table 9.9** presents the characteristics of a successful formal mentoring program.

Table 9.9 Characteristics of Successful Formal Mentoring Programs

Mentor and protégé participation is voluntary. Relationship can be ended at any time without fear of punishment.

The mentor–protégé matching process does not limit the ability of informal relationships to develop. For example, a mentor pool can be established to allow protégés to choose from a variety of qualified mentors.

Mentors are chosen on the basis of their past record in developing employees, willingness to serve as a mentor, and evidence of positive coaching, communication, and listening skills.

Mentor–protégé matching is based on how the mentor's skills can help meet the protégé's needs.

The purpose of the program is clearly understood. Projects and activities that the mentor and protégé are expected to complete are specified.

The length of the program is specified. Mentor and protégé are encouraged to pursue the relationship beyond the formal period.

A minimum level of contact between the mentor and protégé is specified. Mentors and protégés need to determine when they will meet, how often, and how they will communicate outside the meetings.

Protégés are encouraged to contact one another to discuss problems and share successes.

The mentor program is evaluated. Interviews with mentors and protégés give immediate feedback regarding specific areas of dissatisfaction. Surveys gather more detailed information regarding benefits received from participating in the program.

Employee development is rewarded, which signals to managers that mentoring and other development activities are worth their time and effort.

A key to successful mentoring programs is that the mentor and protégé be well matched and can interact with each other face-to-face, virtually, or using social media. Matching systems are available to help match mentors and protégés, track mentors' and protégés' work, help build development plans, and schedule mentor and protégé meetings.⁸⁰

Benefits of Mentoring Relationships. Both mentors and protégés can benefit from a mentoring relationship. Research suggests that mentors provide career and psychosocial support to their protégés. [Career support](#) includes coaching; protection; sponsorship; and providing challenging assignments, exposure, and visibility. [Psychosocial support](#) includes serving as a friend and a role model, providing positive regard and acceptance, and creating an outlet for the protégé to talk about anxieties and fears. Additional benefits for the protégé include higher rates of promotion, higher salaries, and greater organizational influence.⁸¹

[Career support](#)

Coaching, protection, sponsorship, and providing challenging assignments, exposure, and visibility.

[Psychosocial support](#)

Serving as a friend and role model, providing positive regard and acceptance, and creating an outlet for a protégé to talk about anxieties and fears.

Proteges can help mentors in several ways.⁸² Jose Yanes served as a mentor for several employees at Ford Motor Company.⁸³ He found that serving as a mentor helped his own personal development by helping him improve his communication skills and work harder at building trust with other people. Also, mentors can learn digital skills such as how to use social media, gain a more complete perspective on page 418 what diversity means, and better understand the needs and motivations of younger employees. Serving as mentor may help meet younger employees' needs for feeling valued and networking with more senior employees to gain exposure and visibility needed to learn and further their career. This is especially the case in reverse mentoring programs.

[Reverse mentoring](#) refers to mentoring in which younger employees mentor more senior employees. The reverse mentoring program at BNY Mellon's Pershing has had a number of benefits including developing more senior employees' digital prowess such as skills in using social media at work and gaining an understanding of how the company culture is seen by younger employees. Mentoring relationships provide opportunities for mentors to develop their interpersonal skills and increase their feelings of self-esteem and worth to the organization. For individuals in technical fields, such as engineering or health services, the protégé may help mentors gain knowledge about important new scientific developments in their field (and therefore prevent them from becoming technically obsolete).

[Reverse mentoring](#)

A business situation in which younger employees mentor more senior employees.

Coaching

LO 9-8

Describe how to train managers to coach employees.

A [coach](#) is a peer or manager who works with employees to motivate them, help them develop skills, and provide reinforcement and feedback. There are three roles that a coach can play.⁸⁴ Part of coaching may be one-on-one with an employee (such as giving feedback). Another role is to help employees learn for themselves. This involves helping them find experts who can assist them with their concerns and teaching them how to obtain feedback from others. Third, coaching may involve providing resources such as mentors, courses, or job experiences that employees may not be able to gain access to without the coach's help.

[Coach](#)

A peer or manager who works with an employee to motivate the employee, help him or her develop skills, and provide reinforcement and feedback.

Consider how PepsiCo and Kaiser Permanente use coaching.⁸⁵ As part of leadership development at PepsiCo, experienced and certified coaches debrief assessment results and help employees create development plans. PepsiCo also has a coaching skills course for managers. At Kaiser Permanente (KP), a company that provides health care services, coaching skills are a must for managers. Managers become accredited coaches by taking coaching skills courses and completing a practical assessment. The practical assessment includes being observed coaching an employee and completing two coaching demonstrations. Once accredited, managers' coaching skills are evaluated by asking employees who were coached by the manager to complete a survey. To help reinforce and continue to develop managers' coaching skills KP uses a chatbot. The chatbot provides access to coaching resources and reminds managers of the coaching principles they learned in the coaching courses.

Research shows that coaching helps employees improve by identifying areas for improvement and setting goals.⁸⁶ This is especially the case when an internal coach is used (e.g., a manager who has been trained in coaching). Getting results from a coaching relationship can take at least six months of weekly or monthly meetings. To be

effective, a coach generally conducts an assessment, asks questions that challenge the employee to think deeply about his or her goals and motives, helps the employee create an action plan, and follows up regularly to help the employee stay on track. Employees contribute to the success of coaching when they persevere in practicing the behaviors identified in the action plan.⁸⁷

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Special Issues in Employee Development

Melting the Glass Ceiling

LO 9-9

Discuss what companies are doing to melt the glass ceiling.

A major development issue facing companies today is how to get women and members of underrepresented ethnic and racial groups into upper-level management positions—how to melt the [glass ceiling](#).

[Glass ceiling](#)

A barrier to advancement to higher-level jobs in the company that adversely affects women and minorities. The barrier may be due to lack of access to training programs, development experiences, or relationships (e.g., mentoring).

Research shows that both Blacks and women are underrepresented in CEO positions and are often in roles that are not considered for promotion to CEO.⁸⁸ In the Fortune 100, Black executives only hold 3% of the positions that influence company success and are on the career path to the CEO position. Even when Black employees do become executives they are often given positions with less advancement potential such as chief administrative executive. The data are similar for women. Only 25% of total c-suite positions in the Fortune 100 are held by women. Only seven companies have a female CEO. Women hold only 13% of positions with high potential for CEO promotion and board recruitment (CEO, CFO, and P&L leaders). By contrast, they hold 38% of positions with lower potential for advancement (general counsel, human resources, chief risk officer, etc.).

One of the dilemmas is that companies may be reluctant to treat women and members of underrepresented ethnic and racial groups any differently than men from a leadership development perspective, despite acknowledging that they lack executive sponsors or mentors, have insufficient experience, and need better work–life balance. This sort of pervasive barrier may be due to stereotypes or company systems that adversely affect the development of women or members of underrepresented ethnic and racial groups.⁸⁹ Thus the glass ceiling is likely caused by lack of access to training programs, appropriate developmental job experiences, and developmental relationships (such as mentoring).⁹⁰

For example, Lisa Wardell, CEO of Adtalem, is one of only a very few Black women to head a publicly traded company. Her path to a CEO position was helped by the profit and loss roles she played during her twelve years at the RJL Companies, a Black-owned company.⁹¹ Ursula Burns, former CEO of Xerox Holding Corporation, and the first Black woman to run a Fortune 500 company, believes her career progress was aided by positions she had serving as an executive assistant to the company's executive vice president and the CEO. But 55% of women are in functional roles such as lawyer, chief of finance, or within human resources, which may not put them on the career path needed to become a CEO. Women and members of underrepresented ethnic and racial groups often have trouble finding mentors because of their lack of access to the “old-boy network”—managers' preference to interact with other managers of similar status rather than with line employees—and intentional exclusion by

managers who have negative stereotypes about the abilities, motivation, and job preferences of women and members of underrepresented ethnic and racial groups.⁹²

Research has found no gender differences in access to job experiences involving transitions or creating change.⁹³ However, male managers receive significantly more assignments involving high levels of responsibility (high stakes, managing business diversity, handling external pressure, etc.) than female managers of similar ability and managerial level. Also, female managers report experiencing more challenges due to lack of personal support (which makes it more difficult to cope with stress) and lack of appreciation for their contributions, compared to male managers. Career encouragement from peers and senior managers does help women advance to higher management levels.⁹⁴ Managers making developmental assignments need to carefully consider whether gender biases or stereotypes are influencing the types of assignments given to women versus men. The [Competing through Environmental, Social, and Governance Practices](#) page 420box describes how several companies' commitment to social responsibility includes supporting leadership development for women and members of underrepresented ethnic and racial groups.



COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Breaking the Glass Ceiling Requires Action

The mission of the Women in Leadership (WIL) initiative at Plante Moran, the accounting firm, is to increase female leaders' visibility and provide targeted development opportunities for them in order to retain and advance women leaders across the firm. The initiative's core components are an 18-month mentoring program and an annual WIL conference. The mentoring program matches high-potential female staff with partner mentors who work in different disciplines. The exposure to different aspects of the business provides mentees with a better understanding of the firm's offerings and clients, which prepares them for new leadership opportunities. The WIL conference is a females-only training and networking event featuring speakers and panels on leadership-related topics., and it is yielding positive results. Since the mentoring program started, nearly all the women promoted to firm partner roles have been participants in the WIL program, and today two members of the firm's seven-member leadership team are women.

The Hershey Company's CEO Michele Buck and her executive team review the company's top 70 positions five times a year. They give important assignments to talented employees in those positions and the high-potential employees in positions below them, making sure talented employees regardless of gender or race receive exposure and development. At Levi-Strauss, the clothing company, there were no Black individuals on its corporate board or among its executive leadership team. Only 2% of its top 250 executives were Black, while 16% were Asian and 6% Latino/a. Levi Strauss announced several ways in which it planned to bolster its diversity, including conducting anti-racism and racial equity training and launching a career path program for retail/distribution center employees who aspire to join the corporate team.

At Bank of America more than 40% of the management team are women. Sponsors play a key role in helping women advance to higher-level positions at Bank of America. Not every woman gets a sponsor. To get a sponsor women need to perform consistently, have a strong personal brand, and deliver results. Women who meet these qualifications can find a sponsor by participating in the company's formal career development program or through attending regular meetings organized with top company executives. To ensure that the company continues to make progress in development of women and providing advancement opportunities for them, each month senior executives review scorecards showing the representation of women at every management level.

DISCUSSION QUESTIONS

Is developing women and members of underrepresented ethnic and racial groups alone sufficient for melting the glass ceiling, or not? Explain your position.

How could development plans and assessment be useful in supporting employees' skill development for leadership positions?

SOURCES: T. Agovino, "We're Talking About Racism. We Never Talked About This Before," *HR Magazine*, Fall 2020, pp. 32–43; V. Fuhrmans, "Why So Few CEOs Are Women," *The Wall Street Journal* February 7, 2020, pp. A1, A9; "ATD 2019 Best Award Winners: Plante Moran," *TD*, October 2019, p. 101; V. Fuhrmans, "The First Step Is the Steepest," *The Wall Street Journal*, October 15, 2019, pp. R1–R4.

In their quest for diversity and inclusion, organizations are engaging managers to consider their role in maintaining a workplace that draws fully upon the contributions of female as well as male employees.⁹⁵ Career encouragement from peers and senior managers can help women advance to higher management levels. Managers making developmental assignments need to carefully examine whether gender biases or stereotypes are influencing the types of assignments given to women and members of underrepresented ethnic and racial groups versus men. Managers need to identify the kinds of discouraging behavior that may be well intentioned but create page 421awkwardness on teams and in mentoring relationships. Going further to draw out employees' talents more fully, some managers are implementing tactics such as imposing a rule against interruptions in meetings (as men are more apt to interrupt) and making a conscious practice of ensuring that every person in the room has a chance to speak and be heard. This kind of management practice not only draws out the ideas of women and members of underrepresented ethnic and racial groups, but also brings in ideas from any employees who tend to be quieter than others.

[Table 9.10](#) provides recommendations for melting the glass ceiling and retaining talented women.

Table 9.10 Recommendations for Melting the Glass Ceiling

Make sure senior management supports and is involved in the program.

Make a business case for change.

Make the change public.

Gather data on problems causing the glass ceiling using task forces, focus groups, and questionnaires.

Create awareness of how gender attitudes and management practices affect the company culture and behavioral expectations of employees.

Force accountability through reviews of promotion rates and assignment decisions.

Promote development for all employees.

Support work–life balance and continue to offer employees development opportunities after they return from sabbaticals and parental leave.

SOURCES: R. Gunther McGrath, "Eight Simple Ways to Keep More Women in the Executive Pipeline," *The Wall Street Journal*, February 22, 2018, <https://blogs.wsj.com>; B. Groysberg and K. Connolly, "Great Leaders Who Make the Mix Work," *Harvard Business Review*, September 2013, pp. 68–76; D. McCracken, "Winning the Talent War for Women," *Harvard Business Review*, November/December 2000, pp. 159–67.

Succession Planning

LO 9-10

Use the 9-box grid for identifying where employees fit in a succession plan and construct appropriate development plans for them.

[Succession planning](#) refers to the process of identifying and tracking talented employees who are capable of moving into different positions in the company resulting from planned or unplanned job openings due to turnover, promotion, or business growth. Succession planning is often discussed when considering company's managers or top leaders, but it is an important consideration for any job. Succession planning helps organizations in several different ways.⁹⁶ It requires senior management to systematically review leadership talent in the company. It ensures that top-level managerial talent is available. It provides a set of development experiences that managers must complete to be considered for top management positions; this avoids premature promotion of managers who are not ready for upper management ranks. Succession planning systems also help attract and retain managerial employees by providing them with development opportunities that they can complete if upper management is a career goal for them. For example, at Medidata Solutions, a software services company, talent reviews are conducted two times each year.⁹⁷ The talent reviews involve succession planning and creating individual plans for all employees tailored to their strengths, interests, and business needs.

[Succession planning](#)

The identification and tracking of high-potential employees capable of filling higher-level managerial positions.

Succession planning often focuses on [high-potential employees](#). High-potential employees are those the company believes are capable of being successful in higher-level managerial positions such as general manager of a strategic business unit, functional director (such as director of marketing), or CEO.⁹⁸ High-potential employees typically complete an individual development program that involves education, executive mentoring and coaching, and rotation through job assignments. Job assignments are based on the successful career paths of the managers whom the high-potential employees are being prepared to replace. High-potential employees may also receive special assignments, such as making presentations and serving on committees and task forces.

[High-potential employees](#)

Employees the company believes are capable of being successful in high-level management positions.

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Despite the importance of succession planning, many companies do not do it well. A survey of company directors showed that fewer than half believed they were spending enough time on succession planning and 18% thought that their company did not have adequate bench strength in its talent pipeline.⁹⁹ [Bench strength](#) refers to having a pool of talented employees who are ready when needed. Companies also find it difficult to follow the succession planning process.¹⁰⁰ One challenge is that today's business environment is changing so fast that succession plans go out of date. Suppose a candidate was selected years before an executive opening occurs. By then, the most important job requirements might have changed. Companies including PepsiCo have addressed this by carrying out succession planning over a shorter timeline. Another issue involves the selection of candidates to label as having high potential. People have sometimes unconscious ideas of what a "high-potential" person is like, and those ideas might look like a certain age, gender, race, or physical appearance. Or a manager might select or reject an employee for reasons other than potential—say, to avoid hurt feelings or to keep a valued staffer on the team, rather than in a development assignment elsewhere.

[Bench strength](#)

The business strategy of having a pool of talented employees who are ready when needed to step in to a new position within the organization.

Table 9.11 shows the process used to develop a succession plan.¹⁰¹ The first step is to identify what positions are included in the succession plan, such as all management positions or only certain levels of management. The second step is to identify which employees are part of the succession planning system. For example, in some companies only high-potential employees are included in the succession plan. Third, the company needs to identify how positions will be evaluated. For example, will the emphasis be on competencies needed for each position or on the experiences an individual needs to have before moving into the position? Fourth, the company should identify how employee potential will be measured. To the extent possible, measurable criteria are used rather than managers' intuition. For example, will employees' performance in their current jobs as well as ratings of potential be used? Will employees' position interests and career goals be considered? Fifth, the succession planning review process needs to be developed. Typically, succession planning reviews first involve employees' managers and human resources. A talent review could also include an overall assessment of leadership talent in the company, an identification of high-potential employees, based on their performance and potential, and a discussion of plans to keep key managers from leaving the company.

Table 9.11 The Process of Developing a Succession Plan

Identify what positions are included in the plan.
Identify the employees who are included in the plan.
Develop standards to evaluate positions (e.g., competencies, desired experiences, desired knowledge, developmental value).
Determine how employee potential will be measured (e.g., current performance and potential performance).
Develop the succession planning review.
Link the succession planning system with other human resource systems, including training and development, compensation, performance management, and staffing systems.
Determine what feedback is provided to employees.
Measure the effectiveness of the succession plan.

SOURCES: A. Cremona and T. Bux, "Creating a Vibrant Organizational Leadership Pipeline," *TD*, July 2016, pp. 76–77; W. Rothwell, "The Future of Succession Planning," *T + D*, September 2010, pp. 51–54; B. Dowell, "Succession Planning," in *Implementing Organizational Interventions*, ed. J. Hedge and E. Pulaskos (San Francisco: Jossey-Bass, 2002), pp. 78–109; R. Barnett and S. Davis, "Creating Greater Success in Succession Planning," *Advances in Developing Human Resources* 10 (2008), pp. 721–39.

Many companies use the 9-box grid for conducting the succession planning review. The [9-box grid](#) is a three-by-three matrix used by groups of managers and executives to compare employees within one department, function, division, or the entire company.¹⁰² The 9-box grid is used for analysis and discussion of talent, to help formulate effective development plans and activities, and to identify talented employees who can be groomed for top-level management positions in the company. As shown in [Figure 9.5](#) one axis of the matrix is based on an

assessment of job performance. The other axis is typically labeled “potential” or “promotability.” Typically, managers’ assessment of performance (based on the company’s performance management system) and potential influences employees’ development plans. For example, as shown in [Figure 9.5](#), “Stars” should be developed for leadership positions in the company.

[9-box grid](#)

A three-by-three matrix used by groups of managers and executives to compare employees within one department, function, division, or the entire company.

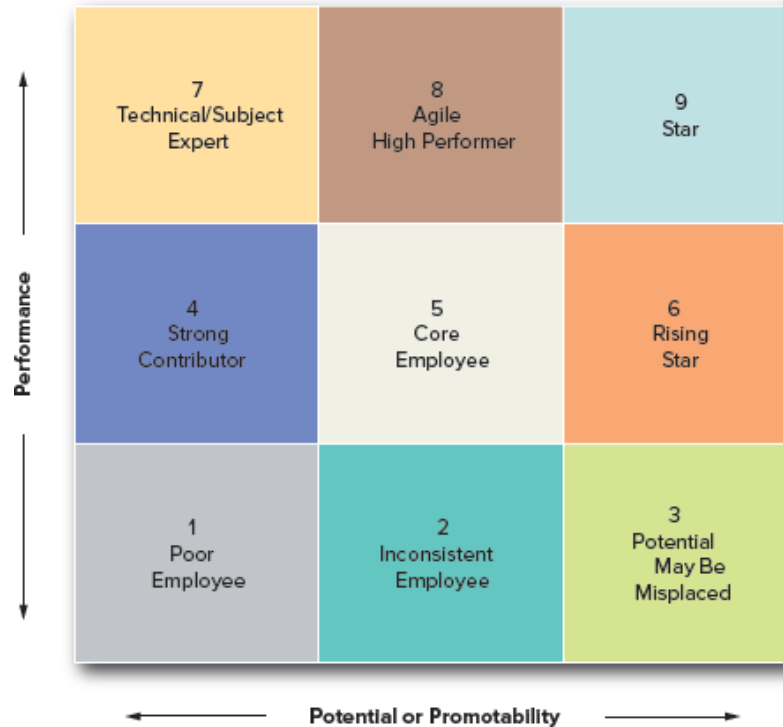


Figure 9.5 Example of a 9-Box Grid

Commvault, a data protection and information management solution provider, uses a more complex sixteen-box grid.¹⁰³ Twice a year managers and employees meet for performance conversations. Managers use the conversation to make ratings about the extent to which employees deliver high-impact results, if they behave in ways that align with the company’s values, their potential, and readiness for promotion. Using talent management software this data is plotted on the 16-box grid that compares employees’ level of performance against key objectives and their alignment with company values. Managers can use the data to review individual employees, results for a business unit, or across all employees. It helps them see where high-performing employees are located and what specific skills may be lacking across all employees. The grid is used to identify training needs, promotion candidates, and employees who can benefit from stretch assignments and mentoring.

Contrast the development plans of “Stars” with employees in the other areas of the grid. The development plans for “Poor Employees” emphasize performance improvement in their current position rather than getting them challenging new job experiences. If they do not improve in their current position, they are likely to be fired. “Technical/Subject Experts” are outstanding performers but have low potential for page 424 leadership positions. Their development plans likely emphasize keeping their knowledge, skills, and competencies current and getting them experiences to continue to motivate them and facilitate creativity and innovation. “Potential May Be Misplaced” employees may have just taken a new position and haven’t had the time to demonstrate high performance, or these employees’ knowledge, skills, or competencies might not match their job requirements. Their development plans might emphasize moving them to a position that best matches their skill set or, if they have just moved to the job, ensuring that they get the training and development opportunities and resources necessary to

help them attain high performance levels. “Core Employees” are solid but not outstanding performers who have moderate potential. Development plans for these employees will include a mix of training and development designed to help ensure their solid performance continues. Also, their development plans likely include some development experiences that can help grow their skills and determine their interest and ability to perform in positions requiring different skills and/or more responsibility.

It is important to keep in mind that performance tends to be variable over time due to changes in tasks, assignments, and business goals.¹⁰⁴ The implication of this is that when managing employees’ performance, consider the categories shown in [Figure 9.5](#) but give employees the chance to change. One way to do this is to have frequent performance conversations with employees, which helps them recognize the need to change or maintain their performance. Actively managing employees by setting expectations, making project assignments based on their skills and interests, and holding employees accountable for their performance makes a difference.

The sixth step in developing a succession plan is to recognize succession planning is dependent on other human resource systems, including compensation, training and development, and staffing. Incentives and bonuses may be linked to completion of development opportunities. Activities such as training courses, job experiences, mentors, and 360-degree feedback should be part of high-potential employees’ development plans. Companies need to decide, for example, whether they will fill an open management position internally with a less-experienced employee who will improve in the role over time or hire a manager from outside the company who can deliver results immediately.

Seventh, employees need to be provided with feedback on future moves, expected career paths, and development goals and experiences.

Finally, the succession planning process needs to be evaluated. This includes identifying and measuring appropriate results outcomes (such as reduced time to fill manager positions, increased use of internal promotions) as well as collecting measures of satisfaction with the process (reaction outcomes) from employees and managers. Modifications that will be made to the succession planning process need to be identified, discussed, and implemented.

Blue Cross Blue Shield of Michigan (BCBSM) identifies and develops the company’s next generation of leaders as well as talented employees.¹⁰⁵ Members of the executive team have formal succession plans. At the executive level, potential successors’ evaluations include an evaluation of their readiness for a new position, for example, ready today or ready in three-to-five years. This has resulted in the development of considerable bench strength for executive positions. All executive positions have at least one successor identified, and 75% of the successors are evaluated as ready today to take the position. But BCBSM also supports succession planning and talent review at all levels of the organization. BCBSM conducts companywide talent reviews to identify current and future skill strengths and weaknesses. BCBSM uses a 9-box grid to assess performance and potential. Management teams meet to discuss the 9-box results for their employees individually and as a group. Part of the meeting is devoted to ensuring that managers are using similar standards for evaluating employee performance and likelihood of future advancement. After the talent reviews are completed, page 425BCBSM holds talent summits to ensure that managers across all divisions understand the company’s talent and its development needs, and are aware of cross-division job openings and talent strengths and weaknesses. Supporting this process, BCBSM conducts an annual talent inventory. Employees are asked to identify their career interests and skills. This information is used in manager–employee discussions of BCBSM’s talent needs and their individual development plans, career goals, and development activities.

Succession planning at ITU AbsorbTech, a company that provides absorbents used during printing and manufacturing, became a high priority because of its aging workforce.¹⁰⁶ It involves measuring employees’ performance and potential over a two-year period and identifying high performers. Employees complete a career development plan that helps them identify the potential positions they could hold in the short and long term. Also, development activities such as mentoring that could help employees prepare for the positions are identified. Each position is reviewed to determine if a potential opening may occur because the employee plans to retire or is slated

to move to a new position.

One of the important issues in succession planning is deciding whether to tell employees if they are on or off the list of potential candidates for higher-level manager positions.¹⁰⁷ There are several advantages and disadvantages that companies need to consider. One advantage of making a succession planning list public or telling employees who are on the list is that they are more likely to stay with the company because they understand they likely will have new career opportunities. Another is that high-potential employees who are not interested in other positions can communicate their intentions. This helps the company avoid investing costly development resources in them and allows the company to have a more accurate idea of its high-potential managerial talent. The disadvantages of identifying high-potential employees are that those not on the list may become discouraged and leave the company or changes in business strategy or the employees' performance could take them off the list. Also, employees might not believe they have had a fair chance to compete for leadership positions if they already know that a list of potential candidates has been established. One way to avoid these problems is to let employees know they are on the list but not discuss a specific position they will likely reach. Another is to frequently review the list of candidates and clearly communicate plans and expectations. Managers at Midmark Corporation, a medical equipment manufacturer based in Versailles, Ohio, identify successors every six months as part of the company's performance review process and produce a potential list of candidates. Some employees are also labeled as high potential and others are identified as having high potential for leadership positions. Employees with high potential for leadership positions are considered for challenging development assignments involving overseas relocation. Using interviews, the company determines if employees on the succession list are interested in and qualified for leadership positions.



A LOOK BACK

Employee Development at Danone Turkey

The chapter opener described Danone Turkey's employee development process which includes employee–manager development conversations, short- and long-term career goal setting, and identification of development opportunities.

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QUESTIONS

Why does Danone Turkey give employees rather than their managers ownership of the development process?

How do the yearly development conversations benefit employees? Danone Turkey?

SUMMARY

Companies use various employee development methods, including formal education, assessment, job experiences, and interpersonal relationships. Most companies use one or more of these approaches to develop employees. Formal education involves enrolling employees in courses or seminars offered by the company or educational institutions. Assessment involves measuring the employee's performance, behavior, skills, or personality characteristics. Job experiences include job enlargement, rotating to a new job, promotions, transfers, or temporary assignments. A more experienced senior employee (a mentor) can help employees better understand the company and gain exposure and visibility to key persons in the organization. Part of a manager's job responsibility may be to coach employees. Regardless of the development approaches used, employees should have a development plan to identify (1) the type of development needed, (2) development goals, (3) the best approach for development, and (4) whether development goals have been reached. For development plans to be effective, both the employee and the company have responsibilities that need to be fulfilled. Companies have to

address two special challenges in employee development. One challenge that companies need to address is how to melt the glass ceiling. That is, how to use development to help prepare women and minorities for leadership positions in which they are underrepresented. A second challenge is succession planning or identifying and tracking employees who are capable of moving into different positions than they currently hold.

KEY TERMS

[Development, 393](#)

[Protean career, 393](#)

[Psychological success, 393](#)

[Development planning system, 395](#)

[Action plan, 397](#)

[Formal education programs, 400](#)

[Tuition reimbursement, 402](#)

[Assessment, 402](#)

[Myers-Briggs Type Inventory \(MBTI\), 404](#)

[Assessment center, 405](#)

[Leaderless group discussion, 405](#)

[Interview, 405](#)

[In-basket, 405](#)

[Role-plays, 405](#)

[Upward feedback, 407](#)

[360-degree feedback systems, 407](#)

[Job experiences, 409](#)

[Stretch assignments, 409](#)

[Job enlargement, 411](#)

[Job rotation, 411](#)

[Transfer, 412](#)

[Promotions, 412](#)

[Downward move, 412](#)

[Temporary assignment, 414](#)

[Sabbatical, 414](#)

[Volunteer assignments, 415](#)

[Mentor, 416](#)

[Career support, 417](#)

[Psychosocial support, 417](#)

[Reverse mentoring, 418](#)

[Coach, 418](#)

[Glass ceiling, 419](#)

[Succession planning, 421](#)

[High-potential employees, 421](#)

[Bench strength, 422](#)

[9-box grid, 423](#)

DISCUSSION QUESTIONS

How could assessment be used to create a productive work team?

List and explain the characteristics of effective 360-degree feedback systems.

Why do companies develop formal mentoring programs? What are the potential benefits for the mentor? For the protégé?

page 427Your boss is interested in hiring a consultant to help identify potential managers among current employees of a fast-food restaurant. The manager's job is to help wait on customers and prepare food during busy times, oversee all aspects of restaurant operations (including scheduling, maintenance, on-the-job training, and food purchase), and help motivate employees to provide high-quality service. The manager is also responsible for resolving disputes that might occur between employees. The position involves working under stress and coordinating several activities at one time. She asks you to outline the type of assessment program you believe would do the best job of identifying employees who will be successful managers. What will you tell her?

Many employees are unwilling to relocate because they like their current community, and spouses and children prefer not to move. Yet employees need to develop new skills, strengthen skill weaknesses, and be exposed to new aspects of the business to prepare for management positions. How could an employee's current job be changed to develop management skills?

Can experiences that managers have outside of the company be beneficial for development? Identify the types of experiences and explain why they are beneficial.

What are some examples of sabbaticals, and why are they beneficial?

What is coaching? Is there one type of coaching? Explain.

Why are many managers reluctant to coach their employees?

Why should companies be interested in helping employees plan their development? What benefits can companies gain? What are the risks?

What are the manager's roles in a development system? Which role do you think is most difficult for the typical manager? Which is the easiest role? List the reasons managers might resist involvement in career management.

Draw the 9-box grid. Explain how it is used for succession planning.

Nationwide Financial, a 5,000-employee life insurance company based in Columbus, Ohio, found that its management development program contained several types of managers. One type, “unknown leaders,” had the right skills, but their larger talents were unknown to top managers in the company. Another group, “arrogant leaders,” believed they had all the skills they needed already. What types of development programs would you recommend for these two types of managers?

How can development help melt the glass ceiling? What development activities are critical for women and members of underrepresented ethnic and racial groups to help them gain access to leadership positions?

SELF-ASSESSMENT EXERCISES



What Is Your Keirsey Temperament?

If you have been assigned this 2-part Self-Assessment in Connect, you will visit www.keirsey.com, complete the Keirsey Temperament Sorter, and then answer a series of questions.

EXERCISING STRATEGY

Leadership Development at Vi

Vi is a company with over 2,800 employees that owns and operates continuing care residential communities for older adults across the U.S. As the U.S. population ages, there is an increased demand for senior living facilities, which in turn creates a need to attract and retain new employees. Satisfied residents are more likely to want to stay in Vi's communities and are more likely to give positive recommendations to their friends and relatives who are potential residents. Vi competes for talent with luxury hotel brands and large health care systems. Vi believes that investing in employee development is key for attracting and retaining talented employees who in turn provide high-quality services to residents.

Vi has several different leadership development programs. Vi believes that making an investment in its potential leaders not only helps to retain top talent but motivates them to manage their staffs in a way that enhances their engagement. In fact, many of Vi's current page 428 leaders, who joined the company in high school, have participated in the leadership development programs to advance their careers. The purpose of the Breakthrough Leadership Program (BLP) is to increase the competencies and effectiveness of experienced high-potential leaders. BLP prepares them to take on additional responsibilities or move into higher-level positions. The program content covers building results and accountability, employee and personal development, and improving communications and influencing others. The one-year program includes assessments, coaching, classroom and online learning, and virtual study groups. Vi partners with DePaul University to help deliver parts of Vi's Breakthrough Leadership Program and develop measures used to evaluate the program. Program participants also receive coaching to help them develop and execute an action plan tailored to their personal development needs.

The Management Development program focuses on developing future leaders from employees currently working as servers and housekeepers and in engineering, dining, and administrative positions. This year-long program includes courses, experiential learning, and mentoring. In Vi's Emerging Leaders Program, employees participate in a six-month virtual learning program focused on developing the knowledge and skills they need to help them grow as leaders.

QUESTIONS

What other development activities might Vi want to consider to develop its leaders? Identify an activity and explain why Vi should consider it.

What data or outcomes should Vi's learning and development team collect to monitor the effectiveness of the leadership programs? Explain the business reason for your choice of data.

Do Vi's leadership development practices help it attract, motivate, and retain talented employees? Why or why not?

SOURCES: A. St. John, "Engagement at Vi," *Chief Learning Officer*, May 2020, pp. 34–35; "Learn and Grow at Vi," <https://jobs.viliving.com/training-programs>, accessed January 11, 2021; J. Whitcomb, "Help Wanted: Cultivating Talent Outside Your Organization," *training*, January/February 2019, pp. 40–41; B. Hassell, "At Vi, Business Is All about Living and Learning," *Chief Learning Officer*, June 2017, pp. 32–33; R. Bell, "Dedicated to Employee Development at Vi," *Chief Learning Officer*, June 2018, pp. 24–25.

MANAGING PEOPLE

Breaking the Glass Ceiling at Coca-Cola

Coca-Cola, the beverage company, wants to energize its diversity efforts. Over 20 years ago the company agreed to pay over \$190 million dollars to settle a race discrimination lawsuit. In 2000 Coke made changes to its hiring, promotion, and pay practices to create a fair, equitable, and nondiscriminatory workplace. Ten years later, in 2010, Black employees held 15% of executive positions in the U.S. compared to less than 2% before the lawsuit. However, in 2020, Blacks only held 8% of executive positions. Many at Coca-Cola believe that the loss of Black representation in executive positions is because the company diversity efforts expanded to include gender and other races and underrepresented groups. There was also a change in the way the company reported diversity numbers. For example, Coke stopped disclosing data by race but instead provided the percentage of multicultural employees which included employees who were not white or non-Hispanic. A company restructuring in 2017 led to a sharp decline in available Black talent, who were recruited by other companies. Additionally, Black professionals left the company because they felt their advancement was too slow or they had limited influence. Also, Coke stopped linking executive pay to increasing diversity. Coke's hiring efforts contributed to the growth of a more diverse workforce including Black professionals but many did not find the culture welcoming or receive coaching and support necessary to develop a professional network within the company. Coke still does better than other companies in the representation of Blacks in executive and senior management positions. At competitor PepsiCo Inc., 6.3% of U.S. executives are Black. Among all companies Black employees hold less than 4% of executive and senior manager roles.

QUESTIONS

How can Coke use development to increase the representation of Black professionals and executives in the company? Provide recommendations for development activities and a rationale for why they should be considered.

How would you determine the progress and success of the development activities you propose?

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HR IN SMALL BUSINESS

At Conductix-Wampfler, Anyone Can Have a Mentor

Like other manufacturers today, Conductix-Wampfler struggles to find and keep qualified workers. The maker of systems for transmitting energy and data to mobile machinery and equipment has three manufacturing facilities: two in Nebraska and one in Iowa. Across these facilities, the rate of employee turnover is 7% below the industry average, thanks in part to the work of Jessica Jones, Conductix's learning management coordinator. Her programs include leadership development for middle managers and a mentorship program that spreads career development opportunities to the entire workforce.

At Conductix-Wampfler every new hire is assigned to a mentor. Existing employees can request a mentor when they have moved to a new position, taken on additional responsibilities, or simply want to explore additional career growth. Mentors are chosen based on identifying employees who can best help protégés achieve their goals. Mentors may come from the same department or another department. Or mentors may be identified from another group to help protégés gain an understanding of their situation from a new or different perspective.

Conductix does not just assign mentors. It develops the skills they need to be successful in the role. The company provides one-on-one coaching in how to start a mentoring relationship. Mentors participate in online training about how to set goals, give feedback, and handle confidential information. Protégés, too, receive training in how to get the most out of the program by participating effectively in meetings and setting goals. Mentors are responsible for initiating the relationship with protégés. However, once the relationship is started the company expects protégés to take responsibility for communicating their needs to their mentors and requesting meetings as often as they feel it is necessary.

To attract mentors and reinforce the importance of the program Conductix rewards mentors for participating in its mentorship program. Mentors who fulfill the requirements of the role earn a \$500 bonus after 90 days and are eligible for additional bonuses at their twice-yearly performance reviews. They also may receive recognition in spotlight stories in the company newsletter.

Mentors, proteges, and the company all benefit from the mentoring program. Serving as a mentor gives employees leadership experience, increases their coaching and feedback skills, and gives them the opportunities to interact with management and co-workers in other functions. This can lead to a promotion. Proteges benefit by getting a better understanding of their job and the company as a whole. Also, it helps them increase their skills and identify opportunities for new positions. Conductix benefits from loyal employees, a safer work environment, and a pool of talent to fill open positions from within.

QUESTIONS

Suggest some ways that effective assessment could contribute to the success of Conductix-Wampfler's mentorship program.

What features of the Conductix mentoring program contribute to its benefits for mentors, proteges, and the company? Identify the feature and explain why it contributes to the program's success.

SOURCES: "Company & Career," <https://www.conductix.us>, accessed April 17, 2020; Jessica Jones, "Manufacturing Meets Mentoring," *TD*, September 2019, pp. 34-39; "Honing Management and Leadership Skills," interview of Jessica Jones, *Leadership Excellence*, October 2018, pp. 12-13.

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CHAPTER 10

Employee Separation and Retention



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO10-1 Distinguish between involuntary and voluntary turnover, and discuss how each of these forms of turnover can be leveraged for competitive advantage.](#)

[LO10-2 List the major elements that contribute to perceptions of justice and how to apply these in organizational contexts involving discipline and dismissal.](#)

[LO10-3 Specify the relationship between job satisfaction and various forms of job withdrawal, and identify the major sources of job satisfaction in work contexts.](#)

[LO10-4 Design a survey feedback intervention program, and use this to promote retention of key organizational personnel.](#)

ENTER THE WORLD OF BUSINESS



The Weinstein Verdict: The End of the Beginning

In February 2020, a jury in New York convicted Harvey Weinstein of two counts of felony sex crimes. These two crimes were just the tip of the iceberg, however, when it came to allegations against Weinstein. Many of the allegations stretched back over thirty years involving charges from over 90 different women who had worked with the famous producer over that time. To many observers, Weinstein's conviction signaled the end of the beginning of a paradigm shift for how sexual harassment complaints are received and handled called the #MeToo Movement.

Indeed, the process where one allegation against a workplace predator first gained notoriety, and was followed by a second, and then a trickle, and then a wave of complaints on social media represented a sea change when it came to successfully pursuing and litigating workplace sexual harassment claims. The impact of this movement and new paradigm was profound and a 2020 EEOC report documented that there were over 15,000 sexual harassment claims filed in the two fiscal years 2018 and 2019, almost doubling the number from 2016 to 2017.

However, the #MeToo Movement has also shined a spotlight on the HR function in many organizations and left many wondering "where was HR?" when all this was happening in the past, and "where is HR" going as this movement continues forward. For many, HR was supposed to be the one unit in the organization charged with protecting workers and looking out for them. However, the #MeToo Movement called that assumption into question.

In some cases, HR failed because it was ineffective when it came to pursuing powerful or prestigious office holders. Once HR identified a potential high-profile predator, the case was quickly whisked off to the firm's legal team. The legal team then informed high-level non-HR executives who made the final decision. This view of HR

places it in position of a well-intended but powerless player whose main role when it comes to sexual harassment is to create “check-the-box” training sessions that do not seem to have any measurable impact on harassment.

However, in other circles, HR was not just benignly impotent and incompetent, but was instead a serious part of the problem. One recent survey actually showed that only 25% of women executives trust their own HR when it comes to managing a sexual harassment claim. At worst, the person filing the claim would be steered in a different direction, and told that a case was not winnable and might damage their reputation. At best, the person would be believed, given a settlement, and then forced to sign a nondisclosure agreement preventing any discussion of the event. In either case, the person's stay at that particular employer was over. Ally Coll, an attorney who specializes in these kinds of cases speaks for many when she says, “What I would like to see is for people to feel comfortable reporting misconduct internally. But right now, I don't know if that's always good advice. It really does still come at a career cost for a lot of people.”

In lieu of going to their own HR unit, the new trend for many aggrieved individuals is to go directly to court and file a defamation suit. One of Weinstein's early victims, Ashley Judge, was not able to file a harassment claim because too much time had elapsed and the statute of limitations had run out. In disputing Judge's claims, Weinstein stated publicly that “she was a nightmare to work with,” and she then sued the producer for what she claimed was a false, career damaging retaliatory statement. Similar suits are now being leveraged by both accusers and the accused in a game where each side claims the other is lying about the case. The future of these tactics is uncertain, but there is a flurry of such cases in the works that will define the harassment landscape for years to come. The question remains, however, where is HR located in this troubling landscape?

SOURCES: J. Ransom, “Harvey Weinstein Is Found Guilty of Sex Crimes in #MeToo Watershed,” *The New York Times Online*, February 24, 2020; S. Pearlman, “What the EEOC's New Data May Tell Us about the State of the #MeToo Movement,” *Forbes Online*, February 2, 2020; C. Flanagan, “The Problem with HR,” *The Atlantic Online*, July 2019; C. Cutter, “When Is It Wise to Go to HR?” *The Wall Street Journal Online*, October 17, 2019; J. Jacobs, “#MeToo Cases' New Legal Battleground: Defamation Lawsuits,” *The New York Times Online*, January 12, 2020.

Introduction

Every executive recognizes the need for satisfied, loyal customers. If the firm is publicly held, it is also safe to assume that every executive appreciates the need to have satisfied, loyal investors. Customers and investors provide the financial resources that allow the organization to survive. However, it seems that not every executive understands the need to generate satisfaction and loyalty among employees. Yet there is a strong link between employee satisfaction and retention, on the one hand, and critical organizational outcomes, on the other hand.¹ This may even be the deciding factor when it comes to who wins and who loses in the competitive market. Research has established a direct link between employee retention rates and sales growth, and companies that are cited as one of the “100 Best Companies to Work For” routinely outperform their competition on many other financial indicators of performance.² This is especially the case in the service industry, where the direct contact between employees and customers embodies the relationship between employee satisfaction and customer satisfaction.

In addition to holding onto key personnel, another hallmark of successful firms is their ability and willingness to dismiss employees who are engaging in counterproductive behavior or behavior that threatens other employees. One could argue that the organization's HR department should be at the forefront of supporting employees along these lines, but as our chapter-opening story shows, this has not always been the case. The #MeToo Movement has clearly revealed that many companies have failed to protect lower-level employees who have been victimized by supervisors or colleagues, and instead of punishing the perpetrators, in some cases, HR actually helped these perpetrators cover their tracks.³ In fact, beyond this, as part of the cover-up process, page 438 many companies have rewarded perpetrators with lavish exit packages. For example, CBS offered a \$120 million severance

package to former CEO Les Moonves, who was found to have been the subject of a large number of credible sexual harassment claims.⁴ A mere two years later, two other CBS executives had to be suspended for similar charges.⁵

In too many cases, in order to get the attention of their HR units, victims had to bypass HR. For example, at Nike, there were scores of complaints registered with HR regarding sex bias and sexual harassment issues, but HR was apparently the place where these complaints went to die. Frustrated with the lack of effectiveness of following the chain of command, a large number of women got together and forwarded the sum total of their complaints—all with highly detailed documentation—directly to CEO Mark Parker. The sheer volume of the accusations finally led to the termination of close to a dozen top-level executives in 2018.⁶ In fact, even worse than ignoring complaints and not protecting employees at all, the HR staff at several tech companies have been implicated in actually retaliating against people who came forward with complaints about harassment and gender discrimination.⁷ This makes HR complicit and worthy of punishment itself.

Thus, to compete effectively, organizations must take steps to ensure that good performers are motivated to stay with the organization, whereas chronically low performers or employees engaged in misconduct are allowed, encouraged, or—if necessary—forced to leave. Those who work in HR need to be at the front line of the “attrition–termination” battle in the war for talent. Perhaps, spurred on by the #MeToo Movement, HR departments need to refocus their efforts on protecting and supporting employees at all levels of the organization, even if this includes safeguarding employees from other employees who have higher status.

This chapter focuses on employee separation and retention. The material presented in [Chapters 8](#) and [9](#) can be used to help establish who are the current effective performers as well as who is likely to respond well to future developmental opportunities. The present chapter completes [Part Three](#) by discussing what can be done to retain high-performing employees who warrant further development as well as how to manage the separation process for low-performing employees who have not responded well to developmental opportunities.

Since much of what needs to be done to retain employees involves compensation and benefits, this chapter also serves as a bridge to [Part Four](#), which addresses these issues in more detail. The chapter is divided into two sections. The first examines [involuntary turnover](#), that is, turnover initiated by the organization (often among people who would prefer to stay). The second deals with [voluntary turnover](#), that is, turnover initiated by employees (whom the company often would prefer to keep). Although both types of turnover reflect employee separation, they are clearly different phenomena that need to be examined separately.

[Involuntary turnover](#)

Turnover initiated by the organization (often among people who would prefer to stay).

[Voluntary turnover](#)

Turnover initiated by employees (whom the company often would prefer to keep).

Managing Involuntary Turnover

LO 10-1

Distinguish between involuntary and voluntary turnover, and discuss how each of these forms of turnover can be leveraged for competitive advantage.

Despite a company's best efforts in the area of personnel selection, training, and design of compensation systems, some employees will occasionally fail to meet performance requirements or will violate company policies while on the job. For example, in one recent case, in 2018, several employees at Amazon were found to have accepted bribes in order to leak data on sellers and customers to disreputable merchants and scam artists. The companies

that offered the bribes used the information to sell counterfeit products, violate trademarks, sabotage other sellers, and place fake orders using customer data. This is such an existential threat to Amazon's business model that the firm had to move quickly and decisively. The head of HR at Amazon page 439 emphasized this stating that "if bad actors abuse our systems, we take swift action, including terminating employment, seller accounts, deleting reviews, withholding funds, taking legal action and working with law enforcement."⁸

Failing to take remedial action in cases of employee misconduct sets the stage for potential catastrophes when that conduct persists and results in damage to lives or property. For example, Derek Chauvin, the Minneapolis police officer who was charged with the death of George Floyd, was well-known within the force to be over-aggressive. He had over 20 complaints against him and internal investigations into his conduct during his tenure prior to his murder of George Floyd.⁹ Many of the incidents, and the only one that had ever led to any disciplinary action, involved a penchant for taking people suspected of minor crimes, forcing them into his police cruiser, and threatening them. In fact, this is precisely what happened with George Floyd, who was suspected of passing a counterfeit \$20 bill.¹⁰ Floyd resisted being stuffed into the police car and the resulting struggle led to his death. On top of the tragic loss of life, this incident led to a \$27 million settlement against the city and launched a cultural war within the U.S. around race relations and the need to defund the police.¹¹

Still, although there is often a dire need for taking decisive action, terminating someone's employment can be a difficult task that needs to be handled with the utmost care and attention to detail. The increased willingness of people to sue their employers, combined with an unprecedented level of violence in the workplace, has made discharging employees personally dangerous and legally complicated.

With respect to danger, recent data indicate that more than 25,000 occupational assault injuries occur each year at the hands of employees who claim their stress levels pushed them over the edge.¹² For example, in 2019, an employee who was terminated after 15 years of working at a factory in Aurora, Illinois, shot and killed five co-workers and wounded five police officers in retaliation for what he felt was unfair treatment. Police Chief Kristen Ziman noted, "I hate to use the term classic workplace shooting, it pains me to do that, but that is exactly what it was."¹³ Attaching the word *classic* to a type of murder is sad, but does reveal how common the problem is.¹⁴ Less than a year after this statement, in a similar incident, five workers were killed at a Molson Brewery plant in Milwaukee, reinforcing the tragic recurrence of this phenomenon.¹⁵

Toxic work conditions can also lead workers to the point of suicide. For example, in France, 35 employees committed suicide at work after experiencing years of harassment from top level leaders, including the COO and the Head of HR. The leadership was trying to downsize operations; however, the workers were protected by government civil service regulations from being fired. Thus in an effort to get the workers to just quit voluntarily, the company sought to make their lives miserable. In the words of one legal analyst, "the executives put in place a conscious scheme to worsen the work conditions of the employees in order to speed up departures, as well as a climate of anxiety that led to the suicides." The top officials were put on trial and three were convicted of "institutional homicide" and sent to prison.¹⁶

With respect to being legally complicated, the legal aspects of this decision can have important repercussions for the organization. Historically, in the absence of a specified contract, either the employer or the employee could sever the employment relationship at any time. The severing of this relationship could be for "good cause," "no cause," or even "bad cause." Over time, this policy has been referred to as the [employment-at-will doctrine](#). This employment-at-will doctrine has eroded significantly over time, however. Today employees who are fired sometimes sue their employers for wrongful discharge.

[Employment-at-will doctrine](#)

The doctrine that, in the absence of a specific contract, either an employer or an employee could sever the employment relationship at any time.

A *wrongful discharge suit* typically attempts to establish that the discharge either (1) violated an implied contract or covenant (i.e., the employer acted unfairly) or (2) violated public policy (i.e., the employee was terminated because

he or she refused to do something illegal, unethical, or unsafe). In one very publicized case, a large page 440number of contract workers who worked for Lionbridge Software—a subcontractor for Microsoft—filed a wrongful discharge suit when their jobs were all eliminated after the group formed a union. The employees argued that the firm was retaliating against them for creating a legal collective bargaining unit, but the employer argued that the layoffs were due to a reduced demand for labor. The evidence showed, however, that the amount of billable hours that Lionbridge charged to Microsoft had not changed prior to or after the terminations, and the company eventually decided to settle out of court for an undisclosed amount of money in 2018.¹⁷

Another recent example of a wrongful discharge claim involved Walmart and one of its own internal lawyers. Shane Perry, a former Walmart ethics officer, accused the company of fabricating false claims of inappropriate workplace conduct to undermine his work investigating bribery allegations in Mexico. Mr. Perry was sent to Mexico to look into bribery allegations, and after a weeklong investigation wrote a memo to senior management summarizing his findings, knowing they were going to be unpopular. In the complaint, Mr. Perry said he was pressured to change his findings on allegations that Walmart had violated the U.S. Foreign Corrupt Practices Act in its efforts to rapidly expand in Mexico. Perry refused to make the changes and claims he was fired for that reason, and that reason alone.¹⁸

Wrongful discharge suits can also be filed as a civil rights infringement if the person discharged is a member of a protected group. For example, in 2015, 10 African American employees at McDonald's sued the company, alleging that they were fired because of their race. In fact, the manager at the franchise was quoted as saying that he "needed to get the ghetto out of the store." McDonald's Corporation had no intention of defending this manager but tried to argue that this was an issue between the employees and the "franchisee" (i.e., the local manager) not the "franchiser" (i.e., the corporate entity). The National Labor Relations Board did not see it that way and ruled against the corporation.¹⁹

The number of such protected groups is large and includes members of underrepresented racial groups, women, older workers (over 40 years of age), members of the LGBTQ community, workers with disabilities (including the obese), whistle-blowers, people who have filed workers compensation claims, and—if one counts reverse discrimination claims—Caucasians. In fact, it is actually hard to find someone who doesn't have some capacity to claim protected status. This means that in almost any instance when someone is fired for poor performance, the alternative possibility that this person was a victim of discrimination can be raised.

Not surprisingly, this has led to an increase in litigation. Although the research suggests that a plaintiff usually loses a wrongful termination case, the high cost of litigating the case makes some employers reluctant to fire employees, even when they are low performers. When this happens, the employer's short-term emphasis on staying out of court has come into conflict with the long-term need to develop a competitive workforce and grow. As an extreme example of this, due to past failures monitoring the legal and ethical practices of employees who were committing fraud against their customers, Wells Fargo Bank was punished by government regulators who put a solid cap on the size of the company. This resulted in the closure of over 5,000 bank branches, as well as strict limits regarding future growth. Indeed, years after the initial report of fraud, the company is still in the process of terminating regional managers who were supposedly overseeing the employees who were engaged in illegal activity.²⁰

One reaction to this dilemma is to endure long stretches of poor performance in order to create the extensive "paper trail" that would support a negative action. Whereas HR professionals often point the finger of blame at supervisors who have not done a diligent job documenting past performance problems, supervisors often turn around and accuse HR of being cowards who never seem satisfied with the amount of evidence provided by supervisors. Moreover, keeping poor performers in their roles does not directly affect HR professionals every day, as it does supervisors, who have page 441to watch helplessly as the morale of the rest of the workforce erodes. There is nothing more corrosive to team-based structures than wide variability in effort and performance between different members.

For example, Kimberly-Clark was once considered a paternalistic organization that hired people for life. However, increasingly, performance problems associated with certain individuals were seriously harming bottom-line results.

One 30-year veteran at the company noted, “We all talk about how having the best team is the most important difference maker in your results, but we didn’t have the supporting processes to make that sustainable.” In 2015, a new emphasis on performance management helped Kimberly-Clark retain 95% of its top performers while shedding 45% of workers whose performance was rated unacceptable or inconsistent.^{[21](#)}

Another questionable reaction, as we saw earlier in the French suicide cases, is to initiate punitive actions short of termination in an effort to get the employee to quit on his or her own. This reaction is often a result of frustrated supervisors, who, unable to fire someone because of HR, resort to punishing the employee in other ways. This might include giving the person a low-level work assignment, a downsized office, or some other form of undesirable treatment. The problem with this approach, however, is that it might be construed as “retaliation,” and the employer could be sued for this, even if the original discrimination suit is dismissed.

Finally, a third unsustainable reaction is to pay off the employee with thousands of dollars in excess severance pay in return for waiving the right to sue for wrongful dismissal. That is, even if the employer feels the case is unwarranted, in order to avoid litigation, the employer may offer the terminated employee \$20,000 or more to waive the right to sue. The problem with this strategy is that it sets the expectation that all poor performers or people who engage in misdeeds are entitled to compensation on their way out the door, which eventually increases the amount of potential future litigation by rewarding frivolous charges. At the end of the day, you have to run your business and you cannot tolerate a poor workforce just in the hope of avoiding all litigation.



Start-up companies are notorious for terminating employees in a ruthless manner in the early days of their development.

WIN-Initiative/Getty Images

In some cases, the problem of having a poor workforce eventually gets solved by outside forces. For example, when Warren Buffet teamed up with 3G Capital, a private equity firm, to buy ketchup maker Heinz, 90% of the executive management team at the company was ousted in less than one month. 3G eventually cut 20% of the workforce, and one year later, adjusted earnings at Heinz rose by 40%. Although this may seem harsh, Warren Buffet stated bluntly that “efficiency is required over time in capitalism and I really tip my hat to what the 3G people have done.”^{[22](#)}

The costs associated with letting poor performers stay on within the organization cannot be discounted. Organizations that introduce forced distribution rating systems—where low performers are systematically identified

and, where necessary, eliminated from payrolls—often experience quick improvement gains in the range of 40%.²³ These gains often decrease over time, but illustrate how many organizations lose the discipline needed to hold each and every employee to high standards.²⁴ Given the critical financial and personal risks associated with employee dismissal, it is easy to see why the development of a standardized, systematic approach to discipline and discharge is critical to all organizations. These decisions should not be left solely to the discretion of individual managers or supervisors. In the next section, we explore aspects of an effective discipline and discharge policy.

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Principles of Justice

LO 10-2

List the major elements that contribute to perceptions of justice and how to apply these in organizational contexts involving discipline and dismissal.

The key to an effective discipline system is that all employees, including the individual who is being punished, view the system as “fair.” There are three specific types of justice or fairness perceptions that need to be managed in this context. The first type of justice is outcome justice, sometimes referred to as “distributive justice,” which considers (1) the outcomes one receives relative to one’s inputs and (2) the comparison of that ratio to some ratio for some other reference person. The identity of this reference person is critical to the judgment of outcome fairness or unfairness, because it means that everyone does not have to be treated the same. Rather, if someone’s outcomes are higher, but their inputs are also higher, and if this person is not necessarily a reference person, there can be quite a bit of inequality that does not translate into perceptions of inequity or unfairness.

Thus, the average worker does not necessarily expect to be paid the same as the CEO because the average worker might see that the CEO has an outsized impact on the company’s outcomes and the CEO is not a direct reference person when the average worker asks “is my salary fair?” Indeed, as the [Integrity in Action](#) box shows, there can be quite a large difference between CEO outcomes and average worker outcomes that do not seem to translate into widespread perception of unfairness as much as one might think.

When it comes to termination decisions, outcome justice is critical because the terrible outcome received by the individual who is terminated must (1) be justified by the individual’s actions (inputs) and (2) be consistent with how other individuals who engaged in the same offense were treated. Thus, if the employee feels they did nothing wrong, or if the employee perceives they did do something wrong but some reference person who did the same thing did not get terminated, then this will generate perceptions of outcome unfairness and might trigger a wrongful discharge case.

This perception will be especially pronounced when, in addition to losing one’s current job, one might then be prevented from seeking a similar job elsewhere. For example, employers are increasingly asking would-be hires to sign noncompete clauses in their hiring paperwork. A noncompete clause means that if the employee is terminated or voluntarily leaves the job, this person cannot seek new employment at a firm in the same industry. Traditionally, these kinds of clauses were aimed at high-paid jobs such as top-level executives or senior technical personnel who, due to their positions, had access to critical proprietary knowledge about the company’s strategy or technology. These contracts were traditionally jointly negotiated between two powerful parties and were generally considered “fair.”

Today, however, these contracts have trickled down to low-paid, entry-level employees where there is little negotiation and wide power asymmetries. For example, internships have long been an opportunity for young and inexperienced workers to try out different industries, develop skills and establish important contacts. In return, for companies, bringing in an intern is a way to import low-cost labor and attract future talent. But increasingly interns

are being asked to sign noncompete, nondisclosure and forced arbitration agreements, restrictions once reserved for higher-ranking employees. Many view this as an unfair exchange because a short stint at a company for a young person can become a lasting constraint on the person's future job opportunities.

For example, Delaney Dunne, who took an internship for class credit and \$10 an hour at a local company in North Carolina, signed such a set of forms, and then on graduation day the next year, she received a letter from the company reminding her that she had signed a noncompete agreement that restricted working in that industry. Ms. Dunne was just 22 years old and notes, "I burst into tears hours before I was set to graduate from college, and that one noncompete [agreement] that I signed when I was 20 years old is still haunting me."²⁵

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INTEGRITY IN ACTION

We Are All in This Together; But Who Is "We"?

The shrinking middle class in the United States, as well as the growing inequality in wealth between those in the top 1% and the rest of the distribution, has been an increasing source of concern for many. Just how much inequality can the country withstand until the brittle social contract holding the country's various factions together shatters altogether? For people with this concern, two major recent events were particularly salient.

First, in 2018, for the first time, large corporations had to report the ratio of their CEO's pay to the median worker pay in a public format. The results of this first-time reveal were largely a confirmation of what everyone believed already. The average ratio turned out to be close to 360 to 1, where the median employee salary was roughly \$40,000. Toy maker Mattel had the highest pay gap of all of the S&P 500 companies at roughly 5,000 to 1. At the other extreme, Berkshire Hathaway Inc. had the lowest pay ratio of all S&P 500 companies at just 2 to 1. Ironically, some companies where the CEO performed so poorly they had to be terminated turned out to be some of the most disparate on the metric.

The second event that was closely watched was organizations' reaction to the COVID crisis. Given the total devastation this event had on regular workers in terms of layoffs, furloughs, and lost hourly pay, how would the leaders of such companies respond when it came to their own pay?

The answer for most was "very little." Arne Sorenson, the CEO of Marriott International, took just a 2% cut from his \$66 million compensation, a number that pales in comparison to the losses of those who were furloughed or laid off in the hotel industry. On average, a broad survey of large companies documented that only a small percentage of leaders took any cuts at all, and the median value of those who made cuts was less than 10% relative to the previous year. Moreover, this does not even consider the fact that their stock bonuses soared during the same time period because the stock market seemed to be immune to COVID. There were some leaders, however, who did respond in an ethical manner. Glenn Kelman, the CEO of real estate giant Redfin, for example, zeroed out his 2019 compensation relative to what it was the year before.

It is not illegal to make a lot of money, but at a time when many people are putting greater emphasis on ethical considerations, the failure of many top leaders to genuinely respond to the crisis of the pandemic could do companies damage going forward. The COVID crisis was more widespread than past economic shocks, and was an existential threat to many hard-working taxpayers that had to be supported by extensive outlays of cash from the federal government. In addition, collective bargaining organizations see this as an issue that can be leveraged to increase their own power. Reacting to the less than 3% pay cut taken by Oscar Munoz, the CEO of United Airlines, Sito Pantoja, a representative of the International Association of Machinists and Aerospace Workers, stated: "The personal financial impact by a CEO and a front-line employee taking pay cuts is hardly comparable." Time will tell how responses by the government, employees, and unions may shape more ethical actions on the part of all CEOs

in the future.

DISCUSSION QUESTIONS

There is a very large difference in pay ratios between some CEOs and others in the workforce, and what factors, beyond greed, might explain this? More specifically, what aspects of being a CEO of a toy manufacturer make this index relatively unfair when compared to the head of a holding company?

A large part of executive compensation is tied to stock prices, and during COVID, the stock market performed incredibly well. In contrast, very little compensation for the average employee is tied to the stock market. What can organizations do to help the average employee benefit from stock ownership?

SOURCES: F. Francis and Y. Wu, “CEO Pay for the S&P 500: WSJ Ranking of 2019 CEO Compensation and Shareholder Returns,” *The Wall Street Journal Online*, June 3, 2020; P. Eavis, “As Pandemic Forced Layoffs, CEOs Gave Up Little,” *The New York Times Online*, July 29, 2020; N. Trentmann and K. Broughton, “Companies That Don’t Cut Executive Pay Now Could Pay for It Later,” *The Wall Street Journal Online*, June 30, 2020.

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In general, if one is sued, courts rarely support noncompete contracts that are not aimed at protecting proprietary information, trade secrets, or copyrighted formulas. As one legal expert notes, “You are not allowed to get a noncompete just because you don’t want the person to quit.”²⁶ In fact, some states have recently passed laws that make noncompete contracts unenforceable. For example, lawmakers in California believe that the ability of workers in places like Silicon Valley to hop from one employer to another actually spurs creativity and adds to the competitive advantage of the state as a whole. Thus, the belief is that it is in the state’s best interest to set these employees free.²⁷

Whereas outcome justice focuses on the ends, the two other types of justice or fairness perceptions, procedural justice and interactional justice, focus on means. If methods and procedures used to arrive at and implement decisions that impact the employee negatively are seen as fair, the reaction is likely to be much more positive than if this is not the case. [Procedural justice](#) focuses specifically on the *methods used to determine the outcomes received*. [Table 10.1](#) details six key principles that determine whether people perceive procedures as being fair. Even given all the negative ramifications of being dismissed from one’s job, the person being dismissed may accept the decision with minimum anger if the procedures used to arrive at the decision are consistent, unbiased, accurate, correctable, representative, and ethical. When the procedures that led to the decision are perceived in this fashion, the individual does not feel unfairly singled out. This helps someone maintain faith in the system as a whole, even if one is unhappy with the specific decision that was triggered by the system.

Table 10.1 Six Determinants of Procedural Justice

Consistency. The procedures are applied consistently across time and other persons.
Bias suppression. The procedures are applied by a person who has no vested interest in the outcome and no prior prejudices regarding the individual.
Information accuracy. The procedure is based on information that is perceived to be true.

Correctability. The procedure has built-in safeguards that allow one to appeal mistakes or bad decisions.

Representativeness. The procedure is informed by the concerns of all groups or stakeholders (co-workers, customers, owners) affected by the decision, including the individual being dismissed.

Ethicality. The procedure is consistent with prevailing moral standards as they pertain to issues like invasion of privacy or deception.

Procedural justice

A concept of justice focusing on the methods used to determine the outcomes received.

When this is not true, then perceptions of bias will arise. An example of this can be seen at JPMorgan bank where a Black employee was told he was fired for a routine error that many other employees also made. Since he seemed to be singled out for termination for the same error that others had made but were not terminated for, he filed a discrimination suit. During the investigation, the bank offered a different reason for why he was fired than the one he was originally told. However, the bank was not aware that he had secretly recorded the first meeting, showing that indeed he was fired for an error that others had made who were not terminated. This was a clear case of procedural injustice, and the bank quickly reversed course and settled out of court.²⁸

Whereas procedural justice deals with how a decision was made, interactional justice refers to the *interpersonal nature of how the outcomes were implemented*. For example, in many documented cases, after giving employees the news of their termination, employers immediately have security guards whisk them out of the building with their various personal items haphazardly thrown together in cardboard boxes. This strips people of their dignity, as well as their job, and employees who witness this happen to a co-worker show a drastically lower level of organizational commitment from that day forward.

Interactional justice

A concept of justice referring to the interpersonal nature of how the outcomes were implemented.

Table 10.2 lists the four key determinants of interactional justice. When the decision is explained well and implemented in a fashion that is socially sensitive, considerate, and empathetic, this helps defuse some of the resentment that might come about from a decision to discharge an employee. Although this is always a challenge, this became a major problem during the COVID pandemic when many people were told they were being laid off in massive depersonalized Zoom calls by someone in HR they had never met. Although meeting face-to-face was certainly not possible during this time period, some companies, such as Airbnb, made sure these meetings happened in one-on-one or small-group Zooms where people were told by their own supervisor.²⁹

Table 10.2 Four Determinants of Interactional Justice

Explanation. Emphasize aspects of procedural fairness that justify the decision.

Social sensitivity. Treat the person with dignity and respect.

Consideration. Listen to the person's concerns.

Empathy. Identify with the person's feelings.

Although all termination decisions should pass the tests of outcome, procedural, and interactive justice, this is especially true when employers engage in this practice routinely, and actually advertise it when recruiting new workers. For example, Netflix states publicly that its culture is one that is characterized by frequent firings, and that employees at all levels are encouraged to give each other frank (some would say brutal) feedback when they have failed to perform well or live up to the company's standards.

The value statement of Netflix refers to the "keeper test," which asks all employees to be able to defend why they would keep some other employee. Then, when employees are discharged, there is a group intervention where everyone who worked with that individual gets together and discusses why they felt the termination was fair or unfair, as well as what everyone needs to learn from the incident. Clearly, this is not a culture that would be right for everyone, but Netflix is very upfront and transparent when it comes to its values.³⁰

Progressive Discipline and Alternative Dispute Resolution

Except in the most extreme cases, employees should generally not be terminated for a first offense. Rather, termination should come about at the end of a systematic discipline program. Effective discipline programs have two central components: documentation (which includes specific publication of work rules and job descriptions that should be in place prior to administering discipline) and progressive punitive measures. Thus, as shown in [Table 10.3](#), punitive measures should be taken in steps of increasing magnitude, and only after having been clearly documented.

Table 10.3 An Example of a Progressive Discipline Program

OFFENSE FREQUENCY	ORGANIZATIONAL RESPONSE	DOCUMENTATION
First offense	Unofficial verbal warning	Witness present
Second offense	Official written warning	Document filed
Third offense	Second official warning, with threat of temporary suspension	Document filed
Fourth offense	Temporary suspension and "last chance notification"	Document filed
Fifth offense	Termination (with right to go to arbitration)	Document filed

This may start with an unofficial warning for the first offense, followed by a written reprimand for additional offenses. At some point, later offenses may lead to a temporary suspension. Before a company suspends an employee, it

may even want to issue a “last chance notification,” indicating that the next offense will result in termination. Such procedures may seem exasperatingly slow, and they may fail to meet one’s emotional need for quick and satisfying retribution. In the end, however, when problem employees are discharged, the chance that they can prove they were discharged for poor cause has been minimized.

At various points in the discipline process, the individual or the organization might want to bring in outside parties to help resolve discrepancies or conflicts. As a last resort, the individual might invoke the legal system to resolve these types of conflicts, page 446but to avoid this, more and more companies are turning to [alternative dispute resolution \(ADR\)](#). Alternative dispute resolution can take on many different forms, but in general, ADR proceeds through the four stages shown in [Table 10.4](#). Each stage reflects a somewhat broader involvement of different people, and the hope is that the conflict will be resolved at earlier steps. However, the last step may include binding arbitration, in which an agreed-upon neutral party resolves the conflict unilaterally if necessary.

Table 10.4 Stages in Alternative Dispute Resolution

Stage 1: Open-door policy The two people in conflict (e.g., supervisor and subordinate) attempt to arrive at a settlement together. If none can be reached, they proceed to
Stage 2: Peer review A panel composed of representatives from the organization that are at the same level of those people in the dispute hears the case and attempts to help the parties arrive at a settlement. If none can be reached, they proceed to
Stage 3: Mediation A neutral third party from outside the organization hears the case and, via a nonbinding process, tries to help the disputants arrive at a settlement. If none can be reached, the parties proceed to
Stage 4: Arbitration A professional arbitrator from outside the organization hears the case and resolves it unilaterally by rendering a specific decision or award. Most arbitrators are experienced employment attorneys or retired judges.

[Alternative dispute resolution \(ADR\)](#)

A method of resolving disputes that does not rely on the legal system, often proceeding through the four stages of open-door policy, peer review, mediation, and arbitration.

The use of ADR has grown rapidly among employers. In 2012, only 16% of employers required workers to sign away their legal rights to sue the employer in exchange for ADR procedures, but by 2014 this figure was up to 43%. Part of this trend is attributable to a 2011 Supreme Court ruling that upheld the legal status of pre-employment-required ADR sign-offs. Prior to this ruling, many lower courts were vacating or striking down ADR judgments, which meant that rather than keeping disputes out of court, ADR just added another layer to the process. The Supreme Court removed this layer and ruled that employees voluntarily signed the agreements. Thus, they were bound to them, even though they could not have been hired had they not signed. This makes ADR very attractive to employers. Litigation costs associated with class action suits dropped by roughly \$150 million between 2011 and 2014.³¹

However, jump ahead to 2018, and the popularity of ADR started to wane as a consequence of the #MeToo Movement. In case after case, employers used mandatory ADR, in conjunction with nondisclosure agreements (NDAs), to silence victims and protect predators—exactly as we saw in our chapter-opening story. For example, at one company in the video game industry, there were 12 separate settlements against the company, but no one knew of the scope of the problem due to ADR and page 447NDAs.³² Thus, some have questioned the future of mandatory ADR as a process because of its lack of transparency and the way it was used by the powerful (and HR working as an accomplice) to separate victims from their legal rights.³³

Employee Assistance and Wellness Programs

Many of the problems that lead an organization to consider terminating an individual's employment relate to drug or alcohol abuse. In these cases, the organization's discipline and dismissal program should also incorporate an employee assistance program.

An [employee assistance program \(EAP\)](#) is a referral service that supervisors or employees can use to seek professional treatment for various problems. EAPs vary widely, but most share some basic elements. First, the programs are usually identified in official documents published by the employer (such as employee handbooks). Supervisors (and union representatives, where relevant) are trained to use the referral service for employees whom they suspect of having health-related problems. Employees are also trained to use the system to make self-referrals when necessary.

[Employee assistance program \(EAP\)](#)

Employer program that attempts to ameliorate problems encountered by workers who are drug dependent, alcoholic, or psychologically troubled.

Although originally targeted at the use of illegal drugs, many EAPs increasingly have had to deal with employees who have problems attributable to prescription drugs, especially painkillers. The percentage of workers who have tested positive for illegal drugs has decreased steadily from 14% in 1988 to just 3% in 2013. However, positive tests for painkillers such as Oxycontin and Vicodin have risen dramatically in the last few years. In terms of numbers, there were over 81,000 drug overdose deaths in the U.S. in the 12 months ending in May 2020, the highest number ever recorded in a 12-month period. Part of this was attributed to the COVID pandemic that both placed people under stress and removed the safety net that EAPs provided when they lost work. Moreover, many of these overdoses took place among people who had a valid prescription for the drugs.³⁴

Obviously, a worker taking a prescription drug may still pose a safety threat to other workers or customers when under the drug's influence. Thus, many organizations have zero-tolerance policies for many prescription drugs that are just as strict as their policies for illegal drugs.³⁵ Moreover, even if a painkiller is legal in one country where the firm operates, it may not be legal in another country. For example, in 2015, Julie Hamp, the most senior female executive at Toyota, was forced to resign when she was arrested for being in possession of oxycodone—another powerful painkiller—that just happened to be illegal in Japan.³⁶

In addition to considering both illegal drugs and prescription drugs, in some states, employee assistance programs also have to address legal, nonprescription drugs. As we noted in [Chapter 6](#), many states in the United States allow for the recreational use of marijuana. However, even though it may be fine for the state government to ignore someone's drug use, this is much more difficult for employers who may be liable for any accidents or crimes when an employee in a safety sensitive occupation tests positive for marijuana. Moreover, unlike alcohol, where a breathalyzer can detect if you have been drinking very recently, a drug test for marijuana can come back positive weeks later. Thus, this is an issue that has to be addressed by an EAP.³⁷

The key to the effectiveness of an EAP is striking the right balance between collecting information that can be used to promote employee health, on the one hand, and the employee's right to privacy, on the other. Many employees

are afraid to come forward with information that they think may damage their careers, and so it is in the employer's best interest to support people who do self-refer by keeping their information confidential, and then supporting them through counseling and rehabilitation.³⁸ However, rehabilitation rates for workers with alcohol or drug addiction are far from 100%, so the employer still has an obligation to monitor progress to make sure that these workers are not a safety threat to others. For example, the EEOC recently ruled that if a worker is part of an EAP and is being treated for alcoholism, a manager page 448 who knows this and sees this person drinking alcohol at an office party is obligated to report this to the EAP. Again, this may seem a violation of privacy, but this right has to be weighed against other employees' right to a safe workplace.³⁹

So, returning to opioids, the EEOC has made it clear that employers can take actions against employees who *illegally* use prescription painkillers. However, if an employee is using opioids *lawfully*, an employer cannot automatically disqualify the employee without considering if there is a way for the employee to do the job safely and effectively. Opioid addiction is a recognized disability, which an employer may have a duty to reasonably accommodate. An employer may remove an employee from the job for safety reasons, but only if the evidence shows that the employee poses significant and substantial risk of harm to others.

Whereas EAPs deal with employees who have developed problems at work because of health-related issues, employee wellness programs take a proactive and preemptive focus on trying to prevent health-related problems in the first place. The cost of employer-provided health care in 2019 was roughly \$24,000 per employee, and costs have been going up 5% per year.⁴⁰ Hence, it is clearly in the employer's interest to have healthy workers, and this is where employee wellness programs come in.

Employee wellness programs come in many different sizes and varieties, so it is difficult to make general statements about their cost and effectiveness. Some companies just hand out pamphlets on how to maintain better health and call that a wellness program.⁴¹ Other programs have employees monitor their health status continuously using wearable sensors like Fitbits, provide company-sponsored facilities and medical staff to support better health, and then reward employees financially for accomplishing health-related goals.⁴²

Indeed, Fitbit manufacturers were at first surprised by the large number of purchases for hundreds of trackers from companies because their original business model focused primarily on sales to individuals. However, they quickly adjusted their business model to get much more focused on wellness applications aimed at companies and not just fitness applications aimed at individuals. The most recent version of the device includes an electrodermal activity sensor that relates to people's physical stress, heart metrics that detect early signs of atrial fibrillation, breathing rate, oxygen saturation in the blood, resting heart rate, and temperature sensing.⁴³ Indeed, as the [Competing through Technology box](#) shows, these new devices have come a long way from just counting steps.

The evidence for the effectiveness in voluntary wellness programs is not strong when it comes to changes in outcomes. Research suggests that when one directly compares employees who are in versus out of their company's voluntary wellness center, the two groups do not differ in terms of (a) self-reported health behaviors, (b) results on 10 health measures, (c) use of on-site medical resources or (d) absenteeism and job performance. Thus, organizations usually have to do something more than just provide resources and either reward or punish employees to motivate change. When linking wellness to employees, the question becomes whether one provides rewards for those that can maintain a healthy lifestyle versus administering punishments for those who fail to do so.⁴⁴

Many employers find that people react more strongly to threats of losses than promises of gains, and reward programs at companies that offer incentives to get healthier simply do not seem to work. By contrast, punishment-based programs definitely get people's attention. One reason that punishment programs may work is that they target far fewer people. Evidence suggests that roughly 80% of health care costs are generated by just 20% of workers, and a staggering 1% of workers generate 33% of the costs. Targeting these specific individuals has proven to be an efficient way to get costs under control, but there are legal limits to how far employers can go with these sorts of penalties, and some have charged that these programs violate the Americans with Disabilities Act.⁴⁵



COMPETING THROUGH TECHNOLOGY

Your Smartwatch Is Getting Smarter When It Comes to Measuring Stress

You cannot manage what you cannot measure, and so when it comes to monitoring stress levels, whether at work or at home, it helps to be able to get accurate and timely data. Advances in wearable technology have made significant inroads to providing such data to the average person and thus, having an appreciation for where state-of-the-art is and where it is going in the future is critical for managing stress. In particular, one might want to know (a) how well widely available commercial smartwatches and fitness trackers assess stress levels, (b) how well they accomplish this task when compared to much more advanced nonwearable assessments, and (c) what future developments may provide game-changing advancements in accuracy going forward?

Your heart is at the heart of technology for measuring stress with a smartwatch or tracker. In terms of how it works, as you might imagine, heartbeats per minute is one part of this assessment. However, over the last few years, this technology has been expanded and now leans more heavily on the concept of heart rate variability (HRV). HRV assesses the time interval between beats and is much more focused on the small fluctuations of the heartbeat over time rather than the number of beats. This variability is due to the interplay of the parasympathetic and the sympathetic nervous systems that, together, control bodily functions such as breathing and heart rate without conscious direction. The parasympathetic system amps up the body to deal with situations that require physical or mental exertion, and the sympathetic system calms the body down to prevent uncontrolled upward spiraling.

Thus, when you are mentally engaged and getting sufficient exercise, on the one hand, but also calm and getting enough rest on the other hand, HRV is high. When HRV is low, it suggests the two systems are out of balance. That is, if variance in HRV is low, this is usually because one's heart is beating too fast all the time, and thus, breathing exercises are often recommended to slow it down—thus causing more variability. But low variability can also be caused by not engaging in any physical or mentally challenging work at all, and that is not good either. When this is the case, it is best to get things amped up again via exercise or a mentally challenging task, thus causing more variability.

Standard smartwatches take these measures using optical heart rate monitors that track the blood pulsing through the veins in one's wrist. This is a pretty reliable means of assessing these variables, but the location on the wrist makes them slightly less accurate than what one can get if one moves the sensor closer to the heart. Thus, wearable sensors that abandon the wrist and are placed on a strap that attaches the sensor right next to the heart are more reliable and accurate relative to what one can obtain from a watch.

However, the future of wearable sensors when it comes to accurate stress detection may be to abandon the heart altogether and focus on sweat. Under pressure, the adrenal gland cortex of the kidney releases cortisol into the bloodstream, and this can be detected in sweat via a patch that sends signals to your smartphone, or to your physician's office. Prior to this new development, reliable cortisol collection required an invasive blood test. Someday, this technology might be married to a bracelet that, when combined with optical heart rate monitors on a smartwatch, will provide an extremely accurate multi-measure platform for measuring stress.

DISCUSSION QUESTIONS

In what way does the focus on heartbeats per minute hide the more important elements of a healthy situation relative to the HRV measure?

What aspects of jobs may create situations where there is low HRV at high levels of beats per minute versus jobs that causes low HRV at low levels of beats per minute?

SOURCES: M. Sawh, "Stress Wearables: Best Devices That Monitor Stress and How they Work," *Wearable Online*, June 2, 2020; E. Velasco, "Sweat Sensor Detects Stress Levels; May Find Use in Space Exploration," *Caltech Online*, February 26, 2020; P. Mehar, "A New Wearable Sensing Chip Can Measure the Stress Hormone in Human Sweat," *Health Online*, February 15, 2021.

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One of the major determinants of how far employee wellness programs can push their employees is how central health is to effectively performing the work. In general, if one defines obesity as having a body mass index (BMI) of 30 or higher, then there is an obesity epidemic in the United States.⁴⁶ The obesity rate for Americans doubled between 1993 and 2012, and for some organizations, this is a threat to their ability to accomplish their mission. For example, the U.S. Federal Bureau of Investigation (FBI) issued a new requirement that its agents pass a fitness test once a year and that failure to do so will be part of their annual performance evaluation and raise process. At one time, almost all members of the FBI worked in highly active jobs in the field where they were chasing and arresting criminals. However, the threats of terrorism, cybersecurity, and large-scale fraud have pushed many employees into offices, where they sit at computers for long stretches of time. This has had a predictable effect on obesity rates in the agency. To counter the problem, the agency now requires agents to be able to do 24 push-ups without stopping and 35 sit-ups in a minute. It also requires that agents be able to sprint 300 yards in less than a minute and run a mile in under 12 minutes.⁴⁷

Outplacement Counseling

The permanent nature of an employee termination not only leaves the person angry, but also leads to confusion as to how to react and in a quandary regarding what happens next. If the person feels there is nothing to lose and nowhere else to turn, the potential for violence or litigation is higher than most organizations are willing to tolerate. Therefore, many organizations provide [outplacement counseling](#), which tries to help dismissed employees manage the transition from one job to another. There is a great deal of variability in the services offered via outplacement programs, typically including career counseling, job search support, resume critiques, job interviewing training, and provision of networking opportunities. Increasingly, these programs are moving online both to reduce costs and in recognition that most job search activity now takes place online. Face-to-face meetings between counselors and clients are largely becoming a thing of the past, being replaced by Web-based tools.⁴⁸

[Outplacement counseling](#)

Counseling to help displaced employees manage the transition from one job to another.

Many observers have criticized the effectiveness of outplacement programs when it comes to helping former employees actually find new jobs. Many programs take a "one-size-fits-all" approach with standardized training programs not tailored to the specific needs of clients and industries, as well as boilerplate resume services that send out almost identical documents for different workers. The evidence suggests that 40% of workers offered such services never show up, and another 30% quit using them after one or two sessions.⁴⁹

Still, many employers remain committed to these programs, and evidence supports the business case for this activity for outcomes other than employees finding new jobs. Specifically, when it comes to employee lawsuits, employers that offer outplacement activities have a 10% reduced likelihood of litigation by former employees, relative to companies that fail to provide such services. In addition, roughly 20% of employers that engaged in outplacement activities reported that turnover decreased among employees who remained after the initiation of such programs. Recruitment costs for new employees were also reported to be 24% lower for firms that provided this sort of employee assistance.⁵⁰ Finally, 38% of employers that offered outplacement services saw an increase in employee satisfaction one year after the downsizing event, compared to just 14% for employers that did not offer

services.⁵¹

For all of these reasons, some companies actually boast about their ability to place workers who lost their jobs in even better jobs at other companies. For example, Oracle advertises the fact that over a dozen former executives who ran out of room to grow at Oracle went on to become CEOs at other companies, burnishing the firm's reputation as a great place to launch a career.⁵²

At the very least, outplacement counseling can help people realize that losing a job is not the end of the world and that other opportunities exist. For example, when John page 451Morgridge was fired from his job as branch manager at Honeywell, it made him realize that his own assertiveness and need for independence were never going to cut it in a large, bureaucratic institution like Honeywell. Morgridge took his skills and went on to build computer network maker Cisco Systems, which is now worth more than \$1 billion.⁵³ This is a success story for Morgridge, but the fact that a major corporation like Honeywell let his talent go certainly reflects a lost opportunity for the company. Retaining people who can make such contributions is key to gaining and maintaining competitive advantage. The second half of this chapter is devoted to issues related to retention.

Managing Voluntary Turnover

Earlier in this chapter, our focus was on how to help employees who were not contributing to the organization's goal in a manner that protected the firm's ability to compete and how to support former employees' transition into alternative employment. In this section, we focus on the other side of the separation equation—preventing employees who are highly valued by the organization from leaving (and perhaps even joining the competition).

The cost of turnover is extremely high and it is estimated that losing an employee can cost roughly two times the employee's salary. Depending on the individual's level of seniority, the financial burden fluctuates. For hourly workers, it costs an average of \$1,500 per employee. For technical positions, the cost jumps to 100% to 150% of salary. At the high end, c-suite turnover can cost over 200%.⁵⁴ Turnover is also costly when it comes to time, in that an employer is forced to dedicate time and resources to recruiting, onboarding, and training a new hire, all while taking a business hit internally when the role remains unfilled. Turnover rates also affect one's reputation and is seen as an indicator to shareholders how well managed a business is. In fact, new financial disclosure rules require this information because of the concern that this information is so critical as a sign of management's strength or weakness.⁵⁵

Moreover, an organization that has a reputation for being successful becomes an especially attractive target to external forces that may look to steal talent. For example, because of its positive reputation, Apple has always been a company that has had to work hard to hold on to its valued employees. Tesla Motors has hired over 150 former Apple executives, designers, and engineers in the past few years alone. Part of Tesla's competitive strategy is to exploit the fact that software has gone from providing 10% of the value of a car to 60%; thus, the skills and orientation of former Apple employees are a great fit for Tesla's business model.⁵⁶ Although this hiring pattern might be good news for Tesla, it is bad news for Apple who may wish that employees were more attached to their jobs.

As we will see in more detail later, employees may be attached to their jobs for any of a number of reasons, and employers need to recognize this in their efforts to retain workers. For example, pay and job security used to be the primary drivers of retention for older generations of workers, but this is not always the case today. Evidence seems to suggest that younger employees prefer benefits to cash, and they generally want to work in an environment that is fun and collaborative and that provides a great deal of immediate feedback and opportunities for development. This generation of employees has a lot to offer employers, including the fact that they are technically skilled, racially diverse, socially interconnected, and willing to collaborate.

Moreover, despite some stereotypes to the contrary, millennials are not necessarily more likely to turn over on the job than previous generations when the conditions are right. A recent survey shows that 70% of workers between the ages of 22 and 37, commonly known as the millennial generation, had worked for their current employer for 13 months or more. By comparison, that number was 69% for workers who were in the same age group in 2002, known as Generation X.⁵⁷

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Process of Job Withdrawal

Job withdrawal is a set of behaviors that dissatisfied individuals enact to avoid the work situation. The right side of [Figure 10.1](#) shows a model grouping the overall set of behaviors into three categories: behavior change, physical job withdrawal, and psychological job withdrawal.

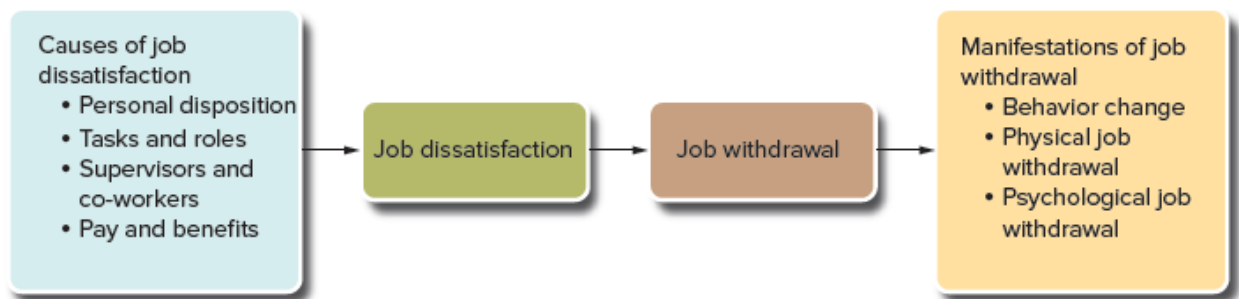


Figure 10.1 An Overall Model of the Job Dissatisfaction–Job Withdrawal Process

We present the various forms of withdrawal in a progression, as if individuals try the next category only if the preceding is either unsuccessful or impossible to implement. This theory of [progression of withdrawal](#) has a long history and many adherents.⁵⁸ For example, someone who is dissatisfied with the job or organization might not be able to just jump to another job right away but will instead either disengage temporarily (through absenteeism or tardiness) or psychologically (through lower job involvement and organizational commitment) until the right opportunity comes along.

[Progression of withdrawal](#)

The theory that dissatisfied individuals enact a set of behaviors to avoid the work situation.

Indeed, a good predictor at this stage of the turnover process is whether the employee is assimilating into the organization's culture, as evidenced by the language the employee uses. A study that examined 10 million e-mail traces of new employees found that newcomers who eventually thrived and stayed with the company were quick to adopt the language patterns of veteran employees when it came to practices like cursing, expressions of positive emotions, and imagery. Employees who were more likely to leave for either voluntary or involuntary reasons tended to maintain the linguistic style they had prior to joining the company.⁵⁹

Other theories have suggested that there is no tight progression in that any one of the categories can compensate for another, and people choose the category that is most likely to redress the specific source of dissatisfaction. Still other theories maintain that turnover is set up by a general level of persistent dissatisfaction that then is triggered abruptly by some single disruptive event at work that either pushes the employee away (such as a dispute with a supervisor or co-worker) or pulls the employee away (an alternative employment opportunity).⁶⁰ This model focuses on “the straw that breaks the camel’s back” but shares with all the other theories an emphasis on job dissatisfaction as the necessary but insufficient cause of turnover. Regardless of what specific theory one endorses, there is a general consensus that withdrawal behaviors are clearly related to one another, and they are all at least partially caused by job dissatisfaction.⁶¹

Behavior Change

One might expect that an employee's first response to dissatisfaction would be to try to change the conditions that generate the dissatisfaction. This can lead to supervisor–subordinate confrontation, perhaps even conflict, as dissatisfied workers try to bring about changes in policy or upper-level personnel. Although at first this type of conflict can feel threatening to the manager, on closer inspection, this is really an opportunity for the manager to learn about and perhaps solve an important problem. page 453When properly channeled by a secure and supportive leader, “voicing opportunities” for lower-level employees can often result in substantial organizational improvements and prevent turnover among highly engaged employees.⁶²

Less constructively, employees can initiate change through [whistle-blowing](#) (making grievances public by going to the media). Whistle-blowers are often dissatisfied individuals who cannot bring about internal change and, out of a sense of commitment or frustration, take their concerns to external constituencies. For example, regardless of what others thought of him, in his own mind, Edward Snowden was doing the right thing. Concerned that the National Security Agency was increasingly spying on U.S. citizens by collecting information on over 10 million telephone calls, he went public with this information. He felt he was doing his civic duty in trying to inspire a national debate on the “security–privacy” trade-off that seemed to be taking place in the United States at that time. He also knew the severity of his actions, noting, “I understand I will be made to suffer for my actions, but I will be satisfied if the federation of secret law, unequal pardon and irresistible executive powers that rule the world that I love are revealed for even an instant.”⁶³

[Whistle-blowing](#)

Making grievances public by going to the media or government.

In the eyes of many people within the U.S. government, Edward Snowden was a traitor. In the effort to thwart global terrorism, the program at the heart of this controversy merely captured data on who was talking to whom, and not the content of any of those conversations. The program was simply trying to lay out the social network of global terrorists, part of which resides within the country's borders. The data could be used to secure a legal warrant for tapping a phone, but no phone was ever tapped illegally. However, by making the program public, Snowden tipped off potential terrorists to heretofore unknown dangers and thus aided and abetted them in the goal of avoiding detection.⁶⁴ Whether or not Edward Snowden is a whistle-blower or traitor will be for history to decide, but for ethicists, this example illustrates how the employee has to balance two central trusts: the trust of his employer, who pays him to do specific work under a specific contract he willingly signed, and the trust of the larger society in which he resides to protect its citizens from rogue companies or over-reaching branches of government.⁶⁵

In some cases, employees may even make their deepest personal feelings known publicly and be censored by *foreign governments*. As the [Competing through Globalization](#) box shows, this can create some major tensions for organizations with strong vested interests in international business.

Although whistle-blowing activity has been increasing over time, this has become a more common phenomenon with people working from home, and U.S. workers are blowing the whistle on their employers like never before. The U.S. Securities and Exchange Commission (SEC), for example, received a record 7,000 tips alleging white-collar malfeasance in 2020. The SEC pays whistle-blowers for information that leads to successful investigations, and representatives of the agency say a record surge started gaining traction in March when COVID-19 forced millions to relocate from the office to their home. The isolation that comes with being separated from a communal workplace has made many employees question how dedicated they are to their employers. People also feel emboldened to speak out when managers and co-workers aren't peering over their shoulders. After all, you are not being observed at the photocopy machine when you're working from home, and it has never been easier to record a meeting.⁶⁶

Physical Job Withdrawal

If the job conditions cannot be changed, a dissatisfied worker may be able to solve the problem by leaving the job. This could take the form of an internal transfer if the dissatisfaction is job specific (i.e., the result of an unfair supervisor or unpleasant working conditions). However, if the source of the dissatisfaction relates to organization wide policies (lack of job security or below-market pay levels), then page 454organizational turnover is likely. As we indicated earlier, there is a negative relationship between turnover rates and organizational performance, and it is generally costly to replace workers—especially high performers in skilled jobs.⁶⁷



COMPETING THROUGH GLOBALIZATION

Employees and Employers Caught in the Crossfire of the Hong Kong Protests

“For any of these organizations, it is necessary for them, within the framework of the law, to constrain or to require their employees not to touch the bottom line of the law. This is very important.” This threat from the chief economist at Zhongyuan Bank in Central China was directed at U.S. companies who are doing in business in China, directing them to restrict the freedom of speech rights of their American employees. It came as a reaction to a full-page advertisement in Hong Kong’s *Apple Daily* newspaper, signed by roughly 300 U.S.-based employees at four of the largest accounting firms (PwC, Deloitte, KPMG, and Ernst and Young) stating that they supported the Hong Kong protesters fighting for regional autonomy from the central Chinese government. The employees simply stated that “we will never fear or compromise with injustice and unfairness,” but they may indeed have something to fear.

Apparently this sentiment was not one that their U.S.-based employers would actually stand behind, and the heads of the four firms quickly disavowed the statement. For example, PwC declared the advertisement “does not represent the firm’s position and we oppose any statement that challenges national sovereignty.” This distancing was quite remarkable by American standards, but it was still not enough, however, and the pressure was soon increased. A newspaper controlled by the Communist Party urged these firms to “fire employees found to have the wrong stance on Hong Kong situation.” This was not an idle threat because the government forced the Head of Cathay Pacific Airlines, which is headquartered in Hong Kong, to resign after he failed to fire workers who participated in the protests.

Although “freedom of speech” rights in the U.S. are probably not going to be seriously eroded by threats from another country, the protests there do complicate HR issues for employers that have business ties to the Middle Kingdom. The steady flow of workers and families leaving Hong Kong has picked up dramatically, and HR executives say China’s recent imposition of a new national-security law in the city makes it harder for them to convince job candidates from the West to relocate to Hong Kong. Indeed a 2019 survey by the American Chamber of Commerce in Hong Kong found that more than half of its members are considering leaving the city in light of the new law and associated enforcement and that replacing them will be difficult if not impossible.

U.S. employers stuck between the government and their labor supply are responding by leaving the city as well. The number of foreign companies with offices in Hong Kong fell for the first time in 11 years in 2020. The exodus was particularly acute in the financial sector, where over 75 banks, financial companies, and insurers left. The prime beneficiary of this exit was the city of Singapore for a host of reasons. This little city-state is geographically proximal to all other Asian countries, it already boasts a strong financial sector and infrastructure, and it promotes English as its official language. Thus, despite its tiny size when compared to China, and the fact that it is hardly a bastion of freedom of speech rights itself, at least Singapore does not threaten the rights of citizens of other countries. This may be all the competitive advantage one needs in the global war for talent.

DISCUSSION QUESTIONS

How should U.S. companies treat freedom of speech rights when the political views of individual employees may not be in line with official organizational statements?

What are the responsibilities of individual employees to their employer when it comes to freely expressing their views when they know their views are not in line with official organizational statements?

SOURCES: S. Prasso, "The Protests' Collateral Damage," *Bloomberg Businessweek*, January 27, 2020; S. L. Wee and R. Zhong, "China Presses Business over Hong Kong; Workers Get Caught in the Middle," *The New York Times Online*, August 18, 2019; F. Yoon, "Hong Kong Draws Fewer Expats as China Curbs City's Freedoms," *The Wall Street Journal Online*, August 6, 2020; L. He, "Hong Kong Has Only One Real Rival for Businesses Thinking about Leaving," *CNN Online*, June 10, 2020.

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Another way of physically removing oneself from the dissatisfying work, short of quitting altogether, is to be absent. Although less financially disruptive relative to having an employee quit his or her job, absenteeism is still costly for many employers, especially small companies, where it is often harder to make up for a single person's absence. At some point, high absenteeism rates can shut down production altogether. This was the case for many employers in April 2020, when due to the COVID epidemic, a record 2 million people were recorded as being absent from work according to the Department of Labor.⁶⁸

The direct cost of employee absenteeism has been estimated to represent roughly 2% of payroll; however, there are also indirect costs of absenteeism. For example, the employer may need to pay a replacement worker or pay other workers overtime to make up for the person who failed to show up. In addition, production might be reduced and customers might have to wait longer for services. When these indirect costs are added to the equation, absenteeism costs closer to 4% of payroll.⁶⁹

Psychological Withdrawal

When dissatisfied employees are unable to change their situation or remove themselves physically from their jobs, they may psychologically disengage themselves from their jobs. Although they are physically on the job, their minds may be somewhere else.

This psychological disengagement can take several forms. First, if the primary dissatisfaction has to do with the job itself, the employee may display a very low level of job involvement. [Job involvement](#) is the degree to which people identify themselves with their jobs. People who are uninvolved with their jobs consider their work an unimportant aspect of their lives. A second form of psychological disengagement, which can occur when the dissatisfaction is with the employer as a whole, is a low level of organizational commitment. [Organizational commitment](#) is the degree to which an employee identifies with the organization and is willing to put forth effort on its behalf. Individuals who feel they have been treated unjustly by their employer often respond by reducing their level of commitment and are often looking for the first good chance to quit their jobs. In contrast, employees who are involved in their job and committed to their employer are much more likely to respond to problems by speaking up, voicing their concerns, and trying to change what they may consider a bad situation. Ironically, most whistle-blowers tend to be people committed to their jobs or organizations, not people who forget about their jobs the moment they leave the workplace.⁷⁰

[Job involvement](#)

The degree to which people identify themselves with their jobs.

[Organizational commitment](#)

The degree to which an employee identifies with the organization and is willing to put forth effort on its behalf.

Job Satisfaction and Job Withdrawal

LO 10-3

Specify the relationship between job satisfaction and various forms of job withdrawal, and identify the major sources of job satisfaction in work contexts.

As we saw in [Figure 10.1](#), the key driving force behind all the different forms of job withdrawal is [job satisfaction](#), which we define as a pleasurable feeling that results from the perception that one's job fulfills or allows for the fulfillment of one's important job values.⁷¹ This definition reflects three important aspects of job satisfaction. First, job satisfaction is a function of *values*, defined as "what a person consciously or unconsciously desires to obtain." Second, this definition emphasizes that different employees have different views of which values are important, and this is critical in determining the nature and degree of their job satisfaction. The third important aspect of job satisfaction is *perception*. An individual's perceptions may not be a completely accurate reflection of reality, and different people may view the same situation differently.

[Job satisfaction](#)

A pleasurable feeling that results from the perception that one's job fulfills or allows for the fulfillment of one's important job values.

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In particular, people's perceptions are often strongly influenced by their frame of reference. A [frame of reference](#) is a standard point that serves as a comparison for other points and thus provides meaning. For example, there seems to be a major pay gap between men and women who have obtained MBA degrees. According to a survey of over 12,000 individuals who received MBAs within the last eight years, the evidence suggests that both male and female degree holders start out at close to the same rate of pay—roughly \$98,000 for women and \$105,000 for men. After eight years, however, that gap widens with men earning \$175,000 compared to \$140,000 for women. Because men and women differ on the industries where they work (men tend to work more in finance) and the nature of the work they do (e.g., the survey suggests that men supervise five people on average versus women who supervise three), it is hard to know if this reflects bias; but it is still a hard social comparison for some women to take.⁷²

[Frame of reference](#)

A standard point that serves as a comparison for other points and thus provides meaning.

Many have attributed this kind of inequity to a very recent trend for professional women to leave the workforce at higher rates relative to men. Over the last 10 years, research shows that the attrition rates for professional men and professional women moved in tandem; however, in 2020, roughly 860,000 women left the workforce versus 220,000 men. This seems to suggest that lower salaries and pressures attributed to the COVID pandemic disproportionately impacted women's participation rates and not just their salary.⁷³

These kinds of frame-of-reference effects are powerful, and many companies try to reduce the impact of social comparisons by making pay levels secret. In fact, some employers actually have rules prohibiting employees from revealing salaries due to fear that there would be rampant cries of unfairness. However, the National Labor Relations Act has long been interpreted to guarantee that even nonunion employees have the right to share salary information without fear of dismissal or even so much as a reprimand. Thus, policies discouraging pay discussions may not necessarily be strictly legal.⁷⁴

In addition, many feel that pay secrecy policies either unintentionally (or perhaps even intentionally) are in place to prevent pay discrimination suits and prevent women and members of underrepresented ethnic and racial groups from even knowing their status. Thus, eliminating pay secrecy rules may be the first step in creating greater pay equity. Not surprisingly, research suggests that when pay levels are public, this increases satisfaction for highly paid employees and harms satisfaction for lower-paid employees, and that publicizing pay levels tends to shrink the range in pay across the board.⁷⁵

Sources of Job Dissatisfaction

Many aspects of people and organizations can cause dissatisfaction among employees. Managers and HR professionals need to be aware of these because they are the levers that can raise job satisfaction and reduce employee withdrawal.

Unsafe Working Conditions

Earlier in this chapter, we discussed the employer's role in helping employees stay healthy via employee assistance programs for specific problems like drug addiction and alcohol dependency. Obviously, if employers care this much about the risk employees are exposed to off the job, then there needs to be an even stronger emphasis on risk exposure that occurs on the job.

Of course, each employee has a right to safe working conditions. In [Chapter 3](#), we reviewed the Occupational Safety and Health Act of 1970 (OSHA), which spells out those rights in detail. We also discussed in that chapter how to develop safety awareness programs that identify and communicate job hazards, as well as how to reinforce safe work practices that would allow one to pass an OSHA inspection. Although in page 457 that chapter we primarily emphasized legal compliance, we need to revisit the topic because OSHA is not the only audience likely to evaluate the safety of jobs. The perception and reaction of the organization's own employees to working conditions has implications for satisfaction, retention, and competitive advantage that go well beyond merely meeting the legal requirements. That is, if applicants or job incumbents conclude that their health or lives are at risk because of the job, then attracting and retaining workers will be impossible.

Not all jobs pose safety risks, but the nature of the work in a whole host of jobs makes managing safety-related perceptions critical.⁷⁶ This includes jobs such as fishing boat operators, timber cutters, airline pilots/flight attendants, structural metal workers, garbage collectors, and taxi drivers/chauffeurs, all of which have been identified as jobs where people are most likely to be involved in fatal accidents. In fact, in these job categories alone, close to 1,000 people die annually.

Other jobs that historically rate low in terms of fatal accidents rate higher in nonfatal accidents, and this includes many jobs in eating establishments, hospitals, nursing homes, convenience stores, and the long-haul trucking industry. Many of the people in these jobs were considered “essential workers” during the COVID-19 epidemic, however, and this actually increased their exposure to contracting the potentially fatal disease. Some of these workers had no choice in the matter because they were threatened with termination of their jobs or their unemployment insurance if they did not show up for work despite the risk.⁷⁷

Plus, in the early days of the crisis, many employers lacked personal protective equipment to give to these workers, and hence, safety was a DIY make-shift effort that hardly installed confidence. Not surprisingly, people who could leave their jobs did, and this included many health care professionals, creating a dip in supply of care at the peak of demand.⁷⁸ In addition, although they were not directly in contact with COVID patients, lab technicians working as part of the underprepared and overmatched COVID testing system also suffered greatly during the pandemic. Staff shortages meant that technicians worked 10-12 hour shifts, and in order to protect themselves, they were often

wearing a full body gown, sleeve covers, two pairs of gloves, an N-95 mask, and goggles. The work itself is very demanding and requires precision and an ability to make critical judgments when the results may be ambiguous. In addition, because the technology underlying the tests was never developed to work 24/7, machines were constantly breaking down and slowing the process even further.⁷⁹

Working long hours is especially unsafe when one is working at night. This was highlighted recently by several cases in the aviation industry, in which air traffic controllers who were working at night were found to be sleeping on the job because of extended hours. For example, in one case, a lone controller was working on less than two hours' sleep in the previous 24 hours, and this was a contributing factor in the crash of Comair Flight 191 in Lexington, Kentucky.⁸⁰ In general, working at night runs counter to the basic physiology of the human body and disrupts one's natural circadian rhythm, which in turn causes a whole host of physical problems. Thus, working at night has to be considered a safety issue in any job for which this is a task requirement.⁸¹

Protecting workers and ensuring their safety is particularly challenging when trying to manage overseas operations. For example, in the fashion industry, companies such as H&M, Gap, and Zara were blamed for the deaths of over 1,000 garment workers who perished when the old and dilapidated building they worked in collapsed in Bangladesh. In the wake of that disaster, Western companies vowed to help Bangladesh upgrade the safety of its facilities. Yet three years later, 80% of the 1,600 buildings identified as unsafe had not been touched. Kohl Gill, a labor activist, notes, "There's been so much attention put on this, it's kind of surprising so little progress has been made."⁸²

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Personal Dispositions

Because dissatisfaction is an emotion that ultimately resides within the person, it is not surprising that many researchers who have studied these outcomes have focused on individual differences. For example, [negative affectivity](#) is a term used to describe a dispositional dimension that reflects pervasive individual differences in satisfaction with any and all aspects of life. Individuals who are high in negative affectivity report higher levels of aversive mood states, including anger, contempt, disgust, guilt, fear, and nervousness across all contexts (work and nonwork). People who are high in negative affectivity tend to focus extensively on the negative aspects of themselves and others. They also tend to persist in their negative attitudes even in the face of organizational interventions, such as increased pay levels, that generally increase the levels of satisfaction of other people.

[Negative affectivity](#)

A dispositional dimension that reflects pervasive individual differences in satisfaction with any and all aspects of life.

All of this implies that some individuals tend to bring low satisfaction with them to work. Thus, these people may be relatively dissatisfied regardless of what steps the organization or the manager takes. By contrast, research suggests that people who are positive tend to work harder, are more likely to be committed to the organization, are paid more, and are promoted more often.⁸³ Like anything, however, one can get too much of a good thing, and if a work group is made up of people who are all high in positive affect, they are often overly optimistic and fail to engage in a sufficient level of critical thinking regarding what might go wrong with plans or projects. Thus, when it comes to team composition, a built-in "devil's advocate" can be a highly valuable member.⁸⁴

The evidence on the linkage between these kinds of traits and job satisfaction suggests the importance of personnel selection as a way of raising overall levels of employee satisfaction. If job satisfaction remains relatively stable across time and jobs because of characteristics like negative affectivity, this suggests that transient changes in job satisfaction will be difficult to sustain in these individuals, who will typically revert to their "dispositional" or

adaptation level over time. Thus, some employers try to screen for this when selecting job candidates.

Tasks and Roles

As a predictor of job dissatisfaction, nothing surpasses the nature of the task itself. Many aspects of a task have been linked to dissatisfaction. Several elaborate theories relating task characteristics to worker reactions have been formulated and extensively tested. We discussed several of these in [Chapter 4](#). In this section, we focus on three primary aspects of tasks that affect job satisfaction: the complexity of the task, the amount of flexibility in where and when the work is done, and, finally, the value the employee puts on the task.

With a few exceptions, there is a strong positive relationship between task complexity and job satisfaction. That is, the boredom generated by simple, repetitive jobs that do not mentally challenge the worker leads to frustration and dissatisfaction.⁸⁵ Many observers have attributed much of the recent labor unrest in China to this specific aspect of the work.⁸⁶ For example, the Han Hoi riot started as a minor fracas between two young workers but soon escalated into a pitched battle that involved over 2,000 employees and 5,000 paramilitary forces. This riot was just one of many that put a spotlight on Chinese factories and U.S.-based companies doing business there, and the work design practices at Foxconn has been a never-ending source of scrutiny and embarrassment for Apple.⁸⁷

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One of the major interventions aimed at reducing job dissatisfaction by increasing job complexity is *job enrichment*. As the term suggests, this intervention is directed at jobs that are “impoverished” or boring because of their repetitive nature or low scope. Many job enrichment programs are based on the job characteristics theory discussed earlier in [Chapter 4](#). Another task-based intervention is [job rotation](#). This is a process of systematically moving a single individual from one job to another over the course of time. Although employees may not feel capable of putting up with the dissatisfying aspects of a particular job indefinitely, they often feel they can do so temporarily.

[Job rotation](#)

The process of systematically moving a single individual from one job to another over the course of time. The job assignments may be in various functional areas of the company, or movement may be between jobs in a single functional area or department.

Job rotation can do more than simply spread out the dissatisfying aspects of a particular job. It can increase work complexity for employees and provide valuable cross-training in jobs so that employees eventually understand many different jobs. This makes for a more flexible workforce and increases workers' appreciation of the other tasks that have to be accomplished for the organization to complete its mission. For example, Walmart recently introduced a new program, called Upskilling, that is a combination of job rotation and job enrichment aimed at developing low-level workers into middle-level managers.⁸⁸

Because of the degree to which nonwork roles often spill over and affect work roles, and vice versa, a second critical aspect of work that affects satisfaction and retention is the degree to which scheduling is flexible. Of course, even worse than inflexible scheduling is scheduling unpredictability, and erratic schedules wreak havoc on managing a family and have spillover effects when it comes to sleep disorders. This is a major source of dissatisfaction at work for many in the retail or hospitality sectors of the economy.⁸⁹ Workers hate to be called in at the last minute, especially on weekends, or sent home early long before completing their assigned shift.

Indeed, one of the core values at Chick-fil-A, the fast-food restaurant, is that they are closed on Sunday so that workers are guaranteed to have that day off to share with their family and friends. This helps the company maintain a turnover rate of just 4% a year compared to an industry average of 150%.⁹⁰ Although one might fear that the loss of revenue on Sundays might offset the value of retaining workers, HR staff at the company note that they have

highly loyal customers that have grown accustomed to meeting their needs at Chick-fil-A on all the other days of the week—hence avoiding any real loss.⁹¹ In general, Sunday is the least preferred day to work, and this includes burned out salaried workers who feel that they really need to start the work week on Sunday night, just to have a fighting chance on Monday.⁹² Although not all businesses have the luxury of shutting down on Sundays, as the [Evidence-Based HR](#) box shows, some employers are experimenting with four-day work weeks.

Companies can also help employees manage their multiple roles via family-friendly policies. These policies may include provisions for child care, elder care, job sharing, telecommuting, and extended maternal and paternal leaves. When it comes to maternity and paternity leave, however, most employers in the United States do far less than what one sees in the rest of the world. Although the Family and Medical Leave Act requires employers to give parents 12 weeks of leave after having a child, this is an unpaid leave, and many employees cannot afford to go that long without pay—especially after having a baby. In terms of international rankings, the United States ranks last, tied with Liberia, Papua New Guinea, and Suriname, as one of only four countries that do not offer paid leave for new parents.⁹³

By far, the most important aspect of work in terms of generating satisfaction is the degree to which it is meaningfully related to core values of the worker. The term [prosocial motivation](#) is often used explicitly to capture the degree to which people are motivated to help other people. When people believe that their work has an important impact on other people, they are much more willing to work longer hours. This form of motivation can also be triggered by recognizing that one's work has a positive impact on those who benefit from one's service, such as customers or clients. In contrast, when people's social needs are thwarted, they often react negatively and in self-defeating ways that drive people away from them.⁹⁴

[Prosocial motivation](#)

The degree to which people are motivated to help other people.



EVIDENCE-BASED HR

Given some of the problems associated with working long hours, especially at jobs that demand creativity or sustained attention, is there any evidence that suggests “less is more” when it comes to the number of *workdays*—holding the number of *work hours* constant? In particular, what are the effects of going from a five-day 8-hour-day schedule to a four-day but still 40-hour week schedule? On the one hand, the advantages for employees when it comes to transition costs like commuting time are obvious, but although people may feel refreshed by having an extra day off work each week, might there be a drop in productivity after more hours at work in a single day?

One experiment that looked into this issue occurred recently at Microsoft Japan where they closed offices every Friday for one month, and then compared research productivity during that time period to the same month in the prior year. The results from this experiment showed that productivity increased by close to 40%. In addition, the move helped reduce electricity consumption by 25%. Finally, the employees reported spending less time in “wasteful” meetings.

SOURCE: L. Eadicicco, “Microsoft Experimented with a 4-day Workweek, and Productivity Jumped by 40%,” *Business Insider*, November 4, 2019.

For example, during the COVID crisis, workers who were doing relatively routine jobs as part of the Lysol manufacturing process showed significant improvements in their job satisfaction when it became clear that their product was potentially life-saving in the fight against the virus.⁹⁵ On the other hand, during the immigration crisis, many employees who worked for the Immigration and Customs Enforcement (ICE) showed marked decreases in their job satisfaction when their job shifted from arresting drug runners at the border to stopping families fleeing poverty and persecution. Warranted or not, the clear public perception was that the unit was separating families at

the southern border of the United States and placing children in cages. As one officer noted, “to have gone from where people didn’t know much about us to being hated is very difficult, and a lot of people just want to quit.” Thus, how other people view one’s work has a profound impact on that person’s job satisfaction.⁹⁶



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“It means that we have to be in the core business. That we have to be fully integrated into everything that’s going on within the business.”

—Jose Tomas, Former Executive Vice President and Chief Human Resources Officer, Anthem Inc.

Video produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Film-works

In addition to prosocial motivation, work may have meaning for people because they see it as a calling that gives their lives purpose. In this case, the exact tasks that go into the work may not even matter. Rather, everything depends on the outcome that results from the work. For example, Michael Pratt, a researcher who has studied meaning at work extensively, often recounts a fable of bricklayers all working at the same site who are asked what they are doing. One sighs sadly, “I am putting one brick on top of another.” A second says with indifference that he is “making six pence an hour.” The third responds excitedly, “I am building a cathedral!” All three workers are doing the same work, but one person finds meaning in it whereas the others do not, and this makes all the difference when it comes to job satisfaction.⁹⁷

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Supervisors and Co-Workers

The two primary sets of people in an organization who affect job satisfaction are coworkers and supervisors. Workers may be satisfied with their supervisors for one of two reasons.

First, job incumbents may see their supervisors as having “warmth,” that is, genuinely caring about the workers and respecting them as people. Thus, being in a culture where people are generally civil and polite makes people feel their own dignity and worth above and beyond their contributions to the work itself. Incivility causes stress, and research shows that people who are treated rudely have a hard time focusing on the task and, instead, ruminate about their poor treatment and ways to perhaps get even.⁹⁸ They also are highly likely to leave, and in some cases leave in large groups. For example, at the software company Tanium Inc., over a dozen senior officials resigned at once in retaliation for alleged abusive supervision at the hands of CEO Orion Hindawi. This group included the president, as well as the chief officers of marketing, accounting, operations, and finance—basically shutting down the company at the strategic level.⁹⁹

Second, people may be satisfied with their supervisors because the supervisors provide support that helps them achieve their own goals. That is, although it is nice to have a supervisor and co-workers who are warm, it is also critical that these people be “competent” in terms of helping workers and their teams get the mission accomplished. In fact, when given a choice between a leader who was warm but incompetent or a leader who was cold but competent, 70% opted for the cold and competent leader.¹⁰⁰

However, there is one significant downside to a cold but competent leader, and this deals with the willingness of followers to express their own opinions, especially dissent, if they do not feel psychologically safe in their relationship to their leader. In many cases, this can lead to poorly vetted decisions and decision-making errors that might have been avoided if people felt free and confident to speak up.¹⁰¹ Thus, nothing beats the combination of high warmth and high competence in a leader, and employees led by a supervisor who is viewed as both supportive and competent will work longer hours and delay gratification in terms of rewards, trusting that something good will eventually come to them from all their hard work.

Supervisors are not the only potential source of social warmth and support, and in many cases, abuse by co-workers can have an even more profound negative influence on one’s job satisfaction. For example, a recent survey indicated that 20% of respondents reported being bullied by co-workers on the job.¹⁰² *Workplace bullying* is defined as repeated health-harming mistreatment by one or more perpetrators at work that takes the form of verbal abuse and offensive conduct that is threatening, humiliating, or intimidating to the point where it prevents work from getting done. Unlike abusive bosses, who often let up once a specific task is accomplished, bullying by co-workers tends to be a constant, unrelenting process.

For example, when she resigned from her position at *The New York Times*, journalist Bari Weiss cited “bullying by colleagues” as her main reason for leaving. Ms. Weiss was hired to create more diversity at the paper when it came to non-liberal views; however, when she expressed those views, she came under attack from her peers. In particular, she was known to question aspects of social justice movements and offered a deep critique of *Times* employees and company leadership. She basically described a “hostile work environment” where co-workers had insulted her or called for her removal on Twitter and in interoffice communications. In that critique, she described the turmoil inside the paper as a “civil war” between “the (mostly young) wokes” and “the (mostly 40+) liberals.” But staff members on both sides of that divide objected to her comment, saying it was inaccurate or misrepresented their concerns, thus further isolating herself from her peers to the point that staying on was almost impossible.¹⁰³

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Because a supportive environment reduces dissatisfaction, many organizations foster team building both on and off the job (such as via softball or bowling leagues). The idea is that group cohesiveness and support for individual group members will be increased through exposure and joint efforts. Although management certainly cannot ensure that each stressed employee develops friends, it can make it easier for employees to interact—a necessary condition for developing friendship and rapport.

Pay and Benefits

We should not discount the influence of the job incumbent, the job itself, and the surrounding people in terms of influencing job satisfaction, but for most people, work is their primary source of income and financial security. Pay is also seen as an indicator of status within the organization as well as in society at large. Thus, during the COVID-19 epidemic, when people were stuck inside their homes, Amazon workers realized how central they were to both their company and society as a whole and threatened unionization. Amazon, which was making a great deal of money during this troubled time, eventually saw the light and shared the wealth by raising wages and providing one-time bonuses for members of almost all job categories.¹⁰⁴ Thus, for many individuals, the standing of their pay relative to those within their organization, or the standing of their pay relative to others doing similar work for other employers, becomes even more important than the level of pay itself.

The role of pay and benefits is so large that we devote the entire next part of this book to these topics. Within this chapter, we focus primarily on satisfaction with two aspects of pay (pay levels and benefits) and how these are assessed within the organization. Methods for addressing these issues are also discussed in Part Four of this book.

One of the main dimensions of pay satisfaction deals with pay levels relative to market wages. When it comes to retention, employees recruited away from one organization by another are often lured with promises of higher pay levels. In fact, exit surveys of high-performing employees who have left their organization indicate “better pay” as the reason in over 70% of the cases, compared to only 33% who indicate “better opportunity.” Ironically, when the managers of those same workers are polled, 68% cite “better opportunity” versus the 45% who indicate it was “better pay,” suggesting quite a difference of opinion.¹⁰⁵

As labor markets started tightening up in recent years, many employers recognized the need to raise pay levels in order to stop attrition.¹⁰⁶ Even Walmart, which bases its entire business model on cutting costs, boosted the pay of many of its employees to \$10/hour in 2015, well above the minimum wage, in order to retain its most experienced personnel and reduce the need to hire and train new workers. Walmart also initiated a program that would allow workers to access a portion of their earned wages prior to payday.¹⁰⁷ CEO Doug McMillon, who initiated the raises, noted, “We want associates who care about the company and are highly engaged about the business.”¹⁰⁸ This was not an isolated case, and national data showed that wages rose roughly 3% between 2016 and 2017.¹⁰⁹

Satisfaction with benefits is another important dimension of overall pay satisfaction. To derive competitive advantage from benefits' expenditures, it is critical not only to make them highly salient to employees but also to link them to the organization's strategic direction. For example, Starbucks wanted to attract workers who were smart and valued education but could not necessarily afford to hire people with college educations. So, Starbucks started a tuition reimbursement program that would pay for employees who pursued their bachelor's degree at Arizona State University. The cost of the program was roughly \$45,000 per employee over the course of the four years, but the company saw this as a great way of attracting and retaining the kind of employee that fit its business model.¹¹⁰ Another increasingly popular benefit is to help new employees pay off student debt already accrued.¹¹¹

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Measuring and Monitoring Job Satisfaction

Most attempts to measure job satisfaction rely on workers' self-reports. There is a vast amount of data on the reliability and validity of many existing scales as well as a wealth of data from companies that have used these scales, allowing for comparisons across firms. Established scales are excellent places to begin if employers wish to assess the satisfaction levels of their employees. An employer would be foolish to “reinvent the wheel” by generating its own versions of measures of these broad constructs. Of course, in some cases, organizations want to measure their employees' satisfaction with aspects of their work that are specific to that organization (such as satisfaction with one particular health plan versus another). In these situations the organization may need to create its own scales, but this will be the exception rather than the rule.

One standardized, widely used measure of job satisfaction is the Job Descriptive Index (JDI). The JDI emphasizes various facets of satisfaction: pay, the work itself, supervision, co-workers, and promotions. [Table 10.5](#) presents several items from the JDI scale. Other scales exist for those who want to get even more specific about different facets of satisfaction. For example, although the JDI assesses satisfaction with pay, it does not break up pay into different dimensions.¹¹² The Pay Satisfaction Questionnaire (PSQ) focuses on these more specific dimensions (pay levels, benefits, pay structure, and pay raises); thus, this measure gives a more detailed view of exactly what aspects of pay are most or least satisfying.¹¹³

Table 10.5 Sample Items from a Standardized Job Satisfaction Scale (the JDI)

Instructions: Think of your present work. What is it like most of the time? In the blank beside each word given below, write
Y for "Yes" if it describes your work
N for "No" if it does NOT describe your work
? if you cannot decide

Work Itself	Pay	Promotion Opportunities
<u>?</u> Routine	<u>?</u> Less than I deserve	<u>?</u> Dead-end job
<u>?</u> Satisfying	<u>?</u> Highly paid	<u>?</u> Unfair policies
<u>?</u> Good	<u>?</u> Insecure	<u>?</u> Based on ability
Supervision	Co-Workers	
<u>?</u> Impolite	<u>?</u> Intelligent	
<u>?</u> Praises good work	<u>?</u> Responsible	
<u>?</u> Doesn't supervise enough	<u>?</u>	

SOURCE: W. K. Balzar, D. C. Smith, D. E. Kravitz, S. E. Lovell, K. B. Paul, B. A. Reilly, and C. E. Reilly, *User's Manual for the Job Descriptive Index (JDI)* (Bowling Green, OH: Bowling Green State University, 1990).

Although satisfaction surveys used to be a once-a-year affair, increasingly technology is creating opportunities for firms and managers to get more rapid feedback. Pulse surveys are very short questionnaires that go out every day or once a week that focus on a small set of specific questions—perhaps even just one question—that the company wants to keep track of over time.¹¹⁴ The idea behind these quick-fire polls is to uncover issues faster and as they develop rather than wait until the end of the year when the issue may have festered. Also, these surveys tend to avoid long-term memory problems that reduce the value of once-a-year questionnaires. Still, even these short surveys rely on self-reports, and the ability and willingness of people to tell the true story when it comes to self-reports has been questioned.

Thus, some employers are going beyond self-reported surveys—both long and short—and are instead, relying on unobtrusive measures taken from “digital traces.” A digital trace is any sort of record stored in databases or log files that can be accessed page 464by researchers through the use of Web crawlers. For example, a Web crawler can go into e-mail trails or Slack messages and count the number of words related to various moods, as well as their trends over time. Thus, one taps into the “mood” of the organization via big data analytics centered around the word choices of employees.¹¹⁵ This is a new technology and research has not yet shown how predictive it is for bottom line outcomes; however, there are many limitations to self-report surveys that can be avoided, such as unrepresentativeness or lack of frankness, if this technology can be validated.¹¹⁶

Survey Feedback Interventions

LO 10-4

Design a survey feedback intervention program, and use this to promote retention of key organizational personnel.

Regardless of what measures are used or how many facets of satisfaction are assessed, a systematic, ongoing program of *employee survey research* should be a prominent part of any HRM strategy for a number of reasons. First, it allows the company to monitor trends over time and thus prevent problems in the area of voluntary turnover before they happen. Nationwide, data from this type of longitudinal examination of trends showed the job satisfaction among U.S. workers in 2017 was at the highest level since 2005. According to this survey, 51% of U.S. workers reported being satisfied with their job overall. However, there was a great deal of variation when it came to specific elements of work, and only 30% reported satisfaction with promotion opportunities.¹¹⁷

With this kind of question in mind, [Figure 10.2](#) shows a hypothetical example of the average profile for different facets of satisfaction for a hypothetical company in 2016, 2018, and 2020. As the figure makes clear, the level of satisfaction with promotion opportunities in this company has eroded over time, whereas the satisfaction with co-workers has improved. If there was a strong relationship between satisfaction with promotion opportunities and voluntary turnover among high performers, this would constitute a threat that the organization might need to address via some of the employee development techniques discussed in [Chapter 9](#).

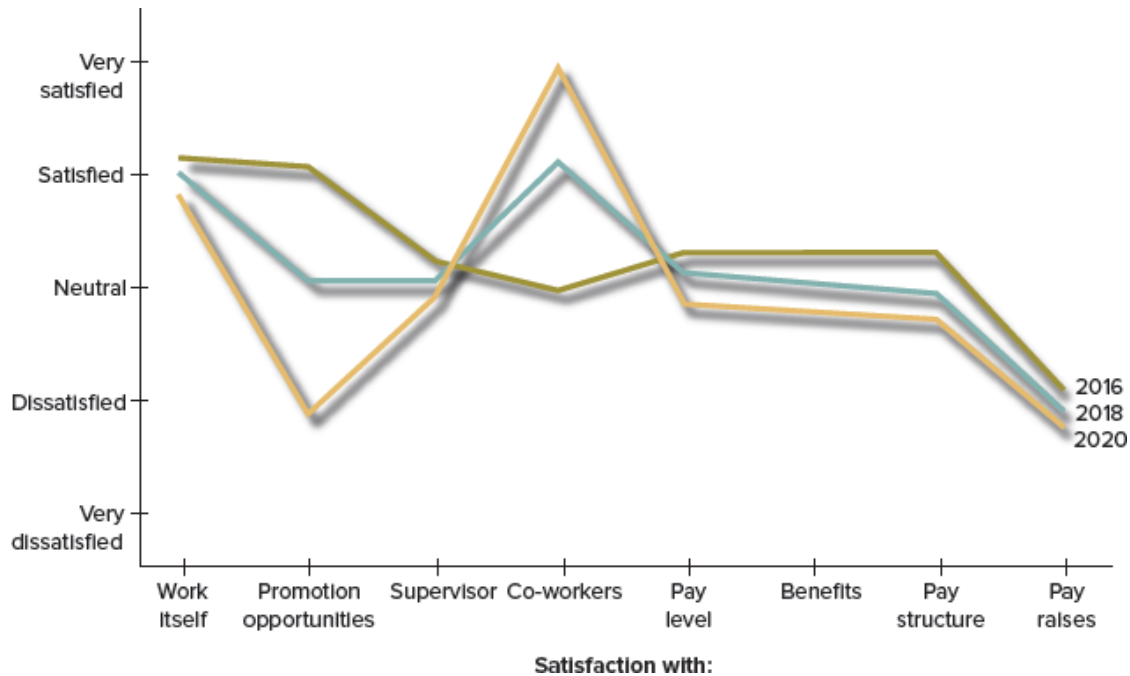


Figure 10.2 Average Profile for Different Facets of Satisfaction over Time

A second reason for engaging in an ongoing program of employee satisfaction surveys is that it provides a means of empirically assessing the impact of changes in policy (e.g., introduction of a new performance appraisal system) or personnel (e.g., introduction of a new CEO) on worker attitudes. [Figure 10.3](#) shows the average profile for different satisfaction facets for a hypothetical organization one year before and one year after a merger. An examination of the profile makes it clear that since the merger, satisfaction with supervision and pay structure has decreased dramatically, and this has not been offset by any increase in satisfaction along other dimensions. Again, this might point to the need for training programs for supervisors (like those discussed in [Chapter 7](#)) or changes in the pay system (like those discussed in [Chapter 11](#)).

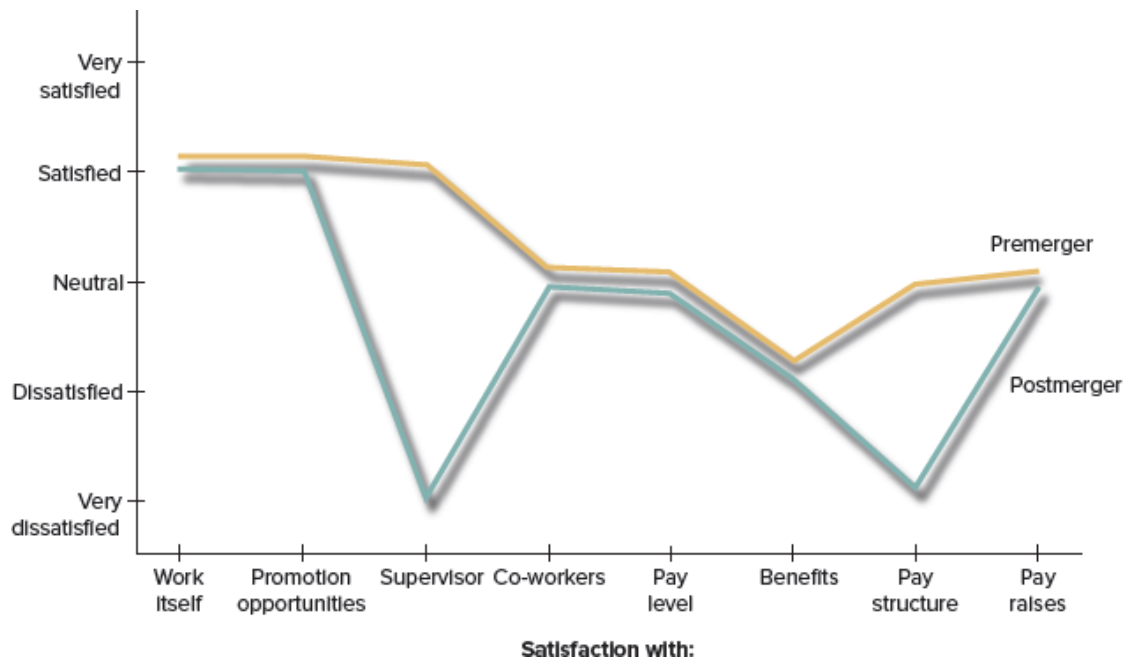


Figure 10.3 Average Profile for Different Facets of Satisfaction before and after a Major Event

A real-world example of this type of effect can be found in the experience of workers at Whole Foods. Job satisfaction at Whole Foods dropped significantly after the retailer was taken over by Amazon, and this drop was particularly pronounced when it came to satisfaction with pay. Amazon eliminated the profit-sharing arrangement that had been in place for everyone at Whole Foods and introduced a new program that was available only to executives. This prompted a drive by workers to form a collective bargaining unit in 2018 and illustrates the general principle that workers are highly sensitive to any changes in pay that result in a loss relative to what they experienced before.¹¹⁸

Third, when these surveys incorporate standardized scales like the JDI, they often allow the company to compare itself with others in the same industry along these dimensions. For example, [Figure 10.4](#) shows the average profile for different satisfaction facets for a hypothetical organization and compares this to the industry average. Again, if we detect major differences between one organization and the industry as a whole (on overall pay levels, for example), this might allow the company to react and change its policies before there is a mass exodus of people moving to the competition.

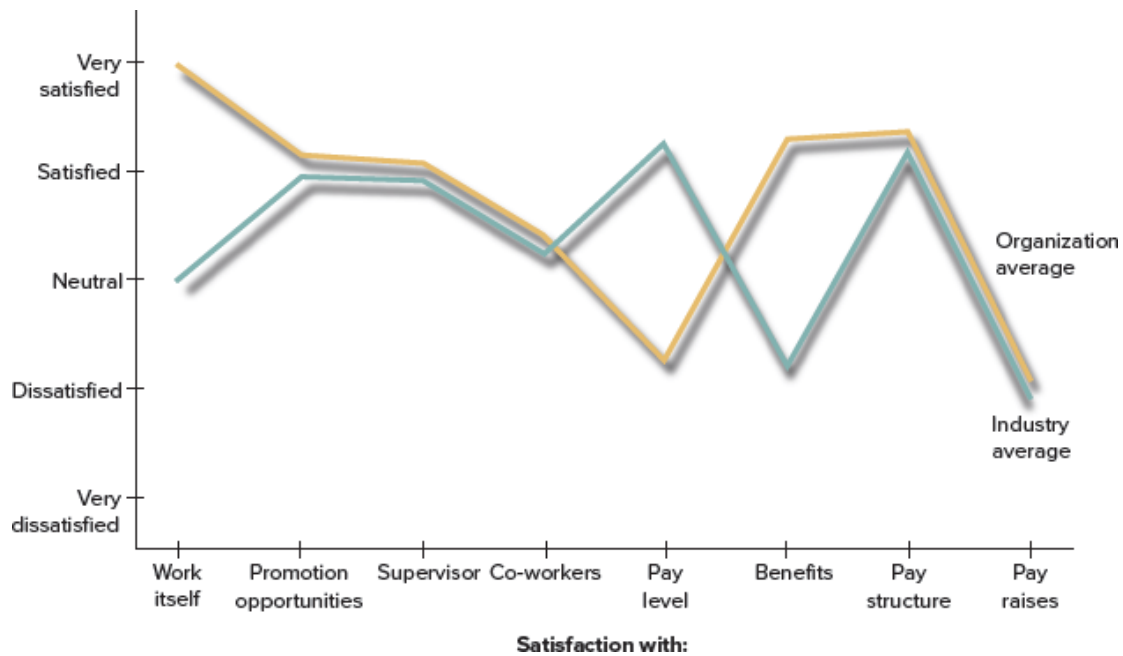


Figure 10.4 Average Profile for Different Facets of Satisfaction versus the Industry Average

According to [Figure 10.4](#), the satisfaction with pay levels is low relative to the industry, but this is offset by higher-than-industry-average satisfaction with benefits and the work itself. As we showed in [Chapter 6](#), the organization might want to use this information to systematically screen people. That is, the fit between the person and the organization would be best if the company selected applicants who reported being most interested in the nature of the work itself and benefits, and rejected those applicants whose sole concern was with pay levels.

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Within the organization, a systematic survey program also allows the company to check for differences between units and, hence, to benchmark “best practices” that might be generalized across units. For example, [Figure 10.5](#) shows the average profile for five different regional divisions of a hypothetical company. The figure shows that satisfaction with pay raises is much higher in one of the regions relative to the others. If the overall amount of money allocated to raises was equal through the entire company, this implies that the manner in which raises are allocated or communicated in the Midwest region might be something that the other regions should look in to.

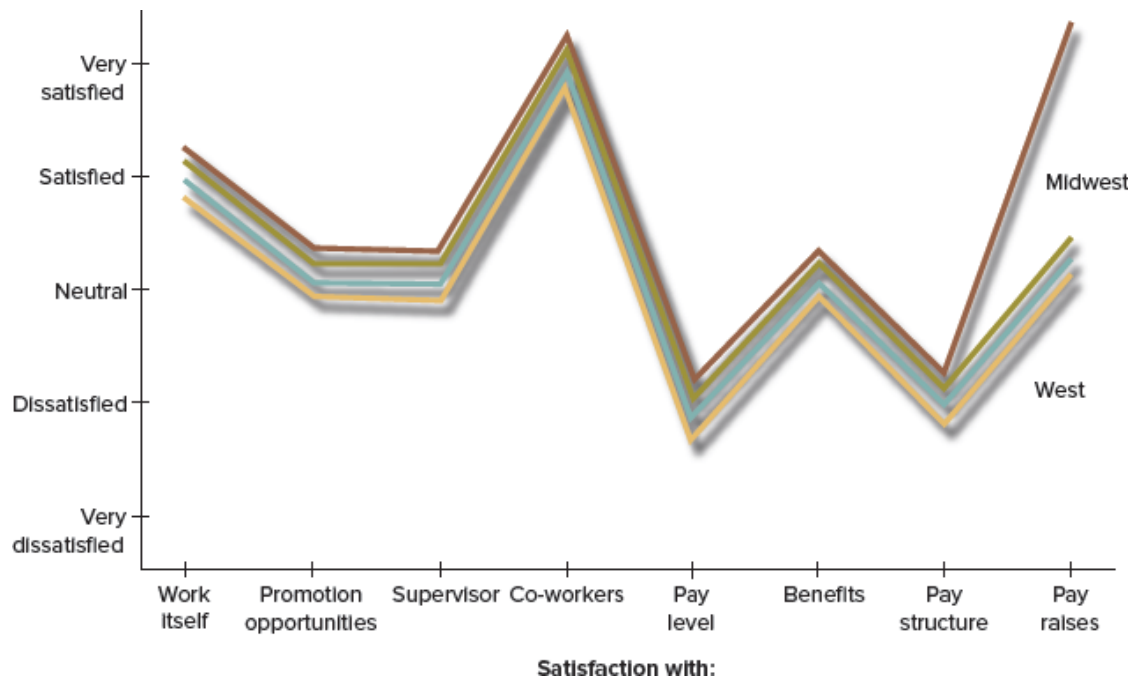


Figure 10.5 Average Profile for Different Facets of Satisfaction for Different Regional Divisions

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Finally, although the focus in this section has been on surveys of current employees, any strategic retention policy also has to consider surveying people who are about to become ex-employees. Exit interviews with departing workers can be a valuable tool for uncovering systematic concerns that are driving retention problems.

Exit interviews are not straightforward interactions, and for a number of reasons (fear of retribution, a lack of motivation), people often are not honest about why they are leaving. In particular, when asked about one's supervisor or co-workers, the irony is, the worse the context, the less likely people are to report them. One's former boss or co-workers can do a great deal of damage to employees who are looking for a new job. Thus the risk to one's reputation is reason enough to lie during an exit interview—especially for lower-level employees who don't have strong networks outside of their current jobs.¹¹⁹ Still, if conducted properly, an exit interview can reveal the reasons why people are leaving.

For example, results from recent exit interviews among employees show that there are two distinct groups of people who are leaving their jobs—one set of workers who cannot get enough hours and a second set of workers who are working too many hours. This may seem ironic and counterintuitive, but as we show in the [Competing through Environmental, Social, and Governance Practices](#) box in some ways it makes sense, given the way work is increasingly structured around two distinct classes of workers—hourly and salaried. Obviously, it would benefit everyone in the workforce to help smooth out some of this over- and underdemand for labor, but this shows the pervasive power of rules regarding pay and pay structure—the topic of Part Four.



COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Burning the Candle at Both Ends: Hourly and Salaried Employees

Once upon a time, most employees in Western societies worked a reliable 40 hours a week, often 9 to 5, with an occasional need to work scheduled overtime at an accelerated rate. Those days are long gone, however, and now, workers are increasingly working much longer hours, often in different locations outside the normal structure. Moreover, because of the way employees get paid, the increase in hours hits both hourly and salaried employees,

but in vastly different ways.

First, with hourly paid workers, employers maximize their efficiency by making sure that workers are only on-site when there is actual demand for services. They will often fail to schedule workers—or worse yet, send workers home—when demand is low. This means that these workers struggle to get in enough hours to pay their bills. For example, Bridgett Hughes worked a less-than-8-hour shift at Burger King during the day, and then, three nights a week, also worked a less-than-8-hour night shift at McDonald's. She struggled to cobble together 40 hours a week and spent many unpaid hours commuting back and forth. Her pay at both jobs was roughly \$10 an hour, and this was hardly enough to feed her three children and pay the rent. She is not alone, and data from a recent Bureau of Labor Statistics documents that over 8 million people in the U.S. are working two or more jobs at once.

On the salaried side of the equation, employers seek to push up the number of hours worked by employees because the salary is the same whether one is working 80 hours or 40. Part of this is due to increases in collaboration technology because employers can reach out to salaried workers wherever and whenever they feel the need to, creating a 24/7 culture where people are always on. Another part of it can be traced to globalized operations where people are expected to collaborate with some co-workers who are halfway across the world in wildly different time zones. Yet a third part of it is the increasing competition among salaried employees who are always at risk to be laid off as part of some page 468organizational restructuring, and thus feel the need to outperform all of those around them. At an employer like Goldman Sachs, where all three forces come into play, many employees report working 95 hours a week, and get less than five hours of sleep on average every night of the week.

The World Health Organization (WHO) in Geneva updated the International Classification of Diseases to include the term “burnout,” so that medical professionals would more readily identify and treat the syndrome. WHO cited three symptoms associated with the newly classified disease, which included feelings of (a) energy depletion or exhaustion, (b) disengagement from work, and (c) reduced personal efficacy. Although clearly an international phenomenon, evidence from a recent Gallup Poll suggested that the U.S. was well above the world average when it came to this problem. Burnout is estimated to contribute to 120,000 deaths each year and cost U.S. businesses up to \$190 billion in health care costs. Although one can see the efficiency advantages of working both hourly and salaried employees this many hours, the sustainability of the practice is much less obvious.

DISCUSSION QUESTIONS

When it comes to both hourly and salaried workers, what can employers do to maintain flexibility, while at the same time, giving people a more structured situation where they can accumulate enough hours each week?

How might the responses from hourly versus salaried workers differ when it comes to the point that they cannot take it anymore? How might these different response each damage the employer's self-interest?

SOURCES: B. Blagoev and G. Schreyoegg, “Why Do Extreme Work Hours Exist? Temporal Uncoupling as a New Way of Seeing,” *Academy of Management Journal* 62 (2019), pp. 1818–47; B. Applebaum and D. Winter, “One Job Is Better than Two,” *The New York Times Online*, September 1, 2019; E. Young, “Young Goldman Sachs Bankers Ask for 80-hour Week Cap,” *BBC Online*, March 20, 2021; S. Charles, “Job Burnout: How to Spot It and Take Action,” *NBC News Online*, May 28, 2019.



A LOOK BACK

Employee Separation and Retention: Lessons from #MeToo

A key factor influencing the ability of any organization to accomplish its mission is who is leaving and who is staying when it comes to turnover. In the story that opened this chapter, we saw that how an organization manages

employees who engage in misdeeds affects all the remaining employees in terms of establishing a culture of zero tolerance. Organizations need to have policies in place that make it easy and advantageous for low performers or unethical employees to leave (involuntary turnover), but make it difficult and costly for valued contributors to leave (voluntary turnover). Managing the “flow” of employees thus becomes a critical source of competitive advantage that can be drawn from HR, and is often the difference between survival and bankruptcy for many companies.

QUESTIONS

In what ways does an organizational crisis like the Weinstein case make it easier for firms to manage involuntary turnover? In what ways does an organizational crisis make it more difficult for firms to manage voluntary turnover?

What role can employee attitude surveys play in maintaining a loyal and engaged workforce? What are some of the challenges associated with getting accurate information from employee surveys, and how can a survey process “backfire” in terms of harming, rather than helping, a firm’s efforts?

SUMMARY

This chapter examined issues related to employee separation and retention. Involuntary turnover reflects a separation initiated by the organization, often when the individual would prefer to stay a member of the organization. Voluntary turnover reflects a separation initiated by the individual, often when the organization would prefer that the person stay a member. Organizations can gain competitive advantage by strategically managing the separation process so that involuntary turnover is implemented in a fashion that does not invite retaliation, and page 469voluntary turnover among high performers is kept to a minimum. Retaliatory reactions to organizational discipline and dismissal decisions can be minimized by implementing these decisions in a manner that promotes feelings of procedural and interactional justice. Voluntary turnover can be minimized by using surveys to measure and monitor employee levels of satisfaction with critical facets of the job and the organization, and then addressing any problems identified by such surveys.

KEY TERMS

[Involuntary turnover, 438](#)

[Voluntary turnover, 438](#)

[Employment-at-will doctrine, 439](#)

[Procedural justice, 444](#)

[Interactional justice, 444](#)

[Alternative dispute resolution \(ADR\), 446](#)

[Employee assistance program \(EAP\), 447](#)

[Outplacement counseling, 450](#)

[Progression of withdrawal, 452](#)

[Whistle-blowing, 453](#)

[Job involvement, 455](#)

[Organizational commitment, 455](#)

[Job satisfaction, 455](#)

[Frame of reference, 456](#)

[Negative affectivity, 458](#)

[Job rotation, 459](#)

[Prosocial motivation, 459](#)

DISCUSSION QUESTIONS

The discipline and discharge procedures described in this chapter are systematic but rather slow. In your opinion, should some offenses lead to immediate dismissal? If so, how would you justify this to a court if you were sued for wrongful discharge?

Organizational turnover is generally considered a negative outcome, and many organizations spend a great deal of time and money trying to reduce it. What situations would indicate that an increase in turnover might be just what an organization needs? Given the difficulty of terminating employees, what organizational policies might be used to retain high-performing workers and, at the same time, increase attrition among low-performing workers?

Three popular interventions for enhancing worker satisfaction are job enrichment, job rotation, and role analysis. What are the critical differences among these interventions, and under what conditions might one be preferable to the others?

If off-the-job stress and dissatisfaction begin to create on-the-job problems, what are the rights and responsibilities of the human resource manager in helping the employee to overcome these problems? Are intrusions into such areas an invasion of privacy, a benevolent and altruistic employer practice, or simply a prudent financial step taken to protect the firm's investment?

Discuss the advantages of using published, standardized measures in employee attitude surveys. Do employers ever need to develop their own measures for such surveys? Where would one turn to learn how to do this?

SELF-ASSESSMENT EXERCISES



What Job Characteristics are Important to You?

If you have been assigned this Self-Assessment in Connect, you will gain perspective on finding a job with the characteristics you find desirable.

EXERCISING STRATEGY

Google Employees Protest Pass the Trash Strategy

One industry analyst has noted that when it comes to their business model, Google's is "built on human capital and not much else." The company's motto is "Do No Evil," and it promotes its culture as a great place to work in order to attract and retain the best talent, most of whom could easily find work at other employers at the page 470 drop of the hat. Thus, when 20,000 Google employees across the globe staged a walkout to protest how the company responded to sexual misconduct allegations, this definitely caught the attention of senior leaders. The specific trigger for the protest was the revelation that Google had paid large sums of cover-up money to senior executives who seemed to be guilty of sexual harassment. One of the executives, Andy Rubin, was given \$90 million to leave, and on top of this, was sent off with a celebration where he was treated as a hero. Larry Page, the chief executive

at the time, hailed Rubin as the “father of Android” and its “billion-plus happy users” and wished him “all the best with what comes next.”

Many of the protesting employees thought that what should come next was a criminal charge, not a lucrative buy-out. Moreover, rather than being solely a result of this one revelation, the underlying belief among many workers was that Google condoned a subculture that was hostile to women in general, not just in terms of condoning a hostile environment, but also in terms of pay and promotion opportunities. In fact, at the same time Google was showering purported harassers with money, it was under investigation by the U.S. Department of Labor for alleged systematic pay discrimination against female employees.

Still, although its size, fame and purported culture make Google an attractive target for criticism, the practice of “passing the trash” is hardly unique to Google. Since the inception of the #MeToo movement, the number of sexual harassment claims filed with the EEOC has more than doubled, and since most incidents are not reported at this level, this is just the tip of the iceberg. Rather than going to federal agencies, most complaints are filed with HR departments who, all too often, like Google, seek to settle the claims quietly by working jointly with alleged perpetrators to get them to leave the company voluntarily. This practice is an attempt to avoid costly “he-said-she-said” litigation and reputational damage to the firm, but it fails to meet the victim’s need for justice, and simply shifts the threat posed by the predator to some other hapless employer.

Back at Google, senior leaders reacted quickly to the employee walkout. Current Chief Executive Sundar Pichai and Vice President of “People Operations” (HR) Eileen Naughton met with employees and offered a public apology. They also noted that in just the last two years, 48 executives (13 of whom were at high levels) were discharged without compensation in response to credible harassment claims. This seemed like an odd boast to employees, many of whom wondered why there were so many perpetrators at high levels. The company also announced an end to the practice of “mandatory arbitration” for such cases as a condition of employment. Mandatory arbitration tends to obscure the problem in a context where transparency is desperately needed. Indeed, in an effort to increase transparency, an anonymous, grassroots e-mail list called “Yes, at Google” was already in place, where any employee could post complaints about abusive behavior at the company. Although not a program launched by HR professionals of the company, after the walkout, those same HR professionals now monitor the site closely and follow up on postings. Clearly, this is a “playing from behind” HR strategy necessitated by the fact that employees don’t feel free to come to HR in the first place.

DISCUSSION QUESTIONS

How does the nature of Google’s business model and HR strategy make it particularly sensitive to reputational damage in the eyes of employees, consumers, and the government?

How does a company’s value statement affect HR activities and how HR balances the needs of the employer, employees and the larger society?

SOURCES: D. Wakabayashi and K. Benner, “Google Workers Fume Over Executives’ Payout After Sexual Harassment Claims,” *The New York Times Online*, October 26, 2018; D. Wakabayashi and K. Benner, “How Google Protected Andy Rubin, the ‘Father of Android,’” *The New York Times Online*, October 25, 2018; “K. Conger and D. Wakabayashi, “Google Overhauls Sexual Misconduct Policy After Employee Walkout,” *The New York Times Online*, November 8, 2018; E. Huet and M. Bergen “A Spotlight on Harassment at Google,” *Business-week*, June 2, 2017.

MANAGING PEOPLE

Culture Change: Changing Values (and Personnel)

Travis Kalanick, the founder and former CEO of Uber, helped build a \$750 billion company that operates in more than 400 cities. The company employs 11,000 corporate employees as well as millions of drivers scattered all over the world. Moreover, the basic idea behind its ride-sharing platform literally changed the transportation industry,

inspiring countless imitators and competitors. Kalanick attributed much of this success to the company's four core values: (1) Let Builders Build, (2) Always be Hustlin', (3) Meritocracy and Toe Stepping, and (4) Principled Confrontation. Those values were believed to have served the company well. Until it became clear they didn't.

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The downfall at Uber started with one woman who detailed a series of sexual harassment incidents she had endured at the company. She even reported one of these incidents to HR but was rebuffed because the perpetrator was "a high performer." This was the drop that turned into a trickle, and then a deluge as scores of other employees reported their own horror stories. This included a video post of Kalanick verbally abusing a driver, a written description of the "Greyball" program aimed at avoiding riders who were government officials, excessive alcohol consumption at work, out-of-control off-site parties, romantic relationships between supervisors and women that reported to them, and even the cover-up of a rape incident in India. One industry analyst summed it all up noting that "no other company came close to matching Uber when it comes to lawsuits, headaches, and embarrassing exposes chronicling the maltreatment of its employees, contract drivers and competitors, and deceiving local law enforcement, tax collection and other government agencies."

The situation got so bad that in 2017, the company's board of directors hired former U.S. Attorney General, Eric Holder, to conduct an examination of all that was wrong at Uber. The Holder investigation took 14 weeks, analyzing over 200 complaints filed with HR (many of which were never acted upon), as well as interviews with current and former employees and drivers. The report prompted the firing of 20 senior officials and Kalanick himself stepped down (at least temporarily) as the CEO. The report listed 40 specific practices that had to be either eliminated or instituted at the company in order to promote a more ethical and inclusive climate. Most pointedly, the report recommended throwing away the four core value statements because in Holder's opinion, the "values were being used to justify misbehavior."

The recommendations were presented at a meeting where the vice president of HR, Lisa Hornsy, introduced the new value statement—"Do the Right Thing Period." She stated that "while change does not happen overnight, we're committed to rebuilding trust with our employees, riders and drivers." Regrettably, at this very same meeting, a member of the board of directors made a sexist statement that forced his resignation as well, several hours later. Hornsy herself was ousted in September 2018 for making "racially charged comments" and covering up racial discrimination charges at the company. Clearly, culture change at the ride-sharing company is still a journey in progress.

DISCUSSION QUESTIONS

How much impact do you believe value statements have on day-to-day employee behavior?

Do you believe that it is possible to have major cultural change without separating current employees from the organization, and if not, what percentage is required to install lasting substantive change?

SOURCES: M. Isaac, "Uber Embraces Major Reforms as Travis Kalanick, the CEO, Steps Away," *The New York Times Online*, June 13, 2017; R. Stross, "Why Companies like Uber Get Away with Bad Behavior," *The New York Times Online*, June 13, 2017; M. Isaac and S. Chira, "David Bonderman Resigns from Uber After Sexist Remark," *The New York Times Online*, June 13, 2017; G. Bensinger, "How Uber's Cultural Overhaul Was Tested by Complaints Against Top Deal Maker," *The Wall Street Journal Online*, September 26, 2018.

HR IN SMALL BUSINESS

Why Employees Stay at Holiday Inn Mart Plaza

The Holiday Inn Chicago Mart Plaza River North is a great place to visit, located near the Chicago River and downtown shopping, but is it also a great place to work? The 521-room hotel's 200-plus employees think so; their votes helped make it the first-place small employer on the *Chicago Tribune's* list of Top Workplaces.

Employees who described the hotel for the *Tribune* focused especially on personal relationships. Tina Beverly, the hotel's HR director, describes the workplace as a "family environment" stressing teamwork. Francine Johnson, a room service employee, gives specifics, saying employees all "treat each other with respect" and learn from one another. She enjoys learning to fill in for other roles, including cashier, hostess, and bar worker. Karolina Diamond, who manages the front office, sees employees as a unified team. She says that when problems arise, "we work together to figure out how to fix them."

Johnson also credits the work environment. She told the *Tribune* that she loves going to work because "there is always something interesting going on." Diamond shares that attitude. She admitted that she had planned to stay at the hotel for two years or less but likes the work environment so much that she is still there six years later.

The hotel also keeps employees engaged through shared goals and regular communication with management. As Johnson puts it, "The main goal is to keep the guests happy." Employees are invited to participate in community outreach programs, such as serving meals to residents of the nearby Ronald McDonald House and partnering with a local elementary school. These projects page 472 build positive relationships among the participants. Communication includes daily departmental meetings to get an overview of activities and quarterly town hall meetings where executives announce plans to all the employees. The HR leaders meet monthly with small groups of employees, so they can field questions and ideas. And a phone app makes it easy for staff members to stay connected. Beverly, the HR director, also takes a daily walk through the hotel to visit the employees where they work. These efforts are consistent with the strategy of the hotel's parent organization, InterContinental Hotels Group, which aims to create "an environment where our people are happy and love coming to work." (Hotel owners purchase individual hotels from IHG under a variety of brands, including Holiday Inn.)

Holiday Inn Mart Plaza's efforts to create an engaging work environment have contributed to its success. While the average employee turnover in the hotel industry is approximately two years, one-third of the hotel's employees have worked there for at least twenty years. In addition, the hotel has enjoyed favorable revenue growth.

DISCUSSION QUESTIONS

Of the factors that can contribute to employees' job satisfaction, which are present at Holiday Inn Mart Plaza, according to the information given?

Suggest one other action the hotel's management could take that would contribute to employee retention.

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PART FOUR Compensation of Human Resources

CHAPTER 11

Pay Structure Decisions



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO11-1 List the main decision areas and concepts in employee compensation management.](#)

[LO11-2 Describe the major administrative tools used to manage employee compensation.](#)

[LO11-3 Explain the importance of competitive labor market and product market forces in compensation decisions.](#)

[LO11-4 Discuss the significance of process issues such as communication in compensation management.](#)

[LO11-5 Describe new developments in the design of pay structures.](#)

[LO11-6 Explain where the United States stands on pay issues from an international perspective.](#)

[LO11-7 Explain the reasons for the controversy over executive pay.](#)

[LO11-8 Describe the regulatory framework for employee compensation.](#)

ENTER THE WORLD OF BUSINESS



Unemployment Rates Down, then Up (and Back Down Again?): Employers Adjust Compensation and Balance Short-term and Long-term Strategy Execution

From February 2019 through February 2020, according to the U.S. Bureau of Labor Statistics, the national unemployment rate never went above 3.8 %, lower than in any stretch since 1969. For employers, this meant competition for workers was fierce. In 2019, roughly 68 million employees left and employers hired roughly 70 million to replace them and to accommodate growth in their businesses. Given the fierce competition, many employers raised pay. Taco Bell announced in January 2020 it was “going to test paying managers \$100,000 a year [up from \$50,000 to \$80,000] at some company-owned locations ... to enhance morale and boost recruitment and retention” and because of the “huge impact” managers can have on the customer experience, employee satisfaction, and profits. Starbucks, too, raised wages for store workers by at least 10%. Wisconsin-based Generac, page 477 which manufactures generators (useful in the aftermath of a hurricane), raised its new hire hourly rate by 25% to \$17. This enabled it to hire the 850 additional workers to execute its growth strategy (it increased production by 75% from the previous year).

For many, however, the pandemic changed everything. By April 2020, the unemployment rate hit 14.8%, the highest since the Great Depression of the 1930s. Suddenly, many employers went from having to raise wages to be able to hire and retain enough employees to run their businesses to instead having too many employees costing too much to survive without dramatic action. Business strategy became “cut costs enough to survive, while being ready to go when business picks back up.” A U.S. Chamber of Commerce survey found that one-quarter of

employers laid off or furloughed employees and 34% reduced working hours. Steel-case Inc., which makes office furniture, announced a plan where some U.S. salaried workers' base pay and hours would be temporarily cut by 50%. Occidental Petroleum Corp. announced temporary salary cuts of up to 30%. One business owner reported that with revenue down 80%, his decision to cut pay and furlough workers was "simply a math exercise"—he had no choice. Another business owner said, "It felt like standing on the edge of the cliff while it's crumbling underneath you." The millions of workers who lost their jobs or who took pay cuts still had bills to pay. Government aid helped some business owners and employees, but not everyone and not always enough.

For some, there was opportunity. Amazon's business strategy continued to be growth and it added 427,300 employees (a more than 50% increase) between January and October of 2020. This was necessary as it grew its revenue from \$87.4 billion in the quarter ending December 31, 2019, to \$125.6 billion in the quarter ended December 31, 2020. The bulk of hires have been warehouse workers, but it has also been adding software and hardware engineers to build its capability in cloud computing, streaming entertainment, and devices, huge growth areas in the pandemic. Certain other retailers doing a strong business during the pandemic also raised wages. In June 2020, Target announced it would increase its hourly minimum to \$15, following increases to \$11 in 2017 and \$13 in 2019. The new hourly minimum allows Target to compete better for workers with Amazon and Costco, which had a \$15 minimum hourly wage (Costco subsequently raised it to \$16/hour in February 2021), and with Walmart, which also raised wages.

By August 2020, companies outside of sectors like (parts of) retail started to rescind temporary salary cuts made earlier in the year, mostly affecting salaried workers, as forecasts began to turn positive. In February 2021, The Congressional Budget Office projected a rapid economic recovery to pre-pandemic levels by 2022, including a strong drop in the unemployment rate and thus a return to wide competition for employees. According to Daniel Zhao of Glassdoor, implementing pay increases now [and rescinding temporary pay cuts] makes sense. "If [companies] expect spending to tick back up ... then trying to attract workers now is a good forward-looking move in order to get ahead of the competition." In other words, it is risky to wait too long to hire the needed employees if returning to a growth strategy. Indeed, as of late 2021, many employers could not find enough workers, often despite raising pay.

As we will see in [Chapter 12](#), companies have increasingly made use of bonuses over time. Unlike wage and benefits increases, bonus payments are not permanent or fixed costs and thus can be more easily scaled back or ended in future years when circumstances change. Bonuses have been used even more in the pandemic by retailers such as Amazon, Walmart, and others (Costco, CVS, Walgreens) to attract and retain workers to enable them to grow their businesses and to compensate workers for the risk they face in their in-person (versus remote) jobs. These bonuses can be reduced more easily (than higher wages) when the extraordinary pandemic conditions end. Thus, bonuses help recruit and retain workers to enable companies to execute their strategy (a return to growth for many), while controlling fixed costs.

SOURCES: Sarah Nassauer, "Walmart Promises Raises for 425,000 Workers After Strong Holiday Sales," *The Wall Street Journal*, [WSJ.com](https://www.wsj.com), February 18, 2021; Sharon Terlep, Ben Foldy, and Bob Tita, "Help Wanted on the Factory Floor," *The Wall Street Journal*, January 9-10, 2021, p. B1; Molly Kinder and Laura Stateler, "Amazon and Walmart Have Raked In Billions in Additional Profits during the Pandemic, and Shared Almost None of It with Their Workers," Brookings, December 20, 2020, <https://www.brookings.edu/blog/the-avenue/>; Karen Weise, "Pushed by Pandemic, Amazon Goes on a Hiring Spree without Equal," *The New York Times*, November 27, 2020; Patrick Thomas and Chip Cutter, "Covid-19 Pay Cuts Are Coming to an End at Some Companies; Firms Are Reversing Course after Slashing White-collar Salaries at the Start of the Pandemic," *The Wall Street Journal*, August 21, 2020; Rachel Feintzeig and Patrick Thomas, "Companies Try to Preserve Jobs by Cutting Pay Amid Coronavirus Crisis; Worker Salaries, Once Untouchable, Are Being Slashed across a Range of Industries Rocked by Pandemic," [WSJ.com](https://www.wsj.com), April 3, 2020; Leslie Albrecht, "Taco Bell Will Try Paying Some Managers \$100,000 a Year," [Market-Watch.com](https://www.marketwatch.com), January 12, 2020; "Employers, Childcare, & Returning to Work in COVID-19," U.S. Chamber of Commerce Foundation, August 2019, <https://www.uschamberfoundation.org/>.

Introduction

LO 11-1

List the main decision areas and concepts in employee compensation management.

From the employer's point of view, pay is a powerful tool for furthering the organization's strategic goals. First, pay has a large impact on employee attitudes and behaviors. It influences the kind of employees who are attracted to (and remain with) the organization. In the chapter opener, we saw that several retailers, including Walmart, Target, and Costco, as well as other companies (e.g., Generac, Taco Bell) raised wages to compete for employees in what has been, with the important exception of the pandemic period, a low unemployment rate labor market. Likewise, some companies have increased benefits (e.g., paid parental leave) in another effort to attract and retain employees. Another factor in pay increases is strategy execution. Walmart decided a few years ago it needed to increase its compensation to attract and retain a higher quality workforce to better support creating its desired customer experience. (As the largest private employer in the United States at about 1.5 million employees, Walmart's employment practices receive much attention.) Pay can also be a powerful motivational tool for aligning current employees' interests/goals with those of the broader organization (an issue we address more fully in [Chapter 12](#)). Second, employee compensation is typically a significant organizational cost, accounting for 30% of revenues on average across industries, and thus requires close scrutiny.¹ [Table 11.1](#) also provides examples of individual organizations. More labor-intensive organizations have higher labor costs. For example, in the two health care company examples, HCA HealthCare Inc. and Community Health Systems, compensation costs are 46% of revenues and 51–52% of total operating expenses. Goldman Sachs, financial services, is at 38%. In these examples, valuable human capital is core to the product and how the organization competes, whether it be doctors and nurses or investment bankers and brokers. In airlines, which are more capital intensive, compensation costs are a smaller share of operating expenses and revenues.

Table 11.1 Total Compensation as a Percentage of Operating Expenses and Revenues, Company Examples

	TOTAL COMPENSATION/ OPERATING EXPENSES	TOTAL COMPENSATION/ REVENUES
HCA HealthCare Inc.	52	46
Community Health Systems	51	46
Goldman Sachs	50	34
Bank of America	58	35
United Airlines	31	28
American Airlines	30	28

SOURCE: Most recent company annual reports (form 10-K), available at company websites or at www.sec.gov.

For companies like Walmart and Amazon, competing by keeping prices low for customers has traditionally translated into paying low wages and raising them only when pressure from labor market competition becomes sufficiently strong. However, as noted above, in Walmart's case, it realized keeping wages and employee headcount too low (to control costs) can get in the way of executing the business strategy (e.g., by undermining the customer experience), resulting in decreased revenues and profits.² Taco Bell's experiment with \$100k for store managers (see **chapter opening**) seems to have been driven by a similar decision that better manager quality was needed for executing its strategy. Every company seeks to balance cost control against ability to execute. Companies must also manage compensation in the face of the business cycle, where business activity and labor market competition ebb and flow over time. When business slows down for companies, some cut labor costs by reducing headcount (especially if a long-term drop in business is expected) or reducing variable aspects of compensation (e.g., profit sharing bonuses or 401[k] retirement plan contributions). In more extreme circumstances, such as those during the pandemic (and during the 2008 Great Financial Crisis), some companies also reduce or freeze base pay, but usually on a temporary basis. As we saw in the **chapter opening**, a company must balance the need to reduce costs when business is down, while planning ahead for how it will be ready with an efficient workforce in place to capitalize to ramp up sales if it anticipates demand for its products will pick up again. In the extreme circumstance of a pandemic, we saw that such adjustments may need to take place in a compressed time period (e.g., pay reductions/freezes introduced and then rescinded months later). During more normal ebbs and flows of the business cycle, planning may take place under less uncertainty. For example, when Toyota has had to slow or pause automobile assembly at U.S. plants due to slow sales, it has not laid off workers. In one instance, it offered a voluntary buyout plan under which workers signing up received 10 weeks of salary plus 2 weeks' salary for every year worked. Employees who remained worked 36-hour, rather than 40-hour, weeks and reallocated their time to receive increased training and look for new ways to reduce costs. When automobile sales picked back up, Toyota and its workforce were ready to ramp production back up.

From employees' point of view, policies having to do with wages, salaries, and other earnings affect their overall income and thus their standard of living. Both the level of pay and its seeming fairness compared with others' pay are important. Pay is also often considered a sign of status and success. Employees attach great importance to pay decisions when they evaluate their relationship with the organization. Therefore, pay decisions must be carefully managed and communicated.

Total compensation, as noted, consists of cash compensation (salary, merit increases, bonuses, stock options, and other incentives) and benefits (e.g., health insurance, paid vacation, unemployment compensation). In this chapter, we focus on salary levels. In [Chapter 12](#), we address merit increases and incentive issues. In [Chapter 13](#), we examine benefits decisions. Total rewards, total returns, and inducements are concepts that include not only total compensation but also any other (nonmonetary) rewards (interesting or fulfilling work, good co-workers, development opportunities, recognition) that are associated with the employment relationship. These nonmonetary rewards are discussed in [Chapters 4, 5](#), and [10](#). An organization must choose to what degree its total rewards strategy depends on monetary rewards (compensation) and what mix of compensation components will be used.

Salary-level decisions can be broken into two areas: pay structure and individual pay. In this chapter, we focus on [pay structure](#), which in turn entails a consideration of pay level and job structure. [Pay level](#) is defined here as the average pay (including wages, salaries, and bonuses) of jobs in an organization. (Benefits also matter, but these are discussed separately in [Chapter 13](#).) [Job structure](#) refers to the relative pay of jobs in an organization. Consider the same two jobs in two different organizations. In Organization 1, jobs A and B are paid an annual average compensation of \$40,000 and \$60,000, respectively. In Organization 2, the pay rates are \$45,000 and \$55,000, respectively. Organizations 1 and 2 have the same pay level (\$50,000), but the job structures (relative rates of pay) differ.

[Pay structure](#)

The relative pay of different jobs (job structure) and how much they are paid (pay level).

[Pay level](#)

The average pay, including wages, salaries, and bonuses, of jobs in an organization.

[Job structure](#)

The relative pay of jobs in an organization.

Both pay level and job structure are characteristics of organizations and reflect decisions about jobs rather than about individual employees. This chapter's focus is on why and how organizations attach pay policies to jobs. In [Chapter 12](#), we look within jobs to discuss the different approaches that can determine the pay of individual employees as well as the advantages and disadvantages of these different approaches.

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Why is the focus on jobs in developing a pay structure? As the number of employees in an organization increases, so too does the number of human resource management decisions. In determining compensation, for example, each employee must be assigned a rate of pay that is acceptable in terms of external, internal, and individual equity (defined later) and in terms of the employer's cost. Although each employee is unique and thus requires some degree of individualized treatment, standardizing the treatment of similar employees (those with similar jobs) can help greatly to make compensation administration and decision making more manageable and more equitable. Thus, pay policies are often attached to particular jobs rather than tailored entirely to individual employees.

Equity Theory and Fairness

In discussing the consequences of pay decisions, it is useful to keep in mind that employees often evaluate their pay relative to that of other employees. Equity theory suggests that people evaluate the fairness of their situations by comparing them with those of other people.³ Equity is not equality. Equal pay for two workers with unequal contributions (*inputs* in equity theory) would likely be perceived as unfair if this information is known, especially by the worker making the stronger contributions to the organization. According to equity theory, a person (p) compares their own ratio of perceived outcomes (O) (pay, benefits, working conditions) to perceived inputs (I) (effort, ability, experience) to the ratio of a comparison other (o).

$$O_p/I_p <, >, \text{ or } = O_o/I_o?$$

If p's ratio (O_p/I_p) is smaller than the comparison other's ratio (O_o/I_o), then *underreward inequity* results. If p's ratio is larger, then *overreward inequity* results, although evidence suggests that this type of inequity is less likely to occur and less likely to be sustained because p may rationalize the situation by reevaluating her outcomes less favorably or inputs (self-worth) more favorably.⁴



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“But you know you have a successful organization when the people who work for you and work with you will openly and with a great deal of comfort say, ‘I’m looking for another job.’”

—Jerrold Williams, Chief HR Officer, Daymon Worldwide

Video Produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Filmworks

The consequences of p’s comparisons depend on whether equity is perceived. If equity is perceived, no change is expected in p’s attitudes or behavior. In contrast, perceived inequity may cause p to restore equity. Some ways of restoring equity are counterproductive, including (1) reducing one’s own inputs (not working as hard), (2) increasing one’s outcomes (such as by theft), or (3) leaving the situation that generates perceived inequity (leaving the organization or refusing to work or cooperate with employees who are perceived as overrewarded).

Equity theory’s main implication for managing employee compensation is that, to an important extent, employees evaluate their pay by comparing it with what others get paid, and their work attitudes and behaviors are influenced by such comparisons. For example, consider one provision of the contract that former Texas Ranger and New York Yankee shortstop Alex Rodriguez once signed. It stated that during the first several years of his contract, his base compensation had to be at least \$2 million higher than any other shortstop in major league baseball. A second provision permitted Rodriguez to void seasons in the latter years of his contract unless his base page 481 compensation was at least \$1 million higher than any position player in major league baseball. Otherwise, Rodriguez would be free to leave his current team. These provisions that pegged Rodriguez’s pay to other players’ pay provide a compelling example of the importance of being paid well in *relative* terms.

Another implication is that employee perceptions are what determine their evaluation. The fact that management believes its employees are paid well compared with those of other companies does not necessarily translate into employees’ beliefs. Employees may have different information or make different comparisons than management. For example, Toyota recently set a goal to move from using wages in the U.S. auto industry as the standard of comparison to using the (lower) prevailing wages in the state where each plant is located. To do so, however, Toyota recognizes its challenge is to educate team members (employees) and managers to help them understand and accept the change.

Two types of employee social comparisons of pay are especially relevant in making pay level and job structure decisions. (See [Table 11.2](#).) First, *external equity* pay comparisons focus on what employees in other organizations are paid for doing the same general job. Such comparisons are likely to influence the decisions of applicants to accept job offers as well as the attitudes and decisions of employees about whether to stay with an organization or take a job elsewhere. (See [Chapters 5](#) and [10](#).) The organization’s choice of pay level influences its employees’ external pay comparisons and their consequences. A market pay survey is the primary administrative tool organizations use in choosing a pay level.

Table 11.2 Pay Structure Concepts and Consequences

PAY STRUCTURE DECISION AREA	ADMINISTRATIVE TOOL	FOCUS OF EMPLOYEE PAY COMPARISONS	CONSEQUENCES OF EQUITY PERCEPTIONS
Pay level	Market pay surveys	External equity	External employee movement (attraction and retention of quality employees); labor costs; employee attitudes
Job structure	Job evaluation	Internal equity	Internal employee movement (promotion, transfer, job rotation); cooperation among employees; employee attitudes

Second, *internal equity* pay comparisons focus on what employees within the same organization are paid. Employees make comparisons with lower-level jobs, jobs at the same level (but perhaps in different skill areas or product divisions), and jobs at higher levels. These comparisons may influence general attitudes of employees; their willingness to transfer to other jobs within the organization; their willingness to pursue and accept promotions to higher level jobs; their inclination to cooperate across jobs, functional areas, or product groups; and their commitment to the organization. The organization's choice of job structure influences its employees' internal comparisons and their consequences.⁵ Job evaluation is the administrative tool organizations use to design job structures.

In addition, employees make internal equity pay comparisons with others performing the same job. Such comparisons are most relevant to [Chapter 12](#), which focuses on using pay to recognize individual contributions and differences.

We now turn to ways to choose and develop pay levels and pay structures, the consequences of such choices, and the ways two administrative tools—market pay surveys and job evaluation—help in making pay decisions.

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Developing Pay Levels

LO 11-2

Describe the major administrative tools used to manage employee compensation.

Market Pressures

Any organization faces two important competitive market challenges in deciding what to pay its employees: product market competition and labor market competition.⁶

Product Market Competition

First, organizations must compete effectively in the product market. In other words, they must be able to sell their goods and services at a quantity and price that will bring a sufficient return on their investment. Organizations compete on multiple dimensions (quality, service, and so on), and price is one of the most important dimensions. An important influence on price is the cost of production.

An organization that has higher labor costs than its product market competitors will have to charge higher average prices for products of similar quality. Thus, for example, if labor costs are 30% of revenues at Company A and Company B, but Company A has labor costs that are 20% higher than those of Company B, we would expect Company A to have product prices that are higher by $(0.30 \times 0.20) = 6\%$. At some point, the higher price charged by Company A will contribute to a loss of its business to competing companies with lower prices (like Company B). Until recently, in the automobile industry, hourly labor cost (including not only wages but also retiree and active worker benefits such as health care) in assembly plants averaged \$75 for the U.S. Big Three (Chrysler, General Motors, Ford), compared to \$52 for Toyota and Honda plants in the United States (and closer to \$42 for other transplants). On average, it takes roughly 30 hours to assemble a car. So, the labor cost to assemble for the Big Three was $30 \times \$75 = \$2,250$, compared to $30 \times \$52 = \$1,560$ for Toyota and Honda. That labor cost disadvantage had to have been offset by superior vehicle quality, performance, and so forth for the Big Three to make a profit. The bankruptcies at Chrysler and General Motors indicate that was not possible. More recently, the Big Three have reduced their labor costs to \$47/hour at Chrysler, \$55/hour at General Motors, and \$57/hour at Ford, primarily by hiring new workers at lower wages and by reducing benefits costs.⁷ That is a major change, now putting them much closer to the (current) roughly \$52/hour labor cost at Honda and Toyota. As a result, the Big Three have become much more competitive and their financial performance has improved dramatically. Toyota's labor costs have risen over time in the United States due to the inevitable aging of its workforce and the associated increased health care and retiree benefits. In a sense, it is going through the same life cycle as the Big Three did. However, the situation is now changing yet again. In 2019, following a long strike at General Motors (the longest in 50 years in the auto industry) by the United Auto Workers (UAW), GM and other two of the Big Three agreed to new contracts with the UAW. As a result, average hourly labor costs are expected to increase to \$55 to \$63 in 2019 and \$66 to \$71 by 2023.⁸ In contrast, hourly labor cost for transplants (none of which are unionized) are expected to average about \$44 by 2023, with Toyota and Honda being somewhat higher (around \$54). Thus, the Big Three will once again have a large labor cost disadvantage to overcome.

A newer U.S. plant, such as the Volkswagen plant in Chattanooga, Tennessee, was estimated to have even lower (initial) hourly labor costs of \$27.⁹ That \$27/hour cost to build Volkswagen Passats in Tennessee is much lower than Volkswagen's hourly labor cost to build cars in Germany, which had been estimated as high as nearly \$100 (when the euro was at its strongest against the U.S. dollar). A more recent estimate of Volkswagen's hourly labor cost in Chattanooga is \$38/hour.¹⁰ Due to this labor cost saving (and due to lower costs for parts, transportation, and so forth), Volkswagen expected to be able to reduce the price of a Passat from \$28,000 (when it was first built in Germany) to \$20,000 when it was first built in Tennessee. Lower labor costs can be found in Mexico (and even lower labor costs than in Mexico in other parts of the world). Thus, although Audi, Honda, Mazda, and Nissan have all announced plans to open new North American plants, all will be built in Mexico. Only in 2018, for the first time in many years, did an automobile company (Chinese-owned Volvo) open a new auto assembly plant in the United States, specifically in South Carolina, which has the lowest rate of unionization of any U.S. state.¹¹ In 2019, the UAW was defeated in its attempt to organize the Chattanooga Volkswagen plant, as the new paper, *The Tennessean*, put it, "amid concerns that unionization could temper the German automaker's interest in Tennessee."¹²

The cost of labor is directly reflected in the price of the car. Therefore, *product market competition* places an *upper bound* on labor costs and compensation. This upper bound is more constrictive when labor costs are a larger share of total costs and when demand for the product is affected by changes in price (i.e., when demand is *elastic*). Unless higher labor costs are offset by higher worker productivity or desirable product features that allow a higher product price, it will be difficult to sustain these relatively high costs in a competitive product market. As we have noted, Volkswagen will be able to lower the price of its Passat by producing it in the United States, where its labor costs will be lower than in Germany and lower than those of U.S. competitors. The search for lower labor costs is a continuous process. As companies move production to low-wage countries, wages there eventually rise, sometimes causing companies to move production to countries with still lower wages.

What components make up labor costs? A major component is the average cost per employee. This is made up of both direct payments (such as wages, salaries, and bonuses) and indirect payments (such as health insurance, Social Security, and unemployment compensation). A second component of labor costs is the staffing level (number of employees). Not surprisingly, financially troubled organizations often seek to cut costs by focusing on one or both components. Staff reductions, hiring freezes, wage and salary freezes, and sharing benefits costs with employees are several ways of making the organization's labor costs more competitive in the product market.

However, successful organizations also focus on labor costs (perhaps helping explain their success). Apple's outsourcing of production of its iPhone and other products to contract manufacturers in low-cost countries (with corresponding lower cost supply chains) is central to cost control. Google is said to have more independent contractors than employees.¹³ Contractors cost less because of lower pay and lower benefits. Substituting capital for labor (i.e., replace employees with automation/technology) is another way to control/reduce labor costs. For example, even though Amazon's holiday shopping sales continue to increase at a fast rate, their hiring of seasonal workers has been relatively flat. What happened? Part of the answer is that automation "happened." Amazon has decided that it does not want its labor costs to increase in proportion to increases in its sales. Automation is a potential strategy to break this connection. (And, of course, robots do not pose labor relations problems—at least not yet!) Amazon purchased Kiva Systems, a robotics company, for \$775 million and shortly thereafter was using its robots in its warehouses. These robots do the traditional warehouse tasks of sorting, picking, packing, and shipping items and are said to be able to do in 15 minutes what it takes a human employee 60 minutes to do. As Amazon implements these robotic systems in more of its warehouses, it needs to hire fewer employees to meet increased sales demand for its products. A key Amazon competitor, and the other "800-pound gorilla" of retail is Walmart, which is also seeking to automate to be more efficient and better able to compete for customers. It has made major technology and related investments to build its e-commerce capability, but it is also using robotics to automate jobs and reduce labor costs. For example, its investments in its stores include, similar to Amazon, self-scanning robots, but also cashierless checkout for customers ("Scan & Go").¹⁴

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Labor Market Competition

A second important competitive market challenge is *labor market competition*, which reflects the number of workers available relative to the number of jobs available. Shortages and surpluses influence pay levels. For example, as we saw in the chapter-opening story, a shortage of workers will put upward pressure on wages and salaries, as organizations must pay to compete against other companies that hire similar employees. These labor market competitors typically include not only companies that have similar products but also those in different product markets that hire similar types of employees. If an organization is not competitive in the labor market, it will fail to attract and retain employees of sufficient numbers and quality. For example, even if a computer manufacturer offers newly graduated electrical engineers the same pay as other computer manufacturers, if automobile manufacturers and other labor market competitors offer salaries \$5,000 higher, the computer company may not be able to hire enough qualified electrical engineers. Labor market competition places a *lower bound* on pay levels.

Employees as a Resource

Because organizations have to compete in the labor market, they should consider their employees not just as a cost but also as a resource in which the organization has invested and from which it expects valuable returns.¹⁵ Although controlling costs directly affects an organization's ability to compete in the product market, the organization's competitive position can be compromised if costs are kept low at the expense of employee productivity and quality. Having higher labor costs than your competitors is not necessarily a concern if you also

have the best and most effective workforce, one that produces products more efficiently and with better quality (see our earlier example of Walmart). Recently, some companies have recognized the importance of helping employees, especially those whose wages are low, avoid financial insecurity (or “financial precarity”). The [Competing through Environmental, Social, and Governance Practices](#) box explains the social and business case for helping employees better deal with financial precarity.

Pay policies and programs are one of the most important human resource tools for encouraging desired employee behaviors and discouraging undesired behaviors. Therefore, they must be evaluated not just in terms of costs but also in terms of the returns they generate—how they attract, retain, and motivate a high-quality workforce. For example, if the average revenue per employee in Company A is 20% higher than in Company B, it may not be important that the average pay in Company A is 10% higher than in Company B.



COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Reducing Employee Financial Precarity

Over 50 million working Americans face a challenge in making ends meet each month. As long as nothing unexpected happens, things are mostly fine. However, they have no financial cushion to handle the unexpected, whether it be medical, home, auto, or other unforeseen and out of the ordinary expenses. Most lack access to anything but very expensive credit and/or high interest “payday loans,” which can lock them into a financial crisis from which they may not be able to escape. In the United States, it has been reported that “money-related concerns are a more prevalent source of distress than those related to health, work, or family” and that “most people ... do not have \$400 in savings to cover an emergency.” There is also evidence that such “financial precarity” can adversely affect employee performance at the workplace.

What can employers do? Higher wages, of course, is one solution. We saw examples of companies increasing wages and salaries in the **chapter opening**. That is good for employees and can be good for companies too. For example, as we will see below in **Evidence-based HR**, Costco’s CEO Craig Jelinek stated that higher wages “isn’t altruism.” Rather, he said at Costco “we know that paying employees good wages ... makes sense for our business and constitutes a significant competitive advantage for us. It helps us in the long run by minimizing turnover and maximizing employee productivity.” American Family increased its minimum wage from \$15/hour to \$20/hour and this will primarily affect employees working in customer service, claims, and administrative positions. American Family said, “As an organization committed to exceptional customer service, it is essential we invest in our employees who provide that service” and that this higher pay will allow employees “to invest in their careers, dreams and communities.”

Absent paying more, employers can also encourage/incentivize employees to save enough money for an emergency (e.g., by cooperating with banks) through programs that help with balancing work and family and through programs that encourage wellness.

One example of a product that employers can offer in cooperation with banks is a short-term installment loan program from SalaryFinance. A borrower with a 500 U.S. FICO credit score would pay an annual interest rate of 12%. That compares to interest rates on payday loans as high as 200% for someone with such a low credit score. Another product in this area is PayActiv. It provides advance access to wages that have been earned but not yet paid. It costs employees \$5/ month to enroll, and a payday loan typically costs \$35, regardless of credit score. The business model works for PayActiv because repayment of the paycheck advance is automatically deducted from future paychecks, thus minimizing the risk that the loan will not be repaid to PayActiv.

Researchers from the Harvard Kennedy School estimate that such programs reduce employee turnover by 19% or more, presumably because an employee would be reluctant to move to an employer that did not provide such a program to reduce financial precarity. They note that at a company like Target, estimated employee turnover is

\$567 million per year, or \$3,300 per turnover. They note that even a 5% reduction in turnover would thus save \$28 million per year.

Walmart is one of the major users of PayActiv. Within a recent four-month period, 80,000 Wal-mart employees used PayActiv to access over \$30 million in advances on their paychecks. The hope is that these employer-sponsored programs will not only reduce turnover costs for employers, but also significantly improve the quality of life for low-income workers and help them avoid the risk of falling into a bad financial situation that can be all but impossible to escape.

DISCUSSION QUESTIONS

How common is financial precarity? What effects, especially over time, can financial precarity have on an individual?

If you have experienced financial precarity and if you are willing to share your experience, describe the effects you experienced.

From the point of view of an organization, why take steps to reduce employee financial precarity?

SOURCES: Ray Fisman and Michael Luca, "How Higher Wages Can Increase Profits: Many Companies Have Cut or Frozen Employees' Pay during the Pandemic, but Research Shows that Paying Workers More Can Boost the Bottom Line," [WSJ.com](https://www.wsj.com/articles/how-higher-wages-can-increase-profits-many-companies-have-cut-or-frozen-employees-pay-during-the-pandemic-but-research-shows-that-paying-workers-more-can-boost-the-bottom-line-11611384000), January 21, 2021; Bailey McCann, "Helping Hand: More Companies Offer 'Financial Wellness' Plans," *The Wall Street Journal*, February 10, 2020; Sarah Hauer, "American Family Insurance Is Raising Its Minimum Wage from \$15 to \$20 an Hour," *Milwaukee Journal Sentinel*, January 24, 2020; T. H. Baker and S. Kumar, "A Better Alternative to Payday Loans," *The Wall Street Journal*, May 14, 2018; J. Meuris and C. Leana, "The Price of Financial Precarity: Organizational Costs of Employees' Financial Concerns," *Organization Science* 29 (2018), pp. 398–417; J. Meuris and C. R. Leana, "The High Cost of Low Wages: Economic Scarcity Effects in Organizations," *Research in Organizational Behavior* 35 (2015), pp. 143–58; A. Tergensen, "Workers School in Money: More Firms Pay Workers to Shore Up Their Finances through Education, Cutting Debt," *The Wall Street Journal*, February 21, 2018.

Deciding What to Pay

Although organizations face important external labor and product market pressures in setting their pay levels, a range of discretion remains.¹⁶ How large the range is depends on the particular competitive environment the organization faces. Where the range is broad, an important strategic decision is whether to pay above, at, or below the market average. The advantage of paying above the market average is page 486the ability to attract and retain the top talent available and help generate positive job attitudes (e.g., satisfaction), all of which can translate into a highly effective and productive workforce. The disadvantage, of course, is the added cost.¹⁷ See the [Evidence-Based HR](#) box comparison of Costco (higher wages) with Walmart (lower wages). As described there, Costco has decided that paying a higher wage is central to its competitive advantage.¹⁸



EVIDENCE-BASED HR

Walmart is legendary for its attention to (some would say, obsession with) cost control so that it can pass lower prices on to customers, making it difficult for other retailers to compete. This strategy has resulted in Walmart being the largest company in the world in terms of revenues (over \$500 billion per year according to Fortune) and the largest U.S. private sector employer with 1.5 million employees (2.0 million including non-U.S.). However, based on

internal data, Walmart has learned that pushing labor cost control too far can adversely affect profits by reducing work-force quality and motivation, to the detriment of the customer experience. Consistent with this, its most recent annual report states: "Our ability to continue to conduct and expand our operations depends on our ability to attract and retain a large and growing number of qualified associates ... while controlling our associate wage and related labor costs ... [and failing to do so] the quality of service we provide to our customers may decrease and our financial performance may be adversely affected." External benchmarking data also point to a similar challenge. Walmart continues in last place (out of 20 companies) in its category (department and discount stores) on the American Customer Satisfaction Index, with a score of 71. That is an improvement from its all-time low of 66 in 2015, but still far from its scores in the low 80s back in the mid-1990s. Walmart has taken steps to increase employee compensation, raising its minimum starting wage from \$9/hour to \$11/hour in 2018. As of 2020, Walmart reported in its Environmental, Social, and Governance Report that its average wage for store workers was \$14/hour. In early 2021, Walmart announced it would increase wages for about 425,000 of its workers, which would bring its average store wage up to \$15/hour.

In contrast to Walmart, which competes primarily on product cost, Costco offers products at a higher price point and competes primarily on customer service. Consistent with this, whereas Walmart (see above) is last, Costco is first in the same category, department and discount stores, with a score of 83 on the American Customer Satisfaction Index. Since 2006 there have been only two years when another company (it was Nordstrom) in its category ranked higher. That difference may be due in part to Costco traditionally following a different employment strategy than Walmart, paying higher wages and covering more of its employees with health insurance, requiring them to pay smaller health insurance premiums, and contributing more to their retirement plans. Costco has regularly raised its lowest wage, most recently in early 2021 to \$16/hour. (Walmart's lowest wage remained at \$11/hour.) Costco's median wage is \$25/hour, compared to an average of \$14/hour (soon to be \$15/hour) at Walmart. Thus, Costco strongly differentiates itself from Walmart as an employer. Costco's CEO, Craig Jelinek, says, "this isn't altruism." Rather, "we know that paying employees good wages ... makes sense for our business and constitutes a significant competitive advantage for us. It helps us in the long run by minimizing turnover and maximizing employee productivity."

Some major retailers experience as high as 100% turnover each year, and the associated costs (for hiring, orienting, training, and replacing employees) can add up. Over the years, Walmart has been known as this type of high employee turnover company. In contrast, Costco has traditionally had much lower turnover. James Sinegal, who founded Costco in 1983, states that Costco's strategy is to "pay the highest wages in all of retail," which he says helps contribute to an employee turnover rate at Costco of 7%, compared to what he states is "60 to 70 percent at other retailers." Costco's high compensation approach translates into its regularly being among the Top 5 on Forbes's list of America's Best Employers. "We know that satisfied and happy employees in customer-facing jobs help make for satisfied and happy customers." It also makes for lower employee turnover, which lowers costs of hiring, replacement, training, and loss of customer service. Costco's most recent annual report similarly states: "With respect to the compensation of our employees, our philosophy is not to seek to minimize their wages and benefits. Rather, we believe that achieving our longer-term objectives of reducing employee turnover and enhancing employee satisfaction requires maintaining compensation levels that are better than the industry average for much of our workforce."

In summary, Walmart competes primarily on product cost, whereas Costco, which offers products at a higher price point, competes primarily on customer service. In these two cases, the different business strategies translate into different strategies for human resources, including in compensation strategy. That, in turn, leads to different metrics/evidence being emphasized, measured, and tracked, in assessing the effectiveness of their human resource and compensation strategies.

SOURCES: Alina Selyukh, "Costco to Raise Minimum Wage to \$16 an Hour: 'This Isn't Altruism.'" [NPR.org](https://www.npr.org/2021/02/25/968888888/costco-raises-minimum-wage), February 25, 2021; Sarah Nassauer, "Walmart Promises Raises for 425,000 Workers After Strong Holiday Sales," *The Wall Street Journal*, February 18, 2021, [wsj.com](https://www.wsj.com/articles/walmart-promises-raises-for-425000-workers-after-strong-holiday-sales-11613688888); T. Relihan, "How Costco's Obsession with Culture Drove Success. Ideas Made to Matter," MIT Management Sloan School, May 11, 2018,

<https://mitsloan.mit.edu/ideas-made-to-matter/howcostcos-obsession-culture-drove-success>; American Customer Satisfaction Index, <http://www.theacsi.org>.

Under what circumstances do the benefits of higher pay outweigh the higher costs? According to [efficiency wage theory](#), one circumstance is when organizations have technologies or structures that depend on highly skilled employees. For example, organizations that emphasize decentralized decision making may need higher-caliber employees. Another circumstance in which higher pay may be warranted is when an organization has difficulties observing and monitoring its employees' performance. It may therefore wish to provide an above-market pay rate to ensure the incentive to put forth maximum effort. The theory is that employees who are paid more than they would be paid elsewhere will be reluctant to shirk because they wish to retain their good jobs.¹⁹ Interestingly, some companies (e.g., Zappos, Amazon) have decided that it sometimes makes sense to pay employees to leave if they are staying only because of the money and despite being a better fit elsewhere.²⁰

[Efficiency wage theory](#)

A theory stating that wages influence worker productivity.

Market Pay Surveys

To compete for talent, organizations use [benchmarking](#), a procedure in which an organization compares its own practices against those of the competition. In compensation management, benchmarking against product market and labor market competitors is typically accomplished through the use of one or more pay surveys, which provide information on going rates of pay among competing organizations.

[Benchmarking](#)

Comparing an organization's practices against those of the competition.

The use of pay surveys requires answers to several important questions:²¹

Which employers should be included in the survey? Ideally, they would be the key labor market and product market competitors.

Which jobs are included in the survey? Because only a sample of jobs is ordinarily used, care must be taken that the jobs are representative in terms of level, functional area, and product market. Also, the job content must be sufficiently similar.

If multiple surveys are used, how are all the rates of pay weighted and combined? Organizations often have to weight and combine pay rates because different surveys are often tailored toward particular employee groups (labor markets) or product markets. The organization must decide how much relative weight to give to its labor market and product market competitors in setting pay.

Several factors affect decisions on how to combine surveys.²² Product market comparisons that focus on labor costs are likely to deserve greater weight when (1) labor costs represent a large share of total costs, (2) product demand is elastic (it changes in response to product price changes), (3) the supply of labor is inelastic, and (4) employee skills are specific to the product market (and will remain so). In contrast, labor market comparisons may be more important when (1) attracting and retaining qualified employees is difficult and (2) the costs (administrative, disruption, and so on) of recruiting replacements are high.

As this discussion suggests, knowing what other organizations are paying is only one part of the story. It is also necessary to know what those organizations are getting in return for their investment in employees. To find that out,

some organizations examine ratios such as revenues/employees and revenues/labor costs. The first ratio includes the staffing component of employee cost but not the average cost per employee. The second ratio, however, includes both. Note that comparing these ratios across organizations requires caution. For example, different industries rely on different labor and capital resources. So comparing the ratio of revenues to labor costs of a petroleum company (capital intensive, high ratio) to a hospital (labor intensive, low ratio) would be like comparing apples and oranges. But within industries, such comparisons can be useful. Besides revenues, other return-on-investment data might include product quality, customer satisfaction, and potential workforce quality (such as average education and skill levels).

Rate Ranges (Pay Grades)

As the preceding discussion suggests, obtaining a single “going rate” of market pay is a complex task that involves a number of subjective decisions; it is both an art and a science. Once a market rate has been chosen, how is it incorporated into the pay structure? Typically—especially for white-collar jobs—it is used for setting the midpoint of pay ranges for either jobs or pay grades (discussed next). Market survey data are also often collected on minimum and maximum rates of pay as well. The use of [rate ranges](#) permits a company to recognize differences in employee performance, seniority, training, and so forth in setting individual pay (discussed in [Chapter 12](#)). For some blue-collar jobs, however, particularly those covered by collective bargaining contracts, there may be a single rate of pay for all employees within the job.

[Rate ranges](#)

Different employees in the same job may have different pay rates.

Key Jobs and Nonkey Jobs

In using pay surveys, it is necessary to make a distinction between two general types of jobs: key jobs and nonkey jobs. [Key jobs](#) (also known as benchmark jobs) have relatively stable content and—perhaps most important—are common to many organizations. Therefore, it is possible to obtain market pay survey data on them. Note, however, that to avoid too much of an administrative burden, organizations may not gather market pay data on all such jobs. In contrast to key jobs, [nonkey jobs](#) are, to an important extent, unique to organizations (and/or have content different from jobs in other organizations having the same title). Thus, by definition, they cannot be directly valued or compared through the use of market surveys. Therefore, they are treated differently in the pay-setting process.

[Key jobs](#)

Benchmark jobs, used in pay surveys, that have relatively stable content and are common to many organizations.

[Nonkey jobs](#)

Jobs that are unique to organizations and that cannot be directly valued or compared through the use of market surveys.

Developing a Job Structure

Although external comparisons of the sort we have been discussing are important, employees also evaluate their pay using internal comparisons. So, for example, a vice president of marketing may expect to be paid roughly the same amount as a vice president of information systems because they are at the same organizational level, with

similar levels of responsibility and similar impacts on the organization's performance. A job structure can be defined as the relative worth of various jobs in the organization, based on these types of internal comparisons. We now discuss how such decisions are made.

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Job Evaluation

One typical way of measuring internal job worth is to use an administrative procedure called [job evaluation](#). A job evaluation system is composed of [compensable factors](#) and a weighting scheme based on the importance of each compensable factor to the organization. Simply stated, compensable factors are the characteristics of jobs that an organization values and chooses to pay for. These characteristics may include job complexity, working conditions, required education, required experience, and responsibility. Most job evaluation systems use several compensable factors. Job analysis (discussed in [Chapter 4](#)) provides basic descriptive information on job attributes, and the job evaluation process that assigns values to these compensable factors.

[Job evaluation](#)

An administrative procedure used to measure internal job worth.

[Compensable factors](#)

The characteristics of jobs that an organization values and chooses to pay for.

Scores can be generated in a variety of ways, but they typically include input from a number of people. A job evaluation committee commonly generates ratings. Although there are numerous ways to evaluate jobs, the most widely used is the point-factor system, which yields job evaluation points for each compensable factor.^{[23](#)}

The Point-Factor System

After generating scores for each compensable factor on each job, job evaluators often apply a weighting scheme to account for the differing importance of the compensable factors to the organization. Weights can be generated in two ways. First, a *a priori* weights can be assigned, which means factors are weighted using expert judgments about the importance of each compensable factor. Second, weights can be derived empirically based on how important each factor seems in determining pay in the labor market. (Statistical methods such as multiple regression can be used for this purpose.) For the sake of simplicity, we assume in the following example that equal *a priori* weights are chosen, which means that the scores on the compensable factors can simply be summed.

[Table 11.3](#) shows an example of a three-factor job evaluation system applied to three jobs. Note that the jobs differ in the levels of experience, education, and complexity required. Summing the scores on the three compensable factors provides an internally oriented assessment of relative job worth in the organization. In a sense, the programmer analyst job is worth 41% ($155/110 - 1$) more than the computer tech job, and the systems analyst job is worth 91% ($210/110 - 1$) more than the computer tech job. Whatever pay level is chosen (based on benchmarking and competitive strategy), we would expect the pay differentials to be somewhat similar to these percentages. The internal job evaluation and external survey-based measures of worth can, however, diverge.

Table 11.3 Example of a Three-Factor Job Evaluation System

JOB TITLE	COMPENSABLE FACTORS			
	EXPERIENCE	EDUCATION	COMPLEXITY	TOTAL
Computer tech	40	30	40	110
Programmer analyst	40	50	65	155
Systems analyst	65	60	85	210

Developing a Pay Structure

In the example provided in [Table 11.4](#), there are 15 jobs, 10 of which are key jobs. For these key (also known as benchmark) jobs, both pay survey and job evaluation data are available. For the five nonkey jobs, by definition, no survey data are available, only job evaluation information. Note that, for simplicity's sake, we work with data from only two pay surveys and we use a weighted average that gives twice as much weight to survey 1. Also, our example works with a single structure. Many organizations have multiple structures that correspond to different job families (like clerical, technical, and professional) or product divisions.

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Table 11.4 Job Evaluation and Pay Survey Data

JOB	KEY JOB?	JOB TITLE	JOB EVALUATION	SURVEY 1 (\$1)	SURVEY 2 (\$2)	SURVEY COMPOSITE ($\frac{2}{3}S1 + \frac{1}{3}S2$)
A	y	Computer tech	110	\$3,219	\$2,770	\$3,070
B	y	Engineering tech I	115	3,530	3,053	3,370
C	y	Programmer analyst	155	4,666	4,142	4,491
D	n	Industrial engineer	165	—	—	—
E	n	Compensation analyst	170	—	—	—
F	y	Accountant	190	5,781	4,958	5,507
G	y	Systems analyst	210	6,840	6,166	6,614
H	n	Director of personal	225	—	—	—
I	y	Software engineer	245	7,971	7,210	7,717
J	y	Systems analyst—senior	255	8,328	6,832	7,829
K	y	Accounting manager	270	9,389	9,043	9,274
L	y	Electrical engineer—senior	275	8,794	7,670	8,419
M	n	Accounting director	315	—	—	—
N	y	Director of engineering	320	11,242	10,515	11,000
O	n	Chief scientist	330	—	—	—

SOURCES: S. Rynes, B. Gerhart, G. T. Milkovich, and J. Boudreau, *Current Compensation Professional Institute* (Scottsdale, AZ: American Compensation Association, 1988); G. T. Milkovich and B. Gerhart, *Cases in Compensation*, Version 11.1e (2013).

How are the data in [Table 11.4](#) combined to develop a pay structure? First, it is important to note that both internal and external comparisons must be considered in making compensation decisions. However, because the pay structures suggested by internal and external comparisons do not necessarily converge, employers must balance them carefully. Studies suggest that employers may differ significantly in the degree to which they place priority on internal- or external-comparison data in developing pay structures.²⁴

At least three pay-setting approaches, which differ according to their relative emphasis on external or internal comparisons, can be identified: (1) using market survey data, (2) using the pay policy line, and (3) using pay grades.²⁵

Market Survey Data

The approach with the greatest emphasis on external comparisons (market survey data) is achieved by basing pay directly on market surveys that cover as many key jobs as possible. For example, the rate of pay for job A in [Table 11.5](#) would be \$3,070; for job B, \$3,370; and for job C, \$4,491. For nonkey jobs (jobs D, E, H, M, and O), however, pay survey information is not available, and we must proceed differently. Basically, we develop a market [pay policy line](#) based on the key jobs (for which both job evaluation and market pay survey data are available). As [Figure 11.1](#) shows, the data can be plotted with a line of best fit estimated. This line can be generated using a statistical procedure (regression analysis). Regressing the data from the “Survey Composite” column in [Table 11.4](#) on the data from the “Job Evaluation” column in [Table 11.4](#) (using only rows without missing data) yields the following (linear) equation:

$$-\$1,058 + \$36.30 \times \text{job evaluation points}$$

Pay policy line

A mathematical expression that describes the relationship between a job’s pay and its job evaluation points.

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Table 11.5 Pay Midpoints under Different Approaches

JOB	KEY JOB?	JOB TITLE	JOB EVALUATION	(1) SURVEY + POLICY	(2) PAY POLICY	(3) GRADES
A	y	Computer tech	110	\$3,070	\$2,936	\$3,480
B	y	Engineering tech I	115	3,370	3,117	3,480
C	y	Programmer analyst	155	4,491	4,570	5,296
D	n	Industrial engineer	165	4,933	4,933	5,296
E	n	Compensation analyst	170	5,114	5,114	5,296
F	y	Accountant	190	5,507	5,840	5,296
G	y	Systems analyst	210	6,614	6,566	7,110
H	n	Director of personnel	225	7,110	7,110	7,110
I	y	Software engineer	245	7,717	7,837	7,110
J	y	Systems analyst—senior	255	7,828	8,200	8,926
K	y	Accounting manager	270	9,274	8,744	8,926
L	y	Electrical engineer—senior	275	8,419	8,926	8,926
M	n	Accounting director	315	10,377	10,377	10,741
N	y	Director of engineering	320	11,000	10,560	10,741
O	n	Chief scientist	330	10,922	10,922	10,741

SOURCES: S. Rynes, B. Gerhart, G. T. Milkovich, and J. Boudreau, *Current Compensation Professional Institute* (Scottsdale, AZ: American Compensation Association, 1988); G. T. Milkovich and B. Gerhart, *Cases in Compensation*, Version 11.1e (2013).

In other words, the predicted monthly salary (based on fitting a line to the key job data) is obtained by plugging the number of job evaluation points into this equation. Thus, for example, job M, a nonkey job, would have a predicted monthly salary of $-\$1,058 + \$36.30 \times 315 = \$10,377$.

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As [Figure 11.1](#) also indicates, it is not necessary to fit a straight line to the job evaluation and pay survey data. In some cases, a pay structure that provides increasing monetary rewards to higher-level jobs may be more consistent with the organization's goals or with the external market. For example, nonlinearity may be more appropriate if higher-level jobs are especially valuable to organizations and the talent to perform such jobs is rare. The curvilinear function in [Figure 11.1](#) is obtained in the same way as above, except that the salary survey data are first transformed using the natural logarithm before being regressed on job evaluation points. The predicted monthly salaries are then transformed back into dollars (e.g., using the EXP function in Excel). The resulting equation using this approach is as follows:

$$\text{Natural logarithm of pay} = \$7.446 + (0.006 \times \text{job evaluation points})$$

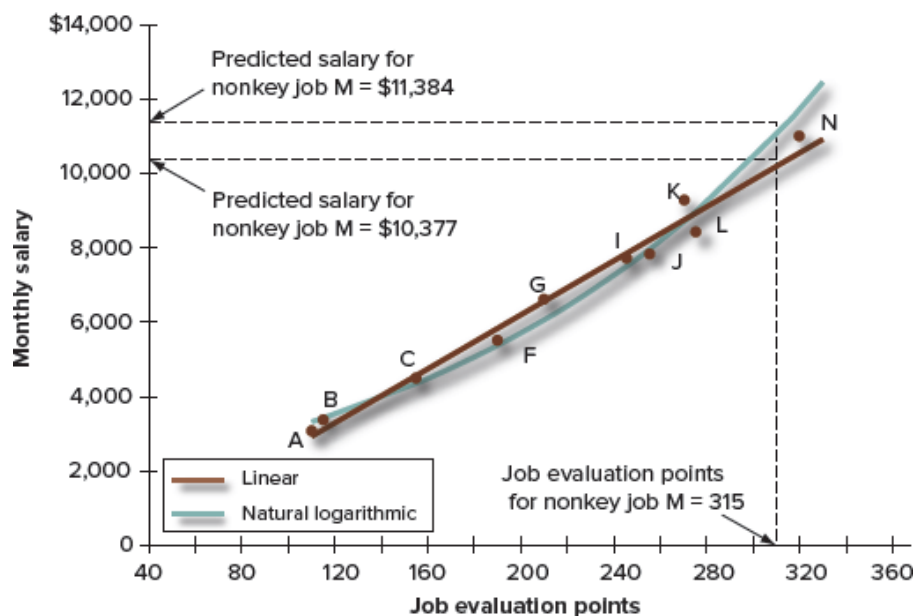


Figure 11.1 Pay Policy Lines, Linear and Natural Logarithmic Functions

Pay Policy Line

A second pay-setting approach that combines information from external and internal comparisons is to use the pay policy line to derive pay rates for both key and nonkey jobs. This approach differs from the first approach in that actual market rates are no longer used for key jobs. This approach introduces a greater degree of internal consistency into the structure because the pay of all the jobs is linked directly to the number of job evaluation points.

Pay Grades

A third approach is to group jobs into a smaller number of pay classes, pay ranges, or [pay grades](#). [Table 11.6](#) (see also [Table 11.5](#), last column), for example, demonstrates one possibility: a five-grade structure. Each job within a grade would have the same rate range (i.e., would be assigned the same midpoint, minimum, and maximum). For

example, the midpoint for pay grade 1 could be derived by obtaining the midpoint of the job evaluation points range $((100+150)/2 = 125)$ and plugging that into one of the equations above. In the case of the linear equation above, that yields a monthly pay rate range midpoint of $-1058 + 36.30 \times 125 = \$3,480$. The advantage of this approach is that the administrative burden of setting separate rates of pay for hundreds (even thousands) of different jobs is reduced. It also permits greater flexibility in moving employees from job to job without raising concerns about, for example, going from a job having 230 job evaluation points to a job with 215 job evaluation points. What might look like a demotion in a completely job-based system is often a nonissue in a grade-based system. Note that the [range spread](#) (the distance between the minimum and maximum) is larger at higher levels, in recognition of the fact that performance differences are likely to have more impact on the organization at higher job levels. (See [Figure 11.2.](#))

[Pay grades](#)

Jobs of similar worth or content grouped together for pay administration purposes.

[Range spread](#)

The distance between the minimum and maximum amounts in a pay grade.

Table 11.6 Sample Pay Grade Structure

PAY GRADE	JOB EVALUATION POINTS RANGE		MONTHLY PAY RATE RANGE		
	MINIMUM	MAXIMUM	MINIMUM	MIDPOINT	MAXIMUM
1	100	150	\$2,784	\$3,480	\$4,176
2	150	200	4,237	5,296	6,354
3	200	250	5,688	7,110	8,533
4	250	300	7,141	8,926	10,710
5	300	350	8,592	10,741	12,906

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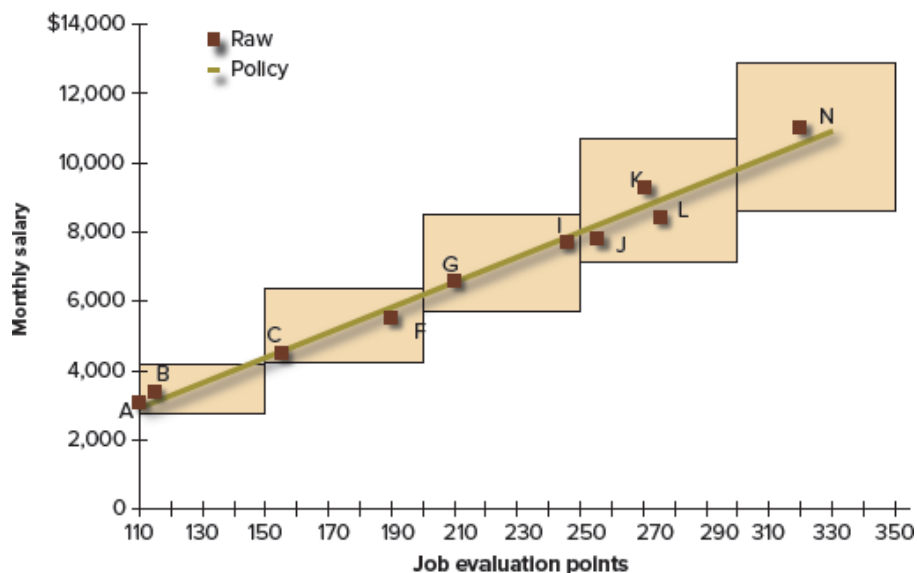


Figure 11.2 Sample Pay Grade Structure

The disadvantage of using grades is that some jobs will be underpaid and others overpaid. For example, job C and job F both fall within the same grade (Pay Grade 2). The midpoint for job C under a grade system is \$5,296 per month, or about \$700 to \$800 or so more than under the two alternative pay-setting approaches in [Table 11.5](#). Obviously, this will contribute to higher labor costs and potential difficulties in competing in the product market.

Unless there is an expected return to this increased cost, the approach is questionable. Job F, by contrast, is paid roughly \$200 to \$500 less per month under the grades system than it would be otherwise. Therefore, the company may find it more difficult to compete in the labor market.

Conflicts Between Market Pay Surveys and Job Evaluation

LO 11-3

Explain the importance of competitive labor market and product market forces in compensation decisions.

An examination of [Table 11.5](#) suggests that the relative worth of jobs is quite similar overall, whether based on job evaluation or pay survey data. However, some inconsistencies typically arise, and these are usually indicated by jobs whose average survey pay is significantly below or above the pay policy line. The closest case in [Table 11.5](#) is job L, for which the average pay falls significantly below the policy line. One possible explanation is that a relatively plentiful supply of people in the labor market are capable of performing this job, so the pay needed to attract and retain them is lower than would be expected given the job evaluation points. Another kind of inconsistency occurs when market surveys show that a job is paid higher than the policy line (like job K). Again, this may reflect relative supply and demand, in this case driving pay higher.

How are conflicts between external and internal equity resolved, and what are the consequences? The example of the vice presidents of marketing and information technology may help illustrate the type of choice faced. The marketing VP job may receive the same number of job evaluation points, but market survey data may indicate that it typically pays less than the information technology VP job, perhaps because of tighter supply for the latter. Does the organization pay based on the market survey (external comparison) or on the job evaluation points (internal comparison)?

Emphasizing the internal comparison would suggest paying the two VPs the same. In doing so, however, either the VP of marketing would be “overpaid” or the VP of information technology would be “underpaid.” The former drives up labor costs (product market problems); the latter may make it difficult to attract and retain a quality VP of information technology (labor market problems).

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Another consideration has to do with the strategy of the organization. In some organizations (like Pepsi and Nike), the marketing function is critical to success. Thus, even though the market for marketing VPs is lower than that for information technology VPs, an organization may choose to be a pay leader for the marketing position (pay at the 90th percentile, for example) but only meet the market for the information technology position (perhaps pay at the 50th percentile). In other words, designing a pay structure requires careful consideration of which positions are most central to dealing with critical environmental challenges and opportunities in reaching the organization's goals.²⁶

What about emphasizing external comparisons? Two potential problems arise. First, the marketing VP may be dissatisfied because she expects a job of similar rank and responsibility to that of the information technology VP to be paid similarly. Second, it becomes difficult to rotate people through different VP positions (for training and development) because going to the marketing VP position might appear as a demotion to the VP of information technology.

There is no one right solution to such dilemmas. Each organization must decide which objectives are most essential and choose the appropriate strategy. However, there has been a shift over time such that most organizations now emphasize external comparisons/market pricing, perhaps because of increasing competitive pressures over time.²⁷

Monitoring Compensation Costs

Pay structure influences compensation costs in a number of ways. Most obviously, the pay level at which the structure is pegged influences these costs. However, this is only part of the story. The pay structure represents the organization's intended policy, but actual practice may not coincide with it. Take, for example, the pay grade structure presented earlier. The midpoint for grade 1 is \$3,480, and the midpoint for grade 2 is \$5,296. Now, consider the data on a group example of individual employees in [Table 11.7](#). One frequently used index of the correspondence between actual and intended pay is the [compa-ratio](#), computed as follows:

Grade compa-ratio = actual average pay for grade/pay midpoint for grade

Table 11.7 Compa-Ratios for Two Grades

EMPLOYEE	JOB	PAY	MIDPOINT	EMPLOYEE COMPA-RATIOS
Grade 1				
1	Engineering tech I	\$3,690	\$3,480	1.06
2	Computer tech	3,306	3,480	.95
3	Engineering tech I	4,037	3,480	1.16
4	Engineering tech I	3,862	3,480	1.11
Mean				1.07
Grade 2				
5	Programmer analyst	6,250	5,296	1.18
6	Accountant	6,037	5,296	1.14
7	Accountant	5,878	5,296	1.11
Mean				1.15

[Compa-ratio](#)

An index of the correspondence between actual and intended pay.

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The compa-ratio directly assesses the degree to which actual pay is consistent with the pay policy. A compa-ratio less than 1.00 suggests that actual pay is lagging behind the policy, whereas a compa-ratio greater than 1.00 indicates that pay (and costs) exceeds that of the policy. Although there may be good reasons for compa-ratios to differ from 1.00, managers should also consider whether the pay structure is allowing costs to get out of control.

Globalization, Geographic Region, and Pay Structures

As [Figure 11.3](#) shows, market pay structures can differ substantially across countries both in terms of their level and in terms of the relative worth of jobs. Compared with cities in China, India, and Mexico, the labor markets in U.S. and German cities provide much higher levels of pay overall and also different payoffs to skill, education, and advancement. These differences create a dilemma for global companies. For example, should a German manager posted to Beijing be paid according to the standard in Germany or China? If the Germany standard is used, a sense of inequity is likely to exist among local Chinese peers in Beijing. If the China market standard is used, it may

be all but impossible to find a German engineer willing to accept an assignment in Beijing. Typically, expatriate pay and benefits (like housing allowance and tax equalization) continue to be linked more closely to the home country. However, this link appears to be slowly weakening and now depends more on the nature and length of the assignment.²⁸

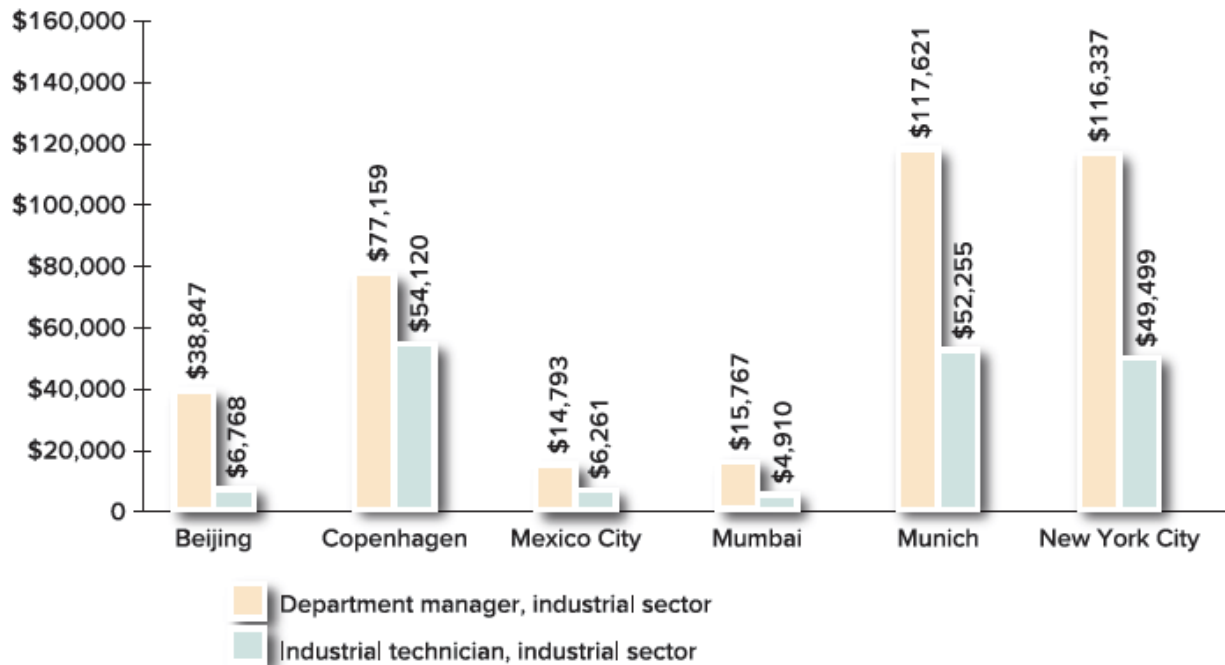


Figure 11.3 Earnings in Selected Occupations, Six World Cities

SOURCE: UBS, “Prices and Earnings 2018,” Zurich, Switzerland.

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Geographic location is an important factor for HR departments to consider when establishing a pay structure. Living in New York City is more expensive than other places, and employers need to factor in living costs when deciding on salaries so that they can hire a strong workforce.

Grant V Faint/Photodisc/Getty Images

Within the United States, companies often have either a formal or an informal policy that provides for pay differentials based on geographic location.²⁹ These differentials are intended to prevent inequitable treatment of

employees who work in more expensive parts of the country. For example, according to [Salary.com](https://www.salary.com), the cost of living index for Madison, Wisconsin is 43% lower than for San Francisco. Therefore, an employee receiving annual pay of \$100,000 in San Francisco would require annual pay of \$57,000 in Madison to retain the same purchasing power. The most common company approach is to move an employee higher in the pay structure to compensate for higher living costs. However, the drawback of this approach is that it may be difficult to adjust the salary downward if costs in that location fall or if the employee moves to a lower-cost area. Thus, some companies choose to pay an ongoing supplement that changes or disappears in the event of such changes. Geography-based differences in pay became a huge issue during the pandemic and, as the [Competing through Technology box](#) describes, companies are taking a variety of policy approaches as some employees seek to maintain their pay (and continue to build their careers), but from different (e.g., less costly) locations.



COMPETING THROUGH TECHNOLOGY

Remote Work and Pay (and Where You Live)

Some companies always had some people working remotely. However, the pandemic led to a very fast and very big leap in this practice. Importantly, some employers, including well-known ones such as Facebook, Twitter, and Microsoft, seem to accept or even embrace having a substantial share of employees continuing to use technology to work remotely going forward. Why? The option of remote work can be good for employees and employers. Let's begin with employees. [Salary.com](https://www.salary.com) has a cost of living comparison calculator (<https://www.salary.com/research/cost-of-living>). Entering the job of computer programmer, current location of San Francisco, and a current salary of \$116,000 (the average according to the U.S. Bureau of Labor Statistics, <https://www.bls.gov/oes/current/oesrcma.htm>), the calculator will tell you the financial consequences of moving to a different location, staying in the same occupation. Using Madison, Wisconsin, as the new location, the page 497calculator says that salary would drop by 22%. However, the cost of living (which includes housing) would drop by 43%. Thus, [Salary.com](https://www.salary.com) calculates that the move from San Francisco to Madison would result in a net increase of \$25,500 in disposable income. Further, if you can keep your current job and the same salary or less than a 22% reduction, the net increase in income would be larger still. It is early and so hard to tell how it will play out, but at least some companies are saying that if employees choose to move to work remotely, their pay will be adjusted according to cost of living, but the size of likely pay reductions floated seem to be in the 10% to 20% neighborhood, which would continue to work out well financially for the employee (see above example). Putting aside pure financial reasons, different people have different preferences on where to live, which has to do with city size, where family and friends are, how much time you want to spend commuting, and a desire for good weather (e.g., January in Madison). If you really want to work at Facebook, but would prefer to live in Wisconsin or another place far from headquarters, this option is more likely to now be available. There is some evidence this is happening. McKinsey analyzed LinkedIn data to identify the percent change in worker inflow over outflow (positive values show more inflow) for various cities. The cities losing the highest percentage of workers were New York City and San Francisco. The cities with the largest inflow were smaller and not on the coasts (in order): Madison, Wisconsin, and Jacksonville, Florida. Also in the top 10 cities having the most inflow were Milwaukee and Cleveland. (The "flyover" states bounce back!) A disclaimer is necessary, however. For those building their careers, it remains to be seen whether being far from headquarters will make that more difficult. For example, although financial services in many ways seemed to adjust well to remote work, early career "investment bankers who progressed by shadowing their seasoned colleagues on client trips and in the office" were said to "have concerns about their career opportunities if fewer of their senior colleagues end up working in person with them in the future."

Turning now to employers, remote work can also be attractive. If employers can get the same level of contribution to company goals from employees when they are working remotely, but pay them 10% to 20% less, that could work. Likewise, remote work offers the possibility of expanding the pool of talent beyond those willing to move to the Coasts to live and work. "You can recruit from anywhere. That's just great because the talent pool is way

bigger,” said Box co-founder and CEO Aaron Levie. “Even if you kept salaries the same, your employees would be able to get more out of their salary dollars if they could work anywhere,” he said. Another consideration is that some technology companies have devoted substantial resources to beautiful and expansive headquarters campuses, including extensive services. More remote work offers the possibility of reducing the size of that investment and ongoing operating costs. Indeed, Facebook CEO Mark Zuckerberg has said that 50% of its employees may be working remotely within 5 to 10 years. He also said Facebook will “aggressively” increase hiring of remote workers and that it will take a “measured approach” to permitting current employees to work remotely on a permanent basis. Here too there is a disclaimer: Companies have to assess the degree to which it is necessary (and/or how often) for them to have employees in close proximity to one another to facilitate communication and working together to develop and execute their strategies and achieve their objectives. For example, looking again at financial services, David Solomon, CEO of Goldman Sachs, offered the following view on remote work: “For a business like ours which is an innovative, collaborative apprenticeship culture, this is not ideal for us and it’s not a new normal.” Indeed, Solomon went on to describe remote work as “an aberration that we’re going to correct as quickly as possible.” The world’s largest asset manager, Blackrock, Inc., has communicated a similar message: “The office will remain our primary work location longer-term” and while “employees will have increased flexibility to work remotely part-time, full-time remote work will be done very selectively and with approval.”

DISCUSSION QUESTIONS

Would you like to work for a company like Facebook, Twitter, or Microsoft? If not, what company would you like to work for? Explain your choice.

Do you feel that your career would progress the same working remotely as it would if working (as traditionally) at corporate headquarters/campus? Explain.

For those working at Facebook, Twitter, or Microsoft, should they be paid the same if they work remotely from a less expensive location? Explain the company point of view and the employee point of view.

SOURCES: Vicky McKeever, “Goldman Sachs CEO Solomon Calls Working from Home an ‘Aberration’” [CNBC.com](https://www.cnbc.com/2021/02/25/goldman-sachs-ceo-solomon-calls-working-from-home-an-aberration.html), February 25, 2021; Melissa Turninen, “Workers Fleeing Coastal Cities Opting for Madison over MSP,” [bringmethenews.com](https://www.bringmethenews.com/2021/02/19/workers-fleeing-coastal-cities-opting-for-madison-over-msp/), page 498 February 19, 2021; Annie Massa, “Blackrock Bucks New York Departure Trend with Plans to Stay Put,” [Bloomberg.com](https://www.bloomberg.com/news/articles/2021-01-05/blackrock-bucks-new-york-departure-trend-with-plans-to-stay-put), January 5, 2021; Salvador Rodriguez, “Zuckerberg Says Employees Moving Out of Silicon Valley May Face Pay Cuts,” [CNBC.com](https://www.cnbc.com/2020/05/21/zuckerberg-says-employees-moving-out-of-silicon-valley-may-face-pay-cuts.html), May 21, 2020; Katherine Bindley, “Silicon Valley’s Next Big Office Idea: Work from Anywhere: Tech Companies Once Wooed Talent with Over-the-Top Campuses, Now They Are Looking to Keep Workers Happy by Offering Flexibility,” [WSJ.com](https://www.wsj.com/articles/silicon-valleys-next-big-office-idea-work-from-anywhere-tech-companies-once-wooed-talent-with-over-the-top-campuses-now-they-are-looking-to-keep-workers-happy-by-offering-flexibility-11587117000), May 17, 2020; Katherine Bindley, “Why Some Tech Workers Leaving Silicon Valley Are Changing Jobs: As Tech Talent Relocates Out of the Bay Area, They Are Also Rethinking What Kinds of Opportunities to Consider,” [WSJ.com](https://www.wsj.com/articles/why-some-tech-workers-leaving-silicon-valley-are-changing-jobs-as-tech-talent-relocates-out-of-the-bay-area-they-are-also-rethinking-what-kinds-of-opportunities-to-consider-11587117000), November 22, 2020.

The Importance of Process: Participation and Communication

LO 11-4

Discuss the significance of process issues such as communication in compensation management.

Compensation management has been criticized for following the simplistic belief that “if the right technology can be developed, the right answers will be found.”³⁰ In reality, however, any given pay decision is rarely obvious to the diverse groups that make up organizations, regardless of the decision’s technical merit or basis in theory. Of course, it is important when changing pay practices to decide which program or combination of programs makes the most sense, but how such decisions are made and how they are communicated also matter.³¹

Participation

Employee participation in compensation decision making can take many forms. For example, employees may serve on task forces charged with recommending and designing a pay program. They may also be asked to help communicate and explain its rationale. This is particularly true in the case of job evaluation as well as many of the programs discussed in [Chapter 12](#). To date, for what are perhaps obvious reasons, employee participation in pay-level decisions remains fairly rare.

It is important to distinguish between participation by those affected by policies and those who must actually implement the policies. Managers are in the latter group (and often in the former group at the same time). As in other areas of human resource management, line managers are typically responsible for making policies work. Their intimate involvement in any change to existing pay practices is, of course, necessary.

Communication

A dramatic example of the importance of communication was found in a study of how an organization communicated pay cuts to its employees and the effects on theft rates and perceived equity.³² Two organization units received 15% across-the-board pay cuts. A third unit received no pay cut and served as a control group. The reasons for the pay cuts were communicated in different ways to the two pay-cut groups. In the “adequate explanation” pay-cut group, management provided a significant amount of information to explain its reasons for the pay cut and also expressed significant remorse. In contrast, the “inadequate explanation” group received much less information and no indication of remorse. The control group received no pay cut (and thus no explanation). The control group and the two pay-cut groups began with the same theft rates and equity perceptions. After the pay cut, the theft rate was 54% higher in the “adequate explanation” group than in the control group. But in the “inadequate explanation” condition, the theft rate was 141% higher than in the control group. In this case, communication had a large, independent effect on employees’ attitudes and behaviors.

Communication is likely to have other important effects. We know, for example, as emphasized by equity theory, that not only actual pay but also the comparison standard influence employee attitudes.³³ Under two-tier wage plans, employees doing the same jobs are paid two different rates, depending on when they were hired. Moreover, the lower-paid employees do not necessarily move into the higher-paying tier. page 499Common sense might suggest that the lower-paid employees would be less satisfied, but this is not necessarily true. In fact, a study by Peter Cappelli and Peter Sherer found that the lower-paid employees were more satisfied on average.³⁴ Apparently, those in the lower tier used different (lower) comparison standards than those in the higher tier. The lower-tier employees compared their jobs with unemployment or lower-paying jobs they had managed to avoid. As a result, they were more satisfied, despite being paid less money for the same work. This finding does not mean that two-tier wage plans are likely to be embraced by an organization’s workforce. It does, however, support equity theory through its focus on the way employees compare their pay with other jobs and the need for managers to take this into consideration. Employees increasingly have access to salary survey information, which is likely to result in more comparisons and thus a greater need for effective communication. Applicants too (see the [Integrity in Action](#) box later in the chapter) also now often have more information, as organizations increasingly post salary ranges when advertising job openings. Additionally, employees increasingly have more information about what other employees are paid.³⁵ This move from pay secrecy to pay transparency can cause different reactions among different employees. For example, employees who are paid significantly lower or higher than their peers may be uncomfortable with pay information being shared. On the other hand, transparency concerning process (how pay is determined) is generally received positively by all employees.³⁶

Managers play the most crucial communication role because of their day-to-day interactions with their employees.³⁷ Therefore, they must be prepared to explain why the pay structure is designed as it is and to judge

whether employee concerns about the structure need to be addressed with changes to the structure. One common issue is deciding when a job needs to be reclassified because of substantial changes in its content. If an employee takes on more responsibility, that employee will often ask the manager for assistance in making the case for increased pay for the job.

Challenges

Problems with Job-Based Pay Structures

LO 11-5

Describe new developments in the design of pay structures.

The approach taken in this chapter, that of defining pay structures in terms of jobs and their associated responsibilities, remains the most widely used in practice. However, job-based pay structures have a number of potential limitations.³⁸ First, they may encourage bureaucracy. The job description sets out specific tasks and activities for which the incumbent is responsible and, by implication, those for which the incumbent is not responsible. Although this facilitates performance evaluation and control by the manager, it can also encourage a lack of flexibility and a lack of initiative on the part of employees: “Why should I do that? It’s not in my job description.” Second, the structure’s hierarchical nature reinforces top-down decision making and information flow as well as status differentials, which do not lend themselves to taking advantage of the skills and knowledge of those closest to production. Third, the bureaucracy required to generate and update job descriptions and job evaluations can become a barrier to change because wholesale changes to job descriptions can involve a tremendous amount of time and cost. Fourth, the job-based pay structure may not reward desired behaviors, particularly in a rapidly changing environment where the knowledge, skills, and abilities needed yesterday may not be very helpful today and tomorrow. Fifth, the emphasis on job levels and status differentials encourages promotion-seeking behavior but may discourage lateral employee movement because employees are reluctant to accept jobs that are not promotions or that appear to be steps down.

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Responses to Problems with Job-Based Pay Structures

Delaying and Banding

In response to the problems caused by job-based pay structures, some organizations have implemented [delaying](#), or reducing the number of job levels to achieve more flexibility in job assignments and in assigning merit increases. Pratt & Whitney, for example, changed from 11 pay grades and 3,000 job descriptions for entry-level through middle-management positions to 6 pay grades and several hundred job descriptions.³⁹ These broader groupings of jobs are also known as *broad bands*. [Table 11.8](#) shows how banding might work for a small sample of jobs.

Table 11.8 Example of Pay Bands

TRADITIONAL STRUCTURE		BANDED STRUCTURE	
GRADE	TITLE	BAND	TITLE
10	Senior engineer	5	Senior engineer
8	Engineer II	4	Engineer
6	Engineer I		

[Delaying](#)

Reducing the number of job levels within an organization.

IBM greatly reduced the bureaucratic nature of the system, going from 5,000 job titles and 24 salary grades to a simpler 1,200 jobs and 10 bands. Within their broad bands, managers were given more discretion to reward high performers and to choose pay levels that were competitive in the market for talent.

One possible disadvantage of delaying and banding is a reduced opportunity for promotion. Therefore, organizations need to consider what they will offer employees instead. In addition, to the extent that there are separate ranges within bands, the new structure may not represent as dramatic a change as it might appear. These distinctions can easily become just as entrenched as they were under the old system. Broad bands, with their greater spread between pay minimums and maximums, can also lead to weaker budgetary control and rising labor costs. Alternatively, the greater spread can permit managers to better recognize high performers with high pay. It can also permit the organization to reward employees for learning.

Paying the Person: Pay for Skill, Knowledge, and Competency

A second, related response to job-based pay structure problems has been to move away from linking pay to jobs and toward building structures based on individual characteristics such as skills or knowledge.⁴⁰

Competency-based pay is similar but usually refers to a plan that covers exempt employees (such as managers). The basic idea is that if you want employees to learn more skills and become more flexible in the jobs they perform, you should pay them to do it. (See [Chapter 7](#) for a discussion of the implications of skill-based pay systems on training.) According to Gerald Ledford, however, it is “a fundamental departure” because employees are now “paid for the skills they are capable of using, not for the job they are performing at a particular point in time.”⁴¹

[Skill-based pay](#) systems seem to fit well with the increased breadth and depth of skill that changing technology continues to bring.⁴² Indeed, research demonstrates that workforce flexibility is significantly increased under skill-based pay.⁴³ For example, in a production environment, workers might be expected not only to operate machines but also to take responsibility for maintenance and troubleshooting, quality control, and even modifying computer programs.⁴⁴ Toyota concluded years ago that “none of the specialists [e.g., quality inspectors, many managers, and foremen] beyond the assembly worker was actually adding any value to the car. What’s more ... assembly workers could probably do most of the functions of specialists much better because of their direct acquaintance with conditions on the line.”⁴⁵

[Skill-based pay](#)

Pay based on the skills employees acquire and are capable of using.

In other words, an important potential advantage of skill-based pay is its contribution to increased worker flexibility, which in turn facilitates the decentralization of decision making to those who are most knowledgeable. It also provides the opportunity for leaner staffing levels because employee turnover or absenteeism can now be covered by current employees who are multiskilled.⁴⁶ In addition, multiskilled employees are important in cases where different products require different manufacturing processes or where supply shortages or other problems call for

adaptive or flexible responses—characteristics typical, for example, of many newer so-called advanced manufacturing environments (like flexible manufacturing and just-in-time systems).⁴⁷ More generally, it has been suggested that skill-based plans also contribute to a climate of learning and adaptability and give employees a broader view of how the organization functions. Both changes should contribute to better use of employees' know-how and ideas. Consistent with the advantages just noted, a field study found that a change to a skill-based plan led to better quality and lower labor costs in a manufacturing plant.⁴⁸

Of course, skill-based and competency-based approaches also have potential disadvantages.⁴⁹ First, although the plan will likely enhance skill acquisition, the organization may find it a challenge to use the new skills effectively. Without careful planning, it may find itself with large new labor costs but little payoff. In other words, if skills change, work design must change as quickly to take full advantage. Second, if pay growth is based entirely on skills, problems may arise if employees “top out” by acquiring all the skills too quickly, leaving no room for further pay growth. (Of course, this problem can also afflict job-based systems.) Third, and somewhat ironically, skill-based plans may generate a large bureaucracy—usually a criticism of job-based systems. Training programs need to be developed. Skills must be described, measured, and assigned monetary values. Certification tests must be developed to determine whether an employee has acquired a certain skill. Finally, as if the challenges in obtaining market rates under a job-based system were not enough, there is almost no body of knowledge regarding how to price combinations of skills (versus jobs) in the marketplace. Obtaining comparison data from other organizations will be difficult until skill-based plans become more widely used.

Can the U.S. Labor Force Compete?

LO 11-6

Explain where the United States stands on pay issues from an international perspective.

We often hear that U.S. labor costs are simply too high to allow U.S. companies to compete effectively with companies in other countries. The average hourly labor costs (cash and benefits) for manufacturing production workers in the United States and in other advanced industrialized and newly industrialized countries are given in [Table 11.9](#) in U.S. dollars. The [Competing through Globalization](#) box later in the chapter provides some examples of recent production location decisions by companies that appear to have been significantly influenced by labor cost considerations.

As we saw in [Chapter 5](#) and in this chapter, companies continue to monitor labor costs and other factors in deciding where to locate production. Based solely on a cost approach, it would perhaps make sense to try to shift many types of production from a country like Germany to other countries, particularly the newly industrialized countries. Would this be a good idea? Not necessarily. There are several factors to consider.

Instability of Country Differences in Labor Costs

First, note that relative hourly labor costs are unstable over time. For example, [Table 11.9](#) shows that hourly labor costs (production workers in manufacturing) in Korea went from 25% (\$3.79/\$14.88) of those in the United States in 1990 to 59% (\$22.98/\$39.03) by 2016. In some cases, relative hourly labor costs are unstable due to changing currency exchange rates. In this particular case, the explanation is more likely the faster productivity growth during that period in Korea.

Table 11.9 Average Hourly Labor Cost (Cash and Benefits) for Production Workers in Manufacturing, Annual Salary for All Employees, and Hourly Salary (estimated) for All Employees, by Country and Year, in U.S. Dollars

	Average Hourly Labor Cost (Production Workers in Manufacturing only)	Hourly Salary (estimated)	Annual Salary	Hourly Salary (estimated)	Annual Salary
	1990	2016	2016	2019	2019
Canada	\$16.62	\$30.08	51,563	\$31.86	53,198
Mexico	1.94	3.91	16,981	\$8.23	17,594
United States	14.88	39.03	63,079	37.01	65,836
Czechia		10.71	25,819	16.38	29,281
Germany ^a	18.05	43.18	51,623	38.70	53,638
China		5.37 ^a	10,161	^c	12,430 ^b
Japan	12.52	26.46	37,896	23.49	38,617
Korea, Republic of	3.79	22.98	38,617	21.50	42,285

SOURCES: Hourly labor cost (salary plus benefits) data for 1990 are from the U.S. Bureau of Labor Statistics and for 2016 are from the Conference Board. Neither provides such data for more recent years. Annual salary (not including benefits) and annual hours worked data (not shown) from the Organization for Economic Cooperation and Development ([OECD.org](https://data.oecd.org/earnwage/average-wages.htm)), <https://data.oecd.org/earnwage/average-wages.htm> and <https://data.oecd.org/emp/hours-worked.htm>. Note that Annual Salary is in constant (2016) U.S. dollars and is adjusted for country differences in purchasing power. Hourly salary (estimated) = Annual Salary/ Annual Hours Worked. Note country differences in hourly salary may differ from those in annual salary because of differences in hours worked. For example, Germany's annual salary is 1.83 times that of the Czech Republic, but its hourly salary (estimated) is 2.36 times higher because annual hours worked is considerably less (1,386) in Germany than in the Czech Republic (1,788).

^aMost recent Conference Board data for China were from 2014. The 2016 estimate for China was obtained by inflating the 2014 Conference Board estimate based on wage inflation data from the National Bureau of Statistics of China.

^bTable 4-12, *China Statistical Yearbook 2019*, National Bureau of Statistics of China, <http://www.stats.gov.cn/tjsj/ndsj/2019/indexeh.htm>. Converted from yuan to USD using average exchange rate for 2019.

^cHourly salary (estimated) for China cannot be computed because the OECD does not provide annual hours worked for China.

In contrast, hourly labor cost in Germany has remained above that of the United States over time and, importantly, is much higher than next door to Germany (e.g., Czechia) and next door to the United States (Mexico), as shown in [Table 11.9](#). This explains, in part, decisions by German companies like BMW, Mercedes-Benz, and Volkswagen to locate production facilities to the southern United States: South Carolina, Alabama, and Tennessee, respectively, where no automobile plants have been unionized, thus resulting in lower labor costs than the U.S. average. Proximity to the large U.S. market and currency exchange hedging are other factors. More recently, as noted earlier, German automakers (and those from other countries) have been building new North American plants in Mexico for these reasons and because of Mexico's low labor costs, which are much lower than those in Germany or in the United States (including southern states).

On the other side of the world, Foxconn (Hon Hai Precision) is a Taiwanese company that assembles Apple products such as the iPhone, mostly in plants in China, where it has roughly 1 million employees, including over

200,000 employees on its Longhua and Guanlan campuses in Shenzhen. By one estimate, the labor cost component of an iPhone assembled in Shenzhen, China, is less than one-quarter of what it would cost if assembled at a U.S. facility.⁵⁰ Some estimates are that the labor cost difference would be much larger, more consistent with the difference shown in [Table 11.9](#).⁵¹ Additionally, the supply chain (with suppliers having similarly lower labor costs) for Apple products is well established in Asia. Thus, moving any page 503significant part of the production of Apple products to the United States would be a challenge. It is perhaps most likely in the case where shipping costs are high (e.g., display panels versus iPhones) and where political pressures and/or tariffs point to locating at least some production in such markets. In fact, Apple is said to have asked Foxconn and its other contract manufacturers to be less reliant on any single country for production, including in its supply chain by diversifying locations to include other countries such as India.⁵²

Skill Levels

Second, the quality and productivity of national labor forces can vary dramatically. This is an especially important consideration in comparisons between labor costs in industrialized countries like the United States and developing countries like Mexico. For example, the high school graduation rate in the United States is 77% versus 44% in Mexico.⁵³ Thus, lower labor costs may reflect the lower average skill level of the workforce; certain types of skilled labor may be less available in low-labor-cost countries. By contrast, any given company needs only enough skilled employees for its own operations. Some companies have found that low labor costs do not necessarily preclude high quality.

As we have seen, many automakers have chosen Mexico for new plants to serve markets in North America. In Europe, countries such as Poland, Slovakia, and the Czech Republic have many skilled workers and lower labor costs than countries such as Germany, which has resulted in the expansion of production there and is also used as a bargaining chip when seeking more productive work rules at home.

Productivity

Third, and most directly relevant, are data on comparative productivity and unit labor costs, essentially meaning labor cost per hour divided by productivity per hour worked. One indicator of productivity is gross domestic product (or total output of the economy) per person, adjusted for differences in purchasing power (PPP). On this measure, the United States fares well. (See [Figure 11.4](#).) The combination of lower labor costs and higher productivity translates, at least on average, into lower unit labor costs in the United States than in Japan and western Europe.

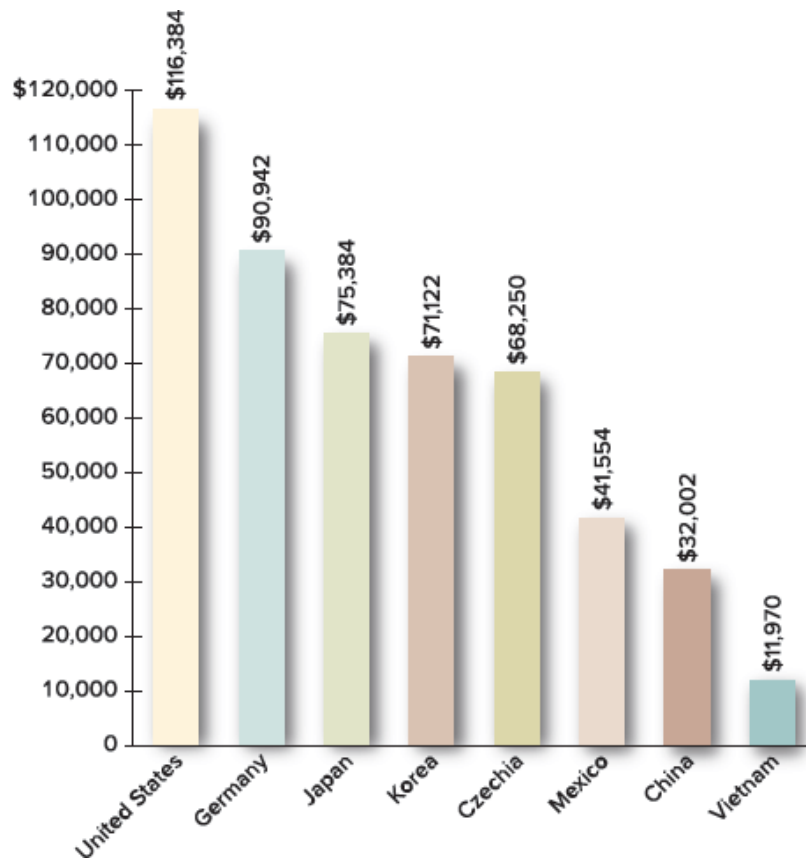


Figure 11.4 Gross Domestic Product per Worker, Adjusted for Purchasing Power Differences, U.S. Dollars

Source: International Labor Organization, "Output per Worker (GDP constant 2011 international \$ in PPP)," 2019, www.ilo.org/ilostat. Accessed February 21, 2021.

Considerations Other Than Labor Cost

Fourth, any consideration of where to locate production cannot be based on labor cost considerations alone. For example, although the average hourly labor cost in Country A may be \$15 versus \$10 in Country B, if labor costs are 30% of total operating costs and nonlabor operating costs are roughly the same, then the total operating costs might be \$65 (\$50 + \$15) in Country A and \$60 (\$50 + \$10) in Country B. Although labor costs in Country B are 33% less, total operating costs are only 7.7% less. This may not be enough to compensate for differences in skills and productivity, customer wait time, transportation costs, taxes, and so on. Further, the direct labor component of many products, particularly high-tech products (such as electronic components), may often be 5% or less. Therefore, the effect on product price-competitiveness may be less significant.⁵⁴

Thus, the decision on where to locate production depends on labor costs but also on other factors. Being close to where customers are matters a great deal. Product development speed may be greater when manufacturing is physically close to the design group. Quick response to customers (as when making a custom replacement product) is difficult when production facilities are on the other side of the world. Inventory levels can be reduced dramatically through the use of manufacturing methods such as just-in-time production, but suppliers need to be in close physical proximity. The [Competing through Globalization](#) box provides an example of how these considerations, including labor costs, affect even a company like Tesla that does not see itself as being like other companies.



COMPETING THROUGH GLOBALIZATION

Where to Manufacture? Labor Costs and the Automobile Industry (including Tesla)

As [Table 11.9](#) shows, average hourly labor cost (wages and benefits) vary greatly across countries. Car producers operate in competitive product markets, especially as product markets have globalized. Gone are the days when, for example, a customer in the United States could only buy a car sold by a U.S. company and made in the United States. Now, cars produced by U.S. companies are increasingly made elsewhere (e.g., Mexico), and cars sold in the United States may be sold by foreign companies but made in the United States (e.g., Toyotas built in Georgetown, Kentucky). Indeed, more cars are produced in the United States by foreign producers than by U.S. producers.

How do automobile companies decide where to produce cars? As page 505 we discussed in this section of the chapter, there are many factors, including workforce education/skills and productivity, proximity to customer, and so forth. However, labor cost continues to be a major consideration. If you take a look at the following exhibit, you can compare Labor Cost (per hour) across countries, including within three parts of the world: Europe, North America, and Asia. In each region, there are low-labor-cost and high-labor-cost countries.

Can you guess where production grew and where it did not going forward from 2005? That's right: Production grew in low-labor-cost countries like Czechia (+138%), Mexico (+138%), and China (+350%). In contrast, production did not grow and indeed shrank somewhat in the high-labor-cost countries such as Germany (−19%), United States (−9%), Canada (−29%), and Japan (−10%). Note that the low-cost, high-growth countries like Czechia and Mexico are next door to the large car-buying markets of high-cost, low-growth countries such as Germany and the United States, respectively. Many new automobile plants built or announced for North America in recent memory are in Mexico. (The NAFTA trade deal and its new incarnation, USMCA, play a role here.) Even when new plants are located within the United States, they have been located in the southern part of the United States (e.g., BMW and Volvo in South Carolina, Daimler Benz in Alabama, Toyota in Kentucky, Texas, and Alabama, Volkswagen in Tennessee), where labor costs are not only generally lower, but labor union strength is also lower, as evidenced by the fact that no automobile assembly plant in the southern United States has been successfully organized by a labor union (which brings higher wages and benefits costs and more constraints on management). One recent exception, the first new car plant in Detroit in 30 years, will make Jeep Grand Cherokees starting in Spring 2021.

	Labor Cost per hour	Production (millions)	Production (millions)	Production % Change
	2005	2005	2019	2005 to 2019
Europe				
Germany	\$38.18	5.76	4.66	−19%
Czechia	\$7.28	0.60	1.43	+138%
North America				
United States	\$29.74	11.95	10.88	−9%
Canada	\$26.81	2.69	1.92	−29%
Mexico	\$5.36	1.68	3.99	+138%
Asia				
Japan	\$25.56	10.80	9.68	−10%
China	\$0.83	5.72	25.72	+350%

Source: Production Statistics from: International Organization of Motor Vehicle Manufacturers, <http://www.oica.net/>.

Labor cost data, which is for production workers in manufacturing, is from the U.S. Bureau of Labor Statistics.

Tesla is a unique car company. As of early 2021, it had a market value of \$800 billion, more than the market value of the next 8 largest car companies combined. But like traditional automobile companies, it faces international competition and must control/reduce its labor costs, or otherwise risk not being able to sell its cars at a competitive price. A few years ago, Tesla announced that it would reduce its workforce by 7%, or roughly 3,150 employees. Tesla's head, Elon Musk, described the challenge in an e-mail (also posted to the Tesla company blog) to employees: "Looking ahead at our mission of accelerating the advent of sustainable transport and energy, which is important for all life on Earth, we face an extremely difficult challenge: making our cars, batteries and solar products cost-competitive with fossil fuels.... [W]e need to reach more customers who can afford our vehicles." That affordability requires control of costs, including labor costs. Part of the plan for affordability is building more Teslas closer to customers, including in Berlin, Germany, and page 506 Shanghai, China. In the latter case, Tesla's February 8, 2021, 10-K (annual report) notes: "We established Gigafactory Shanghai to increase the affordability of our vehicles for customers in local markets by reducing transportation and manufacturing costs and eliminating the impact of unfavorable tariffs." Part of the lower manufacturing costs will come from wages in China being about 1/5th of what they are in the United States, as we saw earlier in [Table 11.9](#). Wages will not only be lower at Tesla, but also at companies in its supply chain, reducing those costs for Tesla as well.

DISCUSSION QUESTIONS

How important do labor costs appear to be in determining where companies manufacture automobiles?

What factors other than labor costs do firms consider when making production location decisions? Are there differences across companies? If so, what factors explain these differences? For example, do General Motors and Tesla make these decisions the same or differently?

Under what circumstances is a firm most likely to emphasize low labor costs versus other factors in locating production? Is one factor the nature of the product? Do firms have some products that are more mass market and some that are more customized?

SOURCES: Tesla Form 10-K, February 8, 2021, available at www.sec.gov or <https://ir.tesla.com/sec-filings>; Elon Musk, Company Update, Tesla Blog, January 18, 2019, <https://www.tesla.com/blog/tesla-company-update?redirect=no>; "Revamped Detroit Auto Plant to Start Making New Jeep by March," Associated Press, January 7, 2021, www.clickondetroit.com.

On the other hand, some firms are aggressively offshoring jobs (including professional or knowledge worker jobs) primarily to reduce labor costs. For example, financial services firms like Goldman Sachs and Citigroup now have significant numbers of employees in India doing statistical and research work at much lower pay levels.⁵⁵ As another example, IBM began to move thousands of programmer jobs overseas to countries such as China, where the hourly cost at the time was \$12.50/hour versus \$56/hour in the United States, potentially saving more than \$100 million per year.⁵⁶ In some cases, companies using low-cost labor overseas have decided that those workers are paid too little and pay more than would be necessary simply to attract and retain enough workers. For example, a few years ago, European garment retailers including H&M and Zara wrote to the prime minister of Cambodia "pledging" to pay owners of Cambodian garment suppliers more so that they could pay their workers more. Subsequently, the garment industry wage increased by over 50%.⁵⁷

Executive Pay

Explain the reasons for the controversy over executive pay.

The issue of executive pay has been given widespread attention in the press. In a sense, the topic has received more coverage than it deserves because there are very few top executives and their compensation often accounts for a small share of an organization's total labor costs. However, top executives have a disproportionate ability to influence organization performance, so decisions about their compensation are critical. They can also be symbolic. During the global financial crisis of 2007–2008, the U.S. government, as part of the Troubled Asset Relief Program (TARP), decided it was appropriate to further regulate executive pay in firms receiving government “bailout” money.

Top executives also help set the tone or culture of the organization. If, for example, the top executive's pay seems unrelated to the organization's performance, with pay staying high even when business is poor, employees may not understand why some of their own pay is at risk and fluctuates (not only up, but also down), depending on how the organization is performing.

How much do executives make? [Table 11.10](#) provides some data. Long-term incentives, typically in the form of stock plans, are the major component of CEO pay, which means that CEO pay varies with the performance of the stock market (see the “Annual Change in S&P 500” column). [Table 11.11](#) shows that some CEOs are paid well above the medians/averages shown in [Table 11.10](#).

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Table 11.10 Realized CEO Compensation

YEAR	CEO PAY						ANNUAL CHANGE IN CEO PAY	ANNUAL CHANGE IN S&P 500	WORKER PAY*	CEO PAY/ WORKER PAY**
	SALARY	BONUS (Short-term Incentive)	SALARY PLUS BONUS	STOCK OPTIONS (Long-term Incentive)	STOCK GRANTS*** (Long-term Incentive)	TOTAL PAY				
2020	\$1.1 million	\$1.8 million	\$2.9 million	\$0.0***	7.1 million	\$12.7 million	3%	16%	*****	—
2016	1.1 million	2.0 million	3.1 million	1.1 million	5.5 million	11.5 million	11	12	38,088	302
2015	1.1 million	2.0 million	3.1 million	1.1 million	5.1 million	10.4 million	1	1	37,186	280
2014	1.1 million	2.1 million	3.2 million	1.2 million	4.7 million	10.3 million	1	14	36,455	283
2013	1.1 million	2.0 million	3.1 million	1.4 million	4.2 million	10.2 million	11	32	35,555	287
2012	1.0 million	1.9 million	2.9 million	1.3 million	3.8 million	9.2 million	4	16	34,519	269
2011	1.0 million	2.0 million	3.0 million	1.7 million	3.3 million	8.9 million	*****	2	33,800	263
2010			3.0 million	3.0 million	2.5 million	8.5 million	—	—	33,119	258
2000			2.9 million	4.5 million	7.0 million	14.3 million	—	—	25,013	573

*Worker pay (annual) is based on establishment survey data on earnings of production and nonsupervisory workers on private nonfarm payrolls, U.S. Bureau of Labor Statistics, Employment & Earnings Online, Establishment Data from the Current Employment Statistics Survey (CES), National, Table B-8a, <https://www.bls.gov/opub/ee/archive.htm>. The December average weekly earnings number is multiplied by 52 to obtain worker pay (annual).

**Ratio of CEO pay to hourly employee pay.

***Through 2010, “other” compensation is included in this category. In most cases, the value of stock grants accounts for most of pay in this category.

****This indicates that the median was \$0.0. However, the mean was \$1.7 million in 2020.

*****Not computed due to change in definition of total compensation from a mean to a median.

NOTE: Through 2010, the three pay category averages of salary plus bonus, stock awards, and stock options add up to equal average total pay. Beginning in 2011, the pay categories do not add up to total pay because some compensation categories (non-equity incentive plan compensation, change in pension value and nonqualified deferred compensation earnings, all other compensation) reported in the Summary Compensation Table of

company proxy statements are excluded and because medians are used.

SOURCES: Through 2010, CEO pay data are averages from *Forbes* magazine. Through 1999 (1995 here), *Forbes* data pertain to the 800 largest companies. Beginning with year 2000 through 2010, *Forbes* data pertain to the 500 largest U.S. companies (S&P 500). Beginning in 2011, CEO pay data pertain to the 500 largest U.S. companies (S&P 500) and are *medians* (versus averages) from Equilar, *CEO Pay Trends* (multiple years), [Equilar.com](https://www.equilar.com/).

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Table 11.11 Highest-Paid Executives

	TOTAL COMPENSATION
Elon Musk (Tesla Inc.)	\$595 million
Tim Cook (Apple Inc.)	\$134 million
Tom Rutledge (Charter Communications Inc.)	\$117 million

SOURCE: Anders Melin and Cedric Sam, “Wall Street Gets the Flak, But Tech CEOs Get Paid All the Money,” [Bloomberg.com](https://www.bloomberg.com/news/articles/2020-07-10/wall-street-gets-the-flak-but-tech-ceos-get-paid-all-the-money), July 10, 2020.

As [Table 11.10](#) shows, the ratio of top-executive pay to that of an average worker has been at or just under 300 in recent years. (The ratio is much higher in some earlier years, usually because in those years average rather than median CEO pay was measured. Average pay is always higher than median pay for CEOs.) The ratio in the United States is higher than in the other largest world economies (China, Japan, Germany, United Kingdom).⁵⁸ Such comparisons, however, typically do not adjust for the fact that U.S. CEOs lead larger companies than those in comparison countries. Large companies pay more.

This ratio (or differential) has been described as creating a “trust gap”—that is, in employees’ minds, a “frame of mind that mistrusts senior management’s intentions, doubts its competence, and resents its self-congratulatory pay.” The issue becomes more salient when many of the same companies with high executive pay simultaneously engage in layoffs or other forms of employment reduction. Employees might ask, “If the company needs to cut costs, why not cut executive pay rather than our jobs?”⁵⁹ The issue is one of perceived fairness. One study, in fact, reported that business units with higher pay differentials between executives and rank-and-file employees had lower customer satisfaction, which was speculated to result from employees’ perceptions of inequity coming through in customer relations. Other evidence, however, suggests that high executive pay (and thus high differentials) that is a result of high executive performance (“explained” pay disparity) has more positive effects.⁶⁰ An important factor to consider in assessing how much executives are paid is how they are paid (i.e., whether their pay is performance based). This is an issue we return to in [Chapter 12](#).

Government Regulation of Employee Compensation

LO 11-8

Describe the regulatory framework for employee compensation.

We discuss equal employment opportunity, as well as minimum wage, overtime, and prevailing wage laws here. We also discuss regulation of executive compensation in [Chapter 12](#).

Equal Employment Opportunity

Equal employment opportunity (EEO) regulation (such as Title VII of the Civil Rights Act) prohibits gender- and race-based differences in employment outcomes such as pay, unless justified by business necessity (like pay differences stemming from differences in job performance). In addition to regulatory pressures, organizations must deal with changing labor market and demographic realities. At least two trends are directly relevant in discussing EEO.⁶¹ First, whereas women represented 33% of all employees in 1960, they now make up 47% of all employees. Second, since 1960, the percentage of whites among all employees has dropped from 90% to 78%. White men now account for 40% of all U.S. employment, and that percentage will probably continue to decline, making attention to EEO issues in compensation even more important.

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Is there equality of treatment in pay determination? Typically, the popular press focuses on raw earnings ratios. For example, among full-time workers, the ratio of female-to-male weekly median earnings is 0.82 (up from 0.60 in 1980).⁶² The ratio of Black-to-white (non-Hispanic) earnings is 0.75, and the ratio of Hispanic/Latino/a-to-white (non-Hispanic) earnings is 0.66.⁶³ In contrast, Asian Americans earn 14% more than whites.⁶⁴ Among executives, women appear to have lower pay than men, partly due to women being less likely to receive performance-based (e.g., stock and bonus-related) pay.⁶⁵

The usefulness of raw percentages is limited, however, because some portion of earnings differences arises from differences in legitimate factors: education, labor market experience, and occupation. Adjusting for such factors reduces earnings differences based on gender and race or ethnicity, but significant differences remain. With few exceptions, such adjustments rarely account for more than half of the earnings differential.⁶⁶

Some work has focused on pinpointing where women's pay falls behind that of men's. One finding is that the pay gap is wider where bonus and incentive payments (not just base salary) are examined. Other evidence indicates that women lose ground at the time they are hired and, in some cases, actually do better once they are employed for some time.⁶⁷ One interpretation is that when actual job performance (rather than the limited general qualification information available on applicants) is used in decisions, women may be less likely to encounter unequal treatment. If so, more attention needs to be devoted to ensuring fair treatment of applicants and new employees.⁶⁸ However, a "glass ceiling" is believed to exist in some organizations that allows women (and members of underrepresented racial and ethnic groups) to come within sight of the top echelons of management, but not advance to them (see the section [Melting the Glass Ceiling](#) in [Chapter 9](#)). In many cases, however, women's lower salaries in previous jobs are perpetuated through the common employer practice of asking applicants what they earned on their previous jobs. Thus, as the [Integrity in Action](#) box below in the chapter describes, some companies have directed their recruiters to stop asking applicants about their salary histories and some states and locales now prohibit such questions.

It is likely, however, that organizations will differ in terms of where women's earnings disadvantages arise. For example, advancement opportunities for women and other protected groups may be hindered by unequal access to the "old boy" or informal network. This, in turn, may be reflected in lower rates of pay. Mentoring programs have been suggested as one means of improving access. Indeed, one study found that mentoring was successful, having a significant positive effect on the pay of both men and women, with women receiving a greater payoff in percentage terms than men.⁶⁹

Another line of inquiry suggests that women's work has been historically under-valued. One explanation is that women were historically restricted to entering ("crowded" into) a small number of occupations. As a result, the supply of workers far exceeded demand, resulting in lower pay for such occupations. If so, market surveys would only perpetuate the situation. (See discussion of comparable worth.)

Pay Equity. This is the broadest term for policies and practices to eliminate pay discrimination. At the federal level, the Department of Labor (Office of Federal Contracts Compliance, OFCCP), which enforces Executive Order 11246, has standards and guidelines that prohibit race- or gender-based “systemic compensation discrimination.” This it defines as a situation “where there are statistically significant compensation disparities (as established by a regression analysis) between similarly situated employees, after taking into account the legitimate factors which influence compensation, such as education, prior work experience, performance, productivity, and time in the job.”⁷⁰ The OFCCP’s definition and preferred type of evidence in such cases varies to a degree over time, depending on the presidential administration, but it continues its focus on pay discrimination.⁷¹ Importantly, covered employers page 510 have an obligation to self-audit for pay discrimination and the OFCCP conducts audits of its own as well.⁷² Further, passage of the 2009 Lilly Ledbetter Fair Pay Act means that employers may face claims in situations where a discriminatory decision (e.g., a too small pay raise) was made many years earlier, but the effect (lower pay) continues into the more current period. The *National Law Review* advises employers that pay equity enforcement in the Biden administration will increase. To prepare, it advises: (a) “retaining legal counsel to conduct a privileged pay equity audit that will be protected from disclosure in the event of an OFCCP audit or employee lawsuit, (b) bolstering written compensation policies to identify all relevant factors the contractor may seek to rely upon in the event of an audit, and (c) reviewing the use of market compensation studies to ensure they are appropriately conducted and used in a way that does not perpetuate gender-based pay gaps.”⁷³

Comparable worth is a more specific term, which refers to a public policy that aims to remedy historical undervaluation of women’s work. The idea is to obtain equal pay, not just for jobs of equal content (already mandated by the Equal Pay Act of 1963 and the focus of Executive Order 11246) but also for jobs of equal value or worth. The legal argument was made using Title VII of the Civil Rights Act. Typically, in comparable worth, job evaluation is used to measure job worth. [Table 11.12](#), which is based on Washington State data from one of the first comparable worth cases years ago, compares measures of worth based on internal comparisons (job evaluation) and external comparisons (market surveys).⁷⁴ Disagreements between the two measures are apparent. Internal comparisons suggest that women’s jobs are underpaid, whereas external comparisons are less supportive of this argument. For example, although the licensed practical nurse job received 173 job evaluation points and the truck driver position received 97 points, the market rate (and thus the State of Washington employer rate) for the truck driver position was \$1,493 per month versus only \$1,030 per month for the nurse. The truck driver was paid 26.6% more than the pay policy line would predict, whereas the nurse was paid only 75.3% of the pay policy line prediction. Based on job evaluation points, the value of the nurse was 78.3% ($173/97 - 1$) higher, not 31.0% ($1 - \$1,030/\$1,493$) lower, as is seen in the market pay.

Table 11.12 Monthly Pay Relative to Market and Proportion Female in Job

BENCHMARK JOB TITLE	JOB EVALUATION POINTS	MARKET PAY	MARKET PAY AS PERCENTAGE OF PREDICTED PAY	PERCENT FEMALE IN JOB
Warehouse worker	97	\$1,286	109%	15%
Truck driver	97	1,493	127	15
Licensed practical nurse	173	1,030	75	90
Maintenance carpenter	197	1,707	119	2
Civil engineer	287	1,885	116	0
Registered nurse	348	1,368	76	92
Senior computer systems analyst	384	2,080	113	18

NOTE: Predicted salary is based on regression of prevailing market rate on job evaluation points: $\$2.43 \times \text{job evaluation points} + 936.19$, $R = 0.77$.

[Comparable worth](#)

A public policy that advocates remedies for any undervaluation of women’s jobs (also called pay equity).

One potential problem with using job evaluation to establish worth independent of the market is that job evaluation procedures were never designed for this purpose.⁷⁵ Rather, as demonstrated earlier, their major use is in helping to capture the market pay policy and then applying that to nonkey jobs for which market data are not available. In other words, job evaluation has typically been used to help apply the market pay policy, quite the opposite of replacing the market in pay setting.

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As with any regulation, there are also concerns that EEO regulation obstructs market forces, which, according to economic theory, provide the most efficient means of pricing and allocating people to jobs. In theory, moving away from a reliance on market forces would result in some jobs being paid too much and others too little, leading to an oversupply of workers for the former and an undersupply for the latter. In addition, some empirical evidence suggests that a comparable worth policy would not have much impact on the relative earnings of women in the private sector.⁷⁶ One limitation of such a policy is that it targets single employers, ignoring that men and women tend to work for different employers.⁷⁷ To the extent that segregation by employer contributes to pay differences between men and women, comparable worth would not be effective. In other words, to the extent that gender-based pay differences are the result of men and women working in different organizations with different pay levels, such policies will have little impact.

Perhaps most important, despite potential problems with market rates, the courts have consistently ruled that using the going market rates of pay is an acceptable defense in comparable worth litigation suits.⁷⁸ The rationale is that organizations face competitive labor and product markets. Paying less or more than the market rate will put the organization at a competitive disadvantage. Thus, there is no comparable worth legal mandate in the U.S. private sector. However, by the early 1990s, almost half of the states had begun or completed comparable worth adjustments to public-sector employees' pay. In 1988 the Canadian province of Ontario mandated comparable worth in both the private and public sectors. More recently, Canada passed the national Pay Equity Act, which is expected to come into force in 2021. Employers will have three years to achieve pay equity. The Act defines pay equity the same as comparable worth. Specifically, the Canadian Human Rights Commission, which has enforcement responsibility for the Act, states, "Pay equity is about equal pay for work of equal value" and "Pay equity is not about equal pay for equal work." (Previous laws cover the latter.)⁷⁹ As noted, the nature of federal pay equity efforts is likely to increase in the Biden administration. Of particular interest is the previously expressed view of the OFCCP director, Jenny Yang, that market compensation rates are not an appropriate justification for salary differentials. This takes us back to the essential argument of comparable worth.⁸⁰

Finally, [Table 11.13](#) provides an update of [Table 11.12](#) by comparing (U.S.) national data on pay and % Female from 1983 (roughly the time period of [Table 11.12](#)) and 2020. ([Table 11.13](#) uses occupations for which adequate data were available.) We can see there were small (in terms of percentage points, larger in terms of percentage change) decreases in occupational segregation. For example, in the case of civil engineer, there was a 12 percentage point increase in female representation, which represents a 300% increase. We also see that relative wages for the two female-dominated occupations (registered nurse and licensed practical nurse) increased over time, most notably for registered nurse, which went from 2.0 times to 2.4 times the pay of a warehouse worker between 1983 and 2020.

Table 11.13 Using National Data on Weekly Earnings and Proportion Female in Occupation, 1983 and 2020

	WEEKLY EARNINGS		WEEKLY EARNINGS, RELATIVE TO WAREHOUSE WORKER		% FEMALE	
	1983*	2020	1983	2020	1983	2020
Civil engineer	\$6,550	\$7,863	2.9	2.9	4	16
Registered nurse	\$4,606	\$6,455	2.0	2.4	96	87
Carpenter	\$3,693	\$4,404	1.6	1.6	1	3
Licensed practical nurse	\$3,189	\$4,042	1.4	1.5	97	90
Warehouse worker	\$2,275	\$2,678	1.0	1.0	15	21

*Adjusted for inflation: 2020 dollars.

SOURCES: Earl F. Mellor, "Weekly Earnings in 1983: A Look at More than 200 Occupations," *Monthly Labor Review*, 1985, www.bls.gov; Occupational Employment Statistics, U.S. Bureau of Labor Statistics, www.bls.gov; Labor Force Statistics from the Current Population Survey, Household Data, Annual Averages, www.bls.gov.

Minimum Wage, Overtime, and Prevailing Wage Laws

For covered ("nonexempt") employees, the 1938 [Fair Labor Standards Act \(FLSA\)](#) establishes a [minimum wage](#) for jobs, which, at least as of early 2021, still stood at \$7.25/hour. State and local laws can (and often do) specify higher (sometimes much higher) minimum wages. For example, the District of Columbia has a minimum wage of \$15.00.⁸¹ The city of San Francisco's minimum wage was \$16.32 in 2021 and is adjusted each year for inflation. The FLSA also permits a subminimum training wage that is approximately 85% of the minimum wage, which employers are permitted to pay most employees under the age of 20 for a period of up to 90 days.

[Fair Labor Standards Act \(FLSA\)](#)

The 1938 law that established the minimum wage and overtime pay.

[Minimum wage](#)

The lowest amount that employers are legally allowed to pay; the 1990 amendment of the Fair Labor Standards Act permits a subminimum wage to workers under the age of 20 for a period of up to 90 days.

The FLSA also requires that nonexempt employees be paid at a rate of one and a half times their hourly rate for each hour of overtime worked beyond 40 hours in a week. The hourly rate includes not only the base wage but also other components such as bonuses and piece-rate payments. The FLSA requires overtime pay for any hours beyond 40 in a week that an employer "suffers or permits" the employee to perform, regardless of whether the work is done at the workplace or whether the employer explicitly asked or expected the employee to do it. If the employer knows the employee is working overtime but neither moves to stop it nor pays time and a half, a violation of the FLSA may have occurred. A department store was the target of a lawsuit that claimed employees were "encouraged" to, among other things, write thank-you notes to customers outside of scheduled work hours but were not compensated for this work. Although the company denied encouraging this off-the-clock work, it reached an out-of-court settlement to pay between \$15 million and \$30 million in back pay (plus legal fees of \$7.5 million) to approximately 85,000 sales representatives it employed over a three-year period.⁸²

Technology has helped create a sharing economy. With a touch of your smart-phone, you can hail a car from Uber or schedule a housekeeper from Handy to clean your home or fix something in it. However, technology has also exposed gaps in employment law and raised challenges for workers and companies. Because these workers are often independent contractors, rather than employees, they are not covered by standard employment laws. Several sharing-economy companies have faced lawsuits by workers contending they should be treated as employees and

thus be covered by FLSA requirements such as for overtime and a minimum wage. Although Uber's own study reported that its drivers made an average of \$19/hour, that is before expenses. Drivers, especially those making less than \$19/hour (gross), may not have a net wage that reaches the (federal) minimum wage of \$7.25/hour, given that they supply their own vehicles and thus pay for expenses, including depreciation of their vehicles.⁸³

Executive, professional, administrative, outside sales, and certain "computer employees" occupations are [exempt](#) from FLSA coverage. *Nonexempt* occupations are covered and include most hourly jobs. Exempt status depends on job responsibilities and salary. All exemptions (except for outside sales) require that an employee be paid no less than \$684/week (or \$35,568/year).⁸⁴

[Exempt](#)

Employees who are not covered by the Fair Labor Standards Act. Exempt employees are not eligible for overtime pay.

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INTEGRITY IN ACTION

Making Questions about Salary History Off Limits

Companies such as Starbucks, Amazon, and Bank of America say they have directed their recruiters not to ask candidates about the salary or benefits they receive(d) in current or previous jobs. At Bank of America, for example, recruiters have gone through training that includes focusing on the salary ranges/grades the bank has established for each job. If an applicant meets the requirements of a job, then the applicant is to be paid accordingly. Starbucks not only stopped asking about previous salaries, it started sharing salary ranges with candidates who asked.

In other cases, laws apply. There are an increasing number of state and local laws that prohibit asking applicants about their salary histories. By one count, there are 20 states with such prohibitions for all employers (or in two cases, all private employers). In addition, within some other states, there are bans on asking about salary level in some localities. At the national level, it appears that the U.S. Congress may again take up the Paycheck Fairness Act, which would introduce a broadly applicable ban on salary history (as well as prohibit employers from retaliation against workers who discuss wages).

What is the rationale for not asking about salary history? To the extent that current salaries reflect discrimination against certain demographic groups (e.g., women), then deciding future salary based on past salary is likely to perpetuate such discrimination. Instead, the suggested alternative to achieving better pay equity is to assess applicant qualifications as objectively as possible and slot the new hire into the correct salary range and at the correct place in the salary range based on those qualifications, not on what a previous employer decided to pay for those qualifications.

Not everyone agrees with the idea of not asking about salary histories. Indeed, two states, Michigan and Wisconsin, passed laws prohibiting localities from banning salary history questions. A survey of chief human resource officers found that 65% believe it will do little to improve pay equity. A recent study suggests otherwise. Researchers at Boston University studied 14 states that implemented salary history bans in the last three years. They compared what happened in these states to adjacent counties in states without such bans. They found that these newly implemented salary history ban laws were associated with major pay increases for Black (+13%) and female (+8%) applicants taking new jobs in those states. The researchers also observe a trend toward including the salary range in job postings, even by employers not covered by salary history ban laws. The researchers infer this means that these employers have decided voluntarily to stop asking about salary history. (Data from WorldatWork bear this out, indicating that 56% of organizations surveyed prohibit salary history questions, regardless of whether

state/local laws prohibit it.) They suggest voluntarily stopping salary history questions may help make an employer more attractive to women and members of underrepresented ethnic and racial groups by showing it is taking real action to reduce discrimination.

DISCUSSION QUESTIONS

From the point of view of someone looking for a job, would you prefer that questions about your salary history be prohibited? Compare your thoughts to those of others in your class.

From the point of view of an employer, what are the pros and cons of a prohibition on asking questions about salary history? Are there steps that can be taken to replace salary history information in the pay-setting process? What are these?

SOURCES: Roy Maurer, "Most Employers Open to Negotiating Salary, Not Benefits: HR Is Still Working toward Equity in Compensation, Total Rewards," [SHRM.org](https://www.shrm.org), February 24, 2021; "States with Salary History Bans," *Paycor*, December 2, 2020, <https://www.paycor.com/resource-center/states-with-salary-history-bans>; Mark McGraw, "Resetting the Salary History Conversation," *Workspan Daily*, August 2020, [Worldatwork.com](https://www.worldatwork.com); Bruce Anderson, "The Single Biggest Step to Pay Equity? Stop Asking About Salary History," *LinkedIn: The Talent Blog*, June 30, 2020; James Bessen, Erich Denk, and James Kossuth, "Stop Asking Job Candidates for Their Salary History," *Harvard Business Review*, July 14, 2020.

The job responsibility criteria vary. For example, the executive exemption is based on whether two or more people are supervised; whether there is authority to hire and fire (or whether particular weight is given to the employee's recommendations); and whether the employee's primary duty is managing the enterprise, recognized page 514 department, or subdivision of the enterprise. The Wage and Hour Division (www.dol.gov/whd/), U.S. Department of Labor, and its local offices can provide further information on these definitions. (The exemptions do not apply to police, fire-fighters, paramedics, and other first responders.)

Two pieces of legislation—the Davis-Bacon Act of 1931 and the Walsh-Healey Public Contracts Act of 1936—require federal contractors to pay employees no less than the prevailing wages in the area. Davis-Bacon covers construction contractors receiving federal money of more than \$2,000. Typically, prevailing wages have been based on relevant union contracts, partly because only 30% of the local labor force is required to be used in establishing the prevailing rate. Walsh-Healey covers all government contractors receiving \$10,000 or more in federal funds.

Finally, employers must take care in deciding whether a person working on their premises is classified as an employee or an independent contractor. We return to this issue in [Chapter 13](#).



A LOOK BACK

Pay Levels, Labor Costs, and Pay Strategy

We began this chapter with a look at the major changes in business conditions and thus labor markets companies have faced. Although controlling compensation costs is important, it is especially important for some of these companies (e.g., Walmart) to be able to compete on price in their product markets. They also need to pay more to compete in their labor markets, which, prior to the pandemic, had become extremely competitive in recent years as the economy has recovered and grown and the unemployment rate has dropped. Not increasing compensation would make it more difficult to recruit and retain the quality of workforce needed in such conditions. In the case of Walmart, contributing to its decision to increase pay levels was labor market competition as well as the need to better execute its business strategy, including improving the customer experience, which required better workforce quality. The pandemic caused an abrupt decline in business for many companies and thus a similarly abrupt spike

in the unemployment rate. Although companies like Walmart and Amazon actually prospered, most companies took actions to reduce labor costs, at least temporarily. As we discussed, they had to balance cost control against being ready with enough qualified employees in place to drive sales and profits back up if, as expected, the economy bounced back. We also saw in this chapter how companies such as automobile makers continue to face challenges in controlling labor costs and thus also continue to use relative labor cost as an important decision in where they locate production plants. Thus, pay level and pay structure decisions influence the success of strategy execution by influencing not only labor costs but also workforce quality, as well as employee perceptions of equity. Different pay structures can also vary in the degree to which they provide flexibility and incentives for employees to learn and be productive.

QUESTIONS

What types of changes have the companies discussed in this chapter made to their pay levels and pay structures to support execution of their business strategies?

Would other companies seeking to better align their pay structures with their business strategies benefit from considering these types of changes? Why or why not?

SUMMARY

Equity theory suggests that social comparisons are an important influence on how employees evaluate their pay. Employees make external comparisons between their pay and the pay they believe is received by employees in other organizations. Such comparisons may have consequences for employee attitudes and retention. Employees also make internal comparisons between what they receive and what they perceive others within the organization are paid. These types of comparisons may have consequences for internal movement, cooperation, and page 515 attitudes (like organization commitment). Such comparisons play an important role in the controversy over executive pay, as illustrated by the focus of critics on the ratio of executive pay to that of lower-paid workers.

Pay benchmarking surveys and job evaluation are two administrative tools widely used in managing the pay level and job structure components of the pay structure, which influence employee social comparisons. Pay surveys also permit organizations to benchmark their labor costs against other organizations. Globalization is increasing the need for organizations to be competitive in both their labor costs and productivity. The nature of pay structures is undergoing fundamental changes in many organizations, including the move to fewer pay levels to reduce labor costs and bureaucracy, and a shift by some employers from paying employees for narrow jobs to giving them broader responsibilities and paying them to learn the necessary skills. How a new compensation program is decided on, designed, implemented, and communicated is perhaps just as important as its core characteristics.

KEY TERMS

[Pay structure, 479](#)

[Pay level, 479](#)

[Job structure, 479](#)

[Efficiency wage theory, 487](#)

[Benchmarking, 487](#)

[Rate ranges, 488](#)

[Key jobs, 488](#)

[Nonkey jobs, 488](#)

[Job evaluation, 489](#)

[Compensable factors, 489](#)

[Pay policy line, 490](#)

[Pay grades, 492](#)

[Range spread, 492](#)

[Compa-ratio, 494](#)

[Delaying, 500](#)

[Skill-based pay, 500](#)

[Comparable worth, 510](#)

[Fair Labor Standards Act \(FLSA\), 512](#)

[Minimum wage, 512](#)

[Exempt, 512](#)

DISCUSSION QUESTIONS

You have been asked to evaluate whether your organization's current pay structure makes sense in view of what competing organizations are paying. How would you identify the organizations with which to compare your organization? Why might your organization's pay structure differ from those in competing organizations? What are the potential consequences of having a pay structure that is out of line relative to those of your competitors?

Top management has decided that the organization is too bureaucratic and has too many layers of jobs to compete effectively. You have been asked to suggest innovative alternatives to the traditional "job-based" approach to employee compensation and to list the advantages and disadvantages of these new approaches.

If major changes of the type mentioned in Question 2 are to be made, what types of so-called process issues need to be considered? Of what relevance is equity theory in helping to understand how employees might react to changes in the pay structure?

Are executive pay levels unreasonable? Why or why not?

Your company plans to build a new manufacturing plant but is undecided where to locate it. What factors would you consider in choosing in which country (or state) to build the plant?

You have been asked to evaluate whether a company's pay structure is fair to women and members of underrepresented ethnic and racial groups. How would you go about answering this question?

SELF-ASSESSMENT EXERCISE



How Do You Rank on the Four Dimensions of Pay Satisfaction?

If you have been assigned this Self-Assessment in Connect, you will consider your current job or a job you had in the past in order to measure your pay satisfaction.

High Pay for Workers: Doing Well by Doing Good?

Earlier we saw that companies like Amazon and Target have raised their minimum pay to \$15/hour and Costco recently went to \$16/hour. American Family Insurance raised its minimum to \$20/hour. Taco Bell was experimenting with paying its store managers up to \$100,000 per year. Walmart did not raise its minimum starting pay beyond \$11/hour, but did raise pay for some other jobs. These increases were typically framed as hard-headed business decisions to better enable these firms to recruit and retain quality workers, something that was more challenging with the low unemployment rates prior to (and presumably following) the pandemic. In some cases, using a higher wage to recruit/retain higher quality workers was with the aim of having that translate into better customer experiences. A number of these companies have experienced substantial growth, making recruiting and retention even more of a challenge. Again, the common denominator was a focus on raising wages to increase profits. As the Costco CEO said, "this isn't altruism." Rather, "we know that paying employees good wages ... makes sense for our business and constitutes a significant competitive advantage for us."

However, one firm that has received a lot of attention says it did raise wages out of altruism. At Gravity Payments, a Seattle-based credit card payments processing company, founder and CEO Dan Price decided in 2015 to pay everyone a minimum salary of \$70,000/year. (That works out to roughly \$37/hour.) Why? As he tells it, he was walking with his friend Valerie in the mountains and she shared with him that her landlord had raised her monthly rent by \$200 and she was struggling to pay her bills. Mr. Price said it made him angry that Valerie, who served 11 years in the military and was working 50 hours a week in two jobs, was put in such a financially precarious position. "She is somebody for whom service, honor and hard work just defines who she is." He did not think she should have to live that way. Price was 31 at the time and earning more than \$1 million per year. But he began to realize that not just Valerie, but probably many of his other employees, were also struggling, especially to make ends meet in a place like Seattle. He wanted to do something about that. A number of indicators point to the difference it made. The amount of money employees voluntarily contributed to their retirement plans doubled. About 10% of employees have been able to buy a home (versus 1% previously). Some staff have been able to afford to live closer to work, cutting their commute, reducing stress and freeing up time. And although Price did not describe the move to \$70K as a business decision, his treatment of employees certainly seemed to resonate with a segment of customers as indicated by Gravity Payments' revenues almost tripling over the next five years.

Not everyone was happy with what Price did and his reason why. For example, the late radio talk show host Rush Limbaugh called Price a communist and went on to say, "I hope this company is a case study in MBA programs on how socialism does not work, because it's going to fail." Two Gravity employees also resigned because they disagreed with what Price did. Other Gravity employees felt it was unfair to raise pay so much without any clear evidence that the people receiving the raise would raise their productivity or contribution by a similar amount. Price had hoped what he did would spur other companies to take similar action. Although there were a few, Price was disappointed there were not more: "Boy, was I wrong," he said. But it worked for Gravity. Employees were better off and, as noted, company revenues grew also.

Then came the pandemic. Gravity Payments experienced about a 50% drop in its revenues. Without dramatic action, Price warned at an employee meeting that the company would run out of money in four months. He said he was not going to fire anyone, but they all needed to figure something out and fast. After considering options (e.g., an across the board pay cut) that did not seem like good choices, an employee made a suggestion: All employees would anonymously write down how much of a pay cut they were willing to take. In April, employees met again, with 98% agreeing to a cut. Ten said they would work for no pay and several dozen said they would work for 50% less. The solution Gravity actually adopted limited pay decreases to 50% and to 30% for those making less than \$100,000. That saved the company. By July 2020, the company's situation improved enough to rescind the pay cuts.

QUESTIONS

There is an expression that a company can do well by doing good. Is that what happened in this case? Explain.

What do you think was the motive for increasing minimum pay to \$70,000? Was it altruistic? Was it a business decision? Does it have to be one reason or can it have been done for multiple reasons?

Why were some critical of the idea? Do you agree or disagree? Explain why.

page 517 Dan Price was disappointed that not many other companies followed his example. Why do you think that is? What would be your advice to other companies about raising minimum pay to \$70,000?

SOURCES: Amir Barnea, "Dan Price Announced a Minimum Salary of \$70,000 to All of His 120 Employees Back in 2015. It Paid Off Big Time," *Toronto Star*, December 11, 2020; Stephanie Hegarty, "The Boss Who Put Everyone on 70K," [BBC.com](https://www.bbc.com/news/business-51748484), February 28, 2020.

MANAGING PEOPLE

Reporting the Ratio of Executive Pay to Worker Pay: Is It Worth the Trouble?

Section 953(b) of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act requires covered companies to report the ratio of annual total compensation of the chief executive officer (or any equivalent position) to the median of the annual total compensation of all other employees. In August 2015, the Securities and Exchange Commission (SEC) provided rules for companies to follow in computing and reporting the ratio.⁸⁵

Supporters of the rule, such as the AFL-CIO labor organization, argue that reporting the ratio will help rein in what it sees as exorbitant (and growing) levels of executive pay, especially when compared to what has happened to worker pay. According to an analysis of S&P 500 firms by the AFL-CIO, the ratio of CEO pay to typical U.S. worker pay rose from 42 in 1980 to 380 more recently.

The AFL-CIO and other supporters of the rule hope it will also encourage boards of directors to consider whether worker pay, which has grown more slowly than inflation (and as indicated above, much more slowly than CEO pay), should be higher. The AFL-CIO also argues that research shows that larger pay differentials between CEOs and rank-and-file workers lead to poorer firm performance due to perceptions of inequity and the negative effects that has on worker morale and productivity. There is also a feeling that when CEOs get paid as much as they do, too much credit goes to them for a firm's success and not enough to other employees.

Many companies see things differently. David Hirschmann, head of the U.S. Chamber of Commerce's Center for Capital Markets, says the ratio is not meaningful or helpful to investors and will instead be used as "a political tool to attack companies." Companies argue that with a global workforce and different payroll systems in different countries, computing the ratio is much more difficult than it would seem. For example, the consulting firm Accenture has 246,000 employees in 120 countries and a variety of payroll systems (and definitions of pay in different countries). Jill Smart, head of human resources at Accenture, says that the work required to compute the ratio of CEO to worker pay would be "quite incredible."

Other companies, however, are already doing it and have done so for years. They say it is not that difficult or costly. Whole Foods, for example, capped the ratio of executive to front-line worker pay at 19 about a decade ago. Mark Ehrnstein, a vice president there, says that it does not take months, but rather a few days, and that it does not cost "millions of dollars" to calculate the ratio.

QUESTIONS

Do you believe it is an undue burden on companies to compute and report the ratio of chief executive compensation to employee compensation? Why or why not?

Do you believe reporting this ratio will result in changes that benefit companies, employees, or society? Explain.

SOURCES: U.S. Securities and Exchange Commission, "SEC Adopts Rule for Pay Ratio Disclosure," Press Release 2015-160 (Washington, DC: Author, August 5, 2015),

<http://www.sec.gov/news/pressrelease/2015-160.html>; G. Morgenson, "Despite Federal Regulation, C.E.O–Worker Pay Gap Data Remains Hidden," *The New York Times*, April 10, 2015; L. Kwoh, "Firms Resist New Pay-Equity Rules," *The Wall Street Journal*, June 26, 2012; E. B. Smith and P. Kuntz, "CEO Pay 1,795-to-1 Multiple of Wages Skirts U.S. Law," www.bloomberg.com, April 29, 2013.

HR IN SMALL BUSINESS

The Riveter Builds Empowering Pay Practices

Amy Nelson began to think about salary structure in a new way after an employee of her start-up, The Riveter, asked for a raise. The employee had been on the job for just a few months, which suggested the employee was reconsidering whether the pay The Riveter had offered was adequate. The manager who brought the request to Nelson said this employee had discussed salary with a co-worker and learned that the co-worker was being paid more for a similar position.

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Until then, Nelson had not thought about paying her roughly 100 employees in a methodical way. Her own background was as a corporate lawyer in a professional firm where the culture assumed that everyone qualified to work there would be skilled at negotiation. In that environment, it felt rude to ask others about their pay. Now Nelson was running her own company, which offers coworking space, targeting female remote and independent workers. She had left her career in the law because she had experienced being denied opportunities when she became a mother. Unlike other companies offering space to workers, The Riveter also includes services to build a support network for members, with the intention they will help one another gain opportunities to succeed. Nelson realized she didn't have to fall back on her previous experience of another company's values and practices.

Nelson considered that her mission was to empower the women who use her workspaces, as well as the fact that her mostly young staff had grown up in an era of information sharing. She concluded that her organization's culture would require more openness, and this in turn required some structure that could be communicated to the employees. So under Nelson's leadership, The Riveter established pay bands for each position in the organization, and it made these public. Although Nelson recognized that individual employees might not be pleased with how they were paid relative to the others, she was determined to stick to the idea of empowering her employees by giving them access to information.

QUESTIONS

Besides the considerations described here, what are several other issues The Riveter should consider in developing its pay structure?

How should Amy Nelson expect her employees to judge the equity of their pay?

SOURCES: "Amy Nelson, The Riveter," My Founder Story, <https://www.myfounderstory.com>, accessed May 1, 2020; Susan Dominus, "Breaking the Salary Sharing Taboo," *The New York Times*, February 19, 2020, <https://www.nytimes.com>; Taylor Soper, "Women-Focused Co-working Startup The Riveter Cuts Five Positions as It Aims to Grow Digital Arm," *GeekWire*, January 17, 2020, <https://www.geekwire.com>; Anna Hecht, "Why This Former Lawyer Wants to Transform Workplaces 'Built by and for Men,'" *CNBC*, September 3, 2019, <https://www.cnn.com>.

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CHAPTER 12

Recognizing Employee Contributions with Pay



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO12-1 Discuss how pay influences individual employees, and describe three theories that explain the effect of compensation on individuals.](#)

[LO12-2 Describe the fundamental pay programs for recognizing employees' contributions to the organization's success.](#)

[LO12-3 List the advantages and disadvantages of the pay programs.](#)

[LO12-4 Describe how organizations combine incentive plans in a balanced scorecard.](#)

[LO12-5 Discuss issues related to performance-based pay for executives.](#)

[LO12-6 Explain the importance of process issues such as communication in compensation management.](#)

[LO12-7 List the major factors to consider in matching the pay strategy to the organization's strategy.](#)

ENTER THE WORLD OF BUSINESS

Employers and Employees Seek to Get through Challenging Times to Get to Better Times. Employers Keep an Eye on Fixed Costs

According to the Employment Cost Index, U.S. Bureau of Labor Statistics (BLS), employer costs (per employee) for wages and benefits combined grew 2.6% last year in private industry. For context, employment cost growth hit an all-time low of 1.2% in 2009, the year the unemployment rate peaked at a 25-year high of 10%. It then hovered around 2% until rising to 3.0% growth in 2018, the year the unemployment rate fell below 4%, a 49-year low. Then, the pandemic hit. The result was an increase in the unemployment rate to an annual level of 8.1% for 2020 and the slowing of labor cost growth to 2.6% as noted.

Actually, given the steep rise in the unemployment rate (even steeper on a monthly basis, going from 3.5% in February 2020 to 14.8% by April 2020), one might have expected a much slower growth in employment costs. However, the situation was complex. For example, as discussed in [Chapter 11](#), for some companies (e.g., Amazon) business boomed during the pandemic and a number of them implemented significant base pay increases to support employee recruiting and retention. Another set of companies saw business decline, but decided not to permanently cut pay or employment because the pandemic effects could be temporary and such cuts would make it difficult to effectively respond if business returned to what it had been: for many, boom times

and intense competition for employees. Not being ready for when business came back would mean lost profits.

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According to the Conference Board survey of employers, the actual salary increase budget decreased from 3.19% in 2019 to 2.60% in 2020, which is similar to the BLS data above (for salary and benefits combined). The Conference Board also reports that early in the pandemic, actions companies took to control employment costs included salary/wage cuts (11%), but more common was to cut bonuses (15%) or to defer pay increases or bonuses (23%). These actions again suggest that employers sought to reduce labor costs temporarily and cautiously to be prepared for when business picked up again. Government aid played a role for some industries and companies.

Before the pandemic, the role of bonuses in compensation had increased. As we will see, the average annual bonus (in companies that use such bonuses—not all do) ranges from about 6% of salary for lower paid employees to about 13% for employees at higher salary levels. That is much higher than the 3% merit (salary) increase budgets we have seen in typical years. A major reason is that bonuses (unlike salary increases) do not lead to an increase in fixed costs over time. It might be said that money put into salary is there forever. In contrast, a bonus is paid out year by year and does not become part of salary. It is temporary unless re-earned in future years. Bonuses give organizations flexibility, which is valuable if something unexpected and/or temporary happens (like a pandemic). For companies that use bonuses, which are often linked to profits, a drop in profits (as many companies experienced during the pandemic) automatically reduces bonus costs. For other companies where business stayed the same or increased (e.g., Amazon, Walmart) and that needed to provide an extra incentive to attract workers to stay with the company and physically come to work despite concerns about personal safety (e.g., as in a pandemic), bonuses are a way to help accomplish that by increasing employee pay, but on a temporary basis.

SOURCES: U.S. Bureau of Labor Statistics; Stephen Miller, “Pay Freezes Were Common in 2020,” [SHRM.org](https://www.shrm.org), February 23, 2021; “Employers Stay Cautious with 2021 Budgets,” Employment Cost Index Historical Listing—Volume V, Table 5, January 2021, <https://www.bls.gov/web/eci/ecicois.pdf>; Gad Levanon, Judit Torok, and Frank Steemers, “Salary Increase Budgets for 2021,” The Conference Board, 2020, <https://conference-board.org>; Hugh Son, “Bank of America Is Giving \$750 Cash Bonuses to Lower-Paid Employees, Restricted Stock to Others,” [CNBC.com](https://www.cnbc.com), January 22, 2021; Melissa Repko, “Walmart Gives Bonuses to Employees, Extends Emergency Leave as Pandemic Worsens,” [CNBC.com](https://www.cnbc.com), December 3, 2020; Jim Fickess, “Salary Increase Budgets Fall for First Time in 12 Years,” *Workspan Daily*, August 11, 2020; Maria Armental, “Amazon Promises \$500 Million in Holiday Bonuses for Front-Line Staff: Employees Working Full Time for All of December Will Qualify for a \$300 Payment,” [WSJ.com](https://www.wsj.com), November 27, 2020; Micah Maidenbergl, “Amazon to Pay \$500 Million in Bonuses for Front-Line Workers, Delivery Partners: Payout Comes After E-Commerce Giant Ended a Short-Term Pay Bump; Sales Have Shot Up During Coronavirus,” [WSJ.com](https://www.wsj.com), June 29, 2020; Jennifer Hodson, “More Companies Offer Employee Bonuses,” *The Wall Street Journal*, March 25, 2020.

Introduction

As the chapter opening illustrates, organizations must pay competitive salaries and benefits to compete in the labor market, which has tightened recently with unemployment rates dropping. At the same time, however, organizations must control labor costs (which influence product price) to compete in the product market. Employers have also learned to be especially careful about taking on fixed labor costs, although some (e.g., Amazon) have decided that objective must be put on hold given the current labor market situation.

[Chapter 11](#) discussed setting pay for jobs. In this chapter we focus on setting pay for individual employees. We examine how to use pay to recognize and reward employees' contributions to the organization's success. Employees' pay does not depend solely on the jobs they hold. Instead, differences in performance (individual, group, or organization), seniority, skills, and so forth are used as a basis for differentiating pay among employees.^{[1](#)}

In some cases, large amounts of compensation can be at stake.

Several key questions arise in evaluating different pay programs for recognizing contributions. First, what are the costs of the program? Second, what is the expected return (in terms of influences on attitudes and behaviors) from such investments? Third, does the program fit with the organization's human resource strategy and its overall business strategy? Fourth, what might go wrong with the plan in terms of unintended consequences? For example, will the plan encourage managers and employees page 526to pay more attention to some objectives (e.g., short-term sales) than to others (e.g., customer service, long-term customer satisfaction, and long-term sales)?

Organizations have a relatively large degree of discretion in deciding how to pay, especially compared with the pay-level decisions discussed in [Chapter 11](#). The same organizational pay level (or "compensation pie") can be distributed (shared) among employees in many ways. Whether each employee's share is based on individual performance, profits, seniority, or other factors (the "how" to pay decision), the size of the pie (and thus the cost to the organization, the "how much" to pay decision) can remain the same.

Regardless of cost differences, different pay programs can have very different consequences for productivity and return on investment. Indeed, a study of 150 organizations found not only that the largest differences between organizations had to do with how (rather than how much) they paid but also that these differences resulted in different levels of profitability.²

How Does Pay Influence Individual Employees?

LO 12-1

Discuss how pay influences individual employees, and describe three theories that explain the effect of compensation on individuals.

Pay plans are typically used to energize, direct, sustain, or control the behavior of current employees. We refer to the effect of pay plans (often with a focus on pay for performance plans) on current employees as an [incentive effect](#).³ (Later, we will introduce the concept of a sorting effect, which is how pay influences employee behaviors by how pay shapes the composition of the workforce.) Equity theory, described in [Chapter 11](#), is relevant here as well. Most employees compare their own pay with that of others, especially those in the same job. Perceptions of inequity may cause employees to take actions to restore equity. Unfortunately, some of these actions (like quitting, reduced effort, or lack of cooperation) may not help the organization.

[Incentive effect](#)

The effect a pay plan has on the behaviors of current employees.

Three additional, more detailed theories also help explain the effects of compensation: reinforcement, expectancy, and agency theories.

Components of the Strategic Reinforcement Theory

E. L. Thorndike's law of effect states that a response followed by a reward is more likely to recur in the future. The implication for compensation management is that high employee performance followed by a monetary reward will make future high performance more likely. By the same token, high performance not followed by a reward will make it less likely in the future. The theory emphasizes the importance of a person's actual experience of a reward.

Expectancy Theory

Although [expectancy theory](#) also focuses on the link between rewards and behaviors, it emphasizes expected (rather than experienced) rewards. In other words, it focuses on the effects of incentives. Behaviors (job performance) can be described as a function of ability and motivation. In turn, motivation is hypothesized to be a function of expectancy, instrumentality, and valence perceptions. Compensation systems differ according to their impact on these motivational components. Generally speaking, the main influence of compensation is on instrumentality: the perceived link between behaviors and pay. In other words, as an employee, will my outcomes be better (e.g., higher pay, faster promotions, more autonomy) if I perform well or is performance simply not very relevant to my outcomes? Valence of pay outcomes should remain the same under different pay systems. Expectancy perceptions (the perceived link between effort and performance) often have more to do with employee selection, job design, and training than with pay systems. (A possible exception would be skill-based pay, which directly influences employee training and thus expectancy perceptions.)

[Expectancy theory](#)

The theory that says motivation is a function of valence, instrumentality, and expectancy.

Intrinsic and Extrinsic Motivation

Although expectancy theory implies that linking an increased amount of rewards to performance will increase motivation and performance, some authors have used cognitive evaluation theory (and later, social determination theory) to question this assumption, arguing that monetary rewards may increase extrinsic motivation but decrease intrinsic motivation. Extrinsic motivation depends on rewards (such as pay and benefits) controlled by an external source, whereas intrinsic motivation depends on rewards that flow naturally from work itself (like performing interesting work).⁴ In other words, the concern would be that paying a child to read books may diminish the child's natural interest (intrinsic motivation) in reading, and the child may in the future be less likely to read books in the absence of monetary incentives.

Although monetary incentives may reduce intrinsic motivation in some settings (such as education), the evidence suggests that such effects are small and probably not very relevant to most work settings, where monetary payment is the norm.⁵ A meta-analytic review of field research found that intrinsic motivation was actually higher, not lower, when extrinsic incentives were in place. One reason that extrinsic incentives may not have an adverse effect on intrinsic motivation in the workplace is the sorting process (discussed shortly) in the labor market, which matches people, over time, to jobs that fit their preferences, including reward preferences (e.g., for intrinsic and/or extrinsic motivators).⁶ Further, evidence indicates that incentive pay has significant positive effects on performance, which is a function of both intrinsic and extrinsic motivation.⁷ Indeed, a recent meta-analysis (see the [Evidence-Based HR](#) box) confirmed positive effects of incentives in both interesting and uninteresting tasks and across all types of performance measures.⁸ Scholars in the study of creativity (thought to be an increasingly important organization capability) in organizations have proposed a revised model in which pay for performance can have positive synergistic effects with intrinsic motivation on creativity.⁹ Therefore, although money is not the only effective way to motivate behavior and monetary rewards will not always solve motivation problems, monetary rewards do not appear to run much risk of compromising intrinsic motivation in most work settings.¹⁰ And as we will see, although pay for performance has its risks, there may be more risk in not using it in terms of foregone performance.



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“People want to know that their hard work and their results are going to be rewarded appropriately, and that ultimately we don’t want to pay our lower performers the same as we pay our higher performers.”

—Timothy J. Richmond, Senior Vice President, Human Resources, AbbVie

Video produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Filmworks.

Agency Theory

Agency theory focuses on the divergent interests and goals of the organization’s stake-holders and the ways that employee compensation can be used to align these interests and goals. We cover agency theory in some depth because it provides especially relevant implications for compensation design.

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EVIDENCE-BASED HR

There is a longstanding debate about whether financial incentives, or pay for performance (PFP) more broadly, improve or undermine motivation and performance. Expectancy theory suggests a positive effect of PFP (especially via instrumentality and valence perceptions) to the degree valued outcomes (e.g., higher pay) are linked to performance. Reinforcement and agency theories are also consistent with a positive effect. In contrast, cognitive evaluation theory (CET), later part of self-determination theory (SDT), argues that “rewards such as money can certainly motivate behavior [but] appear to [do so] at the expense of intrinsic motivation” (Deci, 1972, pp. 224-25). As such, any improvement in extrinsic motivation due to incentives would be offset (or even dominated) by a decrease in intrinsic motivation. (Intrinsic motivation is doing something because it is internally or inherently interesting/enjoyable versus extrinsic motivation, which is doing something for an external reward.) Importantly, incentives are only a problem according to CET when work is intrinsically interesting/motivating. (In boring work there no intrinsic motivation to be undermined by incentives.) Thus, according to CET, incentives can be effective when work is uninteresting, but the more interesting the work, the greater the risk that using incentives will harm intrinsic (and overall) motivation and consequently, performance.

What did the empirical evidence say to help resolve this controversy? Well, there was a problem. There was no answer because two comprehensive reviews (specifically, meta-analyses) of research on this question found completely opposite results. Jenkins, Mitra, Gupta, and Shaw’s (1998) meta-analysis found a positive effect of incentives in interesting tasks. In contrast, a more recent meta-analysis by Weibel, Rost, and Osterloh (2010) found a negative effect of incentives on performance in interesting tasks. (Both found positive incentive effects in

uninteresting tasks.)

To resolve this situation, Kim, Gerhart, and Fang (2021) attempted to reproduce the two meta-analyses, as well as conduct a new meta-analysis incorporating studies from both of the two previous meta-analyses, as well as adding newly done studies also. There were two key findings from Kim et al.'s study.

First, they were able to use the same data used by Jenkins et al. and reproduce their finding of a positive effect of incentives in interesting tasks. In contrast, using the same data used by Weibel et al., they were not able to reproduce the finding of a negative effect of incentives on performance in interesting tasks.

Second, upon conducting a new meta-analysis, combining studies included by Jenkins et al. and Weibel et al., plus new studies, they found that incentives had a positive effect on performance in both interesting and noninteresting tasks and that the size of the effect was similar for both tasks. Overall, using incentives increased performance by about 20% (after adjusting for higher pay under incentives) versus not using incentives (e.g., paying a flat hourly wage).

Thinking for a moment about incentives and PFP broadly in the workplace, we know that employees care deeply about equity, including pay equity. Equity is defined as receiving rewards commensurate with contributions. How equitably treated would a high performer feel if paid the same year after year as a lower performer? Probably not very equitably. To help understand how employees may react (in terms of their behaviors) to perceptions of pay inequity, see our discussion of equity theory in [Chapter 11](#), and our discussion of sorting effects in the current chapter.

SOURCES: E. L. Deci, "The Effects of Contingent and Noncontingent Rewards and Controls on Intrinsic Motivation," *Organizational Behavior and Human Performance* 8 (1972), pp. 217–29; G. D. Jenkins, A. Mitra, N. Gupta, and J. D. Shaw, "Are Financial Incentives Related to Performance? A Meta-analytic Review of Empirical Research," *Journal of Applied Psychology* 83 (1998), pp. 777–87; J. H. Kim, B. Gerhart, and M. Fang, "Do Financial Incentives Help or Harm Performance in Interesting Tasks?" *Journal of Applied Psychology*, 2021, forthcoming; A. Weibel, K. Rost, and M. Osterloh, "Pay for Performance in the Public Sector—Benefits and (Hidden) Costs," *Journal of Public Administration Research and Theory* 20 (2010), pp. 387–412.

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An important characteristic of the modern corporation is the separation of ownership from management (or control). Unlike the early stages of capitalism, in which owner and manager were often the same, today, with some important exceptions (mostly smaller companies), most stockholders are far removed from the day-to-day operation of companies. Although this separation has important advantages (like mobility of financial capital and diversification of investment risk), it also creates agency costs—the interests of the [principals](#) (owners) and their [agents](#) (managers) may no longer converge. What is best for the agent, or manager, may not be best for the owner.

[Principal](#)

In agency theory, a person (e.g., the owner) who seeks to direct another person's behavior.

[Agent](#)

In agency theory, a person (e.g., a manager) who is expected to act on behalf of a principal (e.g., an owner).

Agency costs can arise from two factors. First, principals and agents may have different goals (goal incongruence). Second, principals may have less than perfect information about the degree to which the agent is pursuing and achieving the principal's goals (information asymmetry).

Consider three examples of agency costs that can occur in managerial compensation.¹¹ First, although shareholders seek to maximize their wealth, management may spend money on things such as perquisites (e.g., corporate jets) or "empire building" (making acquisitions that do not add value to the company but may enhance the

manager's prestige or pay). Second, managers and shareholders may differ in their attitudes toward risk. Shareholders can diversify their investments (and thus their risks) more easily than managers (whose only major source of income may be their jobs), so managers are typically more averse to risk. They may be less likely to pursue projects or acquisitions with high potential payoff. It also suggests a preference on the part of managers for relatively little risk in their pay (high emphasis on base salary, low emphasis on uncertain bonuses or incentives). Indeed, research shows that managerial compensation in manager-controlled firms is more often designed in this manner.¹² Third, decision-making horizons may differ. For example, if managers change companies more than owners change ownership, managers may be more likely to maximize short-run performance (and pay), perhaps at the expense of long-term success.

Agency theory is also of value in the analysis and design of nonmanagers' compensation. In this case, interests may diverge between managers (now in the role of principals) and their employees (who take on the role of agents).

In designing either managerial or nonmanagerial compensation, the key question is: How can such agency costs be minimized? Agency theory says that the principal must choose a contracting scheme that helps align the interests of the agent with the principal's own interests (that is, it reduces agency costs). These contracts can be classified as either behavior oriented (such as merit pay) or outcome oriented (stock options, profit sharing, commissions, and so on).¹³ The "performance" in pay for performance programs, including in outcome-based contracts, can take many forms besides the most common that rely on financial outcomes (e.g., stock, profit, and sales outcomes). For example, in the [Competing through Environmental, Social, and Governance Practices](#) box, the performance to be incentivized is in the area of diversity and inclusion and ESG more broadly.

At first blush, outcome-oriented contracts using financial outcomes seem to be the obvious solution. For example, if profits are high, compensation goes up. If profits drop, compensation goes down. The interests of "the company" and employees are aligned. An important drawback, however, is that such contracts also increase the agent's risk. And because agents are averse to risk, they may require higher pay (a compensating wage differential) to make up for it.¹⁴ Thus, a trade-off between risk and incentives must be considered. Outcome-oriented contracts are, for example, typically a major component of executive compensation.¹⁵

Behavior-based contracts, on the other hand, do not transfer risk to the agent and thus do not require a compensating wage differential. However, the principal must be able to overcome the information asymmetry issue. To do so the principal must either invest in monitoring (e.g., add more supervisors) and information or else revert, at least in part, to structuring the contract so that pay is linked at least partly to outcomes.¹⁶



COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Companies Provide Incentives to Executives to Improve Diversity and Inclusion and Achieve Broader ESG Goals as Well

Like many companies, Apple measures and compensates its senior executives primarily on the basis of meeting key financial goals. Now, for the first time, these executives will also be compensated based on their performance on ESG metrics. Starting in 2021, according to its most recent proxy statement (sent to shareholders in advance of the annual meeting), Apple will include an ESG "modifier" in determining the bonus (or annual incentive) part of executive compensation. Specifically, the bonus can be up to 10% larger if ESG goals are fully met versus 10% lower for low performance in meeting ESG goals. Microsoft, Intel, and IBM are examples of companies that already factor ESG performance into executive compensation. Apple's proxy statement does not provide much further detail, except to say that ESG performance will be evaluated "based on Apple values and other key community initiatives." Apple's values are Accessibility, Education, Environment, Inclusion and Diversity, Privacy and Security, and Supplier Responsibility.

While Diversity and Inclusion is included by Apple as part of its ESG goals, Starbucks is taking steps that focus even more specifically on diversity and inclusion. It announced that it will mandate anti-bias training for executives and that compensation for those at the level of senior vice president and above will depend in part on their success in increasing representation among minority ethnic groups in the Starbucks workforce. Starbucks said its goal is to have at least 30% of corporate employees and at least 40% of its U.S. retail and manufacturing employees be people of color by 2025. It says that it currently does not meet those goals in nine of the fourteen job levels that it tracks. In 2018, two Black men sitting at a table in a Philadelphia Starbucks were arrested. The company subsequently apologized and closed its U.S. corporate stores for one day to conduct anti-bias training. The Starbucks proxy statement provides some detail on how diversity and inclusion will play a larger role in executive compensation. In contrast to Apple, there will be a modifier not only in the bonus (annual incentive) plan, but also in the long-term incentive plan. One specific target is to increase Black, indigenous, and Hispanic representation by 5% or more over a three-year period.

DISCUSSION QUESTIONS

Do you believe that Apple and Starbucks are putting the appropriate weight on different types (e.g., financial, diversity/inclusion, ESG) of performance objectives? Why or why not?

Will the changes to compensation made by Apple and Starbucks have a sufficiently strong effect on achieving diversity/inclusion and ESG objectives? Explain the rationale for your view.

SOURCES: Eric Rosenbaum. "Apple's New Executive Bonus Formula Is Designed for the Fast-changing World We Live In," [CNBC.com](https://www.cnbc.com), January 16, 2021; Apple Proxy Statement, January 5, 2021, www.sec.gov (Form DEF14a); Starbucks Proxy Statement, January 8, 2021, www.sec.gov (Form DEF14a); Heather Haddon, "Starbucks Ties Executive Pay to 2025 Diversity Targets," *The Wall Street Journal*, October 14, 2020, [WSJ.com](https://www.wsj.com).

Which type of contract should an organization use? It depends partly on the following factors:¹⁷

Risk aversion. Risk aversion among agents makes outcome-oriented contracts less likely.

Outcome uncertainty. Profit is an example of an outcome. Agents are less willing to have their pay linked to profits to the extent that there is a risk of low profits. They would therefore prefer a behavior-oriented contract.

page 531 *Job programmability.* As jobs become less programmable (less routine), outcome-oriented contracts become more likely because monitoring becomes more difficult.¹⁸

Measurable job outcomes. When outcomes are more measurable, outcome-oriented contracts are more likely.¹⁹

Ability to pay. Outcome-oriented contracts contribute to higher compensation costs because of the risk premium.

Tradition. A tradition or custom of using (or not using) outcome-oriented contracts will make such contracts more (or less) likely.

In summary, the reinforcement, expectancy, and agency theories all focus on the fact that behavior–reward contingencies in pay for performance programs can shape behaviors. However, agency theory is of particular value in compensation management because of its emphasis on the risk–reward trade-off, an issue that needs close attention when companies consider variable pay plans, which can carry significant risk.

How Do Pay Sorting Effects Influence Labor Force Composition?

Traditionally, using pay to recognize employee contributions has been thought of as a way to influence the behaviors and attitudes of current employees, whereas pay level and benefits have been seen as a way to influence so-called membership behaviors: decisions about whether to join or remain with the organization. However, it is now recognized that individual pay programs may also affect the nature and composition of an organization's workforce.²⁰ For example, it is possible that an organization that links pay to performance may attract more high performers than an organization that does not link the two. There may be a similar effect with respect to job retention.²¹ This effect on workforce composition is sometimes referred to as a [sorting effect](#).

[Sorting effect](#)

The effect a pay plan has on the composition of the current workforce (the types of employees attracted and retained).

Continuing the analysis, different pay systems appear to attract people with different personality traits and values.²² Organizations that link pay to individual performance may be more likely to attract individualistic and risk-oriented employees, whereas organizations relying more heavily on team rewards are more likely to attract team-oriented employees. The implication is that the design of compensation programs needs to be carefully coordinated with the organization and human resource strategy. Increasingly, both in the United States and abroad, employers are seeking to establish stronger links between pay and performance.

Pay-for-Performance Programs

Differentiation in Performance and Pay

Many organizations seek to use pay to differentiate between employees (i.e., create pay dispersion) based on their performance, especially in jobs (e.g., higher job levels) where the consequences of good versus average versus poor performance become more important to organization performance.²³ Some evidence suggests that high performers can generate a disproportionate amount of value.²⁴ If so, paying high performers an amount they feel is equitable (see [Chapter 11](#)) to motivate them (i.e., achieve positive incentive effects), as well as to attract and retain them (i.e., achieve positive sorting effects), becomes increasingly important. Conventional page 532wisdom sometimes says that differentiation among individuals is ill advised in certain contexts (e.g., teams, collectivistic cultures, where creativity/innovation are critical), but the evidence does not support such simple claims and, indeed, differentiation/pay for individual performance can be important for success in these contexts also.²⁵ What we can say is that employees will pay close attention to why different employees get paid differently and how fair those differences are, and their perceptions of fairness will drive their behaviors. Here, it is important to remember that equity and equality are not the same thing. Higher performers will expect higher pay and believe that is more fair than being paid equal to lower performers.²⁶ The amount of differentiation that makes sense will depend on the level of interdependence and cooperation desired in a particular context.²⁷ Another consideration is how to employ technology effectively in using pay for performance, as the [Competing through Technology](#) box demonstrates.



COMPETING THROUGH TECHNOLOGY

Competitive Cost Pressures Mean Greater Use of Technology and Transformation of Business Models, Work, and Compensation in Financial Services

We have seen that retailers such as Amazon and Walmart continually look for ways to control or reduce labor costs. Automation (e.g., managing inventory in the warehouse, automated checkout in stores) is one avenue. We

also saw earlier that automobile companies share a similar focus on labor costs. Although they too have focused on automation, another strategy has been to increasingly locate automobile production in lower-labor-cost countries. Apple does something similar by using subcontractors operating in low-wage countries to assemble its iPhones. Of course, white-collar jobs are not immune to the efficiency imperative driven by product market competition. Here, we focus on financial services and specifically wealth management.

One important “shock” to the wealth management industry was the the “invention” of the passive (versus actively managed) mutual fund and investment strategy in the 1970s by John Bogle at Vanguard. The original Vanguard index fund he created in 1975 simply had its holdings mirror those of the S&P 500, rather than invest in significant research on each individual company and conduct related trades. As Bogle put it: “Don’t look for the needle in the haystack. Just buy the haystack!” (The passive index fund was initially derided as “Bogle’s folly.”) The passive approach of an index fund requires fewer financial professionals to manage fund investments, thus allowing that investment firm to reduce its labor costs and thus charge clients lower fees to manage their investments. Before John Bogle, mutual funds charged an average annual fee of 0.5% per year, with some as high as 2.0%. They also charged “sales loads” (commissions) on transactions, of up to 8.5%. Soon, Vanguard had fees of 0.27 % with no commissions and it became the largest mutual fund firm. (The creation in the tax code in 1978 of a new retirement vehicle, the 401(k), which went on to generate trillions in retirement assets to be invested, was also helpful.) Today, Vanguard’s average fee is 0.10% and it is the second largest in the industry with \$4.9 trillion in assets under management.

The search for lower costs and new revenue sources continues in the wealth management industry and financial services more broadly. Consider that Bank of America had 305,000 employees as of about 2007, but only about 200,000 today, even though (nominal) revenues have remained about the same. Much of this was due to the shift to artificial intelligence and robotic process automation, as well as consolidating data centers, which is enabled by being able to store data and applications in the cloud. Black-Rock Inc., the world’s largest asset manager, has begun to rely more heavily on “robots” (computer models) and less on human money managers to choose investments. The reason is that there is increasingly slim evidence that asset managers can generate better returns than computer models. The cost of employing asset managers is significant. page 533BlackRock’s customers are increasingly pushing back on paying investment fees that they feel may be out of line with investment returns. BlackRock feels it must respond. Low-cost, passive investing (e.g., index-based mutual funds) is a competing investment model that appeals to many customers, and BlackRock can offer this model using more technology and fewer people.

Goldman Sachs is testing a new automated investment service it anticipates offering to customers soon. The idea is to capture (automate) expertise once available only to Goldman’s richest clients in this digital service and offer it to a broader customer base. The new product will rely on the firm’s smart-beta ETFs and asset allocation models designed by its private wealth management group. At UBS, Chris Purves, head of UBS Group AG’s Strategic Development Lab, has worked on bringing algorithmic trading and machine learning to wealth management. He talks of the need to focus on what he calls human survivors of the tech revolution in wealth management. He says that the era of legendary gamblers in search of the \$100 million payday is over, to be replaced by increased bureaucratization and automation. It will make individuals’ judgment less important and consequently, reduce the need for extraordinary rewards that once came with extraordinary individual performance. Likewise, another observer noted, “Good traders used to be easily identifiable” and extremely valuable. But, now, trading is very “commoditized” and expert individual judgment is “being replaced by platforms and robots and people with different skillsets.” Even the industry’s highest paying jobs will be affected by the mismatch between skills and new work requirements, according to Cornell professor Marcos Lopez de Prado, the former head of machine learning at the hedge fund AQR Capital Management LLC. He says that many of the 6 million employed in finance and insurance will lose their jobs “because they are not trained to work alongside algorithms.”

Investment firms also continue to turn to automation in the ongoing push to cut costs amid the boom in passive investing discussed above. The growth of passive investing means that investors have low-cost alternatives to traditional asset managers, who’ve responded by cutting expenses. As we saw in [Chapter 11 \(Table 11.1\)](#), in firms

like Goldman Sachs and Bank of America, compensation costs account for about 50 to 60 percent of total operating costs. Thus, automation, combined with the growth in passive investing and lower fees will continue to put pressure on firms to control or reduce employment levels, as well as pay levels, especially as “stars” are replaced by or must learn to work with and rely more on automation.

DISCUSSION QUESTIONS

How does the move over recent decades to low-cost, passive investing help explain the growth of automation in these financial services firms?

How is the role of star investment wealth managers expected to change given the above trends?

SOURCES: Hugh Son, “Goldman Sachs, Once Reserved for the Rich, Is Close to Offering Wealth Management for the Masses,” [CNBC.com](https://www.cnbc.com), December 22, 2020; Katie Linsell and Lananh Nguyen, “The End of the Bonus Culture Is Coming to Wall Street,” www.bloomberg.com, January 13, 2020; H. Son, “Bank of America CEO Moynihan Says He Cut Jobs Equal to the Workforce of Delta Air Lines,” October 16, 2018, [CNBC.com](https://www.cnbc.com); S. Krouse, “BlackRock Shake-Up Favors Computers over Humans,” *The Wall Street Journal*, March 29, 2017.

Differentiation Strength/Incentive Intensity: Promise and Peril

A key decision in designing pay-for-performance plans concerns *incentive intensity*, the strength of the relationship between performance and pay (i.e., how strongly we differentiate in performance and pay). For example, if I increase (decrease) my performance by 20%, by what percent will my pay increase (decrease)? The larger the change in pay, the stronger the incentive intensity. For jobs in which objective, results-based measures of performance are available (e.g., sales, executives, stock brokers, investment bankers, investment portfolio managers, loan officers), incentive intensity tends to be higher, compared to jobs in which more subjective, behavior-based (e.g., performance ratings) must be used (e.g., staff jobs in human resources, accounting). It is generally more of a challenge to credibly link big differences in pay to subjective measures.

An important principle is that the stronger the incentive intensity, the stronger the motivation but also the greater the chance for unintended, undesirable consequences.²⁸ For instance, we can link the pay of an automobile repair shop manager to sales and that will likely drive higher sales. We hope the higher sales result from page 534efficiency and innovation in customer service, but we have to acknowledge the risk that higher sales may be driven by fixing things on customers’ cars that do not need fixing. Likewise, paying mortgage loan officers based on the mortgage revenue they create can generate more revenue, it is hoped again through outstanding customer service, but the risk is that loans will be given to people who cannot afford them, which can become a problem for the bank in the future. Similarly, we can pay teachers based in part on how well their students perform on standardized tests. But we need to safeguard against the possibility that some teachers may look for ways to increase scores through means other than better teaching. Finally, if a financial institution’s top executives believe the government will decide the institution is “too big to fail,” they may be likely to take larger investment risks (“excessive risk taking” to the government that subsequently decides it must bail out the firm if the risks go bad and to the shareholders who lose if bankruptcy ensues). This is especially a risk if the executives do not have the same downside risk faced by shareholders. We will see other risks of pay for performance in this chapter as well and also steps that companies and regulators have taken to avoid such risks (e.g., caps on bonuses, clawback provisions, balanced scorecards).

We will see another example of incentives gone wrong at Wells Fargo at the end of the chapter. One last example is Volkswagen. Volkswagen was discovered to have installed software that sensed when an engine was being tested for emissions and (temporarily) reduced emissions to a level that would pass the test. In actual driving conditions, however, VW diesel engines emitted emissions up to 40 times the legal limit. VW’s marketing campaign

had emphasized the wonder of the diesel engine's performance combined with environmental benefits, even though it was not true. That campaign in turn was a vital part of VW's Strategy 2018 growth plan to bypass General Motors and Toyota to become the world's largest automaker. Employees were subjected to tremendous pressure and intimidation from the top, cascading down to every level, to do whatever was necessary to achieve this growth goal (and keep their jobs). This apparently included engineers "willing to commit crimes to defraud the public." As a result of this scandal, multiple legal actions have been brought against the company. VW has entered into settlements of civil lawsuits brought by drivers who found themselves stuck with noncompliant vehicles. This includes the largest U.S. class action settlement ever. To date, its cost has been many billions of dollars. In an effort to avoid such problems in the future and to "quell investor ire" that executives earned large bonuses (despite their role in the scandal and large VW losses), the company is changing the way it pays. No bonuses will be paid in the future if certain financial objectives are not met. Base salary will be increased 30%, but the total amount of base salary plus bonus that an executive can receive will now be capped at \$10 million for the CEO and \$5.5 million for other board members. Also, for the first time, executives will be given company stock, presumably in an effort to better align their interests with those of shareholders. It appears that this stock-based compensation is not subject to the caps. Thus, if shareholders do well, executives can still do quite well.²⁹

The [Integrity in Action](#) box (and Exercising Strategy at the end of the chapter, which also deals with the pharmaceutical industry) provides another example. Novartis has revised the way it pays its salesforce such that achieving sales objectives alone is not sufficient. It has also revised how it pays its executives. Now, pay also depends on how those objectives are obtained. When one hears stories of what can go wrong with pay for performance, it may be tempting to choose a weaker incentive intensity to avoid such problems. That may be wise in some cases. However, one must be careful not to weaken incentive intensity too much, else the reward for high performance can become too weak to motivate employees. And if a competitor provides a pay-for-performance environment with stronger incentive intensity, your strong performers may decide to work there instead (i.e., a negative sorting result). So, as we have noted, there is also a risk to weakening incentive intensity/pay for performance too much.

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INTEGRITY IN ACTION

Novartis Changes the Way It Pays: Now, Not Just Whether, but also How, You Achieve Your Objectives Matters

Novartis is a health care solutions company based in Switzerland that includes medicines, pharmaceuticals, and eye care. On September 1, 2020, Novartis introduced a new Code of Ethics (replacing its former Code of Conduct) to back up its commitment "to ensuring our associates are empowered to do what's right." The Code of Ethics includes four principles: be open-minded, be honest, be bold, and be accountable. The Code includes commitments, including "anti-corruption," which states Novartis will "not tolerate any form of bribery or corruption" and goes on to specifically state "We will not give, offer or promise to give anything of value or accept, request or agree to receive anything of value for the purpose of improperly influencing any decisions. We will not use third parties to commit acts of bribery or corruption." There is also an Anti-Bribery Policy document. It includes the following under principles and rules: "Always ask yourself before offering, giving, or promising anything of value to any person if what you are considering could be viewed as having an illegitimate purpose. If the answer is yes, you must not proceed." In the section under Gifts, Hospitality, and Entertainment, the Policy states: "Gifts, hospitality, and entertainment must never be promised, offered, or provided with the intent of causing the recipient to do something favoring Novartis, to reward such behavior, or to refrain from doing something disadvantaging Novartis."

An impetus for the new Code of Ethics is that Novartis had an integrity problem having to do with unethical sales practices. Compensation and performance metrics have been changed to support the new Novartis Code of Ethics.

As one example, it changed how its salesforce is compensated. Under the revamped compensation system, which has been in place for two years, bonuses (also called variable pay) will be limited to no more than 35% of total compensation.

The Novartis General Counsel indicated that the change is intended to discourage unethical sales practices. This follows bribery scandals or legal settlements in China, South Korea, and the United States. In China, for example, it entered a settlement to address charges that it had bribed Chinese health care professionals in an effort to increase Novartis sales in China. More recently, the U.S. Justice Department announced a \$678 million settlement with Novartis over improper inducements to persuade doctors to prescribe Novartis drugs, including Lotrel for hypertension. It is the largest whistleblower settlement under federal law. The key whistle-blower was Ozzie Bilotta. According to the NBC News, when he began working at Novartis, it was his dream job. But, “he never thought he’d be bribing doctors and wearing a wire for the feds,” but he felt that “drastic action” was necessary to change how the pharmaceutical industry operated.

Going forward, employees will be rated on a three-point scale on “their values and behavior.” A rating of 3 indicates “role model” behavior and a rating of 2 indicates meeting expectations. A rating of 2 or 3 is required to receive any bonus. An employee falling short will face additional action, including the possibility of dismissal. Thus, strong sales performance will continue to be incentivized and rewarded (up to a point), but the sales must be achieved in the “right” way. The Novartis General Counsel reports that there has been a decline of 39% in reports of unethical conduct since the new compensation plan was implemented.

Novartis has also taken other steps to improve ethical conduct, including creating a new position, chief ethics and compliance officer, and this officer serves on the executive committee of the company. It has implemented new data analytics to help monitor compliance with ethical standards (and investigative procedures), and it has taken steps to change the culture to encourage more upward feedback from employees.

In addition, Novartis has also revised its five strategic priorities and these are used in performance evaluation and compensation of the CEO and other top executives. According to the Novartis proxy statement, the strategic priorities that serve as performance metrics in the annual incentive plan now include a dimension called “building trust with society.” This dimension (along with four other dimensions: innovation, operational excellence, data and digital, people and culture—another new dimension) have a 40% weight. (Financial performance is the basis for the remaining 60%.) Outstanding performance overall results in an annual incentive (bonus) payout of 170% to 200% of salary, whereas performance below expectations would result in no payout.

CEO Vas Narasimhan said Novartis is committed “to resolve and learn from legacy compliance matters. We are a different company today—with new leadership, a stronger culture, and a more comprehensive commitment to ethics embedded at the heart of our company.”

DISCUSSION QUESTIONS

What went wrong at Novartis? What were the causes? What can you infer about the nature of its former pay strategy and the role it may have played?

Consider Novartis’s revised pay strategy. How well do you think it will succeed going forward? Do you have suggestions for other changes? Explain.

SOURCES: Novartis, Proxy Statement (Form 20-F), January 26, 2021; Novartis, Code of Ethics: “Our Commitment to Doing What’s Right. Effective: September 1,” 2020 | ERC.301.V1.EN; Novartis, Anti-Bribery Policy, Effective November 1, 2020, Version ERC 100.V6.EN; Gretchen Morgenson, “It Was His Dream Job. He Never Thought He’d Be Bribing Doctors and Wearing a Wire for the Feds,” [nbcnews.com](https://www.nbcnews.com), July 7, 2020; Novartis AG Investor Relations, “ESG Investor Call, Investor Presentation,” September 17, 2018, www.novartis.com; A. Kanski, “Novartis Revises Bonus Structure to Promote Ethical Behavior,” *MM&M*, September 21, 2018; J. Miller, “Novartis Links Bonuses to Ethics in Bid to Rebuild Reputation,” *Reuters*, September 17, 2018, www.reuters.com.

Types of Pay for Performance: an Overview

LO 12-2

Describe the fundamental pay programs for recognizing employees' contributions to the organization's success.

[Table 12.1](#) classifies pay programs for recognizing employee contributions on the basis of three dimensions. First, programs differ depending on whether payouts become part of base pay (merit pay, skill-based pay), are a fixed cost, or are variable. Second, some programs (merit pay and merit bonuses) measure performance using primarily subjective measures, whereas others (e.g., incentive pay) rely on more objective performance measures. Third, performance can be measured at the individual level (e.g., merit pay) or at the unit (gainsharing) or organization level (profit sharing, ownership).

In compensating employees, an organization does not have to choose one program over another. Instead, a combination of programs is often the best solution.³⁰ For example, one program may foster teamwork and cooperation but not enough individual initiative. Another may do the opposite. Used in conjunction, a balance may be attained. Such balancing of objectives, combined with careful alignment with the organization and human resource strategy, may help increase the probability that a pay-for-performance program has its intended effects and reduce the probability of unintended consequences and problems.³¹ The balanced scorecard, which we discuss later in this chapter, is an example of a structured approach to balancing objectives. The fundamental principle is that we care about financial results, but we also care about *how* they are achieved and also how nonfinancial measures can be used, tracked, and influenced to achieve better future financial results. So, it also helps avoid too much short-term focus.³²

Merit Pay (and Merit Bonuses)

LO 12-3

List the advantages and disadvantages of the pay programs.

In traditional [merit pay](#) programs, annual base pay increases are usually linked to performance appraisal ratings. (See [Chapter 8](#).) Some type of merit pay program exists in almost all organizations.³³ In some cases, employers have moved toward a form of merit pay that relies on bonuses rather than increases to base pay. One reason for the widespread use of merit pay, or [merit bonuses](#), a form of variable pay, is its ability to define and reward a broad range of performance dimensions. (See [Table 12.2](#) for an example.) Indeed, given the pervasiveness of merit pay programs, we devote a good deal of attention to them here.³⁴

[Merit pay](#)

Traditional form of pay in which base pay is increased permanently.

[Merit bonus](#)

Merit pay paid in the form of a bonus, instead of a salary increase.

	MERIT PAY	MERIT BONUS	INCENTIVE PAY	PROFIT SHARING	STOCK OWNERSHIP/ STOCK OPTIONS	GAINSHARING	SKILL BASED
Design features							
Fixed (becomes part of base salary) or variable	Fixed	Variable (bonus)	Variable (bonus)	Variable (bonus)	Variable (equity changes)	Variable (bonus)	Fixed
Performance measure (subjective or objective)	Subjective (usually supervisor rating)	Subjective (usually supervisor rating), but higher-level jobs may include objective components also	Objective (e.g., productivity)	Objective (profit)	Objective (stock price/returns)	Objective (e.g., productivity, safety, rework, customer satisfaction)	Objective and/or subjective (certifying which skills are acquired)
Performance measure (individual or collective)	Individual	Individual, but higher-level jobs may include unit and/or organization outcomes.	Individual	Collective (organization)	Collective (organization)	Collective (unit)	Individual

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Table 12.2 Sample Performance Dimensions

Knows job
Takes initiative
Exercises good judgment
Inspires and develops others
Demonstrates interpersonal and teaming skills
Produces results

Basic Features. Many merit pay programs work off of a [merit increase grid](#). As [Table 12.3](#) indicates, the size and frequency of pay increases are determined by two factors. The first factor is the individual's performance rating (better performers receive higher pay). The second factor is position in range (that is, an individual's compa-ratio). So, for example, an employee with a performance rating that exceeds expectations and a compa-ratio of 120 would receive a pay increase of roughly 3%. By comparison, an employee with a performance rating of exceeds expectations and a compa-ratio of 85 would receive an increase of around 7%. (Note that the general magnitude of increases in such a table is influenced by inflation rates.) One reason for factoring in the compa-ratio is to control compensation costs and maintain the integrity of the pay structure. If a person with a compa-ratio of 120 received a merit increase of 7%, that person would soon exceed the pay range maximum. Not factoring in the compa-ratio would also result in uncontrolled growth of compensation costs for employees who continue to perform the same job year after year. Instead, some organizations think in terms of assessing where the employee's pay is now and where it should be, given a particular performance level. Consider [Table 12.4](#). An employee who consistently performs at the highest level is targeted to be paid at 111–120% of the market (i.e., a compa-ratio of 111–120). To the extent that the employee is far from that pay level, larger and more frequent pay increases are necessary to move the employee to the correct position. However, if the employee is already at that pay level, smaller pay increases will be needed. The main objective in the latter case would be to provide pay increases that are sufficient to maintain the employee at the targeted compa-ratio.

[Merit increase grid](#)

A grid that combines an employee's performance rating with his or her position in a pay range to determine the size and frequency of his or her pay increases.

Table 12.3 Merit Increase Grid

RECOMMENDED SALARY INCREASES BY PERFORMANCE RATING AND COMPA-RATIO			
	COMPA-RATIO ^a		
	80–90%	91–110%	111–120%
Performance rating			
Exceeds expectations	7%	5%	3%
Meets expectations	4	3	2
Below expectations	2	0	0

^aEmployee salary/midpoint of their salary range.

^aEmployee salary/midpoint of their salary range.

Table 12.4 Performance Ratings and Compa-Ratio Targets

PERFORMANCE RATING	COMPA-RATIO TARGET
Exceeds expectations	111–120
Meets expectations	91–110
Below expectations	Below 91

In controlling compensation costs, another factor that requires close attention is the distribution of performance ratings. (See [Chapter 8](#).) In many organizations, 60–70% of employees fall into the top two (out of four to five) performance rating categories.³⁵ This means tremendous growth in compensation costs because most employees will eventually be above the midpoint of the pay range, resulting in comparatios well over 100. To avoid this, some organizations provide guidelines regarding the percentage of employees who should fall into each performance category, usually limiting the percentage that can be placed in the top two categories. These guidelines are enforced differently, ranging from true guidelines to strict forced-distribution requirements.³⁶

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In general, merit pay programs have the following characteristics. First, they identify individual differences in performance, which are assumed to reflect differences in ability or motivation. By implication, system constraints on performance are not seen as significant. Second, the majority of information on individual performance is collected from the immediate supervisor. Peer and subordinate ratings are rare, and where they exist, they tend to receive less weight than supervisory ratings.³⁷ Third, there is a policy of linking pay increases to performance appraisal results.³⁸ Fourth, the feedback under such systems tends to occur infrequently, often once per year at the formal performance review session. Fifth, the flow of feedback tends to be largely unidirectional, from supervisor to subordinate.

Criticisms of Traditional Merit Pay Programs. Criticisms of this process have been raised. For example, W. Edwards Deming, a leader of the total quality management movement, argued that it is unfair to rate individual performance because “apparent differences between people arise almost entirely from the system that they work in, not from the people themselves.”³⁹ Examples of system factors include co-workers, the job, materials, equipment, customers, management, supervision, and environmental conditions. These are believed to be largely outside the worker’s control, instead falling under management’s responsibility. Deming argued that the

performance rating is essentially “the result of a lottery.”⁴⁰ Although that may be true for some jobs, for others (attorneys, consultants, investment bankers, athletes, salespeople, managers), there can be major differences in individual performance.⁴¹

Deming also argued that the individual focus of merit pay discourages teamwork: “Everyone propels himself forward, or tries to, for his own good, on his own life preserver. The organization is the loser.”⁴² As an example, if people in the purchasing department are evaluated based on the number of contracts negotiated, they may have little interest in materials quality, even though manufacturing is having quality problems.

Deming’s solution was to eliminate the link between individual performance and pay. This approach reflects a desire to move away from recognizing individual contributions. What are the consequences of such a move? It is possible that fewer employees with individual-achievement orientations would be attracted to and remain with the organization. One study of job retention found that the relationship between pay growth and individual performance over time was weaker at higher performance levels. As a consequence, the organization lost a disproportionate share of its top performers.⁴³ In other words, too little emphasis on individual performance may leave the organization with average and poor performers.⁴⁴

Thus, although Deming’s concerns about too much emphasis on individual performance are well taken, one must be careful not to replace one set of problems with another. Instead, there needs to be an appropriate balance between individual and group objectives. At the very least, ranking and forced-distribution performance-rating systems need to be considered with caution, lest they contribute to behavior that is too individualistic and competitive.⁴⁵

Another criticism of merit pay programs is the way they measure performance. If the performance measure is not perceived as being fair and accurate, the entire merit pay program can break down. One potential impediment to accuracy is the almost exclusive reliance on the supervisor for providing performance ratings, even though peers, subordinates, and customers (internal and external) often have information on a person’s performance that is as good as or better than that of the supervisor. A 360-degree performance feedback approach (discussed in [Chapter 9](#)) gathers feedback from each of these sources. To date, however, organizations have mainly used such data for development purposes and have been reluctant to use these multisource data for making pay decisions.⁴⁶

In general, process issues, including communication, expectation setting, and credibility/fairness, are important in administering merit pay and pay for performance.⁴⁷ In any situation where rewards are distributed, employees appear to assess fairness along two dimensions: distributive (based on how much they receive) and procedural (what process was used to decide how much).⁴⁸ Some of the most important aspects of procedural fairness, or justice, appear in [Table 12.5](#). These items suggest that employees desire clear and consistent performance standards, as well as opportunities to provide input, discuss their performance, and appeal any decision they believe to be incorrect.

Table 12.5 Examples of Procedural Justice in Merit Pay Decisions

Employees' Belief That in Evaluating Their Performance, Their Supervisor...

Was honest and ethical and tried to be fair

Considered your input

Used consistent standards

Provided feedback

Took the time to become familiar with your role and performance, including factors beyond your control

After a merit pay decision was made, was receptive to discussion of how the decision was made (and/or an appeal) and worked together to develop an action plan going forward

SOURCE: R. Folger and M. A. Konovsky, "Effects of Procedural and Distributive Justice on Reactions to Pay Raise Decisions," *Academy of Management Journal* 32 (1989), p. 115.

Perhaps the most basic criticism is that merit pay does not really exist. High performers, it is argued, are not paid significantly more than mediocre or even poor performers in most cases.⁴⁹ For example, consider the data in [Table 12.6](#). It shows that high performers received an average merit increase of 4.8%, compared to 2.9% for average performers. On a salary of \$60,000 per year, that is a difference of \$1,140 per year, or \$21.92 per week (before taxes). Critics of merit pay point out that this difference is probably not significant enough to influence employee behaviors or attitudes. Indeed, as [Table 12.7](#) indicates, the majority of employees do not believe there is much payoff to higher levels of performance in their organizations. Unless employees perceive such payoffs to be meaningful, their impact too is not likely to be meaningful.⁵⁰ Whether that view varies among high, average, and low performers is not known.

Table 12.6 Distribution of Performance Rating and Average Base Pay Increase as a Function of Performance (United States)

	PERCENT OF WORKFORCE	AVERAGE BASE PAY INCREASE
Highest-rated	7%	4.8%
Next highest-rated	30	3.8
Middle-rated	57	2.9
Low-rated	5	1.1
Lowest-rated	1	0.2

NOTE: Based on companies with a five-point rating scale.

SOURCE: Mercer, 2019/2020 US Compensation Planning Survey, www.mercer.com.

Table 12.7 Pay and Performance, Employee Perceptions

	% WHO AGREE
When I do a good job, my performance is rewarded.	40%
My organization does an adequate job of matching pay to performance.	46

SOURCE: Mercer, *What's Working™ Survey, United States*, www.mercer.com.

In fact, however, small differences in pay can accumulate into large differences over time. Consistently receiving 4.8% increases (versus 2.9%) over 30 years with a starting salary of \$60,000 would translate into a career salary advantage (before taxes) of roughly \$1,100,000 (net present value of roughly \$638,000, assuming a discount rate of 2.5%).⁵¹ Whether employees think in these terms is open to question. But even if they do not, nothing prevents an organization from explaining to employees that what may appear to be small differences in pay can add up to large differences over time.

Of course, the accumulation effect just described can also be seen as a drawback if it contributes to an entitlement mentality. Here the concern is that a big merit increase given early in an employee's career remains part of base salary "forever." It does not have to be re-earned each year, and the cost to the organization grows over time, perhaps more than either the employee's performance or the organization's profitability would always warrant. Merit bonuses (payouts that do not become part of base salary, a form of variable pay) are thus increasingly used by organizations in lieu of or in addition to merit increases. In fact, merit bonuses (see [Table 12.8](#)), in the companies that use them and for the employee groups they use them for, are now larger than traditional pay increases. Preliminary evidence suggests that merit bonuses may have a larger positive impact (compared to traditional merit increases) on future performance.⁵² If that result proves to be robust across organizations, it, together with the merit bonus advantage in terms of controlling fixed costs, likely goes far toward explaining the greater use of merit bonuses. The payoff to high performance that comes from merit bonuses adds to the payoff from merit increases.

Table 12.8 Merit Bonus as a Percentage of Salary, by Employee Group

HOURLY NONEXEMPT	SALARIED NONEXEMPT	SALARIED EXEMPT
5.6%	6.8%	11.0%

NOTE: Not all companies use merit bonuses. The table percentages apply only to those that do.

SOURCE: Willis Towers Watson. "Most U.S. Employers Planning Raises, Bonuses for 2021." www.willistowerswatson.com.

Finally, high-performing employees are also more likely to be promoted (into higher-paying jobs) and are also more likely to have higher-paying opportunities at alternative employers. Indeed, these are the major pathways through which employees increase their salaries (and earnings overall, including through bonus and stock plans) over the course of their careers, not through pay increases received within the same jobs.⁵³ Unless one believes that employees rise to higher job and pay levels over time primarily due to some other factor (chance, seniority), it seems likely that performance differences are largely responsible and determinative over time. All these factors can be communicated to employees to help them see the payoff to high performance. And the higher the performance, the more likely it is one can keep the job (and salary).⁵⁴

Individual Incentives

Like merit pay, individual incentives reward individual performance, but with two important differences. First, payments are not rolled into base pay. They must be continuously earned and re-earned. Second, performance is usually measured as physical output (such as number of water faucets produced) rather than by subjective ratings. Individual incentives have the potential to significantly increase performance. Ed Locke and his colleagues found that monetary incentives increased production output by a median of 30%—more than any other motivational device studied.⁵⁵

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Nevertheless, individual incentives, at least in their purest form, are relatively rare, covering roughly 7% of all U.S. workers and less than 4% of those outside of sales occupations. In fact, the amount of attention received by individual incentives in research (and the popular press) is arguably out of proportion with their (limited) presence in the workplace, especially relative to merit pay.⁵⁶ Why is that the case? First, most jobs (like those of many managers and professionals) have, strictly speaking, no physical output measure.⁵⁷ Instead, they involve what might be described as “knowledge work.” There may or may not be alternative objective measures of performance available (e.g., financial and/or operational), which are needed to use individual incentives. The balanced scorecard gives a good flavor of what objective performance outcomes for managers often look like when they are available. Second, even in jobs where physical output measures are available, potential administrative problems (such as setting and maintaining acceptable standards) often prove intractable.⁵⁸ Third, individual incentives may do such a good job of motivating employees that they do whatever they get paid for and nothing else. (For example, one *Dilbert* cartoon showed employees celebrating when told they would be paid for every software error they found and fixed. The implication was that they would deliberately write errors into the software and then fix them to earn as much money as possible.) Anything not included explicitly in the incentive plan risks being ignored.⁵⁹ Fourth, as the name implies, individual incentives, again if used in their purest/simplest form, typically do not fit well with a team approach. Fifth, they may be inconsistent with the goals of acquiring multiple skills and proactive problem solving. Learning new skills often requires employees to slow or stop production. If the employees are paid based on production volume, they may not want to slow down or stop. Sixth, some incentive plans, if not designed carefully, reward output volume at the expense of quality or customer service. Seventh, especially for lower-paid employees, the risk of a variable pay plan like incentive pay not paying off, perhaps because of factors beyond the employee’s control, is difficult to manage and/or may undermine motivation or cause unintended consequences such as gaming the system to protect income.

Therefore, although individual incentives carry potential advantages and, in fact, can have large positive effects, they are not likely to contribute to a flexible, proactive, quality-conscious, problem-solving workforce unless they can be designed to avoid the potential pitfalls described here.⁶⁰ Incorporating a broader range of objectives beyond physical output alone is one common step toward that end. Importantly, assessing performance not just in terms of output, but also whether it was achieved in a way that aligns with the values of the organization is important. (Again, see the Novartis experience in [Integrity in Action](#) as well as the examples in Exercising Strategy and Managing People at the end of the chapter.) We know that including such subjective assessments can incorporate fuller information and help mitigate potential pitfalls of strong incentives.⁶¹

Profit Sharing and Ownership

Profit Sharing. At the other end of the individual–group continuum are profit sharing and stock ownership plans.⁶² Under [profit sharing](#), payments are based on a measure of organization performance (profits), and the payments do not become part of the base salary. Profit sharing has two potential advantages. First, it may encourage employees to think more like owners, taking a broad view of what needs to be done to make the organization more

effective. Thus, the sort of narrow self-interest encouraged by individual incentive plans (and perhaps also by merit pay) is presumably less of an issue. Instead, increased cooperation and citizenship are expected. Second, because payments do not become part of base pay, but instead are variable pay, labor costs are automatically reduced during difficult economic times, and wealth is shared during good times. Consequently, organizations may not need to rely on layoffs as much to reduce costs during tough times.⁶³

Profit sharing

A compensation plan in which payments are based on a measure of organization performance (profits) and do not become part of the employees' base salary.

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Does profit sharing contribute to better organization performance? The evidence is not clear. Although there is consistent support for a correlation between profit sharing payments and profits, questions have been raised about the direction of causality.⁶⁴ For example, Ford, Chrysler, and GM all have profit sharing plans in their contracts with the United Auto Workers (UAW). (See [Table 12.9](#) for provisions of the GM–UAW plan.) Years ago, under an older profit sharing plan, the average profit sharing payment at Ford one year was \$4,000 per worker versus an average of \$550 per worker at GM and \$8,000 at Chrysler. Given that the profit sharing plans used were very similar, it seems unlikely that the profit sharing plans (through their effects on worker motivation) caused Ford and Chrysler to be more profitable. Rather, it would appear that profits were higher at Ford for other reasons (e.g., better cars), resulting in higher profit sharing payments.

Table 12.9 Profit Sharing at General Motors through 2023—United Auto Workers Contract

PROFITS BILLIONS \$			PAYOUT \$
–	<	1.25	0
1.25	<	1.50	1,250
1.50	<	1.75	1,500
1.75	<	2.00	1,750
2.00	<	2.25	2,000
2.25	<	2.50	2,250
Payouts continue in the amount of an additional \$1,000/employee per each additional \$1 billion in profits.			

NOTES: Employees working 1,850 or more hours per year receive the maximum payout. Those working fewer hours receive a prorated payout based on their hours worked. Profits are defined as operating income (earnings before interest and taxes) for North America (only). Effective 2019, each additional \$1 billion in profits beyond \$3.25 billion continues to increase profit sharing payout by \$1,000. Prior to 2019, profit sharing payouts were capped at \$12,000.

SOURCE: Contract Summary: Hourly Workers, UAW, 2015, 2019, https://uaw.org/wp-content/uploads/2019/10/56100-UAW_hourly-1.pdf.

This example also helps illustrate the fundamental drawback of profit sharing. Why should automobile workers at GM receive profit sharing payments that are only 1/15 the size received by those doing the same type of work at Chrysler? Is it because Chrysler UAW members performed 15 times better than their counterparts at GM that year? Probably not. Rather, workers are likely to view top-management decisions regarding products, engineering, pricing, and marketing as more important. As a result, with the exception of top (and perhaps some middle) managers or plans that cover a small number of employees (i.e., in small companies), most employees are unlikely to see a strong connection between what they do and what they earn under profit sharing. This means that performance motivation is likely to change very little under profit sharing. Consistent with expectancy theory, motivation depends on a strong link between behaviors and valued consequences such as pay (instrumentality

perceptions).

Another factor that reduces the motivational impact of profit sharing plans is that most plans are of the deferred type. Roughly 16% of full-time employees in mediumsize and large private establishments participate in profit sharing plans, but only 1% of employees overall (about 6% of those in profit sharing plans) are in cash plans where profits are paid to employees during the current time period.⁶⁵

Not only may profit sharing fail to increase performance motivation, but employees may also react very negatively when they learn that such plans do not pay out during business downturns.⁶⁶ First, they may not feel they are to blame because they have been performing their jobs well. Other factors are beyond their control, so why should they be penalized? Second, what seems like a small amount of at-risk pay for a page 544manager earning \$80,000 per year can be very painful to someone earning \$15,000 or \$20,000. As such, one theoretical advantage of profit sharing—that it makes labor costs variable and more in line with ability to pay—may not always be realized. A caveat is that making labor costs more variable (including downward) may be more feasible in companies that have been under financial duress and face serious long-term competitive challenges. An example would be the automobile industry. Their recent performance has been strong, which has translated into high profit sharing payments for employees. However, as we have also seen, salary increases (which become fixed costs) at the automobile companies have been rare in recent years.

Consider the case of the Du Pont Fibers Division, which had a plan that linked a portion of employees' pay to division profits.⁶⁷ After the plan's implementation, employees' base salary was about 4% lower than similar employees in other divisions unless 100% of the profit goal (a 4% increase over the previous year's profits) was reached. Thus, there was what might be called downside risk. However, there was also considerable upside opportunity: If 100% of the profit goal was exceeded, employees would earn more than similar employees in other divisions. For example, if the division reached 150% of the profit goal (6% growth in profits), employees would receive 12% more than comparable employees in other divisions.

Initially, the plan worked fine. The profit goal was exceeded, and employees earned slightly more than employees in other divisions. In the following year, however, profits were down 26%, and the profit goal was not met. Employees received no profit sharing bonus; instead, they earned 4% less than comparable employees in other divisions. Profit sharing was no longer seen as a very good idea. Du Pont management responded to employee concerns by eliminating the plan and returning to a system of fixed base salaries with no variable (or risk) component. This outcome is perhaps not surprising from an agency theory perspective, which suggests that employees must somehow be compensated to assume increased risk.

One solution some organizations choose is to design plans that have upside but not downside risk. In such cases, when a profit sharing plan is introduced, base pay is not reduced. Thus, when profits are high, employees share in the gain, but when profits are low, they are not penalized. Such plans largely eliminate what is purported to be a major advantage of profit sharing: reducing labor costs during business downturns. During business upturns, labor costs will increase. Given that the performance benefits of such plans are not assured, an organization runs the risk under such plans of increasing its labor costs with little return on its investment.

In summary, although profit sharing may be useful as one component of a compensation system (to enhance identification with broad organizational goals), it may need to be complemented with other pay programs that more closely link pay to outcomes that individuals or teams can control (or "own"), particularly in larger companies. In addition, profit sharing runs the risk of contributing to employee dissatisfaction or higher labor costs, depending on how it is designed. However, moving beyond concerns about its motivation impact, profit sharing does have the major advantage of making labor costs more variable, a major advantage when sales and profits decline.

Ownership (Including Stock Options). Recent data show that in the neighborhood of 20 million Americans own stock in the companies for which they work.⁶⁸ Employee ownership is similar to profit sharing in some key respects, such as encouraging employees to focus on the success of the organization as a whole. In fact, with ownership, this focus may be even stronger. Like profit sharing, ownership may be less motivational the larger the

organization. And because employees may not realize any financial gain until they actually sell their stock (typically upon leaving the organization), the link between pay and performance may be even less obvious than under profit sharing. Thus, from a reinforcement theory standpoint (with its emphasis on actually experiencing rewards), the effect on performance motivation may be page 545limited.⁶⁹ Some argue that any positive effect of ownership programs may alternatively (or also) occur by fostering a sense of participation, collaboration, and/or social exchange.⁷⁰

One way of achieving employee ownership is through [stock options](#), which give employees the opportunity to buy stock at a fixed price. Say the employees receive options to purchase stock at \$10 per share in 2016, and the stock price reaches \$30 per share in 2021. They have the option of purchasing stock (“exercising” their stock options) at \$10 per share in 2021, thus making a tidy return on investment if the shares are then sold. If the stock price goes down to \$8 per share in the year 2021, however, there will be no financial gain. Therefore, employees are encouraged to act in ways that will benefit the organization.

[Stock options](#)

An employee ownership plan that gives employees the opportunity to buy the company's stock at a previously fixed price.

For many years, stock options had typically been reserved for executives in larger, established companies. Then, there was a trend for some years toward pushing eligibility farther down in the organization.⁷¹ In fact, many companies, including PepsiCo, Merck, McDonald's, Walmart, and Procter & Gamble, began granting stock options to employees at all levels. Among start-up companies like those in the technology sector, these broad-based stock option programs have long been popular and companies like Microsoft and Cisco Systems attribute much of their growth and success to these option plans. Some studies suggest that organization performance is higher when a large percentage of top and mid-level managers are eligible for long-term incentives such as stock options, which is consistent with agency theory's focus on the problem of encouraging managers to think like owners.⁷² However, it is not clear whether these findings would hold up for lower-level employees, particularly in larger companies, who may see much less opportunity to influence overall organization performance. Another issue with options is whether executives and employees place sufficient value on them, given their cost.⁷³

The Golden Age of stock options has faded some. Investors have long questioned the historically favorable tax treatment of employee stock options. In 2004, the Financial Accounting Standards Board (FASB) issued FAS 123R, a landmark change, requiring companies to expense options on their financial statements, which reduces reported net income, dramatically in some cases. Microsoft decided to eliminate stock options in favor of actual stock grants. This is partly in response to the new accounting standards and partly in recognition of the fact that Microsoft's stock price is not likely to grow as rapidly as it once did, making options less effective in recruiting, retaining, and motivating its employees. It appears that many companies are cutting back on stock options overall, and especially for nonexecutive employees.

Those companies that continue to use broad-based stock options have encountered difficulties in keeping employees motivated during years when there has been a steep decline in stock prices. For example, in 2009 Google's stock price dropped to \$306, down from \$741 in 2007, putting many employee stock options “underwater” (i.e., the stock price was under the option/exercise price), meaning that employees were not able to make any gain from exercising their options. Google's answer to this situation was an option exchange where employees turned in their underwater options in return for options having an exercise price equal to the current (lower) stock price. The hope was that employee motivation and retention would be reinvigorated.⁷⁴ As another example of the challenge in using stock-based compensation, one estimate was that (nonexecutive) employees of Facebook and of Zynga experienced declines in the value of their company stock and stock options of \$7.2 billion and \$1.4 billion, respectively, after initial public offerings of stock.⁷⁵ (Now, some years later, it seems like things have worked out OK for them!)

[Employee stock ownership plans \(ESOPs\)](#), under which employers give employees stock in the company, are the most common form of employee ownership, with the number of employees in such plans increasing from 4 million in 1980 to about 14 million in 2017 in the United States.⁷⁶ Including non-ESOP stock option, stock purchase, and stock-based retirement plans, it is estimated that about 28 million U.S. employees own some portion of the companies for which they work, controlling about 8% of U.S. corporate equity. In Japan, most companies listed on Japanese stock markets have an ESOP, and these companies appear to have higher average productivity than non-ESOP companies.⁷⁷ ESOPs raise a number of unique issues. On the negative side, they can carry significant risk for employees. An ESOP must, by law, invest at least 51% of assets in its company's stock, resulting in less diversification of investment risk (in some cases, no diversification). Consequently, when employees buy out companies in poor financial condition to save their jobs, or when the ESOP is used to fund pensions, employees risk serious financial difficulties if the company does poorly.⁷⁸ This is not just a concern for employees, because, as agency theory suggests, employees may require higher pay to offset increased risks of this sort.

[Employee stock ownership plans \(ESOPs\)](#)

An employee ownership plan that provides employers certain tax and financial advantages when stock is granted to employees.

ESOPs can be attractive to organizations because they have tax and financing advantages and can serve as a takeover defense (under the assumption that employee owners will be "friendly" to management). ESOPs give employees the right to vote their securities (if registered on a national exchange).⁷⁹ As such, some degree of participation in a select number of decisions is mandatory, but overall participation in decision making appears to vary significantly across organizations with ESOPs. Some studies suggest that the positive effects of ownership are larger in cases where employees have greater participation,⁸⁰ perhaps because the "employee-owner comes to psychologically experience his/her ownership in the organization."⁸¹

Overall, however, meta-analytic evidence finds a small, positive relationship of employee ownership with firm performance.⁸²

Gainsharing, Group Incentives, and Team Awards

Gainsharing. [Gainsharing](#) programs offer a means of sharing productivity gains with employees. Although sometimes confused with profit sharing plans, gainsharing differs in two key respects. First, instead of using an organization-level performance measure (profits), the programs measure group or plant performance, which is likely to be seen as more controllable by employees. Second, payouts are distributed more frequently and not deferred. In a sense, gainsharing programs represent an effort to combine the best features of organization-oriented plans like profit sharing and individual-oriented plans like merit pay and individual incentives. Like profit sharing, gainsharing encourages pursuit of broader goals than individual-oriented plans do. But, unlike profit sharing, gainsharing can motivate employees much as individual plans do because of the more controllable nature of the performance measure and the frequency of payouts. Studies indicate that gainsharing improves performance.⁸³

[Gainsharing](#)

A form of group compensation based on group or plant performance (rather than organization wide profits) that does not become part of the employee's base salary.

One type of gainsharing, the Scanlon plan (developed in the 1930s by Joseph N. Scanlon, president of a local union at Empire Steel and Tin Plant in Mansfield, Ohio), provides a monetary bonus to employees (and the organization) if the ratio of labor costs to the sales value of production is kept below a certain standard. [Table 12.10](#) shows a modified (i.e., costs in addition to labor are included) Scanlon plan. Because actual costs (\$850,000) were less than allowable costs (\$907,500) in the first and second periods, there is a gain of \$57,500. The

organization receives 45% of the savings, and the employees receive the other 55%, although part of the employees' share is set aside in the event that actual costs exceed the standard in upcoming months (as [Table 12.10](#) shows did occur).

Table 12.10 Example of Gainsharing (Modified Scanlon Plan) Report

ITEMS	AVERAGE OF 1ST AND 2ND PERIODS	AVERAGE OF 2ND AND 3RD PERIODS
Sales in dollars	\$2,000,000	\$2,000,000
Inventory change and work in process	200,000	200,000
Sales value of production	2,200,000	2,200,000
Allowable costs (85% × 3 above)	1,870,000	1,870,000
Actual costs	1,700,000	1,880,000
Gain (4–5 above)	170,000	(10,000)
Employee share (50% of 6 above)	85,000	(5,000)
Monthly reserve (20% of 7 above)*	17,000	(5,000)
Bonus to be distributed (7–8)	68,000	0
Company share (50% of 6 above)	85,000	(5,000)
Participating payroll	264,000	264,000

Bonus percentage (9/11)	26%	0%
Monthly reserve (8 above)	17,000	(5,000)
Reserve at the end of last period	0	17,000
Year-end reserve to date	17,000	12,000

* If no bonus, 100% of 7 above

SOURCE: From *Gainsharing and Goalsharing: Aligning Pay and Strategic Goals*, by K. Mericle and D. O. Kim.

Gainsharing plans like the Scanlon plan and pay-for-performance plans in general often encompass more than just a monetary component. There is often a strong emphasis on taking advantage of employee know-how to improve the production process through problem-solving teams and suggestion systems.⁸⁴ A number of recommendations have been made about the organization conditions that should be in place for gainsharing to succeed. Commonly mentioned factors include (1) management commitment; (2) a need to change or a strong commitment to continuous improvement; (3) management's acceptance and encouragement of employee input; (4) high levels of cooperation and interaction; (5) employment security; (6) information sharing on productivity and costs; (7) goal setting; (8) commitment of all involved parties to the process of change and improvement; and (9) agreement on a performance standard and calculation that is understandable, seen as fair, and closely related to managerial objectives.⁸⁵

Group Incentives and Team Awards. Whereas gainsharing plans are often plant-wide, group incentives and team awards typically pertain to a smaller work group.⁸⁶ Group incentives (like individual incentives) tend to measure performance in terms of physical output, whereas team award plans may use a broader range of performance measures (like cost savings, successful completion of product design, or meeting deadlines). As with individual incentive plans, these plans have a number of potential drawbacks. Competition between individuals may be reduced, but it may be replaced by competition between groups or teams. Also, consistent with our earlier discussion of pay effects on workforce composition, any plan that does not adequately recognize differences in individual performance risks demotivating top performers or losing them. Finally, as with any incentive plan, a standard-setting process must be developed that is seen as fair by employees, and these standards must not exclude important dimensions such as quality.

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Balanced Scorecard

LO 12-4

Describe how organizations combine incentive plans in a balanced scorecard.

As the preceding discussion indicates, every pay program has advantages and disadvantages. Therefore, rather than choosing one program, some companies find it useful to design a mix of pay programs, one that has just the

right chemistry for the situation at hand. Relying exclusively on merit pay or individual incentives may result in high levels of work motivation but unacceptable levels of individualistic and competitive behavior and too little concern for broader plant or organization goals. Relying too heavily on profit sharing and gainsharing plans may increase cooperation and concern for the welfare of the entire plant or organization, but it may reduce individual work motivation to unacceptable levels. However, a particular mix of merit pay, gainsharing, and profit sharing could contribute to acceptable performance on all these performance dimensions.

One approach that seeks to balance multiple objectives is the balanced scorecard (see [Chapter 1](#)), which Kaplan and Norton describe as a way for companies to “track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they would need for future growth.”⁸⁷

[Table 12.11](#) shows how a mix of measures might be used by a manufacturing firm to motivate improvements in a balanced set of key business drivers. We will also see shortly a scorecard used by American Express.

Table 12.11 Illustration of Balanced Scorecard Incentive Concept

PERFORMANCE MEASURE	INCENTIVE SCHEDULE				INCENTIVE EARNED
	TARGET INCENTIVE	PERFORMANCE	% TARGET	ACTUAL PERFORMANCE	
Financial	\$100	20% +	150	18%	\$100
• Return on capital employed		16–20	100		
		12–16	50		
		Below 12	0		
Customer	\$40	1 in:	150	1 in 876	\$20
• Product returns		1,000 +	100		
		900–999	50		
		800–899	0		
		Below 800			
Internal	\$30	9% +	150	11%	\$45
• Cycle time reduction (%)		6–9	100		
		3–6	50		
		0–3	0		
Learning and growth	\$30	Below 5%	150	7%	\$30
• Voluntary employee turnover		5–8	100		
		8–12	50		
Total	\$200				\$195

SOURCE: From F. C. McKenzie and M. P. Shilling, “Avoiding Performance Traps: Ensuring Effective Incentive Design and Implementation,” *Compensation and Benefits Review*, July–August 1998, pp. 57–65. *Compensation and Benefits Review* by American Management Association.

Managerial and Executive Pay

Discuss issues related to performance-based pay for executives.

Because of their significant ability to influence organization performance, top managers and executives are a strategically important group whose compensation warrants special attention, including its competitiveness in the labor market.⁸⁸ In [Chapter 11](#) we discussed how much this group is paid. Here we focus on the issue of how their pay is determined.

From time to time, lists are published of top executives who did the most for their pay and those who did the least. The latter group has been the impetus for much of the attention to executive pay. The problem seems to be that in some companies, top executive pay is high every year, regardless of profitability or stock market performance. One study, for example, found that CEO pay changes by \$3.25 for every \$1,000 change in shareholder wealth. Although this relationship was interpreted to mean that “the compensation of top executives is virtually independent of corporate performance,” later work demonstrates, to the contrary, that executive pay, in most companies, is significantly aligned with shareholder return.⁸⁹

How can executive pay be linked to organization performance? From an agency theory perspective, the goal of owners (shareholders) is to encourage the agents (managers and executives) to act in the best interests of the owners. This may mean less emphasis on noncontingent pay, such as base salary, and more emphasis on outcome-oriented “contracts” that make some portion of executive pay contingent on the organization’s profitability or stock performance.⁹⁰ Among mid-level and top managers, it is common to use both short-term bonus and long-term incentive plans to encourage the pursuit of both short- and long-term organization performance objectives. Indeed, the bulk of executive compensation comes from restricted stock, stock options, and other forms of long-term compensation. Putting pay “at risk” in this manner can be a strong incentive. However, agency theory suggests that while too little pay at risk may weaken the incentive effect, too much pay at risk can also be a problem if executives take excessive risks with firm assets.⁹¹ The banking and mortgage industry problems of late provide an example.

Organizations use such pay-for-performance plans, and what are their consequences? Research suggests that organizations vary substantially in the extent to which they use both long-term and short-term incentive programs. Further, greater use of such plans among top and mid-level managers is associated with higher subsequent levels of profitability. As [Table 12.12](#) indicates, greater reliance on short-term bonuses and long-term incentives (relative to base pay) resulted in substantial improvements in return on assets.⁹² For top executives, aligning compensation with past shareholder return is associated with their future shareholder returns.⁹³

Table 12.12 The Relationship between Managerial Pay and Organization Return on Assets

BONUS/BASE RATIO	PREDICTED RETURN ON ASSETS		
	LONG-TERM INCENTIVE ELIGIBILITY	%	\$ ^a
10%	28%	5.2%	\$250 million
20	28	5.6	269 million
10	48	5.9	283 million
20	48	7.1	341 million

^aBased on the assets of the average *Fortune* 500 company in 1990.

SOURCE: B. Gerhart and G. T. Milkovich, “Organizational Differences in Managerial Compensation and Financial Performance,” *Academy of Management Journal* 33 (1990), pp. 663–91.

Earlier, we saw how the balanced scorecard approach could be applied to paying manufacturing employees. It is also useful in designing executive pay. [Table 12.13](#) shows how the choice of performance measures can be guided by a desire to balance shareholder, customer, and employee objectives. Financial results can be seen as a lagging indicator that tells the company how it has done in the past, whereas customer and employee

(“colleague”) metrics like those in [Table 12.13](#), used by American Express, are leading indicators that tell the company how its financial results will be in the future. Importantly, empirical research should be conducted in each company to validate these or other hypothesized leading indicators of financial performance.⁹⁴ As a final note, the balanced scorecard in [Table 12.13](#) is used at American Express in determining short-term incentive (bonus) payouts. As is typical, there is also a long-term incentive plan. (See [Table 11.10](#), **Realized CEO Compensation**.) These payouts depend on profitability (using ROE) and total shareholder return.

Table 12.13 Balanced Scorecard for Executives, Annual Incentive Awards, American Express

OBJECTIVES	WEIGHTING
Shareholder	55%
Revenue Growth	
Earnings per Share (EPS)	
Return on Equity (ROE)	
Customer	15%
Net Promoter Score (customer satisfaction)	
Billings Growth	
New Accounts Acquired	
Active Locations in Force	
Colleague	15%
Quantitative Talent Retention (retaining high potentials and high performers)	
Diversity (increase representation of women and members of underrepresented ethnic and racial groups at managerial levels)	
Strategic Imperatives	15%
Leading in the Premium Consumer Space (e.g., 16 products refreshed globally)	
Building on Strength in Commercial Payments (e.g., #1 small business issuer)	

Strengthening Our Network (e.g., 99% of credit card accepting merchants accept AMEX card)	
Becoming Digitally Essential (e.g., 72% of new card members acquired via digital channels)	

SOURCE: 2020 Proxy Statement, American Express,
<https://www.sec.gov/Archives/edgar/data/4962/000119312520083487/d804770ddef14a.htm>.

As we saw in the global financial crisis, a focus on only (aggressive) financial goals, without also considering how those goals are achieved, raises the danger that executives and others will take too great a risk and/or engage in unethical behavior to achieve those objectives. These behaviors can do great harm to the company over time. A scorecard used by Citigroup for its top 50 executives had a weight of 70% toward financial objectives (profitability, expense management, use of capital, risk) and 30% toward nonfinancial (in the short-term) objectives (setting strategic direction; having strong risk and controls management and strong personnel management; enhancing relations with external stakeholders, including shareholders). The highest possible performance score was 100%, whereas the lowest was minus 40%. The hope is that by linking pay incentives to this broader set of performance objectives, not just to financial goals as in the past, Citigroup will achieve better financial performance over time and achieve it in a less risky manner. Nobody wants to go through another financial industry meltdown, and this is one part of the plan to avoid that. Similarly, as we saw earlier, Volkswagen recently changed the way it pays its executives in response to a major (and costly) scandal that it hopes to avoid repeating in the future. Other examples include Novartis (see the earlier [Integrity in Action](#) box and “Exercising Strategy” at the end of the chapter) and Wells Fargo (see [Managing People](#) at the end of the chapter).

Finally, there is pressure from regulators and shareholders to better link pay and performance. The U.S. Securities and Exchange Commission (SEC) requires companies to report compensation levels for the five highest-paid executives and the company’s performance relative to that of competitors over a five-year period. In 2006, the SEC put additional rules into effect that require better disclosure of the value of executive perquisites and retirement benefits. In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law in the United States. Although its focus is primarily on financial institutions, Dodd-Frank added Section 14A to the Securities and Exchange, which added new requirements for public companies broadly.⁹⁵ For example, it requires that shareholders have a “say on pay,” meaning that they have the right to a (nonbinding) vote on executive pay plans. Dodd-Frank also requires that firms disclose the ratio of the pay of the top executive to that of rank-and-file employees. Companies, under pressure from regulators and investors, have also increasingly adopted policies that allow them to claw back (i.e., get back) compensation paid to executives who are later found to have increased their pay by engaging in behaviors detrimental to companies and the economy.

Regulators in a number of countries have also sought to limit the size of bonus payments in hopes of reducing the incentive to engage in behaviors such as excessive risk taking, which have proved detrimental in the past.⁹⁶ Large retirement fund investors such as TIAA-CREF and CalPERS have proposed guidelines to better ensure that boards of directors act in shareholders’ best interests when making executive pay decisions, rather than being beholden to management. Some of the governance practices believed to be related to director independence from management (Dodd-Frank has similar provisions) are shown in [Table 12.14](#). More detailed analyses of board governance practices are available from Institutional Shareholder Services.⁹⁷ In addition, when a firm’s future is at risk, the board may well need to demonstrate its independence from management by taking dramatic action, which may include removing the chief executive.

Table 12.14 Guidelines for Board of Directors Independence and Leadership

Majority of independent directors: At a minimum, a majority of the board consists of directors who are independent. Boards should strive to obtain board composition made up of a substantial majority of independent directors.

Independent executive session: Independent directors meet periodically (at least once a year) alone in an executive session, without the CEO. The independent board chair or lead (or presiding) independent director should preside over this meeting.

Independent director definition: Each company should disclose in its annual proxy statement the definition of “independence” relied upon by its board. Selected examples of issues to address include any director who has been employed in the last five years by the company in an executive capacity, or any director employed by a second company (customer or supplier) that has made payments to or received payments from the company exceeding \$200,000 or 2 percent of the second company’s gross revenues

Independent board chairperson: The board should be chaired by an independent director. The CEO and chair roles should only be combined in very limited circumstances; in these situations, the board should provide a written statement in the proxy materials discussing why the combined role is in the best interest of shareowners, and it should name a lead independent director.

Board member tenure. Extended periods of service may adversely affect a director’s ability to be objective. Additionally, it is necessary to maintain the necessary mix of board member skills and experience to achieve strategic objectives.

Examine separate chair/CEO positions: When selecting a new chief executive officer, boards should reexamine the traditional combination of the “chief executive” and “chair” positions.

Board role of retiring CEO: Generally, a company’s retiring CEO should not continue to serve as a director on the board and at the very least be prohibited from sitting on any of the board committees.

Board access to management: The board should have a process in place by which all directors can have access to senior management.

Independent board committees: Committees that perform the audit, director nomination, and executive compensation functions should consist entirely of independent directors.

Board oversight: The full board is responsible for the oversight function on behalf of shareowners. Should the board decide to have other committees (e.g., executive committee) in addition to those required by law, the duties and membership of such committees should be fully disclosed.

Board resources: The board, through its committees, should have access to adequate resources to provide independent counsel advice, or other tools that allow the board to effectively perform its duties on behalf of shareowners.

Board responsibilities. As a fiduciary, a director owes a duty of loyalty to the corporation and its shareholders. The Board should be responsible for reviewing, approving and guiding corporate strategy. This includes, for example, major plans of action and major capital expenditures, risk policies, business plans, setting and monitoring of performance objectives achievement, and acquisitions/divestitures. the Board is also responsible for corporate culture.

SOURCE: The California Public Employees Retirement System, "Global Governance Principles," March 16, 2015; and CalPERS' Governance & Sustainability Principles, September 2019, www.calpers.ca.gov.

Process and Context Issues

LO 12-6

Explain the importance of process issues such as communication in compensation management.

In [Chapter 11](#) we discussed the importance of process issues such as communication and employee participation. Earlier in the present chapter we discussed the importance of fairness, both distributive and procedural. Significant differences in how such issues are handled can be found both across and within organizations, suggesting that organizations have considerable discretion in this aspect of compensation management.⁹⁸ As such, it represents another strategic opportunity to distinguish one's organization from the competition.

Employee Participation in Decision Making

Consider employee participation in decision making and its potential consequences. Involvement in the design and implementation of pay policies has been linked to higher pay satisfaction and job satisfaction, presumably because employees have a better understanding of and greater commitment to the policy when they are involved.⁹⁹

What about the effects on productivity? Agency theory provides some insight. The delegation of decision making by a principal to an agent creates agency costs because employees may not act in the best interests of top management. In addition, the more agents there are, the higher the monitoring costs.¹⁰⁰ Together, these issues suggest that delegation of decision making can be very costly.

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However, agency theory suggests that monitoring would be less costly and more effective if performed by employees because they have knowledge about the workplace and behavior of fellow employees that managers do not have. As such, the right page 553 compensation system might encourage self-monitoring and peer monitoring.¹⁰¹ Researchers have suggested that two general factors are critical to encouraging such monitoring: monetary incentives (outcome-oriented contracts in agency theory) and an environment that fosters trust and cooperation. This environment, in turn, is a function of employment security, group cohesiveness, and individual rights for employees—in other words, respect for and commitment to employees.¹⁰²

In any case, a survey of organizations found that only 11% of employees always or often participated in compensation design teams. Participation by managers was better, but still the exception (32%).¹⁰³

Communication

Another important process issue is communication.¹⁰⁴ Earlier, we spoke of its importance in the administration of merit pay, both from the perspective of procedural fairness and as a means of obtaining the maximum impact from a merit pay program.¹⁰⁵ More generally, a change in any part of the compensation system is likely to give rise to employee concerns. Rumors and assumptions based on poor or incomplete information are always an issue in administering compensation, partly because of its importance to employee economic security and well-being. Therefore, in making any changes, it is crucial to determine how best to communicate reasons for the changes to employees. Some organizations rely on video messages from the chief executive officer to communicate the

rationale for major changes. Brochures and/or websites that include scenarios for typical employees are sometimes used, as are focus group sessions in which small groups of employees are interviewed to obtain feedback about concerns that can be addressed in later communication programs. Ultimately, however, most pay-related communications come through individual discussions with one's supervisor, still ahead of the company website, e-mail, and discussions with the human resource department.¹⁰⁶

Pay and Process: Intertwined Effects

The preceding discussion treats process issues such as participation as factors that may facilitate the success of pay programs. At least one commentator, however, has described an even more important role for process factors in determining employee performance:

Worker participation apparently helps make alternative compensation plans ... work better—and also has beneficial effects of its own.... It appears that changing the way workers are treated may boost productivity more than changing the way they are paid.¹⁰⁷

This suggestion raises a broader question: How important are pay decisions, per se, relative to other human resource practices? Although it may not be terribly useful to attempt to disentangle closely intertwined programs, it is important to reinforce the notion that human resource programs, even those as powerful as compensation systems, do not work alone.

Consider gainsharing programs. As described earlier, pay is often only one component of such programs. (See [Table 12.10](#).) How important are the nonpay components?¹⁰⁸ There is ample evidence that gainsharing programs that rely almost exclusively on the monetary component can have substantial effects on productivity.¹⁰⁹ However, a study of an automotive parts plant found that adding a participation component (monthly meetings with management to discuss the gainsharing plan and ways to increase productivity) to a gainsharing pay incentive plan raised productivity. In a related study, employees were asked about the factors that motivated them to engage in active participation (such as suggestion systems). Employees reported that the desire to earn a monetary bonus was much less important than a number of nonpay factors, particularly the desire for influence and control in how their work was done.¹¹⁰ A third study reported that both productivity and profitability were enhanced by the addition of employee participation in decisions, beyond the improvement derived from monetary incentives such as gainsharing.¹¹¹

Organization Strategy and Compensation Strategy: A Question of Fit

LO 12-7

List the major factors to consider in matching the pay strategy to the organization's strategy.

Although much of our focus has been on the general, or average (positive) effects of different pay for performance programs,¹¹² it is also useful to think in terms of matching pay strategies to organization strategies.¹¹³ To take an example from medicine, using the same medical treatment regardless of the symptoms and diagnosis would be odd. Likewise, in choosing a pay strategy, one must consider how effectively it will further the organization's overall business strategy. Consider again the findings reported in [Table 12.12](#). The average effect of moving from a pay strategy with below-average variability in pay to one with above-average variability is an increase in return on assets of almost two percentage points (from 5.2% to 7.1%). But in some organizations, the increase could be smaller. In fact, greater variability in pay could contribute to a lower return on assets in some organizations. In other

organizations, greater variability in pay could contribute to increases in return on assets of greater than two percentage points. Obviously, being able to tell where variable pay works and where it does not could have substantial consequences. Conventional wisdom has sometimes argued that choice of management practices, including compensation, depends on the country (and/or national culture). However, each organization must decide how best to compete in a global economy, which will sometimes require deviating from national norms. As an example, see the [Competing through Globalization](#) box.



COMPETING THROUGH GLOBALIZATION

Toyota Switches from the Traditional Japanese Seniority-Based Pay System to Paying for Performance

In the traditional Japanese employment system, seniority is a major determinant of how much an employee is paid. Performance has not been emphasized as strongly in Japan as in countries like the United States. Over the last decade, the rate of economic growth in Japan comes in last among the world's other largest economies (United States, China, Germany, France, United Kingdom). Therefore, the idea of looking at how non-Japanese companies in better-performing economies pay their employees and using some of those practices is perhaps overdue. It is also part of Prime Minister Shinzō Abe's plan to improve company efficiency in hopes of larger economic growth and wage growth in Japan.

The Japan Business Federation (Keidanren) warns that Japan faces the prospect of falling behind other countries in the race to foster high-tech businesses unless domestic companies offer competitive pay and revamp outdated employment practices. It went on to say that the traditional seniority-based system "make[s] it impossible for companies to fully demonstrate their appeal, and thus difficult to acquire top-notch, motivated young talent, highly skilled personnel and people from overseas." Keidanren recommended granting higher pay corresponding to more valuable work duties, as well as deciding pay raises based on performance. A number of well-known companies, including Toyota, Hitachi, Sony, and Panasonic, have sought to shift to a greater emphasis on performance. Typically, the goal is to increase the importance of not only performance but also job responsibility in setting employee pay, consistent with the Keidanren recommendation.

Toyota plans to change its annual pay raises to be full performance-based beginning in spring 2021. Automakers like Toyota feel an urgency to improve their competitiveness as the industry is in the midst of a fundamental transformation (i.e., moving to electric vehicles). This includes entry into the market by tech firms and other non-auto companies. The end result is heightened competition and perhaps even concern about survival. As part of its plan to be competitive going forward, Toyota hopes to improve employee motivation and productivity by introducing this pay raise system based on performance, not linked to age or academic background as in the past and as still is common at Japanese companies. This new system will cover section chiefs and below (about 65,000 employees). Workers will be evaluated on a 4- to 6-point scale, depending on the job. Employees getting the lowest score will not receive a pay increase. There is much interest in whether other Japanese will follow Toyota's lead. Toyota decided on the new system after consultation with the employees' labor union. Toyota announced, "We'd like to make a system to reward those who strive." The labor union announced, "It can lead to cultivating human resources and improving our competitiveness as a corporation."

The change may start primarily with younger employees, as companies may be reluctant to modify the nature of the accepted relationship with older, more senior employees. Likewise, these companies hope to gain an edge in recruiting younger employees, who would welcome working for a company where, rather than wait until they are older to make more money, they would have the opportunity to be paid well now if their contributions to the company prove to be valuable.

DISCUSSION QUESTIONS

What is wrong with paying for seniority instead of performance?

Why is the prime minister of Japan interested in how companies pay?

What competitive forces are influencing companies like Toyota to change the way they pay?

If you were choosing between a company that paid for seniority and a company that paid for performance, which would you choose? What about 20 years from now? What if you were a native of Japan, working in Japan? Would you make the same choice? Explain.

SOURCES: M. Fujikawa, "Japan's Job-for-Life Culture Fades," *The Wall Street Journal*, April 12, 2018; U. Dresser, "Money Motivates in Japan, Too—Hays Salary Guide 2018," *Japan Industry News*, February 22, 2018, www.japanindustrynews.com; M. Oi, "Japan Seeks Alternatives to Its Pay System," *BBC News*, Japan, March 22, 2016; K. Inagaki, "Japan Inc Shuns Seniority in Favour of Merit-Based Pay," *Financial Times*, January 27, 2015; Y. Hagiwara and C. Trudell, "Toyota Plans Overhaul to Seniority-Based Pay," Bloomberg.com, January 26, 2015.

Of course, as this chapter and [Chapter 11](#) suggest, certain best practices may be of benefit to all or at least most organizations. Returning to our medical analogy, scientific consensus seems to be that certain behaviors (e.g., exercise, good nutrition) enhance health, whereas others (e.g., smoking, drugs, alcohol) harm health. So, too, there may be best practices when it comes to compensation strategy. Examples include choosing a pay level that balances the ability to compete in the product market and in the labor market, paying for performance to obtain positive incentive and sorting effects, paying attention to both distributive (e.g., equity theory) and procedural justice issues, and complying with regulatory requirements.

Returning to how to approach the issue of fit, recall that in [Chapter 2](#) we discussed directional business strategies, two of which were growth (internal or external) and concentration ("sticking to the knitting"). How should compensation strategies differ according to whether an organization follows a growth strategy or a concentration strategy? [Table 12.15](#) provides some suggested matches. Basically, a growth strategy's emphasis on innovation, risk taking, and new markets is linked to a pay strategy that shares risk with employees but also gives them the opportunity for high future earnings by having them share in whatever success the organization has.¹¹⁴ This means relatively low levels of fixed compensation in the short run but the use of bonuses and stock options, for example, that can pay off handsomely in the long run. Stock options have been described as the pay program "that built Silicon Valley," having been used by companies such as Apple, Microsoft, and others.¹¹⁵ When such companies become successful, everyone from top managers to secretaries can become millionaires if they own stock. Growth organizations are also thought to benefit from a less bureaucratic orientation, in the sense of having more decentralization and flexibility in pay decisions and in recognizing individual skills, rather than being constrained by job or grade classification systems. By contrast, concentration-oriented organizations are thought to require a very different set of pay practices by virtue of their lower rate of growth, more stable workforce, and greater need for consistency and standardization in pay decisions. As noted earlier, Microsoft has eliminated stock options in favor of stock grants to its employees, in part because it is not the growth company it once was.

Table 12.15 Matching Pay Strategy and Organization Strategy

PAY STRATEGY DIMENSIONS	ORGANIZATION STRATEGY	
	CONCENTRATION	GROWTH
Risk sharing (variable pay)	Low	High
Time orientation	Short term	Long term

Pay level (short run)	Above market	Below market
Pay level (long-run potential)	Below market	Above market
Benefits level	Above market	Below market
Centralization of pay decisions	Centralized	Decentralized
Pay unit of analysis	Job	Skills

SOURCES: L. R. Gomez-Mejia and D. B. Balkin, *Compensation, Organizational Strategy, and Firm Performance* (Cincinnati, OH: South-Western, 1992), Appendix 4b; and L. R. Gomez-Mejia, P. Berrone, and M. Franco-Santos. *Compensation and Organizational Performance* (Armonk, NY: M.E. Sharpe, 2010), Appendix 3.2.



A LOOK BACK

Pay for Performance: Balancing Objectives (and Risks)

In this chapter, we discussed the potential advantages and disadvantages of different types of incentive or pay-for-performance plans. We saw that these pay plans can have both intended and unintended consequences. We also saw that some organizations have paid a big price for not realizing the problems with their pay plans until it was too late and only then did they change them. (See also [Exercising Strategy](#) and [Managing People](#) at the end of the chapter.) Designing a pay-for-performance strategy typically seeks to balance the pros and cons of different plans and reduce the chance of unintended consequences. To an important degree, pay strategy will depend on the particular goals and strategy of the organization and its units. At the beginning of this chapter, we saw that different organizations faced different challenges during the pandemic. Some took difficult steps (e.g., cutting or reducing wages/salaries, bonuses, and/or 401K contributions) to reduce labor costs to get through the economic downturn. By contrast, other companies increased wages/salaries and/or bonuses to respond to a major upturn in their business. Bonuses continue to play a key role in employers' achieving labor cost flexibility in that bonuses typically decline (e.g., when linked to profits) when business declines, but can be increased to attract and retain workers, including on a temporary basis (e.g., when the uptick in business is expected to be temporary).

QUESTIONS

Does money motivate? Use the theories and examples discussed in this chapter to address this question.

Think of a job that you have held. Design an incentive plan. What would be the potential advantages and disadvantages of your plan? If your money was invested in the company, would you adopt the plan?

SUMMARY

Our focus in this chapter has been on the design and administration of programs that recognize employee contributions to the organization's success. These programs vary as to whether they link pay to individual, group, or organization performance. Often, it is not so much a choice of one program or the other as it is a choice between different combinations of programs that seek to balance individual, group, and organization objectives.

Wages, bonuses, and other types of pay have an important influence on an employee's standard of living. This carries at least two important implications. First, pay can be a powerful motivator. An effective pay strategy can substantially promote an organization's success; conversely, a poorly conceived pay strategy can have detrimental effects. Second, the importance of pay means that employees care a great deal about the fairness of the pay process. A recurring theme is that pay programs must be explained and administered in such a way that employees understand their underlying rationale and believe they are fair.

The fact that organizations differ in their business and human resource strategies suggests that the most effective compensation strategy may differ from one organization to another. Although benchmarking programs against the competition is informative, what succeeds in some organizations may not be a good idea for others. The balanced scorecard suggests the need for organizations to decide what their key objectives are and use pay to support them.

KEY TERMS

[Incentive effect, 526](#)

[Expectancy theory, 526](#)

[Principal, 529](#)

[Agent, 529](#)

[Sorting effect, 531](#)

[Merit pay, 536](#)

[Merit bonus, 536](#)

[Merit increase grid, 538](#)

[Profit sharing, 542](#)

[Stock options, 545](#)

[Employee stock ownership plans \(ESOPs\), 546](#)

[Gainsharing, 546](#)

DISCUSSION QUESTIONS

To compete more effectively, your organization is considering a profit sharing plan to increase employee effort and to encourage employees to think like owners. What are the potential advantages and disadvantages of such a plan? Would the profit sharing plan have the same impact on all types of employees? Is the size of your organization an important consideration? Why? What alternative pay programs should be considered?

Gainsharing plans have often been used in manufacturing settings but can also be applied in service organizations. How could performance standards be developed for gainsharing plans in hospitals, banks, insurance companies, and so forth?

Your organization has two business units. One unit is a long-established manufacturer of a product that competes on price and has not been subject to many technological innovations. The other business unit is just being started. It has no products yet, but it is working on developing a new technology for testing the effects of drugs on people via simulation instead of through lengthy clinical trials. Would you recommend that the two business units have the same pay programs for recognizing individual contributions? Why or why not?

Throughout the chapter, we have seen many examples of companies making changes to how they pay for performance. Do you believe the changes at these companies make sense? What are the potential payoffs and

pitfalls of their new pay strategies?

SELF-ASSESSMENT EXERCISES



What Motivates You at Work?

If you have been assigned this Self-Assessment in Connect, you will gain a better understanding of the many aspects of a job and how each motivates you at work.

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EXERCISING STRATEGY

Pay and Strategy in the Pharmaceutical Industry: Incentives Gone Awry

We know that incentives and pay for performance (PFP) more broadly can contribute to substantial improvements in performance via incentive and sorting effects. However, it is also important to recognize the potential for the “dark side” of incentives to have serious, unintended, negative consequences. A number of companies have learned this lesson over the years. Recent examples include Wells Fargo (see [Managing People](#) below in this chapter) and the problems (and hoped for solution) we saw in the pharmaceutical industry at Novartis earlier in this chapter. As another example from the pharmaceutical industry, and an especially egregious one, please watch CBS’s *60 Minutes* episode called “Money, Dinners and Strip Clubs: How Pharmaceutical Executives Bribed Doctors to Prescribe Dangerous Fentanyl Drugs.” It can be found at:

<https://www.cbsnews.com/news/opioid-epidemic-pharmaceutical-executives-60-minutes-2020-06-21/>.

QUESTIONS

Summarize the damage done by the practices used at Cephalon and at Insys, according to *60 Minutes*.

What can be done to prevent this from happening again? As part of your response, go back and review what steps Novartis has taken to avoid unethical sales practices going forward.

Should you wish to learn more about this subject, PBS’s *Frontline* has collaborated with the *Financial Times* to produce a report and podcast on what happened at Insys, which is available at:

<https://www.pbs.org/wgbh/frontline/article/opioiddrugmaker-insys-bribing-doctors-fentanyl-painkiller/>

MANAGING PEOPLE

Pay and Strategy Execution at Wells Fargo and “Down Under” (at ANZ): Incentives Gone Awry

Wells Fargo continues to pay the price for scandals making money by exploiting customers and opening accounts (as many as 3.5 million bank and credit card accounts) without customers’ knowledge. Most recently, it agreed to pay \$575 million to 50 states and the District of Columbia. Prior to that, it paid a \$1 billion fine imposed by federal regulators and \$480 million to settle a class action suit brought by investors. It is also restricted by the Federal Reserve from getting larger than \$2 trillion in assets until the Federal Reserve is convinced it has changed its ways.

The customer exploitation scandal appears to have been a consequence of pressuring employees to meet unrealistic, aggressively high sales targets. They used both “carrots and sticks” to drive employee behavior. Meeting sales targets often meant larger bonuses. Not meeting sales targets could result in losing your job. One way that employees met aggressive sales targets was by “creative” cross-selling. Cross-selling refers to the practice of asking existing customers to open another account (e.g., a checking account, a new credit card, a home loan, or a line of credit). However, employees at Wells Fargo went a step further and opened new accounts (“fake”

accounts) for customers who did not ask for the accounts. One method, for example, was that if a customer was applying for a home loan, the banker would include a form for a line of credit and hope the customer would not notice when signing all the papers.

According to New York Federal Reserve President Bill Dudley, the “widespread fraud” at Wells Fargo shows the “powerful role--for good or bad--that incentives can play.” Wells Fargo reports that it has changed its compensation plan away from a focus on cross-selling as many banking products as possible to a focus on customer service, customer usage, and growth in primary balances.

The problems at Wells Fargo are also a challenge elsewhere. In the [Integrity in Action](#) box, we saw that Novartis has limited incentive/bonus payments for high sales performance and now monitors whether the sales were achieved in an appropriate manner. On the other side of the world, the Australia and New Zealand Banking Group (ANZ) announced it was taking a more dramatic step and eliminating sales-based bonuses entirely. This comes after customer complaints about the wealth management industry broadly, alleging that advisers have conflicts of interests, largely due to the incentive system, which can lead them to give advice that is not in the best interests of the customer (e.g., overextending themselves and/or taking on overly risk investments), but which result in higher adviser pay. In the case of ANZ, its chief risk officer reported that an audit of past advising page 559 indicated that 5% of advice given “failed to meet the requirement that it be in the best interest of the client.” Going forward, ANZ has stated that not only will it end bonuses, but also that advisers will be evaluated and compensated entirely on the basis of customer satisfaction, how consistent the adviser is with the bank’s values, and how well the adviser minimizes risks and adheres to compliance standards. Advisers who fail two audits of their behaviors will be dismissed. Advisers must also complete training in these areas.

QUESTIONS

Have you experienced cross-selling as a bank customer? What was your reaction? What would your reaction be if the bank opened a line of credit for you that you did not want (or tell you about)?

How is what happened at Wells Fargo similar to what happened at Volkswagen or at Novartis? (See the [Integrity in Action](#) box, earlier in this chapter.)

What caused the problems at Wells Fargo, and how can they be fixed? How helpful will the new compensation plan be in fixing things? Why?

Consider the same questions for ANZ. How would you react as a customer if your adviser did not act in your best interest? If you currently have a financial adviser, how do you know that person is acting in your best interest? Will the changes to ANZ’s compensation be effective?

SOURCES: E. Glazer, “Wells Fargo to Roll Out New Compensation Plan to Replace Sales Goals: Bankers Say Previous Lofty Goals Pushed Them to Open Accounts without Customers’ Knowledge,” *The Wall Street Journal*, January 6, 2017; B. Chappell, “Wells Fargo Fined \$185 Million over Creation of Fake Accounts for Bonuses,” National Public Radio, September 8, 2016; M. Egan, “Wells Fargo Customers in \$110 Million Settlement over Fake Accounts,” [CNNMoney.com](#), March 29, 2017; C. Arnold, “Former Wells Fargo Employees Describe Toxic Sales Culture, Even at HQ,” National Public Radio, October 4, 2016; M. Egan, “Top Fed Official Likens Wells Fargo Fraud to Mortgage Crisis,” [CNNMoney.com](#), March 21, 2017.

HR IN SMALL BUSINESS

A Sweet Incentive at Mr. Holmes Bakehouse

The high costs of operating in California have been the undoing of many small businesses there. For companies employing minimum-wage workers, the problem recently intensified when the state launched a series of \$1 increases in that wage from 2020 through 2023. Unlike business owners who threw up their hands, Aaron Caddel decided to see if he could figure out a way for his bakery, Mr. Holmes Bakehouse, to pay employees more and

remain profitable.

Caddel and his management team arrived at a version of merit pay based on the quantity and quality of output. For two years, they studied what work needed to be done in their California kitchens. For each position, they identified three core procedures and three performance levels for each procedure. They also established pay levels corresponding to the performance levels.

Each employee starts at level one. When employees can get high-quality work done faster, they can move up by passing a test that shows they can work at the higher level. Those who pass get the higher pay tied to the higher level. Most rise to the challenge; those who don't can choose to move back to a lower level if they want to remain at Mr. Holmes Bakehouse. Every six months, employees are invited to see if they can pass the test for the next level.

Initially, some employees resisted a pay structure in which new employees sometimes surpass longer-term workers. But most were inspired by the potential for improved pay. After a little more than a year, more than two-thirds of the employees had reached level three for their position and were earning at least \$20 per hour, more than the minimum wage and more than other bakeries in town were paying. For Caddel, the bottom-line impact was positive because the level-three employees had become 50% more productive than they had been. The increased efficiency exceeded the increased payroll expense, so profit margins actually rose along with employees' pay.

With these changes, employee turnover fell to 13% in an industry with an average turnover close to 75%. Furthermore, as word got around about the \$20-an-hour positions at Mr. Holmes Bakehouse, the difficulties of filling minimum-wage jobs in pricey San Francisco evaporated. Caddel concludes that he achieved his goal of a win-win solution to the talent problem: higher earnings for his employees and higher profits for his business.

QUESTIONS

What conditions do you think made incentive pay successful at Mr. Holmes Bakehouse? (Consider, for example, the requirements for effective incentive plans listed earlier in this chapter.)

How could employee participation and communication with employees contribute to the effectiveness of performance pay at Mr. Holmes Bakehouse?

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SOURCES: Joanna Fantozzi, "Making the (Pay) Grade," *Restaurant Hospitality*, March 2020, pp. 16-17; Brian Amick, "Can Pay-for-Performance Systems Work?" *Bake*, February 10, 2020, <https://www.bakemag.com>; Chloe Sorvino, "Has Mr. Holmes Bake-house Unlocked the Key to the Restaurant Industry's Labor Crisis?" *Forbes*, January 3, 2020, <https://www.forbes.com>.

NOTES

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[32.](#) In some cases, under exceptional circumstances, an organization may, at least temporarily, design an incentive plan to focus everyone's attention on one critical objective. For example, after the oil spill and worker fatalities in the Gulf of Mexico, BP temporarily revised its compensation program to make safety the sole factor in determining pay raises. (See G. Chazan and D. Mattioli, "BP Links Pay to Safety in Fourth Quarter," *The Wall Street Journal*, October 19, 2010.) But having a single objective is not typically advisable.

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[34.](#) Gerhart ("Incentives and Pay for Performance in the Workplace") states that merit pay is likely used in virtually 100% of private-sector U.S. organizations based on the following: WorldatWork, the professional association for compensation professionals, as one of its activities, conducts surveys of compensation practices in organizations. It reports that 94% have merit pay programs (*Compensation Programs and Practices*; Scottsdale, AZ: WorldatWork, 2016). Given that 22% of responding organizations were in the nonprofit, not-for-profit, or public sectors, where we know that the use of pay for performance is considerably lower, as is its intensity when it is used (WorldatWork, *Compensation Programs and Practices*, Scottsdale, AZ: WorldatWork, 2012), it seems likely that merit pay is used in essentially all private-sector organizations in the United States.

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[42.](#) Deming, *Out of the Crisis*.

[43.](#) Trevor et al., "Voluntary Turnover."

[44.](#) Gerhart and Rynes, *Compensation: Theory, Evidence, and Strategic Implications*.

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[56.](#) Gerhart and Milkovich, "Employee Compensation"; Gerhart, "Incentives and Pay for Performance in the Workplace."

[57.](#) There are exceptions, of course. For example, a study of thousands of physicians found that the higher the fee (and these change over time) for a health care service (e.g., a type of surgery), the more often that service was performed/delivered. According to the author (p. 908): "The results suggest that professionals do pay attention to opportunities for financial gain and that self-interest is an important motivator of professional work."

While this finding may seem somewhat obvious, it contradicts existing theories of professions which tend to downplay the role of self-interest in shaping professionals' behaviors." Jillian Crown, "Financial Incentives and Professionals' Work Tasks: The Moderating Effects of Jurisdictional Dominance and Prominence," *Organization Science* 31 (2020), pp. 897-908.

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59. See the "equal compensation principle" described on p. 228 of P. Milgrom and J. Roberts, *Economics, Organization & Management* (Englewood Cliffs, NJ: Prentice Hall, 1988). An example of something that risks being ignored would be helping other employees. See Patrick M. Wright et al., "Productivity and Extra-role Behavior: The Effects of Goals and Incentives on Spontaneous Helping," *Journal of Applied Psychology* 78 (1993), pp. 374-81.

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65. "GM/UAW: The Battle Goes On," *Ward's Auto World*, May 1995, p. 40; E. M. Coates III, "Profit Sharing Today: Plans and Provisions," *Monthly Labor Review*, April 1991, pp. 19-25.

66. Gerhart and Rynes, *Compensation: Theory, Evidence, and Strategic Implications*.

67. American Management Association, *CompFlash*, April 1991, p. 3.

68. "New Data Show Widespread Employee Ownership in U.S.," National Center for Employee Ownership, www.nceo.org/library/widespread.html.

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CHAPTER 13

Employee Benefits



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO13-1 Discuss the growth in benefits costs and the underlying reasons for that growth.](#)

[LO13-2 Explain the major provisions of employee benefits programs.](#)

[LO13-3 Discuss how employee benefits in the United States compare with those in other countries.](#)

[LO13-4 Describe the effects of benefits management on cost and workforce quality.](#)

[LO13-5 Explain the importance of effectively communicating the nature and value of benefits to employees.](#)

[LO13-6 Describe the regulatory constraints that affect the way employee benefits are designed and administered.](#)

ENTER THE WORLD OF BUSINESS

As with Salaries and Bonuses, Employers Look for Cost Savings in Employee Benefits When Business Is Down

As we will see in this chapter, one of the most notable structural changes in employee benefits in private sector employment is a shift away from defined benefit plans to defined contribution plans such as the 401(k). This requires employees to shoulder much more responsibility for their retirement. However, according to the National Institute on Retirement Security, employees “often are poorly equipped to manage [such decisions] on their own.” If an employee does not contribute (or does not contribute enough) to a 401k retirement plan, invests it poorly, or spends it prior to retirement, retirement will not be what it might have been. The Institute notes as a further challenge that “Social Security replaces less income than in the past” (and, of course, Social Security has its own long-term issues). Additionally, the Institute argues that workers also face “rising costs in retirement” such as health care, housing, and long-term care. (Then, there are gig workers, most of whom have no employer-sponsored retirement plan. Employees of small companies, as we will see in this chapter, are also less likely to have a retirement plan.) Most employers, whether out of self-interest/ability to compete in the labor market (e.g., being able to recruit and retain), a sense of social responsibility, or a mix of the two, continue to play a role in retirement. In the case of a 401(k), employers choose whether/how much to contribute as well as how (e.g., a contribution that is a fixed percentage of employee salary and/or as a match to employee contributions). Employers do typically contribute (86% of plans) and employer contributions account for a substantial share (32%) of all 401(k) plan assets.

However, when business declines, employers look to cut costs. We saw in [Chapter 11](#) that employees are typically a major cost. As such, employers may face a dilemma, at least in the short run, between the goal of fully paying employees, including helping fund their retirement, and keeping the business viable (necessary to employ and pay people in the long run). In the openings to [Chapters 11](#) and [12](#), we saw some firms (at least temporarily) froze or reduced base pay and/or bonuses due to the COVID-related decline in business. On the benefits front, some employers (about 9%) also stopped 401(k) contributions to reduce costs. As we saw with base pay and bonuses, this seems to be mostly temporary. By the end of the same year, about 21% (of the 9%) had reinstated contributions with another 73% (of the 9%) planning to reinstate them or considering reinstating them to the previous level. The modal 401(k) employer contribution is 3% to 4% of salary. Thus, stopping these contributions offers a savings similar to freezing base pay/not giving merit increases, which averaged close to 3% in recent (normal) years. The temporary nature of the 401(k) contribution freezes, as we saw in our discussions of base pay and bonus freezes/reductions, is probably because companies expect the downturn to be temporary and do not want to risk being unprepared (due to the loss of valuable employees) to drive revenues and profits back up when business bounces back. An interesting comparison is the Great Financial Crisis of 2008/2009, when four times as many employers reduced or stopped 401(k) matches as in 2020. A major reason is that there was greater uncertainty about how temporary that crisis would be. Another factor in preserving employment in 2020 (rather than resorting to greater workforce reductions to cut costs) was the Payroll Protection Act, which helped employers have the funds to keep people employed.

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Introduction

If we think of benefits as a part of total employee compensation, many of the concepts discussed in [Chapters 11](#) and [12](#) apply here as well. This means, for example, that both cost and behavioral objectives are important. The cost of benefits adds an average of 45.8% to every dollar of payroll, thus accounting for 31.4% of the total employee compensation package. Controlling labor costs is not possible without controlling benefits costs. Similarly, achieving the objective of labor costs being variable and moving in the same direction of revenues and profits (rather than being fixed costs) is also not possible without careful attention to benefits strategy. The chapter opening helps illustrate these points, in that case, looking at employer 401(k) contributions. On the behavioral side, benefits seem to influence whether potential employees come to work for a company, whether they stay, when they retire—perhaps even how they perform (although the empirical evidence, especially for the latter point, is surprisingly limited).¹ Employers continue to be focused on cost control, which has included shifting health care costs and responsibility for retirement (retiree income, but also retiree health care coverage and costs) to employees. However, as with compensation generally (see our discussion of sorting effects in [Chapter 12](#)), different employees look for different types of benefits. For example, at consulting, financial services and tech firms, where long working hours had long been the norm, some firms decided to move toward shorter work weeks and/or (aim to) be more supportive to paid leave (including for fathers) to have better success in the part of the applicant pool that was interested in more work-life balance.² (The SAS Institute, a software firm in North Carolina, has long had a 35-hour work week, which had historically been unusual in the tech industry.) Thus, as we will see, benefits can be used to differentiate an employer from competitors, allowing it to tap in to what in some cases may be a

page 571valuable, but underutilized, part of the pool of human capital. In addition, it may be that employers can sometimes not only offer benefits that are better at matching applicant/employee preferences, but may be able to do it cheaper, giving it an edge on rivals. One example is Disney, which gives its employees free access to its parks and large discounts at its hotels and restaurants, and on its merchandise. Although rival employers could try to imitate Disney by offering their own products/services (think for a moment what these might be) for free or at a discount, it seems unlikely that this would successfully create a comparable level of value to their employees at the same cost, given Disney's uniqueness.³

Although it makes sense to think of benefits as part of total compensation, benefits have unique aspects. First, there is the question of legal compliance. Although direct compensation is subject to government regulation, the scope and impact of regulation on benefits is far greater. Some benefits, such as Social Security, are mandated by law. Others, although not mandated, are subject to significant regulation or must meet certain criteria to achieve the most favorable tax treatment; these include pensions and savings plans. The heavy involvement of government in benefits decisions reflects the central role benefits play in maintaining economic security.

A second unique aspect of benefits is that organizations offer them so commonly that they have come to be institutionalized. Providing medical and retirement benefits of some sort remains almost obligatory for many (e.g., large) employers. A large employer that did not offer such benefits to its full-time employees would be highly unusual, and the employer might well have trouble attracting and retaining a quality workforce.

A third unique aspect of benefits, compared with other forms of compensation, is their complexity. It is relatively easy to understand the value of a dollar as part of a salary but not as part of a benefits package. The advantages and disadvantages of different types of medical coverage, pension provisions, disability insurance, and investment options for retirement funds are often difficult to grasp, and their value (beyond a general sense that they are good to have) is rarely as clear as the value of one's salary. Most fundamentally, employees may not even be aware of the benefits available to them; and if they are aware, they may not understand how to use them. When employers spend large sums of money on benefits but employees do not understand the benefits or attach much value to them, the return on employers' benefits investment will be fairly dismal.⁴ One reason for giving more responsibility to employees for retirement planning and other benefits is to increase their understanding of the value of such benefits.

Reasons for Benefits Growth

LO 13-1

Discuss the growth in benefits costs and the underlying reasons for that growth.

In thinking about benefits as part of total compensation, a basic question arises: Why do employers choose to channel a significant portion of the compensation dollar away from cash (wages and salaries) into benefits? Economic theory tells us that people prefer a dollar in cash over a dollar's worth of any specific commodity because the cash can be used to purchase the commodity or something else.⁵ Cash is less restrictive. Several factors, however, have contributed to less emphasis on cash and more on benefits in compensation. To understand these factors, it is useful to examine the growth in benefits over time and the underlying reasons for that growth.

Figure 13.1 gives an indication of the overall growth in benefits. Note that in 1929, on the eve of the Great Depression, benefits added an average of only 3% to every dollar of payroll. By 1955 this figure had grown to 17%, and it has continued to grow, now accounting for 45.8 cents on top of every payroll dollar.

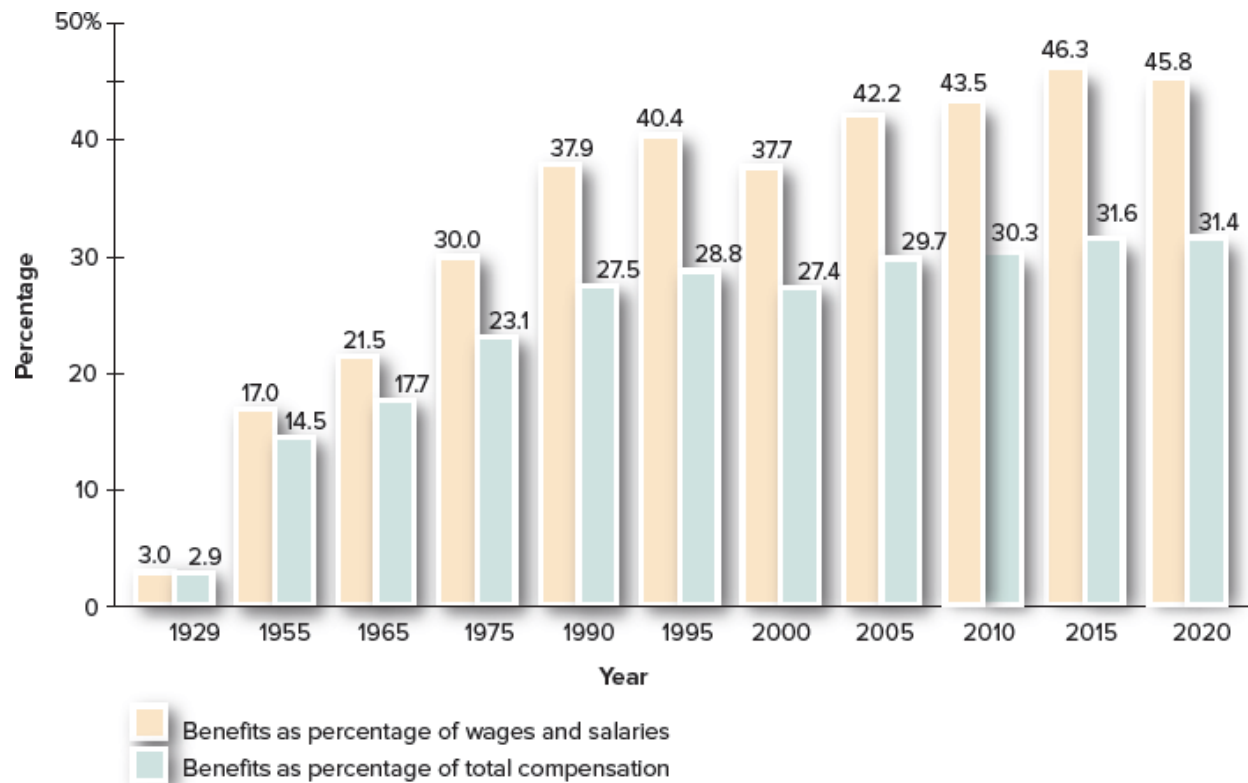


Figure 13.1 Growth of Employee Benefits, Percentage of Wages and Salaries and of Total Compensation, 1929–2020, Civilian Workers

SOURCES: Data through 1990, U.S. Chamber of Commerce Research Center, *Employee Benefits 1990*, *Employee Benefits 1997*, *Employee Benefits 2000* (Washington, DC: U.S. Chamber of Commerce, 1991, 1997, and 2000). Data from 1995 onward, “Employer Costs for Employee Compensation,” www.bls.gov.

Many factors contributed to this tremendous growth.⁶ First, during the 1930s several laws were passed as part of Franklin Roosevelt’s New Deal, a legislative program aimed at buffering people from the devastating effects of the Great Depression. The Social Security Act and other legislation established legally required benefits (such as the Social Security retirement system) and modified the tax structure in such a way as to effectively make other benefits—such as workers’ compensation (for work-related injuries) and unemployment insurance—mandatory. Second, wage and price controls instituted during World War II, combined with labor market shortages, forced employers to think of new ways to attract and retain employees. Because benefits were not covered by wage controls, employers channeled more resources in this direction. Once institutionalized, such benefits tended to remain even after wage and price controls were lifted.

Third, the tax treatment of benefits programs is often more favorable for employees than the tax treatment of wages and salaries, meaning that a dollar spent on benefits has the potential to generate more value for the employees than the same dollar spent on wages and salaries. The [marginal tax rate](#) is the percentage of additional earnings that goes to taxes. Consider the hypothetical employee in [Table 13.1](#) and the effect on take-home pay of a \$1,000 increase in salary. The total effective marginal tax rate is higher for higher-paid employees and also varies according to state and city. (The state of New York and New York City have among the highest marginal tax rates.) A \$1,000 annual raise for the employee earning \$80,000 per year would increase net pay \$574.40 ($\$1,000 \times [1 - 0.4256]$). In contrast, an extra \$1,000 put into benefits would lead to an increase of \$1,000 in “take-home benefits.”

[Marginal tax rate](#)

The percentage of an additional dollar of earnings that goes to taxes.

Table 13.1 Example of Marginal Tax Rates for an Employee Salary of \$80,000

	TAX RATE
Federal	25.00%
State (New York)	6.09%
City (New York)	3.82%
Social Security	6.20%
Medicare	1.45%
Total tax rate	43%

NOTE: Local taxes (state, city, and property taxes) of up to \$10,000 total are deductible on the federal tax return, if itemizing deductions. In this case, the effective tax rate would be 40.08% (rather than 42.56%).

Employers, too, realize tax advantages from certain types of benefits. Although both cash compensation and most benefits are deductible as operating expenses, page 573 employers (like employees) pay Social Security tax on salaries up to a limit (\$142,800 for 2021) and Medicare tax on the entire salary, as well as other taxes like workers' compensation and unemployment compensation. However, no such taxes are paid on most employee benefits. The bottom line is that the employer may be able to provide more value to employees by spending the extra \$1,000 on benefits instead of salary.

The tax advantage of benefits also takes another form. Deferring compensation until retirement allows the employee to receive cash, but at a time (retirement) when the employee's tax rate is sometimes lower because of a lower income level. More important, perhaps, is that investment returns on the deferred money typically accumulate tax free, resulting in much faster growth of the investment.

A fourth factor that has influenced benefits growth is the cost advantage that groups typically realize over individuals. Organizations that represent large groups of employees can purchase insurance (or self-insure) at a lower rate because of economies of scale, which spread fixed costs over more employees to reduce the cost per person. Insurance risks can be pooled more easily in large groups, and large groups can also achieve greater bargaining power in dealing with insurance carriers or medical providers.

A fifth factor influencing the growth of benefits was the growth of organized labor from the 1930s through the 1950s. This growth was partly a result of another piece of New Deal legislation, the National Labor Relations Act, which greatly enhanced trade unions' ability to organize workers and negotiate contracts with employers. Benefits were often a key negotiation objective. (Indeed, they still are. Benefits issues continue to be a common reason for work stoppages.) Unions were able to successfully pursue their members' interests in benefits, particularly when tax advantages provided an incentive for employers to shift money from cash to benefits. For unions, a new benefit such as medical coverage was a tangible success that could have more impact on prospective union members than a wage increase of equivalent value, which might have amounted to only a cent or two per hour. Also, many nonunion employers responded to the threat of unionization by implementing the same benefits for their own employees, thus contributing to benefits growth.

Finally, employers may also provide unique benefits as a means of differentiating themselves in the eyes of current or prospective employees.⁷ In this way, employers communicate key aspects of their culture that set them apart from the rest of the pack. Patagonia, an outdoor clothing company, prides itself on its commitment to the "triple bottom line": Do well by shareholders, but also by employees and the community/environment. When it comes to

shareholders and employees, Patagonia makes sure its employees get outside and test its gear. (To make that easier, the company allows employees to set their own hours.) That is something its employees enjoy, and it also helps the company design and redesign products so that they are attractive to customers, which makes money for shareholders. It is only fitting for employees located in Ventura, California, that the title of founder Yvon Chouinard's memo is "Let My People Go Surfing."⁸ [Table 13.2](#) shows some additional examples.

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Table 13.2 Differentiating via Benefits

Free workout classes	lululemon
Provides up to one year of paid parental leave and unlimited vacation	Netflix
Up to three days off for new grandparents	Cisco
Reimbursement for mothers to pump and ship breast milk anywhere in world	Twitter, IBM, Zillow, Goldman Sachs
Crew Members (employees) receive 10% discount on all store products	Trader Joe's
On-campus health care access	Microsoft
Gives employees an annual stipend of \$2,000 to travel and stay in Airbnb lodgings anywhere in the world	Airbnb
Free unlimited travel privileges	Southwest Airlines
Up to \$4,000 in "baby cash" for new parents	Facebook
Pets welcome at San Francisco and Mountain View campuses	Google

SOURCES: Richard Parris, "20 Best Companies for Employee Benefits and Perks," tech.co, February 26, 2021, <https://tech.co>; "100 Best Companies to Work For: Cisco," fortune.com, 2020; Glassdoor Team, "10 Companies with Incredible Perks and Benefits," [www.Glassdoor.com](https://www.glassdoor.com), January 7, 2020; R. Umoh, "5 Companies with Employee Perks that Rival Google's," *CNBC*, April 28, 2018, www.cnbc.com; M. Lansat, "19 of the Best Job Perks and Benefits Millennials Have That Their Parents Didn't," *Business Insider*, September 3, 2018, www.businessinsider.com.

Benefits Programs

LO 13-2

Explain the major provisions of employee benefits programs.

Most benefits fall into one of the following categories: social insurance, private group insurance, retirement, pay for time not worked, and family-friendly policies.⁹ [Table 13.3](#), based on Bureau of Labor Statistics (BLS) data, provides an overview of the prevalence of specific benefits programs. As the table shows, the percentage of employees covered by these benefits programs increases with establishment size. Likewise, as shown in [Table 13.4](#), benefits (and total compensation) costs also increase with establishment size.

Table 13.3 Percentage of Workers in U.S. Private Industry with Access to Selected Benefits Programs, by Establishment Size

	ESTABLISHMENT SIZE		
	ALL	1-99 EMPLOYEES	500 OR MORE EMPLOYEES
Healthcare	70%	56%	91%
Short-term disability insurance	42	30	63
Long-term disability insurance	34	24	58
All retirement	67	53	88
Defined benefit pension	15	7	39
Defined contribution plan	64	51	82
Life insurance	56	40	82
Paid leave			
Sick	75	67	88
Vacation	79	71	90
Personal	45	35	62
Family	20	15	31

SOURCE: U.S. Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in the United States*, March 2020, Bulletin 2793, September 2020, <https://www.bls.gov/ncs/ebs/>.

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Table 13.4 Total Hourly Compensation and Benefits Costs, U.S. Private Industry, by Establishment Size

	ESTABLISHMENT SIZE		
	ALL	1-99 EMPLOYEES	500 OR MORE EMPLOYEES
Total compensation	\$35.95	\$29.67	\$52.43
Wages and salaries	25.23	21.97	33.98
Benefits	10.72	7.70	18.84

SOURCE: *Employer Costs for Employee Compensation—September 2020*, News Release, USDL-20-2266, December 17, 2020, <https://www.bls.gov/news.release/pdf/ecec.pdf>.

Social Insurance (Legally Required)

Social Security

Among the most important provisions of the Social Security Act of 1935 was the establishment of old-age insurance and unemployment insurance. The act was later amended to add survivor's insurance (1939), disability insurance (1956), hospital insurance (Medicare Part A, 1965), and supplementary medical insurance (Medicare Part B, 1965) for the elderly. Together these provisions constitute the federal Old Age, Survivors, Disability, and Health Insurance (OASDHI) program. More than 90% of U.S. employees are covered by the program, the main exceptions being railroad and federal, state, and local government employees, who often have their own plans. Note, however, that an individual employee must meet certain eligibility requirements to receive benefits. To be fully insured typically requires 40 quarters of covered employment and minimum earnings (\$1,470 in 2021) per quarter. However, the eligibility rules for survivors' and disability benefits are somewhat different.

For those born in 1940, Social Security retirement (old-age insurance) benefits for fully insured workers begin at age 65 years and 6 months (full benefits) or age 62 (at a permanent reduction of 22.5% in benefits). The "full retirement age" now rises with birth year, reaching age 67 for those born in 1960 or later. Although the amount of the benefit depends on one's earnings history, benefits do not go up after reaching a certain earnings level. Thus high earners help subsidize benefit payments to low earners. In 2021, the maximum benefit (for someone with a high earning history) at full retirement age was \$3,148/month (\$37,776/year). However, the highest maximum benefit (\$3,895/month, \$46,470/year) is, in fact, obtained by waiting beyond the "full retirement age" until age 70 to retire. Cost-of-living increases are provided each year that the consumer price index increases. There is also a spousal benefit of up to 50% of the primary recipient's (full retirement age) benefit (if larger than the spouse's own benefit).

An important attribute of the Social Security retirement benefit is that for those at full retirement age, it is free from state tax in about half of the states and free from federal tax if no other income is received or if that other income falls below a certain level (recently, \$25,000 for single tax return filers, \$34,000 for married/joint filers). At high income levels, a maximum of 85% of benefits are subject to federal tax. Additionally, the federal tax code has an earnings test for those who are still earning wages (and not yet at full retirement age). In 2021, beneficiaries (who must be 62 or older) below the full retirement age were allowed to make \$18,960; in the year an individual reaches full retirement age, the earnings test is \$50,250. If these amounts are exceeded, the Social Security benefit is reduced \$1 for every \$2 in excess earnings for those under the full retirement age and \$1 for every \$3 in the year a worker reaches the full retirement age. These provisions are important because of their effects on the work decisions of those between age 62 and full retirement age. The earnings test increases a person's incentive to retire (otherwise, full Social Security benefits are not received), and if she continues to work, the incentive to work part time rather than full time increases. A major change made in January 2000 is that there is no earnings test once full retirement age is reached. Therefore, these workers no longer incur any earnings penalty (and thus have no tax-related work disincentive).

How are retirement and other benefits financed? Both employers and employees are assessed a payroll tax of 7.65% (a total of 15.3%) on the first \$142,800 (as of 2021) of the employee's earnings. Of the 7.65%, 6.2% funds OASDHI and 1.45% funds Medicare (Part A). Unlike the OASDHI tax, the 1.45% Medicare tax continues to be assessed on earnings above \$132,900. (The self-employed pay a 12.4% OASDHI tax plus a 2.9% Medicare tax.) In addition, as of 2013, the Affordable Care Act added what the Social Security Administration calls a High Income Tax and what the Internal Revenue Service calls the Additional Medicare Tax, which is 0.9% on adjusted gross income above \$200,000 for single filers and \$250,000 for married filers. This tax is paid only by individuals. Employers do not pay this tax.

What are the behavioral consequences of Social Security benefits? Because they are legally mandated, employers do not have discretion in designing this aspect of their benefits programs. However, Social Security does affect employees' retirement decisions. The eligibility age for benefits and any tax penalty for earnings influence retirement decisions. The elimination of the tax penalty on earnings for those at full retirement age should mean a larger pool of older workers in the labor force for employers to tap into.

Unemployment Insurance

Established by the 1935 Social Security Act, this program has four major objectives: (1) to offset lost income during involuntary unemployment, (2) to help unemployed workers find new jobs, (3) to provide an incentive for employers to stabilize employment, and (4) to preserve investments in worker skills by providing income during short-term layoffs (which allows workers to return to their employer rather than start over with another employer).

The unemployment insurance program is financed largely through federal and state taxes on employers. Although, strictly speaking, the decision to establish the program is left to each state, the Social Security Act created a tax incentive structure that quickly led every state to establish a program. The federal tax rate is currently 0.6% on the first \$7,000 of wages. Many states have a higher rate or impose the tax on a greater share of earnings. Currently, Washington State has the maximum covered (taxable) earnings of any state at \$47,300.¹⁰

An important feature of the unemployment insurance program is that no state imposes the same tax on every employer. Instead, the size of the tax depends on the employer's experience rating. Employers that have a history of laying off a large share of their workforces pay higher taxes than do those that do not. In some states, an employer that has had very few layoffs may pay no state tax. In contrast, an employer with a poor experience rating could pay a tax as high as 5–10%, depending on the state.¹¹

Unemployed workers are eligible for benefits if they (1) have a prior attachment to the workforce (often 52 weeks or four quarters of work at a minimum level of pay); (2) are available for work; (3) are actively seeking work (including registering at the local unemployment office); and (4) were not discharged for cause (such as willful misconduct), did not quit voluntarily, and are not out of work because of a labor dispute.

Benefits also vary by state, but they are typically about 50% of a person's earnings and last for 26 weeks. Extended benefits for up to 13 weeks are also available. A state must, for example, pay extended benefits if the insured unemployment rate for the previous 13 weeks is at least 5% and is 120% of the rate for the same 13-week period in the two previous years.¹² Emergency extended (federal) benefits are also page 577 sometimes funded by Congress. (During the pandemic, unemployment benefits were enhanced and made available to workers not ordinarily covered such as independent contractors.) All states have minimum and maximum weekly benefit levels. In contrast to Social Security retirement benefits, unemployment benefits are taxed as ordinary income.

Because unemployment insurance is, in effect, legally required, management's discretion is limited here, too. Management's main task is to keep its experience rating low by avoiding unnecessary workforce reductions (e.g., by relying on the sorts of actions described in [Chapter 5](#)).

Workers' Compensation

Workers' compensation laws cover job-related injuries and death.¹³ Prior to enactment of these laws, workers suffering work-related injuries or diseases could receive compensation only by suing for damages. Moreover, the common-law defenses available to employers meant that such lawsuits were not usually successful. In contrast, these laws operate under a principle of no-fault liability, meaning that an employee does not need to establish gross negligence by the employer. In return, employers receive immunity from lawsuits. (One exception is the employer who intentionally contributes to a dangerous workplace.) Employees are not covered when injuries are self-inflicted or stem from intoxication or "willful disregard of safety rules."¹⁴ Approximately 90% of all U.S. workers are covered by state workers' compensation laws, although again there are differences among states, with coverage ranging from 70% to more than 95%.

Workers' compensation benefits fall into four major categories: (1) disability income, (2) medical care, (3) death benefits, and (4) rehabilitative services.

Disability income is typically two-thirds of pre-disability earnings, although each state has its own minimum and maximum. In contrast to unemployment insurance benefits, disability benefits are tax free. The system is financed differently by different states, some having a single state fund, most allowing employers to purchase coverage from private insurance companies. Self-funding by employers is also permitted in most states. The cost to the employer is based on three factors. The first factor is the nature of the occupations and the risk attached to each. Premiums for low-risk occupations may be less than 1% of payroll; the cost for some of the most hazardous occupations may be as high as 100% of payroll. The second factor is the state where work is located. For example, in the 50 U.S. states, the recent maximum compensation a worker could receive for loss of an arm averaged \$169,878, but it ranged from a minimum of \$48,840 in Alabama to a maximum of \$859,634 in Nevada.¹⁵ The third factor is the employer's experience rating.

The experience rating system again provides an incentive for employers to make their workplaces safer. Dramatic injuries (like losing a finger or hand) are less prevalent than minor ones, such as sprains and strains. Back strain is the most expensive benign health condition in developed countries. Each year in the United States, 3–4% of the population is temporarily disabled and 1% is permanently and totally disabled.¹⁶ Many actions can be taken to reduce workplace injuries, such as work redesign and training, and to speed the return to health, and thus to work (e.g., exercise).¹⁷ Some changes can be fairly simple (such as permitting workers to sit instead of having them bend over). It is also important to hold managers accountable (in their performance evaluations) for making workplaces safer and getting employees back to work promptly following an injury. With the passage of the Americans with Disabilities Act, employers came under even greater pressure to deal effectively and fairly with workplace injuries. See the discussion in [Chapter 3](#) on safety awareness programs for some of the ways employers and employees are striving to make the workplace safer.

One challenge is managing pain from workplace injuries effectively and efficiently and avoiding prescription painkiller abuse. Some firms and insurers have moved toward using data better to assess high-risk workers. In such cases, employees are assigned a case worker right from the start. The case worker closely monitors the employee's situation. If, for example, a case worker sees that a worker with a broken ankle continues taking opioids longer than two weeks, an alert may be issued. The idea is to intervene so that a broken ankle or a minor lower-back injury does not turn into a lifetime problem with prescription painkiller addiction. Companies can also use analytics from Rising (Rising Medical Solutions) and similar companies to benchmark their workers' compensation cases against those of other companies in the same industry or geographic location as a way to compare the risk of fraud and abuse to that faced by other companies, which can help them decide how much of a problem they have.

Private Group Insurance

As we noted earlier, group insurance rates are typically lower than individual rates because of economies of scale, the ability to pool risks, and the greater bargaining power of a group. This cost advantage, together with tax considerations and a concern for employee security, helps explain the prevalence of employer-sponsored insurance plans. We discuss two major types: medical insurance and disability insurance. Note that these programs are not legally required; rather, they are offered at the discretion of employers.

Medical Insurance

Not surprisingly, public opinion surveys indicate that medical benefits are by far the most important benefit to the average person.¹⁸ As [Table 13.3](#) indicates, most full-time employees have medical insurance, especially in larger workplaces. Three basic types of medical expenses are typically covered: hospital expenses, surgical expenses, and physicians' visits. Other benefits that employers may offer include dental care, vision care, birthing centers,

and prescription drug programs. Perhaps the most important issue in benefits management is the challenge of providing quality medical benefits while controlling costs, a subject we return to in a later section. We also discuss the Affordable Care Act in a later section.

The [Consolidated Omnibus Budget Reconciliation Act \(COBRA\)](#) of 1985 requires employers to permit employees to extend their health insurance coverage at group rates for up to 36 months following a “qualifying event” such as termination (except for gross misconduct), a reduction in hours that leads to the loss of health insurance, death, and other events. The beneficiary (whether the employee, spouse, or dependent) must have access to the same services as employees who have not lost their health insurance. Note that the beneficiaries do not get free coverage. Rather, they receive the advantage of purchasing coverage at the employer rate rather than the individual rate.

[Consolidated Omnibus Budget Reconciliation Act \(COBRA\)](#)

The 1985 act that requires employers to permit employees to extend their health insurance coverage at group rates for up to 36 months following a qualifying event, such as a layoff.

Disability Insurance

Two basic types of disability coverage exist.¹⁹ As [Table 13.3](#) indicates, only in larger workplaces are most employees covered by short-term and long-term disability insurance. Short-term plans typically provide benefits for six months or less, at which point long-term plans take over, potentially covering the person for life. The median and modal salary replacement rate is 60%, although short-term plans sometimes have higher rates. There are typically (in 88% of plans) caps on the amount (median = \$8,000) that can be paid each month.²⁰ Federal income taxation of disability benefits depends on the funding method. Where employee contributions completely fund the plan, there is no federal tax. Benefits based on employer contributions are taxed. Finally, disability benefits, especially long-term ones, need to be coordinated with other programs, such as Social Security disability benefits.

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Retirement

Earlier we discussed the old-age insurance part of Social Security, a legally required source of retirement income. This remains the largest single component of the elderly's overall retirement income (35%). Other sources of income are pensions (17%), earnings from assets (savings and other investments like stocks and bonds, 11%), earnings (34%), and other sources (3%).²¹

Employers have no legal obligation to offer private retirement plans, but many do. As we note later, if a private retirement plan is provided, it must meet certain standards set forth by the Employee Retirement Income Security Act.

Defined Benefit

A *defined benefit plan* guarantees (“defines”) a specified retirement benefit level to employees based typically on a combination of years of service and age as well as on the employee's earnings level (e.g., the three to five highest earnings years). For instance, an organization might, based on a formula of years of service x 2 % x final average salary, guarantee an annual pension payment of \$48,000 to an employee retiring at age 65 with 30 years of service and an average salary over the final 5 years of \$80,000. As [Table 13.3](#) indicates, full-time employees in 15% of all

workplaces, 39% of large workplaces, are covered by such plans. (Defined benefit coverage has fallen by half since 1980.)²² Importantly, these percentages include defined benefit plans no longer accepting new participants and thus overstate the prevalence of active plans.

Defined benefit plans insulate employees from investment risk, which is borne by the company. In the event of severe financial difficulties that force the company to terminate or reduce employee pension benefits, the [Pension Benefit Guaranty Corporation \(PBGC\)](#) provides some protection of benefits. Established by the [Employee Retirement Income Security Act \(ERISA\)](#) of 1974, the PBGC guarantees a basic benefit, not necessarily complete pension benefit replacement, for employees who were eligible for pensions at the time of termination. It the most recent ensures the retirement benefits of 41 million workers in more than 24,000 plans. In fiscal year, PBGC paid benefits of \$6.1 billion to 984,000 retirees from failed single-employer plans.²³ The maximum annual benefit for terminated single-employer plans is limited to the lesser of an employee's annual gross income during a PBGC-defined period or \$32,584 at age 55, \$47,066 at age 60, \$72,413 at age 65, \$120,199 at age 70, and \$220,124 at age 75.²⁴ Thus, higher-paid employees, who would have received higher pensions under the company plan, can experience major cuts in pensions if the PBGC must take over the plan. Payouts are not adjusted for cost-of-living changes. The PBGC is funded by an annual premium of \$86 per (single-employer) plan participant, plus an additional variable-rate premium of \$46 per 1,000 of unfunded vested benefits for underfunded plans.²⁵ Note that the PBGC does not guarantee retiree health care benefits.

[Pension Benefit Guaranty Corporation \(PBGC\)](#)

The agency that guarantees to pay employees a basic retirement benefit in the event that financial difficulties force a company to terminate or reduce employee pension benefits.

[Employee Retirement Income Security Act \(ERISA\)](#)

The 1974 act that increased the fiduciary responsibilities of pension plan trustees, established vesting rights and portability provisions, and established the Pension Benefit Guaranty Corporation (PBGC).

Defined Contribution

Unlike defined benefit plans, *defined contribution plans* do not promise a specific benefit level for employees upon retirement. Rather, an individual account is set up for each employee with a guaranteed size of contribution. The advantage of such plans for employers is that they shift investment risk to employees and present fewer administrative challenges because there is no need to calculate payments based on age and service and no need to make payments to the PBGC. As [Table 13.3](#) indicates, defined contribution plans are especially preferred in smaller companies, perhaps because of small employers' desire to avoid long-term obligations or perhaps because small companies tend to be younger, often being founded since the trend toward defined contribution plans. Some companies have both defined benefit and defined contribution plans.

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There is a wide variety of defined contribution plans, a few of which are described briefly here. One of the simplest is a money purchase plan, under which an employer specifies a level of annual contribution (such as 10% of salary). At retirement age, the employee is entitled to the contributions plus the investment returns. The term *money purchase* stems from the fact that employees often use the money to purchase an annuity rather than taking it as a lump sum. Profit sharing plans and employee stock ownership plans are also often used as retirement vehicles. Both permit contributions (cash and stock, respectively) to vary from year to year, thus allowing employers to avoid fixed obligations that may be burdensome in difficult financial times. Section 401(k) plans (named after the tax code section) permit employees to defer compensation on a pretax basis. Annual contributions in 2021 are limited to \$19,500.²⁶ For those age 50 or over, an additional \$6,500 per year in catch-up contributions is also

permitted. Additionally, many employers (80%) match some portion (mean = 4.7%) of employee contributions.²⁷ A final incentive is tax based. For example, based on [Table 13.1](#), \$10,000 contributed to a 401(k) plan would only be worth $(1 - 0.43) \times \$10,000 = \$5,700$ if taken in salary.

Defined contribution plans continue to grow in importance, while, as we saw earlier, defined benefit plans have become less common. An important implication is that defined contribution plans put the responsibility for wise investing squarely on the shoulders of the employee. Several factors affect the amount of income that will be available to an employee upon retirement. First, the earlier the age at which investments are made, the longer returns can accumulate. As [Figure 13.2](#) shows, an annual investment of \$5,000 made between ages 21 and 29 will be worth much more at age 65 than a similar investment made between ages 31 and 39. Second, different investments have different historical rates of return. Between 1928 and 2020 the average annual return was 10.3% for stocks, 6.1% for bonds, and 3.3% for cash (e.g., short-term Treasury bills or bank savings accounts). As [Figure 13.2](#) shows, if historical rates of return were to continue, an investment of \$5,000 in a mix of 70% stock and 30% bonds each year between the ages of 21 and 29 would be worth about 10 times as much at age 65 as would the same amount kept in the form of cash. A third consideration is the need to counteract investment risk by diversification because stock and bond prices can be volatile in the short run. Although stocks have the greatest historical rate of return, that is no guarantee of future performance, particularly over shorter time periods. (This fact becomes painfully obvious during the dramatic drops in stock market values that are experienced every so often, most recently a drop of 38% in the S&P 500 in 2008 and a drop of 20% in the 1st quarter of 2020 before recovering to gain 4% for the year.) Thus, investment advisers often recommend a mix of stocks and bonds as shown in [Figure 13.2](#), to reduce investment risk. Younger investors may wish to have more stock, while those closer to retirement age typically have less stock in their portfolios.

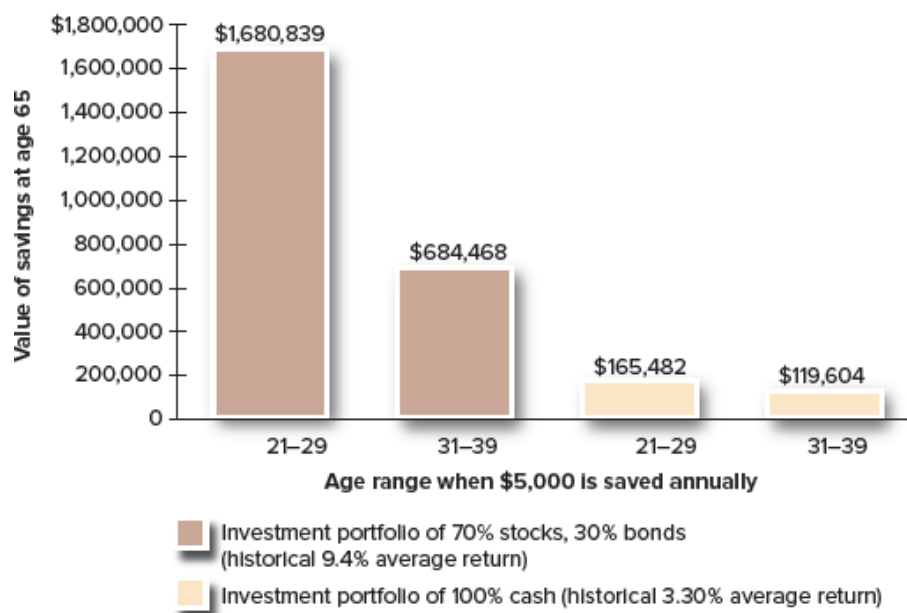


Figure 13.2 The Relationship of Retirement Savings to Age When Savings Begins and Type of Investment Portfolio

NOTE: Historical rates of return, 1928–2020: stocks (S&P 500), 10.3%; bonds (Long-term investment grade bonds), 6.1%; cash (3-month U.S. Treasury Bill), 3.3%.

SOURCES: Vanguard, “Vanguard Portfolio Allocation Models,”
<https://investor.vanguard.com/investing/how-to-invest/model-portfolio-allocation>.

It’s also important—indeed, extraordinarily important—not to invest too heavily in any single stock.²⁸ Some Enron employees had 100% of their 401(k) assets in Enron stock. When the price dropped from \$90 to less than \$1 and Enron entered bankruptcy, their retirement money was gone. Employees at Bear Stearns, a storied Wall Street firm, also learned the hard way what can happen when you put all your eggs in one basket—company stock. When

the stock price fell from its peak of \$160 to \$2 and Bear was purchased by JP Morgan Chase, the value of employee-owned shares fell from \$6.3 billion to \$79 million, a loss of 99%. Risk is compounded further by risk of job loss when one's employer struggles financially. So, repeat several times: *Always diversify*, and don't put all your retirement eggs in one basket.²⁹

The Pension Protection Act (PPA) of 2006 requires defined contribution plans holding publicly traded securities to provide employees with (1) the opportunity to divest employer securities and (2) at least three investment options other than employer securities. The PPA also allows employers to enroll workers in their 401(k) plan automatically and to increase a worker's 401(k) contribution automatically to coincide with a raise or a work anniversary. Workers can decline, but the onus is on them to do so. Since the PPA, automatic enrollment (50% of plans) and automatic escalation (44%) have become common, thus helping increase worker retirement contributions.³⁰

According to the U.S. Department of Labor's Employee Benefits Security Administration, ERISA requires that employers in sponsoring retirement (and health) plans "meet fiduciary responsibilities." That includes acting solely in the interest of plan participants in managing the retirement plan, carrying out these management duties prudently, following plan documents, diversifying plan investments, and paying only reasonable plan expenses. Companies can be sued for any breach of these fiduciary responsibility duties. As an example, Lockheed reached a \$62 million settlement in 2015 of a lawsuit that alleged its 401(k) plan was not prudently managed (e.g., because it charged excessive fees to participants).

Cash Balance Plans

One way to combine the advantages of defined benefit plans and defined contribution plans is to use a [cash balance plan](#). This type of retirement plan consists of individual accounts, as in a 401(k) plan. But in contrast to a 401(k), all the contributions come from the employer. Usually, the employer contributes a percentage of the employee's salary, say, 4% or 5%. The money in the cash balance plan earns interest according to a predetermined rate, such as the rate paid on U.S. Treasury bills. Employers guarantee this rate as in a defined benefit plan. This arrangement helps employers plan their contributions and helps employees predict their retirement benefits. If employees change jobs, they generally can roll over the balance into an individual retirement account.

[Cash balance plan](#)

A retirement plan in which the employer sets up an individual account for each employee and contributes a percentage of the employee's salary; the account earns interest at a predetermined rate.

Organizations switching from traditional defined benefit plans to cash balance plans should consider the effects on employees as well as on the organization's bottom line. Defined benefit plans are most generous to older employees with many years of service, and cash balance plans are most generous to young employees who will have many years ahead in which to earn interest. For an organization with many experienced employees, switching from a defined benefit plan can produce great savings in pension benefits. In that case, the older workers are the greatest losers, unless the organization adjusts the program to retain their benefits.

Funding, Communication, and Vesting Requirements

ERISA does not require organizations to have pension plans, but those that are set up must meet certain requirements. In addition to the termination provisions discussed earlier, plans must meet certain guidelines on management and funding. For example, employers are required to make yearly contributions that are sufficient to

cover future obligations. (As noted previously, underfunded plans require higher premiums.) ERISA also specifies a number of reporting and disclosure requirements involving the IRS, the Department of Labor, and employees.³¹ Employees, for example, must receive within 90 days after entering a plan a [summary plan description \(SPD\)](#) that describes the plan's funding, eligibility requirements, risks, and so forth. Upon request, an employer must also make available to an employee an individual benefit statement, which describes the employee's vested and unvested benefits. Obviously, employers may wish to provide such information on a regular basis anyway as a means of increasing employees' understanding and the value employees attach to their benefits.

[Summary plan description \(SPD\)](#)

A reporting requirement of the Employee Retirement Income Security Act (ERISA) that obligates employers to describe the plan's funding, eligibility requirements, risks, and so forth within 90 days after an employee has entered the plan.

ERISA guarantees employees that when they become participants in a pension plan and work a specified minimum number of years, they earn a right to a pension upon retirement. These are referred to as *vesting rights*.³² Vested employees have the right to their pension at retirement age, regardless of whether they remain with the employer until that time. Employee contributions to their own plans are always completely vested. The vesting of employer-funded pension benefits must take place under one of two schedules. Employers may choose to vest employees after five years; until that time, employers can provide zero vesting if they choose. Alternatively, employers may vest employees over a three- to seven-year period, with at least 20% vesting in the third year and each year thereafter. These two schedules represent minimum requirements; employers are free to vest employees more quickly. These are the two choices relevant to the majority of employers. However, so-called top-heavy plans, where pension benefits for "key" employees (like highly paid top managers) exceed a certain share of total pension benefits, require faster vesting for nonkey employees. On the other hand, multiemployer pension plans need not provide vesting until after 10 years of employment.

These requirements were put in place to prevent companies from terminating employees before they reach retirement age or before they reach their length-of-service requirements in order to avoid paying pension benefits. Transferring employees or laying them off as a means of avoiding pension obligations is not legal either, even if such actions are motivated partly by business necessity.³³ Employers are, however, free to choose whichever of the two vesting schedules is most advantageous. For example, an employer that experiences high quit rates during the fourth and fifth years of employment may choose five-year vesting to minimize pension costs.

The traditional defined benefit pension plan discourages employee turnover or delays it until the employer can recoup the training investment in employees.³⁴ Even if an employee's pension benefit is vested, it is usually smaller if the employee changes employers, mainly because the size of the benefit depends on earnings in the final years with an employer. Consider an employee who earns \$30,000 after 20 years and \$60,000 after 40 years.³⁵ The employer pays an annual retirement benefit equal to 1.5% of final earnings times the number of years of service. If the employee stays with the employer for 40 years, the annual benefit level upon retirement would be \$36,000 ($0.015 \times \$60,000 \times 40$). If, instead, the employee changes employers after 20 years (and has the same earnings progression), the retirement benefit from the first employer would be \$9,000 ($0.015 \times \$30,000 \times 20$). The annual benefit from the second employer would be \$18,000 ($0.015 \times \$60,000 \times 20$). Therefore, staying with one employer for 40 years would yield an annual retirement benefit of \$36,000, versus a combined annual retirement benefit of \$27,000 (\$9,000 + \$18,000) if the employee changes employers once. It has also been suggested that pensions are designed to encourage long-service employees, whose earnings growth may eventually exceed their productivity growth, to retire. This is consistent with the fact that retirement benefits reach their maximum at retirement age.³⁶

The fact that in recent years many employers have sought to reduce their work-forces through early retirement programs is also consistent with the notion that pensions are used to retain certain employees while encouraging others to leave. One early retirement program approach is to adjust years-of-service credit upward for employees willing to retire, resulting in a higher retirement benefit for them (and less monetary incentive to work). These

workforce reductions may also be one indication of a broader trend toward employees becoming less likely to spend their entire careers with a single employer.³⁷ On one hand, if more mobility across employers becomes necessary or desirable, the current pension system's incentives against (or penalties for) mobility may require modification. On the other hand, perhaps increased employee mobility will reinforce the continued trend toward defined contribution plans, like 401(k)s, which have greater portability (ease of transfer of funds) across employers.³⁸

Pay for Time Not Worked

LO 13-3

Discuss how employee benefits in the United States compare with those in other countries.

At first blush, paid vacation, holidays, sick leave, and so forth may not seem to make economic sense. The employer pays the employee for time not spent working, receiving no tangible production value in return. Therefore, some employers may see little direct advantage. Perhaps for this reason, a minimum number of vacation days (20) is mandated by law in the European Community. As many as 30 days of vacation is not uncommon for relatively new employees in Europe. By contrast, there is no legal minimum in the United States, but 10 days is typical for large companies. U.S. workers must typically be with an employer for 20 to 25 years before they receive as much paid vacation as their western European counterparts.³⁹

Sick leave programs in the United States, among employers that provide them, often provide full salary replacement for a limited period of time, usually not exceeding 26 weeks. The amount of sick leave is often based on length of service, accumulating with service (one day per month, for example). Sick leave policies need to be carefully structured to avoid providing employees with the wrong incentives. For example, if sick leave days disappear at the end of the year (rather than accumulate), a "use it or lose it" mentality may develop among employees, contributing to greater absenteeism. Organizations have developed a number of measures to counter this.⁴⁰ Some allow sick days to accumulate, then pay employees for the number of sick days when they retire or resign. Employers may also attempt to communicate to their employees that accumulated sick leave is better saved to use as a bridge to long-term disability because the replacement rate (the ratio of sick leave or disability payments to normal salary) for the former is typically higher. Sick leave payments may equal 100% of usual salary, whereas the typical replacement ratio for long-term disability is 60%, so the more sick leave accumulated, the longer an employee can avoid dropping to 60% of usual pay when unable to work. Microsoft recently required its contractors and vendors to provide paid sick leave for their employees.⁴¹ In 2015, President Obama signed an executive order requiring companies that contract with the federal government to provide paid sick leave. Other companies pay for time that employees devote to charity. For example, employees in General Electric's high-potential program can be paid for a week doing charitable work. One recent example was volunteering with BuildOn, a charity that has built more than 660 schools in impoverished areas of the world.⁴²

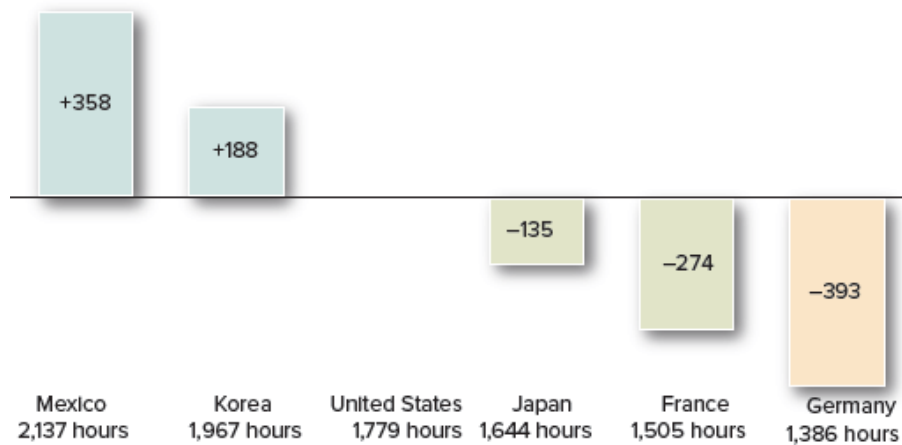


Figure 13.3 Normal Annual Hours Worked Relative to United States

SOURCE: Organization for Economic Cooperation and Development. Data for 2019, <http://stats.oecd.org>. Labour, Subsection, Labour Force Statistics, accessed February 20, 2021.

Although vacation and other paid leave programs help attract and retain employees, there is a cost to providing time off with pay, especially in a global economy. The fact that vacation and other paid leave practices differ across countries contributes to the differences in labor costs described in [Chapter 11](#). Consider that, on average, in manufacturing, German workers work 393 fewer hours per year than their U.S. counterparts. (See [Figure 13.3](#).) In other words, based on a 35-hour workweek, German workers are at work approximately 11 fewer weeks per year than their U.S. counterparts. It is perhaps not surprising then that German manufacturers have looked outside Germany for alternative production sites. (However, you might consider what you could do with the equivalent of an extra 11 plus weeks away from work.) Even in Japan, which is sometimes said to have a death by overwork problem (Karōshi), hours worked per year is less than in the United States.

Family-Friendly Policies

To ease employees' conflicts between work and nonwork, organizations may use *family-friendly policies* (also known as policies that help balance work and family) such as family leave policies, child care, and flexible work arrangements.⁴³ Although the programs discussed here would seem to be targeted to a particular group of employees, these programs often have “spillover effects” on other employees, who see them as symbolizing a general corporate concern for human resources, thus promoting loyalty even among employee groups that do not use the programs and possibly resulting in improved organizational performance.⁴⁴ Evidence suggests that firms using family-friendly policies have better quality management practices overall that are positively associated with organization performance.⁴⁵ The [Evidence-Based HR](#) box provides some examples of company experiences with improvements to their paid leave programs.

Since 1993 the [Family and Medical Leave Act](#) requires organizations with 50 or more employees within a 75-mile radius to provide as much as 12 weeks of unpaid leave after childbirth or adoption; to care for a seriously ill child, spouse, or parent; or for an employee's own serious illness. Employees are guaranteed the same or a comparable job on their return to work. Employees with less than one year of service or who work less than 25 hours per week or who are among the 10% highest paid are not covered.

[Family and Medical Leave Act](#)

The 1993 act that requires employers with 50 or more employees to provide up to 12 weeks of unpaid leave after childbirth or adoption; to care for a seriously ill child, spouse, or parent; or for an employee's own serious illness.

Many employers had already taken steps to deal with this issue, partly to help attract and retain key employees. Fewer than 10% of American families fit the image of a husband working outside the home and a wife who stays home to take care of the children.⁴⁶

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EVIDENCE-BASED HR

Organizations have implemented and expanded paid family leave practices in an effort to help employees better balance work and family and also to help them be more successful in attracting and retaining employees who place a priority on such balance. A number of organizations report that improvements in paid leave have helped improve employee retention.

When Google expanded its paid leave policy from 12 to 18 weeks years ago, it reports the retention of post-maternity women increased by 50%. Best Buy reports that it decreased turnover by 14 percentage points (from 46% to 32%) over four years through introduction of what it calls a paid leave program (despite a drop in unemployment rates during that same period). In Austin, Texas, a study of the implementation of a citywide paid sick days ordinance reported that city businesses saved \$4.5 million annually due primarily to lower turnover and the community was estimated to save \$3.8 million annually due to fewer emergency room visits, less flu contagion, and other public health improvements. (In the time of COVID-19, one presumes these health benefits would have been still larger.) Anecdotal evidence is less systematic and large-scale, but can provide further insight. For example, one recruiter reports that having paid leave policy “often sealed the deal, especially for women and younger candidates” and that such groups often raised the paid leave question “right off the bat” in talking about the position.

SOURCES: Joan Michelson, “How Small Companies Can Offer Great Paid-Leave Programs,” *Harvard Business Review*, January 7, 2021, [HBR.org](https://hbr.org); National Partnership for Women & Families “Paid Sick Days Are Good for Business, Fact Sheet,” October 2020; T. L. Rhodes, “Paid Family Leave Is Increasing Employee Retention Rates,” *Risk & Insurance*, July 18, 2018, <https://riskandinsurance.com>; A. Van Abbema, “How Best Buy Cut Its Staff Turnover More Than 30 Percent in Four Years,” *Minneapolis / St. Paul Business Journal*, December 6, 2018.

The United States still offers significantly less unpaid leave than most western European countries and Japan. Moreover, paid family leave remains rare in the United States (16% of employees are eligible, according to [Table 13.3](#)), in even sharper contrast to western Europe and Japan, where it is typically mandated by law.⁴⁷ Until the passage of the Americans with Disabilities Act, the only applicable law was the Pregnancy Discrimination Act of 1978, which requires employers that offer disability plans to treat pregnancy as they would any other disability.

Sweden-based IKEA is an example of a company that recently began to provide paid family leave in the United States, even for low-paid employees, of 12–16 weeks, depending on how long employees have been with the company.⁴⁸ The policy will cover roughly 13,000 of its 15,000 U.S. employees, and the policy will apply to mothers and fathers and to births, adoptions, and foster children. Employees with at least one year of tenure will receive 12 weeks, with 100% of their salary paid for the first 6 weeks and 50% of their salary paid for the remaining 6 weeks. Employees with at least three years of tenure will receive 16 weeks, with 8 weeks of 100% pay and the remaining 8 weeks at 50% of pay. Even employees who work only 10 hours a week would be eligible. IKEA’s plan is to use interim assignments to do the work and to encourage managers, one-half of whom are women, to use the program themselves as part of its strategy to make hourly workers comfortable using it. In addition to helping provide a more sustainable approach to balancing work and nonwork spheres, IKEA, like many companies, especially retailers, is also facing a tightening labor market, as we discussed in [Chapter 11](#). As such, IKEA also recently increased its minimum hourly wage to nearly \$12/hour.

Experience with the Family and Medical Leave Act suggests that a majority of those opting for this benefit fail to take the full allotment of time. This is especially the case among female executives. Many of these executives find they do not enjoy maternity leave as much as they expected they would and miss the challenges associated page 586with their careers. Others fear that their careers would be damaged in the long run by missing out on opportunities that might arise while they are out on leave.⁴⁹

Child Care

A small percentage (4%) of U.S. companies provide a subsidized child care center and another 4% provide an unsubsidized child care center. In addition, 6% provide back-up emergency care if regular child care arrangements fall apart or if the child is sick. More common (41%) is a much lower commitment, which is providing access to information to help employees locate child care.⁵⁰ One example of a subsidized center is Toyota's Child Development Center at its Georgetown, Kentucky, plant, which provides care from 5:00 a.m. to 11:45 p.m. This facility is designed to meet the needs of employees working day and evening shifts who want their children to be on the same schedule.⁵¹ Cisco, based in San Jose, California, has offered onsite child care for many years. However, its two San Jose child care centers tend to be at 60% to 80% of capacity. To increase usage, Cisco also offers back-up child care at the centers available on an ad hoc basis.⁵²



David Perry/Lexington Herald-Leader/Tribune News Service/Getty Images

Toyota employees check in on their kids at the Georgetown location on-site child care center.

An organization's decision to staff its own child care facility should not be taken lightly. It is typically a costly venture with important liability concerns. Moreover, the results, in terms of reducing absenteeism and enhancing productivity, are often mixed.⁵³ Also, a child care center does not provide flexibility, either in terms of capacity (up or down) or for serving parents looking for a different solution for their needs, which could be child-related, but also elder care or some other responsibility or activity. Thus, paid maternity and paternity leave have become more common, now offered by 34% and 30% of employers, respectively. Further flexibility comes in the form of flextime during core business hours (57% of employers), flextime outside of core business hours (29%), and a compressed workweek (e.g., 4 shifts of 10 hours, 15%). Remote working arrangements on an ad hoc basis are offered by 69% of employers and 27% offer it on full-time basis, 42% on a part-time basis.⁵⁴ Those survey numbers are pre-pandemic. We know that during the pandemic, remote work became very common, of course, and at some companies like Twitter employees can work remotely "forever" (in the words of its CEO, Jack Dorsey) if they wish.⁵⁵

Managing Benefits: Employer Objectives and Strategies

Describe the effects of benefits management on cost and workforce quality.

Although the regulatory environment places some important constraints on benefits decisions, employers retain significant discretion and need to evaluate the payoff of such decisions.⁵⁶ As discussed earlier, however, this evaluation needs to recognize that employees have come to expect certain things from employers. Employers who do not meet these expectations run the risk of violating what has been called an “implicit contract” between the employer and its workers. If employees believe their employers feel little commitment to their welfare, they can hardly be expected to commit themselves to the company’s success.

Clearly, there is much room for progress in the evaluation of benefits decisions.⁵⁷ Despite some of the obvious reasons for benefits—group discounts, regulation, and minimizing compensation-related taxes—organizations do not do as well as they could in spelling out what they want their benefits package to achieve and evaluating how well they are succeeding. Research suggests that most organizations do not have written benefits objectives.⁵⁸ Obviously, without clear objectives to measure progress, evaluation is difficult (and less likely to occur). [Table 13.5](#) provides the most highly ranked benefits objectives across U.S. companies.⁵⁹

Table 13.5 The Five Most Highly Ranked Benefits Objectives for Employers

Increase employee productivity
Increase employee satisfaction
Increase employee loyalty
Attract employees
Help employees make better financial decisions

SOURCE: *MetLife’s 15 Annual U.S. Employee Benefits Trends Study*, 2017, https://benefit-trends.metlife.com/media/1382/2017-ebts-report_0320_exp0518_v2.pdf.

Surveys and Benchmarking

As with cash compensation, an important element of benefits management is knowing what the competition is doing. Survey information on benefits packages is available from private consultants, the U.S. Chamber of Commerce, and the Bureau of Labor Statistics (BLS).⁶⁰ BLS data of the sort in [Table 13.3](#) and the more detailed information on programs and provisions available from consultants are useful in designing competitive benefits packages. To compete effectively in the product market, cost information is also necessary. A good source is again the BLS, which provides information on benefits costs for specific categories as well as breakdowns by industry, occupation, union status, and organization size. (See [Figure 13.4](#).)

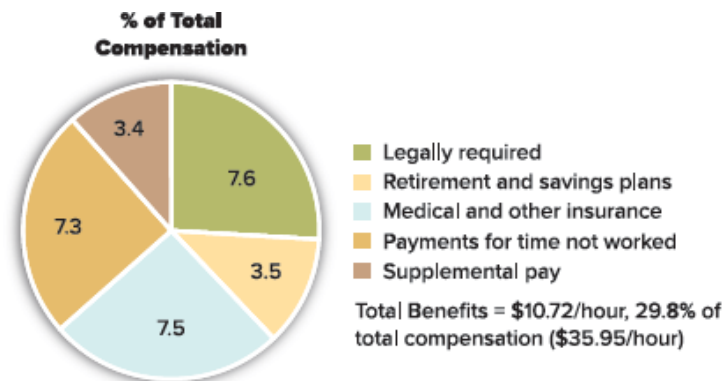


Figure 13.4 Employee Benefits Cost by Category, Private Industry Workers

SOURCE: U.S. Department of Labor, "Employer Costs for Employee Compensation—September 2020," December 17, 2020, News Release USDL-20-2266.

Cost Control

In thinking about cost control strategies, it is useful to consider several factors. First, the larger the cost of a benefit category, the greater the opportunity for savings. Second, the growth trajectory of the benefit category is also important: even if costs are currently acceptable, the rate of growth may result in serious costs in the future. Third, cost containment efforts can work only to the extent that the employer has significant discretion in choosing how much to spend in a benefit category. Much of the cost of legally required benefits (like Social Security) is relatively fixed, which constrains cost reduction efforts. Even with legally required benefits, however, employers can take actions to limit costs because of "experience ratings," which, for example, impose higher taxes on employers with high rates of unemployment or workers' compensation claims. When it comes to health care, as the [Competing through Environmental, Social, and Governance Practices](#) box shows, some employers are seeking to control costs and improve quality by making medical care more accessible to their employees.

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COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Employers Play Role in Employee Financial Wellness, Including Preparing for Retirement

Bank of America surveyed a national sample of employers and (full-time) employees. It identified a the trend toward employees shouldering more responsibility for their retirement (see the **chapter opening**), but also noted a corresponding trend of employers doing more to help employees with financial wellness. In **Chapter 11**, we saw that some employers have moved to help employees avoid financial precarity (in terms of week to week finances) in a variety of ways. The focus on retirement is related, but with a much more long-term focus. In the survey, 78% of employers reported feeling "very/extremely responsible" for helping employees with sustaining assets through retirement, up from 33% in 2012. There is much work to be done, however, as only 49% of employees rate their financial wellness as good or excellent. Although part of that is due to the pandemic, as the rating was higher (55%) in 2019 and 2018 (61%), even in the best year 39% of employees reported lower than desired financial wellness. Similarly, 38% of employees agreed with the statement, "I don't have any spare money after my monthly expenses."

MetLife suggests the following ways employers can help employees achieve long-term goals, including retirement: use auto-enrollment in 401(k) plans, offer online tools to do what-if analyses to project retirement income under

different strategies and scenarios, offer personalized financial planning, and offer tools to help employees save for buying a home or help for saving for college expenses.

Ascend Performance Materials of Houston, Texas, recently won an award for its financial planning program from the Plan Sponsor Council of America (PSCA). The program provides an individual meeting opportunity with a consultant from Transamerica. The program is tailored to employees based on age and financial situation. Three educational challenges are addressed for each employee: Money Management Basics, Financial Planning 101, and Get Ready to Retire. Points were awarded to employees based on their progress through these “courses.” The Hy-Vee supermarket chain also won a PSCA award. They also provided one-on-one meetings with a consultant (from Principal©). It also included webinars and monetary credits for completing steps in the program.

As we also saw in the **chapter opening**, the 401(k) plan now plays a major role in helping employees prepare for retirement. We also saw that typically both employers and employees contribute. Importantly, employers have a few key tools at their disposal to increase employee contributions. The first, automatic enrollment, allows employers to deduct 401(k) contributions from employees’ paycheck. Employees can choose to opt out, but otherwise they make 401(k) contributions each pay period. A second tool is auto-escalation, where employers are allowed to increase the size of the employee retirement contribution deducted over time. One update is that the 2019 Setting Every Community Up for Retirement Enhancement (SECURE) Act raised the auto-escalation cap from 10% of pay to 15% of pay (for what are called safe harbor plans, which are those that meet nondiscrimination tests to ensure that employer contributions to retirement do not disproportionately benefit highly paid employees). This will allow employers to more aggressively “nudge” employees toward saving more for retirement.

DISCUSSION QUESTIONS

Why do employees need financial education? How has the change in the nature of employer-sponsored retirement benefits contributed to this need?

Do you feel you have adequate knowledge to plan for retirement, including how to invest your retirement assets to prepare? If not, ask one of your classmates (perhaps one who has taken the finance class!) what knowledge is most important.

What could go wrong if employees are responsible for preparing for their retirement but do not have adequate financial knowledge?

SOURCES: Stephen Miller, “Employers Feel More Responsible for Employees’ Financial Wellness,” Society for Human Resource Management, October 1, 2020, [SHRM.org](https://www.shrm.org); “401(k) Savings Rates Are Up, and SECURE Act May Push Them Higher; Automatic Enrollment and Auto-Increase Features Drive Retirement Readiness,” Society for Human Resource Management, January 28, 2020, [SHRM.org](https://www.shrm.org); Brett Christie, “Employers’ Play a Crucial Role in Easing Employee Retirement Concerns,” *Workspan Daily*, April 28, 2020; MetLife, *Financial Wellness Programs Promote a Thriving Work-force*, 2019, [Metlife.com/ebtsfinwell](https://www.metlife.com/ebtsfinwell); Bank of America, *2020 Workplace Benefits Report*, [Baml.com/benefitsre-port](https://www.bankofamerica.com/benefitsreport); “2020 Signature Award Winners: Financial Wellness,” [PSCA.org](https://www.pscacouncil.org).

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One benefit—medical and other insurance—stands out as a target for cost control for two reasons. Costs are high and growth in costs has typically been high, even in the face of determined efforts to control the growth of costs. Second, employers have many options for attacking costs and improving quality, and the Affordable Care Act makes these issues even more salient for employers.

Health Care: Controlling Costs and Improving Quality and Access

As [Table 13.6](#) indicates, the United States spends more on health care than any other country in the world, which helps explain why there is so much focus on controlling health care costs. U.S. health care expenditures have gone from roughly 5% of gross domestic product (GDP) in 1960 (about \$27 billion) to roughly 17% (which works out to well over \$3 trillion) more recently. Yet the percentage of workers receiving job-related health benefits had declined over the same period, now standing at 55% (see [Table 13.3](#)) and there are nearly 30 million uninsured (see [Table 13.7](#)).⁶¹ As [Table 13.6](#) shows, the United States also trails Japan and western Europe on measures of life expectancy and infant mortality. The United States recently made substantial progress on health insurance coverage between 2013 and 2016 (see [Table 13.7](#)), apparently due to the Affordable Care Act. However, [Table 13.6](#) shows that since beginning in 2017, that progress began to be reversed.⁶²

Table 13.6 Health Care Costs and Outcomes in Various Countries

	LIFE EXPECTANCY AT BIRTH, FEMALE	INFANT MORTALITY RATE (PER 1,000)	HEALTH EXPENDITURES AS A PERCENTAGE OF GDP
Canada	84	5	11%
China	79	7	5
France	86	4	11
Germany	83	3	12
Japan	87	2	11
Korea	86	3	8
Mexico	78	13	6
Poland	82	4	6
United States	81	6	17

SOURCES: Organization for Economic Cooperation and Development, *OECD Health Statistics 2020 and Health Expenditure and Funding*, www.OECD.org, accessed March 8, 2021.

Table 13.7 Number and Percentage of People without Health Insurance, United States

YEAR	CENTERS FOR DISEASE CONTROL AND PREVENTION, ALL AGES	
	MILLIONS	%
2000	41.3	14.9
2005	41.2	14.2
2010	48.6	16.0
2011	46.3	15.1
2012	45.5	14.7
2013	44.8	14.4
2014	36.0	11.5
2015	28.6	9.1

2016	28.6	9.0
2017	29.3	9.1
2018	30.4	9.4
2019	33.2	10.3
2020	30.4	9.4

SOURCES: National Center for Health Statistics, Fact Sheet, November 2020 (and earlier years), www.cdc.gov; R. A. Cohen et al., "Health Insurance Coverage: Early Release of Estimates from the National Health Interview Survey," January–June 2020. Released February 2021.



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"We see the HTA triggering a marketplace of competition where buyers of health care challenge providers of health care to compete with each other in a better way."

—Robert Andrews, CEO Health Transformation Alliance

Video produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Film-works.

Unlike workers in most western European countries, who have nationalized health systems, the majority of Americans receiving health insurance get it through their (or a family member's) employer.⁶³ Consequently, health insurance, like pensions, discourages employee turnover because not all employers provide health insurance benefits.⁶⁴

One trend in plan design has been to shift costs to employees through the use of (higher) deductibles, co-insurance, exclusions and limitations, and maximum benefits.⁶⁵ These costs can be structured such that employees act on incentives to shift to less expensive plans.⁶⁶ Another trend has been to focus on reducing, rather than shifting, costs through such activities as preadmission testing and second surgical opinions. The use of alternative providers like [health maintenance organizations \(HMOs\)](#) and [preferred provider organizations \(PPOs\)](#) has also increased. HMOs differ from more traditional providers by focusing on preventive care and outpatient treatment, requiring employees to use only HMO services, and providing benefits on a prepaid basis. Many HMOs pay physicians and other health care workers a flat salary instead of using the traditional fee-for-service system, under which a physician's pay may depend on the number of patients seen. Paying on a salary basis is intended to reduce incentives for physicians to schedule more patient visits or medical procedures than might be necessary.

(Of course, there is the risk that incentives will be reduced too much, resulting in inadequate access to medical procedures and specialists.) PPOs are essentially groups of health care providers that contract with employers, insurance companies, and so forth to provide health care at a reduced fee. They differ from HMOs in that they do not provide benefits on a prepaid basis and employees often are not required to use the preferred providers. Instead, employers may provide incentives for employees to choose, for example, a physician who participates in the plan. In general, PPOs seem to be less expensive than traditional delivery systems but more expensive than HMOs.⁶⁷

[Health maintenance organization \(HMO\)](#)

A health care plan that provides benefits on a prepaid basis for employees who are required to use only HMO medical service providers.

[Preferred provider organization \(PPO\)](#)

A group of health care providers who contract with employers, insurance companies, and so forth to provide health care at a reduced fee.

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Another trend in employers' attempts to control costs has been to vary required employee contributions based on the employee's health and risk factors rather than charging each employee the same premium. Some companies go further, refusing to employ people with certain risk factors such as smokers.

Some employers now offer a "Medical tourism" benefit, which means sending patients to other countries where medical procedures can sometimes be done much more cheaply. For example, under a program at Hannaford Brothers, a Maine-based grocery chain, the company would pay for an employee (and significant other) to travel to Singapore for a knee or hip replacement. Doing so saved the company roughly \$30,000 to \$40,000 and saved the employee about \$3,000 in out-of-pocket costs (i.e., the deductible). And the employee and travel companion get to experience another country.⁶⁸ Deploying technology, including telemedicine, is another approach to reducing costs, as well as improving access (see the [Competing through Technology](#) box).

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COMPETING THROUGH TECHNOLOGY

Virtual Health Care: Telehealth and Telemedicine

Telehealth is providing health care from a distance and telemedicine refers more specifically to the technology used to help provide that care. Whether for domestic or expatriate employees, telehealth (typically for nonemergency care) is growing as a way to provide increased and faster access to general medical advice. It offers the opportunity to avoid waiting potentially weeks for an in-person appointment and/or having to take the time to travel to and from and potentially wait at the appointment. In the case of an expatriate employee, which by one estimate number over 60 million, it offers the additional advantage of eliminating any language barrier, as well as the need to deal with the idiosyncrasies of the foreign health care system. It may also save the employer a significant amount of money.

In some cases, a 10 or 15 minute teleconsultation may help avoid a costly and drawn-out visit to an emergency room or doctor's office. There are, of course, challenges and risks in using telemedicine. A virtual exam has limitations compared to an in-person exam. For example, it may be possible to diagnose the concern raised by the patient, but other concerns that might be noticed by a doctor in an in-person exam may go unnoticed. Another challenge in the case of expatriates is that some countries may ban doctors from providing health care unless they

hold a license in that country. And/or they may not permit the doctor to write prescriptions in that country. In such cases, some sort of partnership with a local doctor would be necessary.

Of course, telemedicine exploded during the pandemic. In a survey of large employers, 80% said that telehealth will play a key role in health care delivery going forward, up from 64% the previous year, and up from 52% two years ago. Almost all of these employers offer telehealth for minor, acute services and 91% offer telemental health and emotional well-being care. Virtual musculoskeletal care will be offered by 29% in the coming year. As one example of supporting telehealth, game developer Zynga Inc. waived copays for virtual appointments and accelerated implementation of a global mental-health support program. From the perspective of a physician, telehealth helped in bringing health care to patients. For example, one family physician noticed a patient missed an appointment. It was discovered the patient had no transportation. The telehealth option allowed the physician to “see” the patient and check on the patient’s diabetes and mental health, which might not have happened otherwise. At UCLA Health in Los Angeles, there had been a push pre-pandemic to increase the use of tele-health, without much success (about 100 such appointments per day). During the first few months of the pandemic, virtual appointments jumped to 3,000 to 4,000 per day. More recently, telehealth appointments seem to have stabilized at around 2,700 per day.

DISCUSSION QUESTIONS

What role do you think technology will play in controlling what Warren Buffett calls “the hungry tapeworm of the American economy”? How successful do you believe this initiative will be? Explain.

Have you ever had a health problem while overseas and needed care? Describe your experience. Was telehealth available? If not, would it have been helpful? Explain.

As an employee, how would you feel about using the telehealth/telemedicine option? Explain.

SOURCES: Cara Murez, “Health Care After COVID: The Rise of Telemedicine,” [Usnews.com](https://www.usnews.com), January 5, 2021; Kathryn Dill and Julia Carpenter, “Employers Craft Health Benefits to Cushion Covid-19 Shock,” [WSJ.com](https://www.wsj.com), November 12, 2020; “How Telehealth Can Improve Medical Care for Expats,” [Goexpat.com](https://www.goexpat.com), March 30, 2020; “Large U.S. Employers Accelerating Adoption of Virtual Care, Mental Health Services for 2021, Business Group on Health Survey Finds,” [Businessgrouphealth.org](https://www.businessgrouphealth.org), August 18, 2020; T. Starnier, “Improving Access to Healthcare for Expat Workers,” *Human Resource Executive*, October 30, 2018, [hrexecutive.com](https://www.hrexecutive.com); T. Anderson, “The Magic of Telemedicine,” *International Travel and Health Insurance Journal*, October 28, 2018, www.itij.com.

Employee Wellness Programs. Employee wellness programs (EWPs) focus on changing behaviors both on and off work time that could eventually lead to future health problems. EWPs are preventive in nature; they attempt to manage health care costs (and workers’ compensation costs) by decreasing employees’ needs for services. Typically, these programs aim at specific health risks such as high blood pressure, page 592high cholesterol levels, smoking, and obesity. They also try to promote positive health influences such as physical exercise and good nutrition. Johnson & Johnson estimated a return of \$2.71 for every \$1.00 spent on employee wellness programs.⁶⁹ Of course, not all companies have found such positive returns.⁷⁰ Thus, each company should bring evidence to bear to evaluate its own return, which will likely depend on the program design, the nature of the workforce, and other contextual factors. However, evidence suggests that “well-designed and well-executed wellness programs that are founded on evidence-based principles can achieve positive health and/or financial outcomes.”⁷¹ One review concluded that wellness programs, on average, return \$3.27 in medical expenditure savings for every dollar spent and \$2.73 in absenteeism savings for every dollar spent. Another review reported 25% lower medical and absenteeism costs among program participants compared to nonparticipants.⁷²

EWPs are either passive or active. Passive programs use little or no outreach to individuals, nor do they provide ongoing support to motivate them to use the resources. Active wellness centers assume that behavior change requires not only awareness and opportunity but also support and reinforcement.

One example of a passive wellness program is a health education program that aims to raise awareness of the importance of good health and how to achieve it. In these programs, a health educator usually conducts classes or lunchtime lectures (or coordinates outside speakers). The program may also have various promotions (like an annual mile run or a “smoke-out”) and include a newsletter that reports on current health issues.

Another kind of passive employee wellness program is a fitness facility. In this kind of program, the company sets up a center for physical fitness equipped with aerobic and muscle-building exercise machines and staffed with certified athletic trainers. The facility is publicized within the organization, and employees are free to use it on their own time. Aetna, for example, has created five state-of-the-art health clubs that serve more than 7,500 workers.⁷³ Northwestern Mutual Life’s fitness facilities are open 24 hours a day to its 3,300 employees.⁷⁴ Health education classes related to smoking cessation and weight loss may be offered as well.

One kind of active wellness center is the outreach and follow-up model. This type of wellness center contains all the features of a passive model, but it also has counselors who handle one-on-one outreach and provide tailored, individualized programs for employees. Typically, tailored programs obtain baseline measures on various indicators (weight, blood pressure, lung capacity, and so on) and measure individuals’ progress relative to these indicators over time. The programs set goals and provide small, symbolic rewards to individuals who meet their goals. Of course, stronger incentives are available and these could be paired with a wellness program.

This encouragement provided under an active wellness center needs to be particularly targeted to employees in high-risk categories (like those who smoke, are overweight, or have high blood pressure) for two reasons. First, a small percentage of employees create a disproportionate amount of health care costs; therefore, targeted interventions are more efficient. Second, research shows that those in high-risk categories are the most likely to perceive barriers (like family problems or work overload)⁷⁵ to participating in company-sponsored fitness programs. Thus, untargeted interventions are likely to miss the people that most need to be included.

Research on these different types of wellness centers leads to several conclusions.⁷⁶ First, the costs of health education programs are significantly less than those associated with either fitness facility programs or the follow-up model. Second, all three models are effective in reducing the risk factors associated with cardiovascular disease (obesity, high blood pressure, smoking, and lack of exercise). However, the follow-up model is significantly better than the other two in reducing the risk factors.

Somewhat ironically, well-meaning employers sometimes do things that work at cross-purposes—for example, providing employees with easy access to good food, while also wanting employees to be fit. Google decided to keep its good food, but it also decided it needed to change the way it presented food to employees. Its research found that people tend to load up on the first food they see. So, Google changed the cafeteria line so that the first thing employees now see is something healthy: the salad bar. Desserts weren’t taken away but were banished to the far corner of the cafeteria (and serving size reduced). Google also focused on communicating to employees which foods were low in calories (green tags) and which ones (those higher in calories) were best taken in smaller portions (red tags).⁷⁷

Another aspect of wellness is financial wellness. In the United States, it has been reported that “money-related concerns are a more prevalent source of distress than those related to health, work, or family” and that “most people ... do not have \$400 in savings to cover an emergency,” and there is some evidence that such “financial precarity” can adversely affect employee performance at the workplace.⁷⁸ In addition to higher wages, of course, employers can also take steps to encourage/incentivize employees to save enough money for an emergency (e.g., by cooperating with banks), through programs that help with balancing work and family, and, by programs that encourage wellness.⁷⁹

On-Site Health Care. Although on average companies continue to pass on more health care costs to employees through higher premiums and deductibles, an increasing number of employers are following a somewhat different strategy. Specifically, one-third of large employers in a recent survey are providing at least some health care directly to their employees, and sometimes, especially in the cases of primary care and other basic care, provided

for free.⁸⁰ Time will tell how the relative importance of in-person and virtual care (telehealth) will play out. In Kokomo, Indiana, Fiat Chrysler is providing free health care to most employees and their families through five clinics it operates in the area. The company hopes that by spending more now, it will be able to eventually reduce the \$100 million in health care costs each year it incurs just in Indiana. A major part of this is making primary care free or low cost as a means toward better and earlier diagnosis and control of what can be expensive long-term costs of unmanaged chronic conditions related to diabetes or workplace injuries (e.g., back pain). Avoiding unnecessary emergency room visits is another priority. Before opening the clinics, Fiat Chrysler examined data indicating that 40% of its Kokomo employees did not have a primary care doctor and that many used emergency rooms when they could no longer avoid care.

Companies such as Serta Simmons Bedding have also sought to remove barriers and encourage better use of health care by its employees. Serta began using mobile health clinics at its 28 U.S. factories a few years ago. A priority was to “help its largely male workforce get annual physicals.” Providing this easy access was one part of it. Making the physicals free was another. United Shore Financial Services opened a clinic at its headquarters outside of Detroit. One employee, an account executive, noted that he goes to the clinic “when back trouble flares up during the day” and that it saves him (and United Shore) “from losing time by driving home for care and then back to work.” In New York City, Stephen Fealy, an orthopedic surgeon, heads downtown on Wednesdays, not to go to his office, but rather to go to Goldman Sachs where he works with other doctors at the Goldman Sachs clinic on the 10th floor of its headquarters. Dr. Fealy reports that “these people work incredibly hard” and come to see him with hip pain and what he calls “investment-banker neck,” which is an arthritic condition that people in their late 40s seem especially prone to, especially “ones peering at lots of monitors.” Again, going to a different floor in the same building to get treatment is much more efficient than having to leave to go elsewhere (especially in cross-town traffic), if you can get an appointment with a traditional provider. If time is money, and it certainly is even more true in the case of investment bankers, this is a big advantage.

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Health Care Costs and Quality: Ongoing Challenges. In 2020, the average annual premium for family coverage was \$21,342, up 4% from the previous year, with employers paying \$15,574 (74%) and employees paying \$5,588 (26%) on average. For single coverage, the average premium was \$7,470, up 5% from the previous year, with employers paying \$6,227 (83%) and employees paying \$1,243 (17%).⁸¹ (These numbers pertain only to employers that provide health care benefits.) Not included in premium costs are payments made by employees in the form of co-insurance (paying a percentage of the cost of a medical service received), co-payments (paying a flat fee that covers part of the cost of a medical service received), and deductibles (paying the first x dollars of cost for medical services received during a year before insurance coverage, funded by premiums, kicks in to cover the cost). These three costs average an additional \$800 annually for employees of large firms. The largest increase over time has been in deductibles.⁸²

Two important phenomena are often encountered in cost control efforts. First, piecemeal programs may not work well because steps to control one aspect (such as medical cost shifting) may lead employees to “migrate” to other programs that provide medical treatment at no cost to them (like workers’ compensation). Second, there is often a so-called Pareto group, which refers to a small percentage (perhaps 20%) of employees being responsible for generating the majority (often 80%) of health care costs. Obviously, cost control efforts will be more successful to the extent that the costs generated by the Pareto group can be identified and managed effectively.⁸³

Although cost control will continue to require a good deal of attention, there is a growing emphasis on monitoring health care quality, which has been described as “the next battlefield.” A major focus is on identifying best medical practices by measuring and monitoring the relative success of alternative treatment strategies using large-scale databases and research.⁸⁴ “Big data” can be used to move beyond intuition to make better decisions, including helping organizations to provide quality health care coverage for employees, while controlling costs.

At Caesars Entertainment Corporation (which operates casinos), health insurance claim data on its 65,000 employees and their covered family members is analyzed as part of meeting this challenge. Among the thousands

of variables that can be tracked are how much different medical services are used, the degree to which employees use name-brand versus (less expensive) generic prescription drugs, and the number of emergency room (ER) visits, which cost over \$1,200 on average (for outpatient visits). By contrast, a visit to the doctor's office or to an urgent care facility is much less expensive (e.g., between \$100 and \$200). As an example, when Caesars looked at its Harrah's property in Philadelphia, it discovered that only about 11% of emergencies were being treated at urgent care facilities versus 34% across all of Caesars. To encourage employees to use the less expensive urgent care option more and emergency rooms less, Harrah's initiated a campaign to remind employees of how expensive ER visits are and provided them with a list of urgent care and alternative facilities that they were encouraged to use. Two years later, 17% of emergencies (up from 11%) were going to urgent care. Further, multiple ER visits by individual employees fell from 40% to 30%. Overall, on a companywide basis, in the first few years since beginning to track ER visits, Caesars employees had 10,000 fewer ER visits, replacing them with less expensive alternatives, resulting in a savings of \$4.5 million.⁸⁵ In addition, employers increasingly cooperate with one another to develop "report cards" on health care provider organizations to facilitate better choices by the employers and to receive improved health care. General Motors, Ford, and Chrysler, for example, have developed this type of system and made it Web accessible.⁸⁶

When we discuss the Affordable Care Act later in this chapter, we will see that the act allows (although it is important to check the latest legal guidance) employers to use larger incentives (and penalties) than previously to encourage employee wellness, and some companies are making changes accordingly. We have provided a number page 595 of examples in this chapter of how employers use these tools. We now provide a few more. The state of Maryland will penalize employees as much as \$450 per year for not undergoing required screenings or for not following up on treatment plans for chronic conditions. At pharmacy company CVS Health, an employee who does not complete the annual health assessment will have to pay \$600 more per year for insurance coverage. (On the incentive side, JetBlue employees can receive as much as \$400 per year in their health savings or reimbursement accounts for signing up for a variety of activities including smoking cessation.) Survey evidence indicates that most employees don't approve of such programs. Nevertheless, use seems to be increasing as employers seek to control health care costs.⁸⁷

Staffing Responses to Control Benefits Cost Growth

Employers may change staffing practices to control benefits costs.

Overtime. First, because benefits costs are fixed (in that they do not usually increase with hours worked), the benefits cost per hour can be reduced by having employees work more hours. However, there are drawbacks to having employees work more hours. The Fair Labor Standards Act (FLSA), introduced in [Chapter 11](#), requires that nonexempt employees be paid time-and-a-half for hours in excess of 40 per week. Yet the decline in U.S. work hours tapered off in the late 1940s; work hours have increased since then. Thus, even with the time-and-a-half cost of overtime, employers may prefer employees to work more hours, given the level of fixed benefits costs (and the fact that hiring additional workers would further increase fixed benefits costs in addition to increasing recruiting and training costs).⁸⁸

Exempt Status. A second possible effect of FLSA regulations (although this is more speculative) is that organizations will try to have their employees classified as exempt whenever possible (although such attempts may run afoul of FLSA law). The growth in the number of salaried workers (many of whom are exempt) may also reflect an effort by organizations to limit the benefits cost per hour without having to pay overtime.

Part-time Workers. A third response is to use part-time workers. For example, as we will see, the Affordable Care Act's employer requirements for health care coverage apply only to full-time employees, defined as working 30 or more hours per week. Some evidence suggests that one undesired consequence of the Act is that employers shifted some number of employees from full-time to (involuntarily) part-time to avoid being covered by the Act.⁸⁹

Temporary Workers. A fourth potential effect is the growth in part-time employment and the use of temporary workers, which may be a response to rising benefits costs. Part-time workers are less likely to receive benefits than full-time workers, although labor market shortages in recent years have reduced this difference.⁹⁰ Benefits for temporary workers are also usually quite limited. Temporary workers, workers supplied by contract firms, on-call workers, and/or independent contractors (see next section) are sometimes described as having “alternative work arrangements.” Another term, contingent workers, is used to refer to those who expect their jobs to be temporary.

Independent Contractors (including “Gig” Workers) versus Employees. Fifth, employers may be more likely to classify workers as independent contractors rather than employees, which eliminates the employer’s obligation to provide legally required employee benefits. One investment banker described the thinking of many companies regarding hiring employees as follows: “Can I automate it? If not, can I outsource it? If not, can I give it to an independent contractor or freelancer?” In other words, adding an employee is “a last resort.” Virgin Atlantic’s chief executive tells investors that “we will outsource every job that we can that is not customer-facing.” So far, that includes baggage delivery, reservations, catering, and heavy maintenance. Google, which is regularly ranked by *Fortune* as one of the best places to work, is page 596th thought to have equal numbers of outsourced workers (who are employees, but not of Google) and Google employees. Uber, of course, relies on independent contractors. Some “gig workers” prefer this model. However, some do not because of uncertain work and income and the lack of benefits.⁹¹

However, the Internal Revenue Service (IRS) scrutinizes such decisions carefully, as Microsoft and other companies have discovered. Microsoft (now many years ago) was compelled to reclassify a group of workers as employees (rather than as independent contractors) and to grant them retroactive benefits. Uber, which competes with taxis by providing ride-sharing, is one of many companies that has faced legal action challenging its classification of workers (drivers in the Uber case) as contractors rather than as employees. The IRS looks at several factors, including the permanency of the relationship between employer and worker, how much control the employer exercises in directing the worker, and whether the worker offers services to only that employer. Permanency, control, and dealing with a single employer are viewed by the IRS as suggestive of an employment relationship. Different countries and different states have taken legal action to compel companies like Uber and Lyft to treat workers as employees. See the [Competing through Globalization](#) box for updates on how this has played out so far in the United Kingdom, Italy, and California.



COMPETING THROUGH GLOBALIZATION

Are Gig Workers Contractors or Employees? Developments around the World

Managing the employment relationship involves different challenges in different countries, and often in different parts of the same country. One employment issue where things are evolving is how to manage “gig economy” workers, including legal obligations. In some cases, employers may choose to do more than legally required for multiple reasons, but one reason is to avoid more regulation of how they manage people. Companies like Uber (including Uber Eats) wish to treat drivers and couriers not as employees, but as independent contractors. In countries like the United States, this translates into substantially lower labor costs, as these workers do not have to be paid benefits, which as we know from the current chapter, adds a cost of 46 cents on top of every dollar of wages/salaries in the United States. Gig-economy companies further contend that most gig workers prefer the flexibility of being independent contractors, and that raising costs (if they must be classified as employees) will reduce the number of driver, courier, etc. positions. That argument was not successful in the United Kingdom, where rulings went against it beginning with an employment tribunal in 2016. There, former Uber drivers James Farrar and Yaseen Aslam successfully argued they were employees of Uber. Uber had argued (unsuccessfully) that its drivers were self-employed and thus Uber was not obligated to pay any minimum wage or holiday pay. Uber’s subsequent appeals, most recently its last possible appeal in 2021 at the Supreme Court, also went against it. Following this, Uber stated the ruling applied to only a small set of workers. So, there is more to be decided. In

Italy, Uber's strategy is to reach agreements with its drivers and couriers in hopes of forestalling lawsuits or more regulation. Recently, a group of companies, including Uber and Deliveroo, agreed to guarantee a minimum hourly pay rate of about 10 euros/hour, which is above the broader 7 euro/hour minimum wage. However, no holiday pay or sick leave will be provided. California recently passed a law (AB5) that a California court interpreted as meaning Uber and Lyft were required to reclassify their drivers as employees. Uber and Lyft made changes to how they treated drivers and argued that they had come into compliance with the law. The state attorney general then sued the companies, arguing they were not in compliance and a court agreed. Uber and Lyft then threatened to stop service in California. A Court then ruled that Uber and Lyft did not have to reclassify workers immediately, forestalling at least temporarily any halt in service. Shortly thereafter, Proposition 22 appeared on a statewide ballot. A state voter guide described what page 597a "yes" vote would mean: "A YES vote on this measure means: App-based rideshare and delivery companies could hire drivers as independent contractors. Drivers could decide when, where, and how much to work but would not get standard benefits and protections that businesses must provide employees." It also described an argument for a "no" vote: "Stop billion-dollar app companies like Uber, Lyft, and DoorDash from writing their own exemption to California law and profiting from it. [Proposition] 22 denies their drivers rights and safety protections they deserve: sick leave, health-care and unemployment. Companies profit; exploited drivers lose rights and protections." Proposition 22 yes votes prevailed (59% to 41%). Thus, companies like Uber and Lyft now are permitted to classify drivers as self-employed/independent contractors. However, Proposition 22, with support from companies like Uber and Lyft, does provide new benefits and protections to their workers. Specifically, the text of the law identifies these as including "a healthcare subsidy consistent with the average contributions required under the Affordable Care Act (ACA); a new minimum earnings guarantee tied to 120 percent of minimum wage with no maximum; compensation for vehicle expenses; occupational accident insurance to cover on-the-job injuries; and protection against discrimination and sexual harassment" (p. 30). Thus, these app companies, by agreeing to the new benefits and protections in the law, look to be able to maintain a key part of their desired business model: workers as independent contractors, not employees. The California Supreme Court threw out a challenge to the law after its passage. It remains to be seen what will happen in other states or, with a change in presidential administration, whether federal regulation will follow. And, as noted, the issue will be addressed country by country as well.

DISCUSSION QUESTIONS

What is the argument for treating gig workers as employees? What is the argument against?

How do you think the legal issues will be resolved in different parts of the world and in different parts of the United States? Was the Proposition 22 vote in California what you would have expected? Explain. Check the Web for any updates on the California situation.

SOURCES: Reuters Staff, "Factbox: Uber's Legal Challenges around the World," [Reuters.com](https://www.reuters.com/article/uber-legal-challenges/factbox-uber-legal-challenges-around-the-world-idUSKBN26G001), February 19, 2021; Mary-Ann Russon, "Uber Drivers Are Workers Not Self-Employed, Supreme Court Rules," *BBC News*, February 19, 2021; Suhauna Hussain, "California Supreme Court Throws Out Challenge to Prop. 22," *Los Angeles Times*, February 3, 2021; Lauren Feiner and Lora Kolodny, "Uber and Lyft Eye Other States After California Ballot Victory," [CNBC.com](https://www.cnbc.com/2020/11/05/uber-lyft-eye-other-states-after-california-ballot-victory.html), November 5, 2020, <https://voterguide.sos.ca.gov/propositions/22/>; Adam Clark, "Firms Seek Gig-Work Union Pacts," *The Wall Street Journal*, December 31, 2020; Irina Ivanova, "Legal Ruling Averts Uber and Lyft Shutdown in California," [Cbsnews.com](https://www.cbsnews.com/news/uber-lyft-legal-ruling-california/), August 20, 2020, <https://vig.cdn.sos.ca.gov/2020/general/pdf/topl-prop22.pdf>.

Some companies have re-thought using contractors instead of employees because the cost of acquiring and retaining workers who are not employees is beginning to eat up the theoretical cost savings of the gig model. For example, Managed by Q, which provides office and cleaning services, hires employees. Homer, a food delivery and logistics company in New York, hires its couriers as employees and pays \$15 an hour. Homer believes that this has created a "culture of retention," which saves on recruiting and turnover costs and also makes for consistently better customer service. Similarly, Eden, a company in the Bay Area that helps manage offices, uses "wizards"

(employees) to clean and fix things for its clients. It says that the employee model means that its costs are 30% higher, but this approach works for Eden because its employees also “stay 30% longer.”⁹² Another approach that can be taken is for a company to require employers of its contractors to provide certain benefits. For example, a few years ago, Microsoft began to require that its suppliers provide their employees with at least 15 days of paid time off each year. More recently, Microsoft has implemented a new requirement that its suppliers, of which it says it has over 1,000, if they have at least 50 employees and “perform substantial work for Microsoft,” must also provide a minimum of 12 weeks of paid parental leave and an additional 8 weeks for birth mothers. Microsoft went on to cite research it says shows that employers providing parental paid leave see “improved productivity, higher morale, and lower turnover rates.”⁹³

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Prevalance of Part-time, Temporary, Contractors/Gig Workers. Different classifications are used to categorize the work arrangements above. According to the U.S. Bureau of Labor Statistics (BLS), contingent workers, defined as workers who do not expect their jobs to last or who report their jobs are temporary, represent between 1.3% and 3.8% of the workforce. Additionally, workers in alternative work arrangements, which it defines to include independent contractors (6.9%), on-call workers (1.7%), temporary help agency workers (0.9%), and workers provided by contract firms (0.6%), represent another 10.1% of the workforce.⁹⁴ BLS also specifically counted contingent workers who “obtained short jobs or tasks through websites or mobile apps that both connected them with customers and facilitated payment for the tasks” (i.e., gig workers like those at Uber and Lyft). This group had 1.6 million workers, or about 1% of all workers in the U.S. economy.⁹⁵

Nature of the Workforce

Although general considerations such as cost control and “protection against the risks of old age, loss of health, and loss of life” are important, employers must also consider the specific demographic composition and preferences of their current workforces in designing their benefits packages.

At a broad level, basic demographic factors such as age and sex can have important consequences for the types of benefits employees want. For example, an older work-force is more likely to be concerned about (and use) medical coverage, life insurance, and pensions. A workforce with a high percentage of employees with children may care more about paid maternity/paternity leave. Work-life balance may also be a priority. (See the [Integrity in Action](#) box.) People of any age without children often have less interest in benefits generally, preferring higher wages and salaries.

Although some general conclusions about employee preferences can be drawn based on demographics, more finely tuned assessments of employee benefit preferences need to be done. One approach is to use marketing research methods to assess employees’ preferences the same way consumers’ demands for products and services are assessed.⁹⁶ Methods include personal interviews, focus groups, and questionnaires. Relevant questions might include the following:

What benefits are most important to you?

If you could choose one new benefit, what would it be?

If you were given x dollars for benefits, how would you spend it?

As with surveys generally, care must be taken not to raise employee expectations regarding future changes. If the employer is not prepared to act on the employees’ input, surveying may do more harm than good.



Stan Honda/AFP/Getty Images

The preceding discussion may imply that the current makeup of the workforce is a given, but this is not the case. As discussed earlier, the benefits package may influence the composition of the workforce. For example, a benefits package that has strong medical benefits and pensions may be particularly attractive to older people or those with families. An attractive pension plan may be a way to attract workers who wish to make a long-term commitment to an organization.⁹⁷ Where turnover costs are high, this type of strategy may have some appeal. On the other hand, a company that has lucrative health care benefits may attract and retain people with high health care costs. Sick leave provisions may also affect the composition of the workforce. Organizations need to think about the signals their benefits packages send and the implications of these signals for workforce composition. In page 599 this vein, [Table 13.8](#) shows the benefits used by Google, a company that had a run of six years in a row at the top of *Fortune's* list of "100 Best Companies to Work For," to attract and retain its desired workforce.

Table 13.8 Employee Benefits at Google

Paid parental leave. Extended by 8 weeks during pandemic if a child's school or family member's care facility closes. Total paid leave for parents and caregivers now totals 14 weeks (or 28 weeks if half-days).
During pandemic, \$1,000 available to employees to set up a home office.
Sleep pods.
On-site perks include medical and dental facilities; oil change and bike repair; valet parking; free washers and dryers; and free breakfast, lunch, and dinner on a daily basis at multiple restaurants.
Seven-acre sports complex, which includes a roller hockey rink; courts for basketball, bocce, and shuffle ball; and horseshoe pits.
Tuition reimbursement stipend.
Unlimited sick leave.

Free shuttles equipped with wifi from locations around the Bay Area to headquarter offices.

A climbing wall.

The ability to bring your dog to work.

SOURCES: Kathryn Vasel, "Virtual Cooking Classes, \$1,000 Allowances, Google's WFH Perks," [CNN.com](https://www.cnn.com), June 4, 2020; Ian Sherr and Richard Nieva. "Google Extends Family Leave for Employees during Coronavirus Pandemic," CNET, April 16, 2020, www.cnet.com; Louron Pratt, "Google Increases Its Employee Parental Leave Entitlement to 14 Weeks," April 22, 2020, employeebenefits.co.uk; E. Jang, "Are Google Employees More Productive Because of Company Perks?" *Forbes*, July 9, 2018, www.forbes.com; "100 Best Companies to Work For 2020," *Fortune*,



INTEGRITY IN ACTION

Balancing Work and Nonwork (It Has Not Gotten Any Easier): Companies Take Steps to Help

Balancing work and nonwork has never been easy. The pandemic has made it all but impossible for many. Some companies have made unique efforts to do the right thing to help and support their employees. In addition to offering increased access (including via telehealth as the [Competing through Technology](#) box described earlier) to counseling and mental health services, companies are giving employees the option of stepping back a bit from work and sometimes even mandating they disconnect from work on some days. Fidelity Investments began a pilot program that allows employees to reduce their hours to 30, to allow them more time for other needs. Their salary will be reduced, but not their benefits. Fidelity will hire additional employees to cover the work so that colleagues are not overwhelmed. Elephant Ventures, a software and data engineering company, is not reducing hours, but rather going to a 4-day, 10-hour-a-day workweek, with Fridays off, with "pencils down, no e-mails or Slack" on Fridays. The company says it made this move after it had started to notice some employees, especially working parents, were struggling. Software page 600firm Red Hat has started shutting down operations on quarterly recharge days. One software engineer at Red Hat, a father of three young children, reported that some of his co-workers cried when they received the e-mail announcing the recharge days: "People do need time and space to heal themselves." [Indeed.com](https://www.indeed.com) added an extra holiday each month, usually a Friday to make for a three-day weekend. Cisco Systems has given its worldwide workforce four extra days off, and Google recently added a holiday for "collective well-being." One observer noted that the beauty of added, mandatory holidays is that "Fearful, anxious, sleep-deprived employees must take them" and, importantly, when everyone is mandated to take the same days off, there is not the worry of slowing others' work.

DISCUSSION QUESTIONS

Do you ever feel a desire to be able to completely disconnect in this way? Have you taken any steps to do this? If no, why not? Would working at an employer that facilitated this be attractive? Explain.

Do you think people differ in their interest in policies that allow disconnecting? Are there reasons other than family? Do you feel there are generational differences? Explain.

Is being able to disconnect more important in some types of companies than in others? Explain.

SOURCES: Joanne Lipman, "Stressed Out Over the Covid-19 Pandemic? Some Companies Invent a Holiday," *The Wall Street Journal*, November 12, 2020; Chip Cutter, "Companies Offer Creative Solutions to Worker Burnout During the Pandemic; From Surprise Days Off to 30-hour Workweeks, Managers Are Devising Ways to Help Employees," *The Wall Street Journal*, November 8, 2020; Kathryn Vasel, "To Fight Pandemic Burnout, This Company Is Trying Four-day Workweeks," [CNN.com](https://www.cnn.com/2020/08/04/health/covid-19-burnout/index.html), August 4, 2020.

Communicating with Employees and Maximizing Benefits Value

Employees Typically Underestimate the Value of Their Benefits

LO 13-5

Explain the importance of effectively communicating the nature and value of benefits to employees.

Effective communication of benefits information to employees is critical if employers are to realize sufficient returns on their benefits investments. Research makes it clear that current employees and job applicants often have a very poor idea of what benefits provisions are already in place and the cost or market value of those benefits. One study asked employees to estimate both the amount contributed by the employer to their medical insurance and what it would cost the employees to provide their own health insurance. Employees significantly underestimated both the cost and market value of their medical benefits. In the case of family coverage, employee estimates of what it costs their employer to provide coverage for them were, on average, 62% below the actual cost.⁹⁸ As we saw earlier, the average employer today providing health care benefits spends \$13,927 per year for family coverage. In the absence of effective communication, the just-discussed study would imply that a typical employee today might credit employers with providing a benefit worth only \$5,292 (i.e., $0.38 \times \$13,927$)—again, a very poor return on the employer's investment.

Research suggests that the situation with job applicants is no better. One study of MBAs found that 46% believed that benefits added 15% or less on top of direct payroll. Not surprisingly, perhaps, benefits were dead last on applicants' priority lists in making job choices.⁹⁹ A study of undergraduate business majors found similar results, with benefits ranked 15th (out of 18) in importance in evaluating jobs. These results must be interpreted with caution, however. Some research suggests that job attributes can be ranked low in importance, not because they are unimportant per se, but because all employers are perceived to be about the same on that attribute. If some employers offered noticeably poorer benefits, the importance of benefits could become much greater.

Organizations can help remedy the problem of applicants' and employees' lack of knowledge about benefits. One study found that employees' awareness of benefits information was significantly increased through several media, including memos, question-and-answer meetings, and detailed brochures. The increased awareness, in page 601turn, contributed to significant increases in benefits satisfaction. Another study suggests, however, that increased employee knowledge of benefits can have a positive or negative effect, depending on the nature of the benefits package. For example, there was a negative, or inverse, correlation between cost to the employee and benefits satisfaction overall, but the correlation was more strongly negative among employees with greater knowledge of their benefits.¹⁰⁰ The implication is that employees will be least satisfied with their benefits if their cost is high and they are well informed.

One thing an employer should consider with respect to written benefits communication is that it has been estimated that tens of millions of employees in the United States may be functionally illiterate. Of course, there are many alternative ways to communicate benefits information. (See [Table 13.9](#).) Nevertheless, most organizations spend little to communicate information about benefits, and much of this is spent on general written communications. Considering that Bureau of Labor Statistics data cited earlier indicate that U.S. employers spend a large amount of

money on benefits (\$10.72/hour or about \$22,298/year), and large employers spend even more (\$18.84/hour or about \$39,187/year), together with the complex nature of many benefits and the poor understanding of most employees, the typical communication effort may be inadequate.¹⁰¹

Table 13.9 Steps to Better Communicating the Value of Benefits to Employees

Learn more about what benefits your employees value or would like to have.
Help employees understand benefits as a connected set of resources and offer a range of options they can personalize (and change as their priorities evolve).
Personalize communications to different employee groups.
Engage employees as if they were customers.
Communicate benefits more effectively. Employees' most preferred channels are: - Online Portal (50%) - E-mail (41%) - In-person (30%) - Mobile App (18%) - Over the Phone (17%)
Communicate the value of benefits throughout the year.

SOURCES: MetLife's 19th Annual U.S. Employee Benefits Trends Study 2021, "Redesigning the Employee Experience: Preparing the Workforce for a Transformed World," [metlife.com/ebts2021](https://www.metlife.com/ebts2021); MetLife's 18th Annual U.S. Employee Benefits Trends Study 2020, "Navigating Together: Supporting Employee Well-being in Uncertain Times," [metlife.com](https://www.metlife.com); MetLife's 17th Annual U.S. Employee Benefits Trends Study 2019, "Thriving in the New Work-Life World," [metlife.com](https://www.metlife.com).

On a more positive note, organizations are increasingly using online tools to personalize and tailor communications to individual employees. Online tools have also enabled many organizations to eliminate benefits-related jobs now that employees can get answers to many benefits questions on their own. In addition, effective use of traditional approaches (e.g., enrollment materials) can have a large effect on employee awareness.¹⁰² Survey data indicate that both traditional and online methods are seen as effective by employees, although one suspects that will continue to evolve over time.¹⁰³ The same survey data also indicate that although most employees are happy with the current frequency of benefits communication from their employers, a sizable minority would like more.

Table 13.9 provides some recommended steps for improving benefits communication to employees. These include personalizing benefits and their communication, thinking of employees as customers in this process, and using ongoing communications throughout the year. **Table 13.9** also identifies the channels of benefits communication most preferred by employees. Among employers, 64% of employers use e-mail as a channel, but **Table 13.9** suggests that multiple channels (including e-mail) may work best.¹⁰⁴

Flexible Benefits Plans

Rather than a single standard benefits package for all employees, flexible benefit plans (flex-plans or cafeteria-style plans) permit employees to choose the types and amounts of benefits they want for themselves. The plans vary according to such things as whether minimum levels of certain benefits (such as health care coverage) are prescribed and whether employees can receive money for having chosen a “light” benefits package (or have to pay extra for more benefits). One example is vacation, where some plans permit employees to give up vacation days for more salary or, alternatively, purchase extra vacation days through a salary reduction.

What are the potential advantages of such plans?¹⁰⁵ In the best case, almost all of the objectives discussed previously can be positively influenced. First, employees can gain a greater awareness and appreciation of what the employer provides them, particularly with plans that give employees a lump sum to allocate to benefits. Second, by permitting employees to choose their benefits, there should be a better match between the benefits package and the employees’ preferences. As just one example of heterogeneous employee preferences, one study looked at how much salary employees would be willing to give up to have certain benefits. In the case of work schedule flexibility, women, those above median pay, and those age 57 or older would give up 23%, 30%, and 28% more base pay (compared to other groups), respectively, for greater flexibility.¹⁰⁶ Matching benefits to different employee preferences should improve employee attitudes and retention and perhaps performance.¹⁰⁷ Third, employers may achieve overall cost reductions in their benefits programs. Cafeteria plans can be thought of as similar to defined contribution plans, whereas traditional plans are more like defined benefit plans. The employer can control the size of the contribution under the former, but not under the latter, because the cost and utilization of benefits is beyond the employer’s control. Costs can also be controlled by designing the choices so that employees have an incentive to choose more efficient options. For example, in the case of a medical flex-plan, employees who do not wish to take advantage of the (presumably more cost-effective) HMO have to pay significant deductibles and other costs under the alternative plans. Choice and resulting better matches might also lower costs by reducing spending on benefits that few employees value.

One drawback of cafeteria-style plans is their administrative cost, especially in the initial design and start-up stages. However, software packages and standardized flex-plans developed by consultants offer some help in this regard. Another possible drawback to these plans is adverse selection. Employees are most likely to choose benefits that they expect to need the most. Someone in need of dental work would choose as much dental coverage as possible. As a result, employer costs can increase significantly as each employee chooses benefits based on their personal value. Another result of adverse selection is the difficulty in estimating benefits costs under such a plan, especially in small companies. Adverse selection can be controlled, however, by limiting coverage amounts, pricing benefits that are subject to adverse selection higher, or using a limited set of packaged options, which prevents employees from choosing too many benefits options that would be susceptible to adverse selection.

Flexible Spending Accounts

A flexible spending account permits pretax contributions of up to \$2,750 to an employee account that can be drawn on to pay for uncovered health care expenses (like deductibles or co-payments). A separate account of up to \$5,000 per year (for a married couple filing taxes jointly) is permitted for pretax contributions to cover dependent care expenses. The federal tax code requires that funds in the health care and dependent care accounts be earmarked in advance and spent during the plan year. Remaining funds revert to the employer. Therefore, the accounts work best to the extent that employees have predictable expenses. The major advantage of such page 603 plans is the increase in take-home pay that results from pretax payment of health and dependent care

expenses. Consider again the hypothetical employee with an effective total marginal tax rate of 43% from [Table 13.1](#). The take-home pay from an additional \$10,000 in salary with and without a flexible dependent care account (of \$3,000) is as follows:

	NO FLEXIBLE SPENDING CARE ACCOUNT	FLEXIBLE SPENDING CARE ACCOUNT
Salary portion	\$10,000	\$10,000
Pretax dependent care contribution	0	–3,000
Taxable salary	10,000	7,000
Tax (43%)	–4,300	–3,010
After-tax cost of dependent care	–3,000	0
Take-home pay	\$ 2,700	\$ 3,990

Therefore, the use of a flexible spending account saves the employee \$1,290 (\$3,990 – \$2,700) per year.

General Regulatory Issues

LO 13-6

Describe the regulatory constraints that affect the way employee benefits are designed and administered.

Although we have already discussed a number of regulatory issues, some additional ones require attention.

Affordable Care Act

Although a lot has happened since the Affordable Care Act (ACA), signed into law in 2010, no legislation, executive action, or judicial ruling has yet changed the employer mandate, which is the key part of ACA for our purposes and remains in place. Thus, at present, employers continue to be subject to its provisions, which are summarized in [Table 13.10](#).

Nondiscrimination Rules, Qualified Plans, and Tax Treatment

As a general rule, all benefits packages must meet certain rules to be classified as qualified plans. What are the advantages of a qualified plan? Basically, it receives more favorable tax treatment than a nonqualified plan. In the case of a qualified retirement plan, for example, these tax advantages include (1) an immediate tax deduction for employers for their contributions to retirement funds, (2) no tax liability for the employee at the time of the employer deduction, and (3) tax-free investment returns (from stocks, bonds, money markets, or the like) on the retirement

funds.¹⁰⁸

What rules must be satisfied for a plan to obtain qualified status? Each benefit area has different rules. It would be impossible to describe the various rules here, but some general observations are possible. Taking pensions as an example again, vesting requirements must be met. More generally, qualified plans must meet so-called nondiscrimination rules. Basically, this means that a benefit cannot discriminate in favor of “highly compensated employees.” One rationale behind such rules is that the tax benefits of qualified benefits plans (and the corresponding loss of tax revenues for the U.S. government) should not go disproportionately to the wealthy.¹⁰⁹ Rather, the favorable tax treatment is designed to encourage employers to provide important benefits to a broad spectrum of employees. The nondiscrimination rules discourage owners or top managers from adopting plans that benefit them exclusively.

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Table 13.10 The Affordable Care Act: Impact on Employers

PENALTIES FOR NOT PROVIDING HEALTH BENEFITS (The “Employer Mandate”) The health reform law does not require employers to provide health benefits. However, it does impose penalties on employers with 50 or more full-time equivalents (FTE) that do not provide affordable and minimum value health insurance to 95% of their full-time employees and children through age 26. Affordable is if employee contributions do not exceed 9.83% of an employee’s household income in 2021. Minimum value is if it pays at least 60% of the cost of covered services (deductibles, copays, and coinsurance). Full-time is 30 hours or more. Covered employers that do not provide health coverage are assessed a penalty if any one of their workers receives a tax credit when buying insurance on their own in a health insurance exchange. Workers with income up to 400% of the poverty level are eligible for tax credits. The employer penalty is equal to as much as \$4,060 multiplied by the number of workers in the business in excess of 30 workers Businesses with fewer than 25 FTEs and average annual wages of less than \$54,000 that pay at least half of the cost of health insurance for their employees are eligible for a tax credit.
TAXES[*] The law increases the Medicare Hospital Insurance (Part A) payroll tax on earnings for higher-income taxpayers (more than \$200,000/individual and \$250,000/couple) by 0.9 percentage points, from 1.45% to 2.35%. Employers will be responsible for withholding these taxes. (The law created a new tax on so-called “Cadillac” insurance plans provided by employers on plans valued at \$10,200 or more for individual coverage or \$27,500 or more for family policies. Such plans were to be subject to an excise tax of 40% on the value of the plan that exceeds these thresholds. This tax never went into effect. It was initially delayed and then repealed in 2019.)
COVERAGE OF DEPENDENTS

The ACA requires plans and issuers that offer dependent coverage to make the coverage available until a child reaches the age of 26. Both married and unmarried children qualify for this coverage. This rule applies to all plans in the individual market and to new employer plans. It also applies to existing employer plans unless the adult child has another offer of employer-based coverage (such as through his or her job). Children up to age 26 can stay on their parent's employer's plan even if they have another offer of coverage through their own employer.

WELLNESS PROGRAMS

Employers can provide rewards to employees of up to 30% of the total plan premium as part of a wellness program incentive, up from the previous limit of 20%. Under the law, the Secretary of Health and Human Services may increase this limit to 50% if deemed appropriate. (This was done for programs targeting tobacco use.) Wellness programs must be "reasonably designed to promote health or prevent disease." The law also created a five-year grant program to encourage small employers that did not currently have wellness programs to establish them, which ran through 2015. Importantly, there is currently some legal uncertainty about whether employers can still use incentives at the above levels. This uncertainty has to do with rule-making by the Equal Employment Opportunity (EEOC, part of the U.S. Department of Labor), as part of its enforcement of the Americans with Disabilities Act (ADA). The ADA requires employee participation in a wellness programs that includes medical questions to be voluntary. The question is whether using strong incentives, in effect, compels participation. Before proceeding, it would be prudent to check for updated rules from the EEOC.

*Two new taxes do not directly involve employers. First, there is a 2.3% medical device excise tax on the sale of any taxable medical device by its manufacturer, producer, or importer. (However, a moratorium on this tax has been extended.) Second, there is (another) additional Medicare payroll tax of 0.9% on investment income for singles earning \$200,000 or more and couples earning \$250,000 or more.

SOURCES: Internal Revenue Service, "Questions and Answers on Employer Shared Responsibility Provisions Under the Affordable Care Act," www.irs.gov, accessed March 12, 2021; Internal Revenue Service. "Affordable Care Act Tax Provisions." www.irs.gov, accessed March 12, 2021; Cigna, "Employer Mandate," www.cigna.com, accessed March 12, 2021; Chris Arey, "ACA Employer Mandate Penalties Increasing in 2021," acatimes.com, November 19, 2020; Kaiser Family Foundation, "Employer Responsibility Under the Affordable Care Act," July 2, 2019. www.kff.org; Conner, Strong, & Buckelew, "New Wellness Rules Expected from EEOC," June 30, 2020, www.connerstrong.com.

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Sex, Age, and Disability

Beyond the Pregnancy Discrimination Act's requirements discussed earlier in the chapter, a second area of concern for employers in ensuring legal treatment of men and women in the benefits area has to do with pension benefits. Women tend to live longer than men, meaning that pension benefits for women are more costly, all else being equal. However, in its 1978 *Manhart* ruling, the Supreme Court declared it illegal for employers to require women to contribute more to a defined benefit plan than men: Title VII protects individuals, and not all women outlive all men. ¹¹⁰

Two major age-related issues have received attention under the Age Discrimination in Employment Act (ADEA) and later amendments such as the Older Workers Benefit Protection Act (OWBPA). First, employers must take care not to discriminate against workers over age 40 in the provision of pay or benefits. As one example, employers cannot generally cease accrual (stop the growth) of retirement benefits at some age (like 65) as a way of pressuring older employees to retire.¹¹¹ Second, early retirement incentive programs need to meet the following standards to avoid legal liability: (1) The employee is not coerced to accept the incentive and retire, (2) accurate information is provided regarding options, and (3) the employee is given adequate time (is not pressured) to make a decision.

Employers also have to comply with the Americans with Disabilities Act (ADA), which went into effect in 1992. The ADA specifies that employees with disabilities must have “equal access to whatever health insurance coverage the employer provides other employees.” However, the act also notes that the terms and conditions of health insurance can be based on risk factors as long as this is not a subterfuge for denying the benefit to those with disabilities. Employers with risk-based programs in place would be in a stronger position, however, than employers who make changes after hiring employees with disabilities.¹¹²

Monitoring Future Benefits Obligations

[Financial Accounting Statement \(FAS\)](#) 106, issued by the Financial Accounting Standards Board, became effective in 1993. This rule requires that any benefits (excluding pensions) provided after retirement (the major one being health care) can no longer be funded on a pay-as-you-go basis. Rather, they must be paid on an accrual basis, and companies must enter these future cost obligations on their financial statements. The effect on financial statements can be substantial.

[Financial Accounting Statement \(FAS\)](#)

106 The rule issued by the Financial Accounting Standards Board in 1993 requiring companies to fund benefits provided after retirement on an accrual rather than a pay-as-you-go basis and to enter these future cost obligations on their financial statements.

Increasing retiree health care costs (and the change in accounting standards) have also led some companies to require white-collar employees and retirees to pay insurance premiums for the first time in history and to increase co-payments and deductibles. Survey data indicate that some companies are ending retiree health care benefits altogether. GM, for example, recently eliminated retiree health care benefits for white-collar workers. Union contracts prevented GM from eliminating the blue-collar plan.

However, as part of its bankruptcy proceeding, GM reached a settlement with the United Automobile Workers (UAW) union to create a voluntary employee benefit association (VEBA) trust. GM agreed to contribute roughly \$35 billion to fund the VEBA. Ford (\$13.2 billion) and Chrysler (\$7.1 billion) also reached agreements to set up VEBAs. By one estimate, the VEBAs moved \$100 billion in retiree health care obligations off the financial statements of the three U.S. automakers, playing a major role in reducing labor cost per vehicle produced. Also, the VEBAs, like defined contribution plans, make the cost for the companies certain. After paying to set up the VEBAs, they have no future obligations to cover retiree health care. It is up to the UAW to administer the VEBA.¹¹³

Other companies have reduced benefits or increased retiree contributions. Obviously, such changes hit the elderly hard, especially those with relatively fixed incomes. Not surprisingly, legal challenges have arisen. The need to balance the interests of shareholders, current employees, and retirees in this area will be one of the most difficult challenges facing managers in the future.

Although use of defined benefit (pension) plans has declined significantly over time in the United States, tens of millions of people are covered by ongoing plans (and/or frozen plans—those not open to new participants). Two factors, in particular, influence employer costs. First, the Pension Benefit Guaranty Corporation, which insures

pensions, as we saw above, charges a premium to employers with such plans and these have steadily increased over time. Second is life expectancy/mortality of covered employees. The Society of Actuaries provides these estimates. When it revised its tables in 2014 for the first time since 2000, life expectancy estimates increased substantially, substantially increasing the cost obligation of defined benefit plans to employers.¹¹⁴ The Society now revises every five years. The latest life expectancies for a 65-year-old defined benefit plan participant are 87.4 for women and 84.7 for men.¹¹⁵



A LOOK BACK

Employee Benefits: More Responsibility for Workers

We have seen that some organizations, especially those in competition for employees with high human capital, have expanded their benefits offerings and/or are covering more of the costs. Other organizations, however, have become less paternalistic in their employee benefits strategies as they seek to control costs and shift risk to employees. Employees now have more responsibility, and, as noted, sometimes more risk, regarding their benefits choices. (“Gig” workers, who are typically independent contractors, have even more responsibility, because they have no employer and thus no employer-provided benefits.) One change has been in the area of retirement income plans, where employers have moved toward greater reliance on defined contribution plans. Such plans require employees to understand investing; otherwise, their retirement years may not be so happy. The risk to employees is especially great when defined contribution plans invest a substantial portion of their assets in company stock. One reason companies do this is because they wish to move away from an entitlement mentality and instead link benefits to company performance. However, if the company has financial problems, employees risk losing not only their jobs but also their retirement money. Another change has been in the area of health care benefits. Employees are being asked to pay an increased proportion of the costs and also to use data on health care quality to make better choices about health care. Of course, different companies have different benefits strategies. We saw at the beginning and throughout the chapter that companies differ in how they control benefits costs and in the degree to which they take responsibility for employees’ health, well-being, and financial wellness (including retirement). These, at least on the face of it, appear to sometimes conflict. We also saw that some companies look for ways to make their benefits packages more attractive to help them compete in the labor market for valuable human capital.

QUESTIONS

Why do employers offer benefits? Is it because the law requires it, because it makes good business sense, or because it is the right thing to do?

How much responsibility should employers have for the health and well-being of their employees? Take the perspective of both a shareholder and an employee in answering this question.

If you were advising a new company on how to design its health care plan, what would you recommend?

SUMMARY

Effective management of employee benefits is an important means by which organizations compete successfully. Benefits costs are substantial and continue to grow rapidly in some areas, most notably health care. Control of such costs is necessary to compete in the product market. At the same time, employers must offer a benefits package that permits them to compete in the labor market. Beyond investing more money in benefits, the attraction and retention of quality employees can be helped by better communication of the value of the benefits package and by allowing employees to tailor benefits to their own needs through flexible benefits plans.

Employers continue to be a major source of economic security for employees, often providing health insurance, retirement benefits, and so forth. Changes to benefits can have a tremendous impact on employees and retirees. Therefore, employers carry a significant social responsibility in making benefits decisions. At the same time, employees need to be aware that they will increasingly become responsible for their own economic security. Health care benefit design is changing to encourage employees to be more informed consumers, and retirement benefits will depend more and more on the financial investment decisions employees make on their own behalf.

KEY TERMS

[Marginal tax rate, 572](#)

[Consolidated Omnibus Budget Reconciliation Act \(COBRA\), 578](#)

[Pension Benefit Guaranty Corporation \(PBGC\), 579](#)

[Employee Retirement Income Security Act \(ERISA\), 579](#)

[Cash balance plan, 581](#)

[Summary plan description \(SPD\), 582](#)

[Family and Medical Leave Act, 584](#)

[Health maintenance organization \(HMO\), 589](#)

[Preferred provider organization \(PPO\), 589](#)

[Financial Accounting Statement \(FAS\) 106, 605](#)

DISCUSSION QUESTIONS

To what extent are benefits fixed versus variable labor costs. What is one way that companies sometimes reduce benefits costs when revenue and profits decline?

We have seen that employers are shifting more responsibility to employees in the area of employee benefits. Describe specific examples of this trend. What are the likely consequences of this change? Where does the social responsibility of employers end, and where does the need to operate more efficiently begin?

What can employers do to help employees successfully deal with this shift when it comes to retirement financial readiness and what can you do to make sure you personally are well-prepared financially for your retirement?

Your company, like many others, is experiencing substantial increases in health care costs. What suggestions can you offer that may reduce the rate of cost increases?

Why is communication so important in the employee benefits area? What sorts of programs can a company use to communicate more effectively? What are the potential positive consequences of more effective benefits communication?

What are the potential advantages of flexible benefits and flexible spending accounts? Are there any potential drawbacks?

Although benefits account for a large share of employee compensation, many people feel there is little evidence on whether an employer receives an adequate return on the benefits investment. One suggestion has been to link benefits to individual, group, or organization performance. Explain why you would or would not recommend this strategy to an organization.

SELF-ASSESSMENT EXERCISES



Knowledge about Unions

If you have been assigned this Self-Assessment in Connect, you will gain a more objective perspective on the subject of unions.

Which Benefits Are Important to You?

If you have been assigned this Self-Assessment in Connect, you will be provided with a list of benefits and you will determine which types of benefits are of greatest importance.

EXERCISING STRATEGY

Employers Take Steps to Help with Work-Life Balance and Everyone Is Happy (?)

Even in the best of times, balancing work and family is a difficult challenge for many employees. Then came the pandemic and added responsibilities from daycare centers closing and schools closing or having students learn remotely from home. A number of companies took steps to help. For example, Facebook provided up to 10 weeks paid time off for employees whose school or daycare closed or who had an older relative whose skilled nursing facility was closed. Google and Microsoft took similar steps. Facebook also announced that for the first half of the year, it would not do employee performance evaluations. Every employee would get the bonus given to very good performers. Everyone was happy, right? Wrong. A number of employees were unhappy that everyone would receive a high bonus because they felt some had not earned it. At a company videoconference, over 2,000 employees asked Facebook what it could do to support nonparents too. An employee wrote it was unfair that nonparents could not also get 10 weeks paid leave. A Facebook parent responded that the question was “harmful” and questioned whether leave to care for a child or elder was really a break as implied. One response by Facebook was to authorize any employee to take up to three days to cope with physical or mental health issues without a note from a doctor. Facebook also noted that it continued to provide unlimited sick days and at least 21 vacation days (over 4 weeks) per year. One observer noted that paid leave for parents might be more important to nonparents than they realize. That is because when a co-worker quits, someone will have to cover that work for some amount of time. In other words, it may be that if your co-worker parent is stretched too thin and there is not paid leave to help with that, that co-worker may leave and then you or one of your co-workers will be stretched too thin. Also, as caring for children still tends to fall disproportionately on women, the absence of parental leave would perhaps move women backward in their quest to have equal opportunity, including advancement to the highest levels.

Of course, the difference in views between parents and (some) nonparents is not new. An article from 1996 cited a study by the Conference Board where 47% of respondents said parents received more support from their companies than nonparents. Even more striking, a *Personnel Journal* survey found that 80% responded “no” to the question, “Do single employees receive as much attention to their needs as married-with-children?” and 81% responded “yes” to the question, “Do single employees end up carrying more of the burden than married employees?”

Some things stay the same, other things change. Back in 2007, a young entrepreneur named Mark Zuckerberg stated, “We may not own a car. We may not have a family. Simplicity in life allows us to focus on what’s important.” By 2021, however, the founder and chief executive of Facebook was married with two children and his view on family-friendly benefits had perhaps evolved.

QUESTIONS

Do you feel it is fair when parents receive longer paid leave than other employees? Explain. Do you think your view would change later (e.g., if you became a parent)?

What is the benefit to companies of paid parental leave? What would parents do in the absence of such leave and what would be the consequences for companies?

Does paid parental leave play any role in helping companies achieve diversity goals? Explain.

SOURCES: Daisuke Wakabayashi and Sheera Frenkel, "Parents Got More Time Off. Then the Backlash Started: Pandemic Policies at Tech Companies Have Created a Rift between Parents Offered More Benefits and Resentful Workers Who Don't Have Children," *The New York Times*, September 5, 2020; Sarahjane Sacchetti, "3 Reasons Why Every page 609Employee Is Supported by Parental Benefits," *Fast Company*, October 23, 2020, www.fastcompany.com; C. C. Miller, "Silicon Valley's Struggle Adapting to Families," *The New York Times*, April 8, 2015, p. A3; Gillian Flynn, "Single's Backlash: No Spouse, No Kids, No Respect," <https://www.workforce.com/news/singles-backlash-no-spouse-no-kids-no-respect>, September 1, 1996.

MANAGING PEOPLE

Some Companies Want Employees (Back) at the Office

Pre-pandemic, roughly one in five U.S. workers performed some work from home or some other remote location, and this remote work group averaged about three hours of remote work per day. There are a variety of reasons why some companies allow (some) employees to work remotely. In the case of IBM, it reported at one point that about 40% of its employees worked remotely, allowing it to reduce its office space by almost 80 million square feet, saving it about \$100 million per year. Giving employees the flexibility to balance work, family, and other nonwork issues, as well as the improvements in technology (and its falling cost), contributed to companies adopting remote work policies. Some employees (and perhaps their supervisors) also felt that they would be more productive if given this flexibility. Other well-known companies that were prominent adopters of remote work included Aetna, Bank of America, Best Buy, Honeywell, IBM, and Yahoo!

What do these companies and IBM have in common? The answer is that before the pandemic all either ended or curtailed programs that allowed employees to work remotely, rather than at the company office. IBM, for example, gave remote working employees the choice of returning to work at the office or applying for a new position. Presumably, some would not wish to choose either option and would look for another job and/or retire. Why did these companies change their view on remote work? The commonly stated reasons are that more work is done by teams and that face-to-face interaction between team members is thought to be more effective in identifying business problems to solve and business opportunities to exploit, developing creative solutions/strategies to do so, and executing them well. The COVID-19 pandemic, however, raised the question of remote work going forward to an entirely new level.

QUESTIONS

Do these companies that scaled back or ended remote work have anything in common? For example, are these companies with strong revenue, profit, and market value growth? Are they in similar or different industries/businesses? To the degree they have something in common, are these companies likely representative of what other companies are doing, or will do in terms of how much they permit remote working? Explain.

Summarize the advantages and disadvantages of remote work. Are there particular types of companies where remote work is more/less likely to be effective? Explain.

How do you think employees will react to changes (such as those at IBM) in remote work policies? What will be the short-run and long-run consequences? Explain.

Review how the COVID-19 pandemic changed the importance of remote work and provide one example of a company that will use remote work more after the pandemic and one example of a company that will return to its pre-pandemic remote work policy. Briefly explain why they are taking different approaches.

SOURCES: Rani Molla, "10 Ways Office Work Will Never Be the Same. [VOX.com](https://www.vox.com), March 23, 2021; Denise Pirrotti Hummel, "What Does Remote Work Look Like Going Forward? [Linkedin.com](https://www.linkedin.com), March 18, 2021; J. Simons, "The Boss Wants You Back in the Office," *The Wall Street Journal*, July 25, 2017, https://www.wsj.com/articles/the-boss-wants-you-back-in-the-office-1500975001?tesla=y?mod=djem_jiewr_HR_domainid; S. Kesler, "IBM, Remote-Work Pioneer, Is Calling Thousands of Employees Back to the Office," *Quartz*, March 21, 2017, <https://qz.com/924167/ibm-remote-work-pioneer-is-calling-thousands-of-employees-back-to-the-office/>; J. Simons, "IBM, a Pioneer of Remote Work, Calls Workers Back to the Office," *The Wall Street Journal*, May 18, 2017, <https://www.wsj.com/articles/ibm-a-pioneer-of-remote-work-calls-workers-back-to-the-office-1495108802>.

HR IN SMALL BUSINESS

Bombas Makes Socks Well and Treats Employees Better

Before founding Bombas with Randy Goldberg, David Heath had already started three other companies. What got him going on this fourth project was learning that the top clothing donation requested by homeless shelters is socks. Heath was aware of how Toms and Warby Parker had succeeded at making donations part of their business page 610strategies (for shoes and glasses), and he wanted to do the same with socks. He and Goldberg set out to develop socks that would be so comfortable and appealing that they could make a viable business out of donating a pair of socks for every pair sold. After two years in product development, they began selling Bombas socks online.

The founders were as committed to treating employees well as they were to helping the homeless. They were determined to build an organization in which people feel welcome and included. This would require open communication to build an atmosphere of respect and trust. Trust also is expressed in employee benefits that include unlimited vacation, unlimited sick leave, and unlimited remote work. Along with this, employees receive fully paid health insurance, a company match on its 401(k) plan, bonuses, and pay at above the average for comparable jobs in the region. Along with this, the company spends about \$10,000 to \$20,000 a year to help employees with difficult situations. The company also takes all its employees to twice-yearly nonworking retreats, as a way to build relationships in a fun setting such as an Arizona dude ranch.

According to the Great Place to Work survey, 98% of employees say Bombas has "special and unique benefits," and as many describe management as "honest and ethical." Almost all (99%) say they "feel good about the ways we contribute to the community."

In its first six years, Bombas grew to more than 140 employees and revenues surpassing \$100 million, and it had donated more than 30 million socks to organizations serving the homeless. In that time, only seven people left the company, a remarkably low turnover rate.

QUESTIONS

Of the employee benefits mentioned in this case, which do you think are most important for keeping the workforce engaged at Bombas? Is this approach typical? How does it seem to work? Should more companies follow this type of approach? Explain.

If you were responsible for human resource management at Bombas, how would you suggest the company measure the success of its benefits package?

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PART FIVE Special Topics in Human Resource Management

CHAPTER 14

Collective Bargaining and Labor Relations



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO14-1 Describe what is meant by collective bargaining and labor relations.](#)

[LO14-2 Identify the labor relations goals of society, management, and labor unions.](#)

[LO14-3 Explain the legal environment's impact on labor relations.](#)

[LO14-4 Describe the major labor–management interactions: organizing, contract negotiations, and contract administration.](#)

[LO14-5 Describe less adversarial approaches to labor–management relations.](#)

[LO14-6 Explain how changes in competitive challenges \(e.g., product market competition and globalization\) are influencing labor–management interactions.](#)

[LO14-7 Explain how labor relations in the public sector differ from labor relations in the private sector.](#)

ENTER THE WORLD OF BUSINESS

Union Issues at a Nonunion Company: Amazon

The influence of labor unions is not limited to unionized companies. Just ask Amazon, the second-largest (after Walmart) U.S. private sector employer, which has about 800 U.S. facilities it wishes to keep nonunion. In November 2020, workers at the Amazon warehouse in Bessemer, Alabama, petitioned the National Labor Relations Board (NLRB) to hold a vote on whether to be represented by the Retail, Wholesale and Department Store Union (RWDSU). This ordinarily requires support from at least 30% of workers. In December, Amazon and the RWDSU participated in an NLRB hearing to decide who should be included in the bargaining unit (and thus who votes). Amazon argued for 5,800+ employees to be included. The RWDSU argued for 1,500. This was resolved in favor of Amazon. Once the bargaining unit composition was resolved, the NLRB was able to verify on January 15, 2021, that at least 30% of employees supported the union, necessary for the NLRB to hold a representation election. Amazon then filed an appeal to postpone the election to allow voting to be in-person (rather than via mail). (Perhaps this sounds familiar.) The NLRB denied this appeal on February 5, 2021, and employees began voting (by mail) starting February 8 with votes due by March 29. To become the employees' representative, the RWDSU had to win a majority of employee votes. No union has been able to do that at Amazon in the United States. (Some Amazon employees in Europe are represented by unions.)

How should employees vote? A key issue is the work pressure. Jennifer Bates, who makes \$15.30/hour unpacking clothing, deodorant, and many other things, says she has exactly 30 minutes to get from her work area to the cafeteria and back at lunch time. It is a long walk. (The warehouse is the size of 14 football fields.) She says if she is late, she risks a pay cut or even being fired. She says that trips to the bathroom, getting a drink of water, etc., are

also closely monitored. Amazon denies this, saying workers get regular breaks and ample time. Amazon uses cameras and software to track worker movements to improve productivity.

One former employee says, “Amazon’s genius” is its ability to simplify tasks so that “anybody can do it.” It is more a question of who is willing (rather than skilled enough) to do the work, which might require 10-hour shifts standing at a single station. New workers “are put on the line to see if they have what it takes.” Amazon’s aggressive productivity goals can be exhausting, as employees must race to stow, pick, or pack goods at the massive warehouse. The union argues it would give workers a say in their work and the pace, rather than its being under the unilateral control of the company. The union promises to give workers a voice. The union also argues it can provide protection from arbitrary discipline. One claim is that Amazon workers were fired for walking off the job to protest for better worker safety during the height of the COVID pandemic. In the meantime, given the grueling nature of the work, not everyone can sustain it, resulting in turnover. It is not clear that Amazon sees that as a problem. It is possible that workers burn out and need to be replaced regularly.

Another issue is wages. Joey Alvarado makes almost \$30/hour moving boxes at Strater Bros. Markets, a supermarket chain in southern California. He believes his much greater pay is because he is a member of the Teamsters union. He says on his job “you bust your butt, but you get paid” and, “No one leaves. You’d be stupid to leave.” Jeff Fretz is also a Teamster and works at United Parcel Service, Inc. Fretz “get disgusted” with what he hears about Amazon because UPS pays so much better and yet is still profitable. He says “a human body is not a machine” and that he can’t do now what he did when he was younger. He says that having a union “protects you for a career.”

An Amazon spokeswoman said the company doesn’t believe the RWDSU represents the majority of employees and noted that employees choose Amazon because “we offer some of the best jobs available everywhere we hire, and we encourage anyone to compare our total compensation package, health benefits, and workplace environment to any other company with similar jobs.” On its website to communicate its stance, Amazon states: “We’ve got you covered with high wages, health care, vision, and dental benefits, as well as a safety committee and appeals process” and “There’s so much MORE you can do for your career and your family without paying dues.” A starting wage of \$15/hour (plus benefits) is better than what many jobs open to those with a high-school level of education would offer and is clearly much higher than the national minimum wage (\$7.25 at the time). Amazon is expected to make every effort to remain nonunion, or else, it fears its control over the work-place (and thus, perhaps, productivity) and over its costs (see again the higher wages paid by some unionized employers for unionized work) will be compromised, which could undercut how it competes for customers.

Update: The vote has now been taken and it was a clear-cut decision. You can find the result at: <https://www.nlr.gov/news-outreach/news-story/nlr-announces-results-in-amazon-election>. However, there is an appeal of the vote under way. Please conduct a quick search to see the basis for the appeal and how the NLRB has ruled on the appeal.

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In the chapter opener, we saw an example of how not just unionized companies, but also nonunion companies can have major union issues. In the case of Amazon, our focus was on the ability of the union to show enough support at an Amazon facility for the National Labor Relations Board to hold an election to allow employees to vote for/against union representation. What is less public is the broader influence unions can have on employee relations at nonunion companies. Because most nonunion employers wish to remain nonunion, it can lead them to head off employee interest in a union by providing to some degree what a union would propose to obtain (e.g., higher wages, better benefits, more voice) for employees. Thus, what is known as the “threat effect” of unions can translate into better treatment of nonunion workers as employers seek to make a union less attractive to their employees by taking away issues the union can use. However, the strength of this union threat effect may be less now than in the past with reduced union membership. But as we will see, unions continue to be a major influence in some parts of the economy.¹

The Labor Relations Framework

LO 14-1

Describe what is meant by collective bargaining and labor relations.

John Dunlop, former secretary of labor and a leading industrial relations scholar, suggested in the book *Industrial Relations Systems* (1958) that a successful industrial relations system consists of four elements: (1) an environmental context (technology, market pressures, and the legal framework, especially as it affects bargaining power); (2) participants, including employees and their unions, management, and the government; (3) a “web of rules” (rules of the game) that describe the process by which labor and management interact and resolve disagreements (such as the steps followed in settling contract grievances); and (4) ideology.² For the industrial relations system to operate properly, the three participants must, to some degree, have a common ideology (e.g., acceptance of the capitalist system) and must accept the roles of the other participants. Acceptance does not translate into convergence of interests, however. To the contrary, some degree of worker–management conflict is inevitable because, although the interests of the two parties overlap (e.g., survival of the firm and thus survival of workers’ jobs and investors’ profits), they also diverge in key respects (such as how to divide the economic profits between workers and investors).³

Therefore, according to Dunlop and other U.S. scholars of like mind, an effective industrial relations system does not eliminate conflict. Rather, it provides institutions (and a web of rules) that resolve conflict in a way that minimizes its costs to management, employees, and society. The collective bargaining system is one such institution, as are related mechanisms such as mediation, arbitration, and participation in decision making. These ideas formed the basis for the development in the 1940s of schools and departments of industrial and labor relations to train labor relations professionals who, working in both union and management positions, would have the skills to minimize costly forms of conflict such as strikes (which were reaching record levels at the time) and maximize integrative (win–win) solutions to such disagreements.

A more recent industrial relations model, developed by Harry Katz and Thomas Kochan, is particularly helpful in laying out the types of decisions management and unions make in their interactions and the consequences of such decisions for attainment of goals in areas such as wages and benefits, job security, and the rights and responsibilities of unions and managements.⁴ According to Katz and Kochan, these choices occur at three levels.

First, at the strategic level, management makes basic choices such as whether to work with its union(s) or to devote its efforts to developing nonunion operations. Environmental factors (or competitive challenges) offer both constraints and opportunities in implementing strategies. For example, if public opinion toward labor unions becomes negative during a particular time period, some employers may see that as an opportunity to rid themselves of unions, whereas other employers may seek a better working relationship with their unions. Similarly,

increased competition may dictate the need to increase productivity or reduce labor costs, but whether this is accomplished by shifting work to nonunion facilities or by working with unions to become more competitive is a strategic choice that management faces.

Although management has often been the initiator of change in recent years, unions face a similar choice between fighting changes to the status quo and being open to new labor–management relationships (like less adversarial forms of participation in decision making, such as labor–management teams).

Katz and Kochan suggest that labor and management choices at the strategic level in turn affect the labor–management interaction at a second level, the functional level, where contract negotiations and union organizing occur, and at the final workplace level, the arena in which the contract is administered. The relationships between labor and management at each of the three levels are somewhat interdependent, but the relationships at the three levels may also differ. For example, whereas management may have a strategy of building an effective relationship with its unions at the strategic level, there may be significant day-to-day conflicts over work rules, grievances, and so forth at any given facility or bargaining unit (workplace level).

The labor relations framework depicted in [Figure 14.1](#) incorporates many of the ideas discussed so far, including the important role of the environment (the competitive challenges); union, management, and societal goals; and a separation of union–management interactions into categories (union organizing, contract negotiation, contract administration) that can have important influences on one another but may also be analyzed somewhat independently. The model also highlights the important role that relative bargaining power plays in influencing goals, union–management interactions, and the degree to which each party achieves its goals. Relative bargaining power, in turn, is significantly influenced by the competitive environment (legal, social, quality, high-performance work systems, and globalization competitive challenges) and the size and depth of union membership.⁵

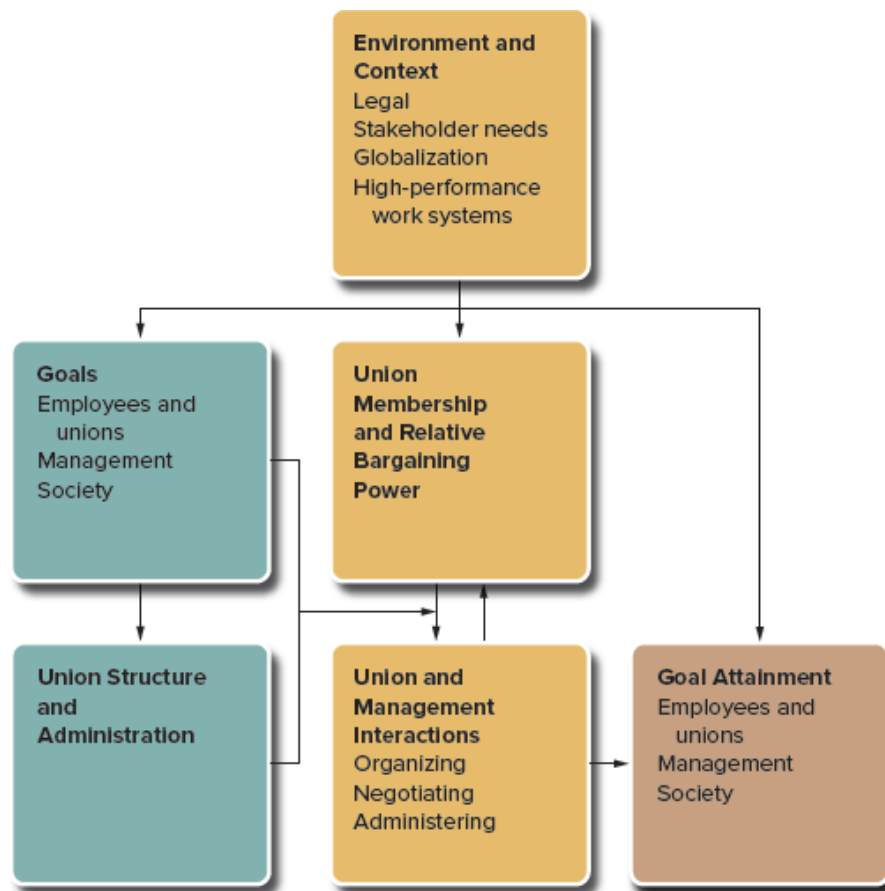


Figure 14.1 A Labor Relations Framework

We now describe the components of this model in greater depth. The remainder of the chapter is organized into the following sections: the goals and strategies of society, management, and unions; union structure (including union administration and membership); the legal framework, perhaps the key aspect of the competitive environment for labor relations; union and management interactions (organizing, contract negotiation, contract administration); and goal attainment. Environmental factors (other than legal) and bargaining power are discussed in the context of these sections. In addition, two special topics, international comparisons and public-sector labor relations, are discussed.

Goals and Strategies

Society

LO 14-2

Identify the labor relations goals of society, management, and labor unions.

In one sense, labor unions, with their emphasis on group action, do not fit well with the individualistic orientation of U.S. capitalism. However, industrial relations scholars such as Beatrice and Sidney Webb and John R. Commons argued in the late 1800s and early 1900s that individual workers' bargaining power was far smaller than that of employers, who were likely to have more financial resources and the ability to easily replace workers.⁶ Effective institutions for worker representation (like labor unions) were therefore seen as a way to make bargaining power more equal.

Labor unions' major benefit to society is the institutionalization of industrial conflict, which is therefore resolved in the least costly way. Although disagreements between management and labor continue, it is better to resolve disputes through discussion (collective bargaining) than by battling in the streets. As an influential group of industrial relations scholars put it in describing the future of advanced industrial relations around the world, "Class warfare will be forgotten. The battles will be in the corridors instead of the streets, and memos will flow instead of blood."⁷ In this sense, collective bargaining not only has the potential to reduce economic losses caused by strikes but also may contribute to societal stability. For this reason, industrial relations scholars have often viewed labor unions as an essential component of a democratic society.⁸ These were some of the beliefs that contributed to the enactment of the National Labor Relations Act (NLRA) in 1935, which sought to provide an environment conducive to collective bargaining and has since regulated labor and management activities and interactions.

Even former Senator Orrin Hatch, described by *Bloomberg Businessweek* as "labor's archrival on Capitol Hill," spoke of the need, at least in some cases, for unions:

There are always going to be people who take advantage of workers. Unions even that out, to their credit. We need them to level the field between labor and management. If you didn't have unions, it would be very difficult for even enlightened employers not to take advantage of workers on wages and working conditions, because of [competition from] rivals. I'm among the first to say I believe in unions.⁹

page 621

Although an industrial relations system based on collective bargaining has drawbacks, so too do the alternatives. Unilateral control by management sacrifices workers' rights. Extensive involvement of government and the courts can result in conflict resolution that is expensive, slow, and imposed by someone (a judge) with much less firsthand knowledge of the circumstances than either labor or management.

Management

One of management's most basic decisions is whether to encourage or discourage the unionization of its employees. It may discourage unions because it fears higher wage and benefit costs, the disruptions caused by strikes, and an adversarial relationship with its employees or, more generally, greater constraints placed on its decision-making flexibility and discretion. Historically, management has used two basic strategies to avoid unionization.¹⁰ It may seek to provide employment terms and conditions that employees will perceive as sufficiently attractive and equitable so that they see little gain from union representation. Or it may aggressively oppose union representation, even when there is significant employee interest. Use of the latter strategy has increased significantly over the past several decades.

If management voluntarily recognizes a union or if employees are already represented by a union, the focus is shifted from dealing with employees as individuals to employees as a group. Still, certain basic management objectives remain: controlling labor costs and increasing productivity (by keeping wages and benefits in check) and maintaining management prerogatives in important areas such as staffing levels and work rules. Of course, management always has the option of trying to decertify a union (i.e., encouraging employees to vote out the union in a decertification election) if it believes that the majority of employees no longer wish to be represented by the union.

Labor Unions

Labor unions seek, through collective action, to give workers a formal and independent voice in setting the terms and conditions of their work. [Table 14.1](#) shows typical provisions negotiated by unions in collective bargaining contracts. Labor unions attempt to represent their members' interests in these decisions. Without adequate union representation, not only workers' wages, but also their safety and welfare, are more likely to be put at risk. This is particularly true in low-wage economies where regulatory protection may also be lacking.

Table 14.1 Typical Provisions in Collective Bargaining Contracts

Establishment and administration of the agreement - Bargaining-unit and plant-level agreements - Contract duration and reopening and renegotiation provisions - Union security and the checkoff - Special bargaining committees - Grievance procedures - Arbitration and mediation - Strikes and lockouts - Contract enforcement Functions, rights, and responsibilities - Management rights clauses - Plant removal - Subcontracting - Union activities on company time and premises - Union–management cooperation - Procedures for adjusting to technological change - Work and shop rules - Rest periods and other in-plant time allowances - Safety and health - Plant committees - Hours of work and premium pay practices - Shift operations - Hazardous work - Discipline and discharge	Wage determination and administration - Rate structure and wage differentials - Incentive and bonus plans - Production standards and time studies - Job classification and job evaluation - Individual wage adjustments - General wage adjustments during the contract period Job or income security - Hiring and transfer arrangements - Employment and income guarantees - Supplemental unemployment benefit plans - Regulation of overtime, shift work, and so on - Reduction of hours to forestall layoffs - Layoff procedures, seniority, recall - Work sharing in lieu of layoff - Attrition arrangements - Promotion practices - Training and retraining - Relocation allowances - Severance pay and layoff benefit plans - Special funds and study committees	Paid and unpaid leave - Vacations and holidays - Sick leave - Funeral and personal leave - Military leave and jury duty Employee benefit plans - Health and other insurance plans - Pension plans - Profit sharing, stock purchase, and thrift plans - Bonus plans Special groups - Apprentices and learners - Workers with disabilities and older workers - Women - Veterans - Union representatives - Nondiscrimination clauses

SOURCE: H. Katz, T. Kochan, and A. Colvin, *An Introduction to Collective Bargaining and Industrial Relations*, 5th ed. (New York: McGraw-Hill, 2017).

Just before more than 1,100 workers perished in the Rana Plaza eight-story factory building collapse in Bangladesh in April 2013, workers on the third floor were startled by what sounded like an explosion. They also saw cracks in the walls. An engineer was brought in to examine the cracks, and he found that they were structural. He recommended immediate evacuation of the building. Workers evacuated but were ordered back to work. If they did not go back, they would lose their pay, which, at \$38/month, they likely did not feel they could afford.

The question was how could such a tragedy be prevented from happening again? One response has been for companies that buy from garment suppliers in Bangladesh to develop and enforce worker safety and treatment standards. An example of this was the formation of The Alliance for Bangladesh Worker Safety, which included development of fire safety/building integrity standards, factory inspections, and corrective action plans to remediate unsafe conditions when uncovered.¹¹ In other cases, individual companies such as Apple have developed standards for their suppliers on their own. In Apple's case, these include but go well beyond safety, and there is a strong focus on metrics and data. (See the [Evidence-Based HR](#) box for more details on this effort.)

Returning to the Rana Plaza case, another response is: What if the workers at Rana Plaza had been represented by a labor union? Perhaps the workers, if unionized, could have refused to follow the order to return to work. As one response to the tragedy, the page 622Bangladesh government stated that it would begin to allow the country's 4 million garment workers to form trade unions and do so without first obtaining permission from factory owners. Labor unions can provide protection for workers and also help negotiate higher wages to give workers a better standard of living. Of course, these potential advantages will be weighed against the potential consequence of higher labor costs and/or lost working time due to strikes (and thus less competitive product prices, which could reduce sales and employment). In the best case scenario, an effective labor–management relationship can bring more efficient organization of workers in the production process, and higher wages can allow more selectivity in hiring and a more productive workforce. As we saw above in the case of Apple, some companies page 623have placed a priority on making sure certain standards are met in how workers are treated in supplier companies. This can be because of a wish to do the right thing, to avoid bad publicity, or to help forestall union representation at these supplier companies, by stepping in quickly when worker treatment falls short. The [Integrity in Action](#) box describes how Apple's standards came into play at a supplier plant in India and the resulting fast remedial response.



EVIDENCE-BASED HR

Apple's Standards for Employee Labor and Human Rights at Its Supplier Companies (and How It Measures Compliance)

In its annual report (form 10-K, dated October 31, 2020), Apple notes, "Substantially all of the Company's hardware products are manufactured by outsourcing partners that are located primarily in Asia, with some Mac computers manufactured in the U.S. and Ireland." It further notes that it "had approximately 147,000 full-time equivalent employees." In its Supplier Responsibility 2020 Progress Report (SRPR), by contrast, it says there are "millions of people who work in our supply chain." Thus, the vast majority of workers producing Apple products are not Apple employees, instead being employed by Apple's outsourcing partners in Asia (e.g., Foxconn). Apple has, however, developed standards for its outsourcing partners in its supply chain, including standards for worker treatment. In its SRPR, in 2019, it reports it audited 1,142 supplier facilities in 49 countries, which included Apple interviewing more than 52,000 supplier employees about their workplace experiences, with another 42,000 participating in workplace satisfaction surveys. It also reports training 19.4 million supplier employees on their rights since 2008. Each audit scores suppliers based on Apple's Supplier Code of Conduct on three dimensions: Labor and Human Rights, Health and Safety, and Environment. Based on Apple's audit combined scores on these three dimensions, it

reports that it has made substantial progress from 2015, when 36% were high-performing, 58% medium-performing, and 6% low-performing to 2019 with 82% high-performing, 17% medium-performing, and less than 1% low-performing. Focusing on Labor and Human Rights specifically, Apple uses nine standards, which are consistent with those developed by the International Labor Organization:

Labor and Human Rights Standards	Brief Description of Supplier Requirements
Working Hours	Workweeks are restricted to 60 hours, regular workweeks to 48 hours.
Wages, Benefits, and Contract	Meet all legal requirements. Pay accurate wages in timely manner. No use of wage deductions as discipline.
Prevention of Involuntary Labor	No withholding of government-issued identification and travel documents. Freedom of movement. Workers are not to pay recruitment fees.
Protected Class	No workers under 18 unless local law permits. No required overtime or night work if under 18.
Anti-Discrimination	No discrimination against any worker on basis of age, disability, ethnicity, gender, marital status, national origin, political affiliation, race, religion, sexual orientation, gender identification, union membership or other status protected by local law.
Grievance Mechanism	Ensure “employees have an effective mechanism to report grievances and ... open communication [exists]”page 624
Anti-Harassment and Abuse	Shall not threaten workers or subject them to inhumane treatment including, but not limited to, verbal abuse, psychological or sexual harassment, physical coercion.
Prevention of Underage Labor	May not employ workers under 15, the local minimum age for employment, or age of completion of compulsory education, whichever is highest.
Freedom of Association and Collective Bargaining	“Shall freely allow their employees the lawful right to associate with others, form and join (or refrain from joining) organizations of their choice, and bargain collectively, without interference, discrimination, retaliation, or harassment.”

In its SRPR, Apple reports that in 2019, the majority of labor and human rights violations related to working hours and improper provision of wages and benefits. It gave as an example of the latter a supplier requiring its employees to attend a mandatory pre-shift meeting (presumably without pay). Apple would classify this as what it calls a Core Violation of Apple's Supplier Code of Conduct, which it says suppliers "are required to immediately remediate" and they must also "make changes to their management system that address the root cause of the violation." To "retain our business," Apple further requires the supplier "take and sustain preventive measures to ensure the violation does not reoccur." An example of Apple's pausing business with a supplier (Wistron) is seen in the **Integrity in Action** box nearby.

What Apple reports must be considered in light of the fact there is not impartial independent outside verification. However, the framework developed by Apple, together with the substantial amount of data collected each year to measure supplier performance in adhering to Apple's Supplier Code of Conduct, represents substantial progress over time and is likely to provide a useful model for other companies in bringing better conditions to workers in their supply chains.

SOURCES: *Supplier Responsibility 2020 Report*, Apple, <https://www.apple.com/supplier-responsibility/>; Apple Supplier Code of Conduct, <https://www.apple.com/supplier-responsibility/pdf/Apple-Supplier-Code-of-Conduct-January.pdf>; *Annual Report* (Form 10-K, dated October 31, 2020), www.sec.gov; International Labour Organization, "Labour Standards in Global Supply Chains," www.ilo.org, 2019.

A major goal of labor unions is bargaining effectiveness, because with it comes the power and influence to make the employees' voices heard and to effect changes in the workplace.¹² The right to strike is one important component of bargaining power. In turn, the success of a strike (actual or threatened) depends on the relative magnitude of the costs imposed on management versus those imposed on the union. A critical factor is the size of union membership. More members translate into a greater ability to halt or disrupt production and also into greater financial resources for continuing a strike in the face of lost wages.



INTEGRITY IN ACTION

Apple Pauses Business with a Major Supplier, Wistron, over Worker Treatment in India

In late 2020 an iPhone manufacturing plant run by Taiwan-based Wistron Corporation came under attack by its employees. Reports are that a majority of the roughly 2,000 employees went on a rampage as they exited the plant after their night shift, destroying furniture and assembly units, and trying to set vehicles on fire. Wistron estimated \$7 million in damage was done. Wistron is one of Apple's top global suppliers and had been making iPhones in India for almost four years.

Why did workers do this? It appears that they were not paid the salaries they were promised. page 625An engineering graduate was promised Rs 21,000 (\$286) per month, but was paid instead Rs 16,000 (\$218), which was later reduced still further to Rs 12,000 (\$163). Other workers reported receiving salaries as low as Rs 500 (\$6.80) per month. "They weren't being heard so they snapped," said the Secretary of the Bangalore wing of the All India Trade Union Congress. Wistron subsequently issued a statement: "We deeply regret this and apologize to all of our workers." It went on to add: "This is a new facility, and we recognize that we made mistakes as we expanded. Some of the processes ... to manage labor agencies and payments need to be strengthened and upgraded." Wistron apologized for the under-payment. Apple conducted its own investigation and verified the problems. What happened at Wistron was a core violation of Apple's Supplier Code of Conduct, specifically Labor and Human Rights. Consistent with Apple's policy, it placed Wistron on probation until the problems are fixed and new processes put in place to make sure the solution is complete and effective going forward. Apple stated Wistron "will not receive new business from Apple before they take corrective actions."

The situation is being followed closely because India is in competition with China to attract such foreign investment and create jobs. At the same time, Apple is seeking to diversify its supply chain beyond China to be less dependent on China, as well as less affected by events like trade wars and pandemics. Indeed, earlier in the year, Foxconn, another major Taiwanese supplier that assembles Apple products in China, announced it would invest \$1 billion in India. Samsung too announced that it will begin to make smartphones in India. India and China are by far the world's two most populous countries, each with over 1 billion people. Walmart too, which currently relies heavily on suppliers in China is moving to greatly ramp up its supply chain in India. India can provide not only a large supply of potential workers at low cost (which is key to keeping the price of Apple products lower), but it is also a large potential market for Apple products. Currently, Apple has only 1% to 3% of the Indian smartphone market. Another benefit of locating production in India is that it can avoid Indian import fees, which are especially high on products imported from China (where the vast majority of iPhones are currently made).

Apple's challenges in working with and monitoring its suppliers in China, India, and other parts of the world, but primarily Asia for now, will continue to grow. It will be important for Apple and its suppliers to act with integrity to make sure workers are treated appropriately, as required under the Labor and Human Rights standard of Apple's Supplier Code of Conduct. When actions fall short, as in the Wistron case, it must be quickly acknowledged, accompanied by an apology, and backed up by fast and effective remedial action.

DISCUSSION QUESTIONS

Where is Apple headquarters located? Describe what you envision is required of Apple to monitor how its suppliers worldwide treat their millions of employees. If you have been to any Apple suppliers in Asia or other suppliers there or in other parts of the world, share your experiences with others.

To what degree and how quickly do you expect India to challenge China to play a major part in the supply chain for companies like Apple, Samsung, Walmart, and others? How do China and India compare in terms of what they can offer?

Take note of the monthly salaries (see above) that the engineers at Wistron were to be paid. How does that compare to monthly engineering salaries in the United States?

When you read [Chapter 15, Managing Human Resources Globally](#) (and/or based on your experience), think of how the political, market, legal, and cultural contexts vary between China and India and what similar and different challenges companies face in setting up new parts of their supply chains in the two countries, and the specific challenges of acting with integrity in the area of Labor and Human Rights.

SOURCES: Rakesh Prakash, "Violence Breaks Out at Wistron Corp's Iphone Manufacturing Plant Near Bengaluru," *Times of India*, <https://timesofindia.indiatimes.com/us>, December 12, 2020; Reuters Staff, "Apple Supplier Wistron Puts India Plant Damage at Up to \$7 million," www.reuters.com, December 14, 2020; Eric Bellman and Vibhuti Agarwal, "iPhone Factory Apologizes to Workers for Mis-handling Wages: Angry Workers Had Damaged a Wistron Assembly Plant, Which Apple Has Since Put on Probation for Violating Its Code of Conduct," WSJ.com, December 20, 2020; Ron Amadeo, "iPhone Factory Workers Say They Haven't Been Paid, Cause Millions in Damages," <https://arstechnica.com/>, December 15, 2020; Sankalp Phartiyal and Yimou Lee, "Apple Supplier Foxconn to Invest \$1 billion in India, Sources Say," www.Reuters.com, July 10, 2020; Oscar Quine, "Walmart Triples India Exports as Major U.S. Companies Pivot From China," Newsweek.com, December 15, 2020; "Wistron Fires India Vice-President, Admits Abuse of Labour at Karnataka iPhone Plant," *Business Today*, December 19, 2020.

Union Structure, Administration, and Membership

A necessary step in discussing labor–management interactions is a basic knowledge of how labor and management are organized and how they function. Management has been described throughout this book. We now focus on labor unions.

National and International Unions

Most union members belong to a national or international union. In turn, most national unions are composed of multiple local units, and most are affiliated with the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO).

The largest national unions are listed in [Table 14.2](#). The National Education Association, which is not affiliated with the AFL-CIO, is the largest union, with almost 3 million members. An important characteristic of a union is whether it is a craft or industrial union. The electrical workers' and carpenters' unions are craft unions, meaning that the members all have a particular skill or occupation. Craft unions often are responsible for training their members (through apprenticeships) and for supplying craft workers to employers. Requests for carpenters, for example, would come to the union hiring hall, which would decide which carpenters to send out. Thus craft workers may work for many employers over time, their constant link being to the union. A craft union's bargaining power depends greatly on the control it can exercise over the supply of its workers.

Table 14.2 Largest Labor Unions in the United States

ORGANIZATION	NUMBER OF MEMBERS
National Education Association	2,975,933
Service Employees International Union	1,962,922
American Federation of Teachers	1,684,544
American Federation of State, County, and Municipal Employees	1,339,779
International Brotherhood of Teamsters	1,324,501
United Food and Commercial Workers International Union	1,230,309
International Brotherhood of Electrical Workers	677,748

Communications Workers	661,604
Laborers	584,757
Machinists	579,639
Steelworkers	575,192
Carpenters	437,634
International Union of Operating Engineers	401,991
Auto Workers	398,829
Plumbers	335,704
Police	350,175
Firefighters	318,684

SOURCE: U.S. Department of Labor, Office of Labor-Management Standards, Online Public Disclosure Room, Union Search [search on “Membership”], <https://www.dol.gov/olms/regs/compliance/rrlo/lmrda.htm>. Accessed March 8, 2021.

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In contrast, industrial unions are made up of members who are linked by their work in a particular industry (such as steelworkers and autoworkers). Typically they represent many different occupations. Membership in the union is a result of working for a particular employer in the industry. Changing employers is less common than it is among craft workers, and employees who change employers remain members of the same union only if they happen to move to other employers covered by that union. Whereas a craft union may restrict the number of, say, carpenters to maintain higher wages, industrial unions try to organize as many employees in as wide a range of skills as possible.

Local Unions

Even when a national union plays the most critical role in negotiating terms of a collective bargaining contract, negotiation occurs at the local level as well as over work rules and other issues that are locally determined. In addition, administration of the contract is carried out largely at the local union level. Consequently, the bulk of day-to-day interaction between labor and management takes place at the local union level.

The local of an industrial-based union may correspond to a single large facility or to a number of small facilities. In a craft-oriented union, the local may cover a city or a region. The local union typically elects officers (like president, vice president, treasurer). Responsibility for contract negotiation may rest with the officers, or a bargaining committee may be formed for this purpose. Typically the national union provides assistance, ranging from background data about other settlements and technical advice to sending a representative to lead the negotiations.

Individual members' participation in local union meetings includes the election of union officials and strike votes. However, most union contact is with the shop steward, who is responsible for ensuring that the terms of the collective bargaining contract are enforced. The shop steward represents employees in contract grievances. Another union position, the business representative, performs some of the same functions, especially where the union deals with multiple employers, as is often the case with craft unions.

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)

The AFL-CIO is not a labor union but rather an association that seeks to advance the shared interests of its member unions at the national level, much as the Chamber of Commerce and the National Association of Manufacturers do for their member employers. As [Figure 14.2](#) indicates, there are 55 affiliated national and international unions and thousands of locals. An important responsibility of the AFL-CIO is to represent labor's interests in public policy issues such as civil rights, economic policy, safety, and occupational health. It also provides information and analysis that member unions can use in their activities: organizing new members, negotiating new contracts, and administering contracts.

Union Security

The survival and security of a union depends on its ability to ensure a regular flow of new members and member dues to support the services it provides. Therefore, unions typically place high priority on negotiating two contract provisions with an employer that are critical to a union's security or viability: checkoff provisions and union membership or contribution. First, under a [checkoff provision](#), the employer, on behalf of the union, automatically deducts union dues from employees' paychecks.

[Checkoff provision](#)

A union contract provision that requires an employer to deduct union dues from employees' paychecks.



Figure 14.2 AFL-CIO Organization Chart

SOURCE: AFL-CIO, <https://aflcio.org/about-us/our-unions-and-allies>, accessed March 8, 2021.

A second union security provision focuses on the flow of new members (and their dues). The strongest union security arrangement is a [closed shop](#), under which a person must be a union member (and thus pay dues) before being hired. A closed shop page 629is, however, illegal under the NLRA. A [union shop](#) requires a person to join the union within a certain amount of time after beginning employment (no sooner than the 30th day of employment). An [agency shop](#) is similar to a union shop but does not require union membership, only that dues be paid. [Maintenance of membership](#) rules do not require union membership but do require that employees who choose to join must remain members for a certain period of time (such as the length of the contract).

[Closed shop](#)

A union security provision requiring a person to be a union member before being hired. Illegal under NLRA.

[Union shop](#)

A union security provision that requires a person to join the union within a certain amount of time after being hired.

[Agency shop](#)

A union security provision that requires an employee to pay union membership dues but not to join the union.

[Maintenance of membership](#)

Union rules requiring members to remain members for a certain period of time (e.g., the length of the union contract).

Under the 1947 [Taft-Hartley Act](#) (an amendment to the NLRA), states may pass so-called [right-to-work laws](#), which make union shops, maintenance of membership, and agency shops illegal. The idea behind such laws is that compulsory union membership (or making employees pay union dues) infringes on the employee's right to freedom of association. From the union perspective, a big concern is "free riders," employees who benefit from union activities without belonging to a union. By law, all members of a bargaining unit, whether union members or not, must be represented by the union. If the union is required to offer service to all bargaining unit members, even those who are not union members, it may lose its financial viability.

[Taft-Hartley](#)

Act The 1947 act that outlawed unfair union labor practices.

[Right-to-work laws](#)

State laws that make union shops, maintenance of membership, and agency shops illegal.

Union Membership and Bargaining Power

At the strategic level, management and unions meet head-on over the issue of union organizing. Increasingly, employers are actively resisting unionization in an attempt to control costs and maintain their flexibility. Unions, by contrast, must organize new members and hold on to their current members to have the kind of bargaining power and financial resources needed to achieve their goals in future organizing and to negotiate and administer contracts with management. For this reason we now discuss trends in union membership and possible explanations for those trends.

Since the 1950s, when union membership rose to 35% of employment, membership has consistently declined as a percentage of employment. It now stands at 11% of all employment and 6% of private-sector employment.¹³ As [Figure 14.3](#) indicates, this decline shows no indication of reversing.¹⁴

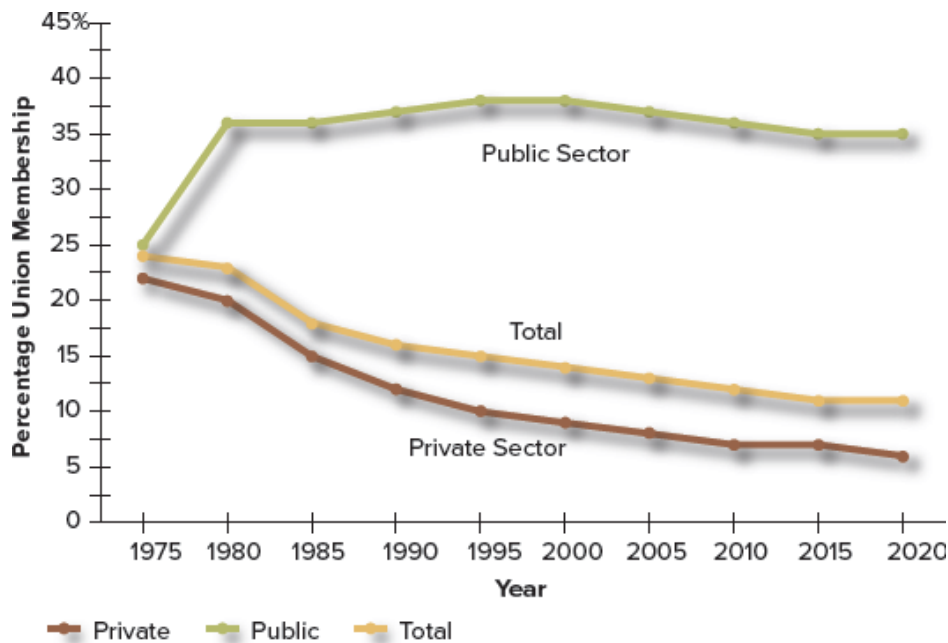


Figure 14.3 Union Membership Density among Employed U.S. Wage and Salary Workers, 1975–2020

SOURCE: Data for 1975 and 1980 from B. T. Hirsch and D. A. MacPherson, “Union Membership and Coverage Database from CPS,” [Unionstats.com](http://unionstats.com). Data for 1985 to 2020 obtained from U.S. Bureau of Labor Statistics. Access to Historical Data for the Tables of the Union Membership News Release, Table 3, www.bls.gov.

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What factors explain the decline in union membership? Several have been identified.¹⁵

Structural Changes in the Economy

At the risk of oversimplifying, we might say that unions have traditionally been strongest in urban workplaces (especially those outside the South) that employ middle-aged men in blue-collar jobs. However, much recent job growth has occurred among women and youth in the service sector (in contrast to the manufacturing sector) of the economy. Although unionizing such groups is possible, unions have so far not had much success organizing these groups in the private sector. Despite the importance of structural changes in the economy, studies show that they account for no more than one-quarter of the overall union membership decline.¹⁶

Increased Employer Resistance

Almost one-half of large employers in a survey reported that their most important labor goal was to be union-free. This contrasts sharply with 60 years ago, when Jack Barbash wrote that “many tough bargainers [among employers] prefer the union to a situation where there is no union. Most of the employers in rubber, basic steel and the automobile industry fall in this category.”¹⁷ The idea then was that an effective union could help assess and communicate the interests of employees to management, thus helping management make better decisions. But product-market pressures, such as foreign competition and deregulation (e.g., trucking, airlines, telecommunications), have contributed to increasing employer resistance to unions.¹⁸ These changes in the competitive environment have contributed to a change in management’s perspective and goals.¹⁹

In the absence of significant competition from foreign producers, unions were often able to organize entire industries. For example, the UAW organized all four major producers in the automobile industry (GM, Ford, Chrysler, and American Motors). The UAW usually sought and achieved the same union–management contract at each company. As a consequence, a negotiated wage increase in the industry could be passed on to the consumer in the form of higher prices. No company was undercut by its competitors because the labor cost of all major producers in the industry was determined by the same union–management contract, and the U.S. public had little option but to buy U.S.-made cars. However, the onset of foreign competition in the automobile market changed the competitive situation as well as the UAW’s ability to organize the industry.²⁰ U.S. automakers were slow to recognize and respond to the competitive threat from foreign producers, resulting in a loss of market share and employment.

Competitive threats have contributed to increased employer resistance to union organizing and, in some cases, to an increased emphasis on ridding themselves of existing unions. As we will see in [Table 14.16](#), unionized workers receive, on average, 19% higher wages, and roughly half of this advantage still remains when observable characteristics of union and nonunion workers are equated. The compensation advantage is still larger (43%) when benefits are included. Many employers have decided that they can no longer compete with these higher labor costs, and union membership has suffered as a result.²¹ One measure of increased employer resistance is the dramatic increase in the late 1960s in the number of unfair employer labor practices (violations of sections of the NLRA such as section 8(a)(3), which prohibits firing employees for union organizing, as we discuss later) even though the number of elections held did not change much. (See [Figure 14.4](#).) The use of remedies such as back pay for workers also grew, but the costs to employers of such penalties does not appear to have been sufficient to prevent the growth in employer unfair labor practices. Not surprisingly, the union victory rate in representation elections decreased from almost 59% in 1960 to below 50% by 1975. Although the union victory rate in recent elections has actually been much higher (e.g., 68% to 75% in the last few years), the number of elections has declined precipitously (despite large growth in economywide employment), from 7,422 in 1970 to in the neighborhood of 1,000 in recent years, making union membership gains hard to come by. Decertification elections are another factor, though these have declined (from over 200 per year in 2009–2013 to under 200 per year since then).²² It is important to emphasize that the significant decline over time in both elections and union membership percentage (see [Figure 14.3](#)) would be expected to result in a decline in unfair labor practice charges and back pay awards over time. As such, the increases in the number of unfair labor practice charges and back pay awards over time (despite some recent decline) is all the more striking.

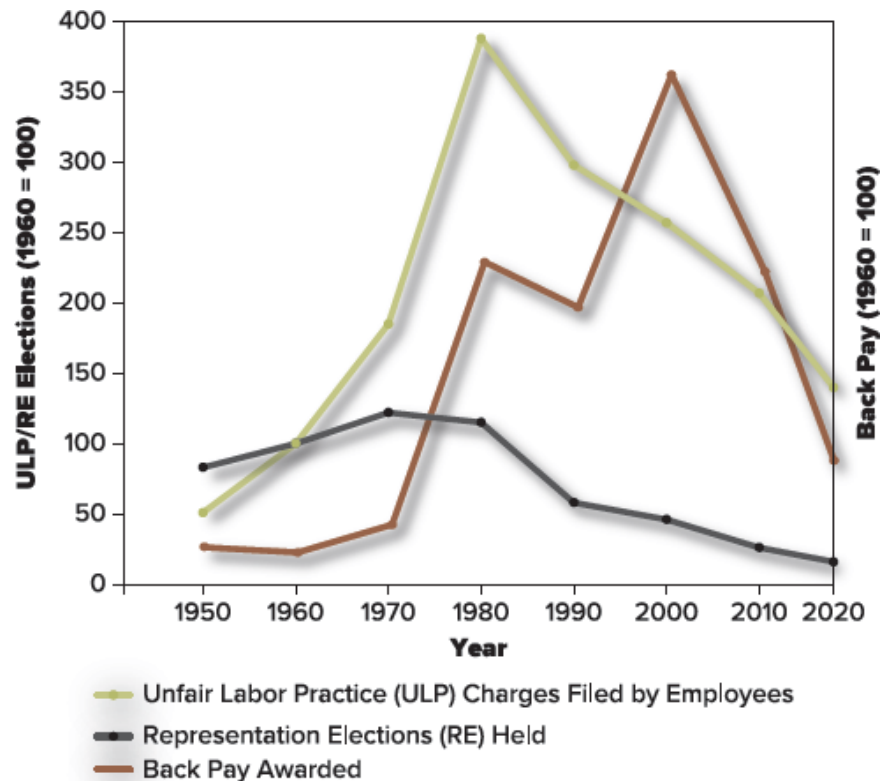


Figure 14.4 Employer Resistance to Union Organizing, 1950–2020

SOURCES: Adapted and updated from R. B. Freeman and J. L. Medoff, *What Do Unions Do?* (New York: Basic Books, 1984). More recent data from www.nlr.gov. Unfair Labor Practices (ULP) and Representation Elections (RE) data from NLRB Case Activity reports, <https://www.nlr.gov/reports/nlr-case-activity-reports>. Back Pay Recovered data from annual editions of National Labor Relations Board Performance and Accountability Report.

Most recent year's data on ULP from Casehandling Highlights section of Reports, <https://www.nlr.gov/reports/agency-performance/performance-and-accountability>, accessed March 9, 2021.

Representation elections held data for 2020 actually uses 2019 data, most recent available.

Finally, even if a union wins the right to represent employees, its ability to successfully negotiate a contract with the employer is not guaranteed. Indeed, refusal to bargain by the employer is the unfair labor practice most frequently filed (over half of all charges) against employers. One study examined 22,000 organizing drives by unions in the United States over a six-year period. Only about one-seventh of these drives eventually resulted in a union contract, either because the election was lost (or challenged) or because, after a win, a contract could not be obtained with the employer. Further, this success rate was lower still (by 30%) in cases where the employer filed an unfair labor practice against the union.²³

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At a personal level, some managers may face serious consequences if a union successfully organizes a new set of workers or mounts a serious organizing drive. One study indicated that 8% of the plant managers in companies with organizing drives were fired, and 10% of those in companies where the union was successful were fired (compared with 2% in a control group).²⁴ Furthermore, only 3% of the plant managers facing an organizing drive were promoted, and none of those ending up with a union contract were promoted (compared with 21% of the managers in the control group). Therefore, managers are often under intense pressure to oppose unionization attempts.

Substitution with HRM

A major study of the human resource management strategies and practices among large, nonunion employers found that union avoidance was often an important employee relations objective.²⁵ Top management's values in such companies drive specific policies such as promotion from within, an influential personnel–human resource department, and above-average pay and benefits. These policies, in turn, contribute to a number of desirable outcomes such as flexibility, positive employee attitudes, and responsive and committed employees, which ultimately lead to higher productivity and better employee relations. In other words, employers attempt to remain nonunion by offering most of the things a union can offer, and then some, while still maintaining a productivity advantage over their competitors. Of course, one aspect of union representation that employers cannot duplicate is the independent employee voice that a union provides.

Substitution by Government Regulation

Since the 1960s, regulation of many employment areas has increased, including equal employment opportunity, pensions, and worker displacement. Combined with existing regulations, this increase may result in fewer areas in which unions can provide worker rights or protection beyond those specified by law. Yet western European countries generally have more regulations and higher levels of union membership than the United States.²⁶

Worker Views

Industrial relations scholars have long argued that the absence in the United States of a history of feudalism and of strong class distinctions found in western Europe have contributed to a more pragmatic, business-oriented (versus class-conscious) unionism. Although this may help explain the somewhat lower level of union membership in the United States, its relevance in explaining the downward trend is not clear. Further, when U.S. workers are asked about their interest in joining a union, interest is substantial.²⁷

Union Actions and Industry Structure

In some ways, unions have hurt their own cause. First, corruption in some unions may have had a detrimental effect. Second, questions have been raised about how well unions have adapted to recent changes in the economic structure. Employee groups and economic sectors with the fastest growth rates tend to have the lowest rates of unionization.²⁸ Women are slightly less likely to be in unions (combining private and public sectors) than men (10.5% vs. 11.0%). Focusing on the private sector, nonmanufacturing industries such as finance, insurance, and real estate (1.9%) and professional/business services (2.2%) have a lower union representation than does transportation and utilities (17.7%) or telecommunications (14.3%). Perhaps somewhat unexpected, manufacturing is not especially high at this point (8.5%). Returning to private and public sector combined, the South is also less heavily organized page 633 than the rest of the country, with, for example, South Carolina having the lowest state unionization rate (2.9%, compared with 22.0% in New York).²⁹ Not surprisingly then, none of the foreign-owned automobile assembly plants (e.g., BMW, Mercedes-Benz, Toyota, Volkswagen, Nissan) located in the South are unionized (although they would be in their home countries). One reason for the smaller union presence in southern states is the existence of right-to-work laws (see our earlier discussion) in such states. We should note, however, that since 2012, Michigan and Wisconsin, for example, traditional union strongholds, have become right-to-work states.

Legal Framework

LO 14-3

Explain the legal environment's impact on labor relations.

Although competitive challenges have a major impact on labor relations, the legal framework of collective bargaining is an especially critical determinant of union membership and relative bargaining power and, therefore, of the degree to which employers, employees, and society are successful in achieving their goals. The legal framework also constrains union structure and administration and the manner in which unions and employers interact. Perhaps the most dramatic example of labor laws' influence is the 1935 passage of the Wagner Act (also known as the National Labor Relations Act or NLRA), which actively supported collective bargaining rather than impeding it. As a result, union membership nearly tripled, from 3 million in 1933 (7.7% of all employment) to 8.8 million (19.2% of employment) by 1939.³⁰ With increased membership came greater union bargaining power and, consequently, more success in achieving union goals.

Before the 1930s, the legal system was generally hostile to unions. The courts generally viewed unions as coercive organizations that hindered free trade. Unions' focus on collective voice and collective action (strikes, boycotts) did not fit well with the U.S. emphasis on capitalism, individualism, freedom of contract, and property rights.³¹

The Great Depression of the 1930s, however, shifted public attitudes toward business and the free-enterprise system. Unemployment rates as high as 25% and a 30% drop in the gross national product between 1929 and 1933 focused attention on employee rights and on the shortcomings of the system as it existed then. The nation was in a crisis, and President Franklin Roosevelt responded with dramatic action, the New Deal. On the labor front, the 1935 NLRA ushered in a new era of public policy for labor unions, enshrining collective bargaining as the preferred mechanism for settling labor–management disputes.

The introduction to the NLRA states:

It is in the national interest of the United States to maintain full production in its economy. Industrial strife among employees, employers, and labor organizations interferes with full production and is contrary to our national interest. Experience has shown that labor disputes can be lessened if the parties involved recognize the legitimate rights of each in their relations with one another. To establish these rights under the law, Congress enacted the National Labor Relations Act. Its purpose is to define and protect the rights of employees and employers, to encourage collective bargaining, and to eliminate certain practices on the part of labor and management that are harmful to the general welfare.³²

The rights of employees are set out in Section 7 of the act, including the “right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities for the purpose of collective bargaining. The act also gives employees the right to refrain from any or all of such activities except [in cases] requiring membership in a labor organization as a condition of employment.”³³ Examples of protected activities include

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- Union organizing

- Joining a union, whether it is recognized by the employer or not

- Going out on strike to secure better working conditions

- Refraining from activity on behalf of the union³⁴

Although the NLRA has broad coverage in the private sector, [Table 14.3](#) shows that there are some notable exclusions.

Table 14.3 Are You Excluded from the NLRA's Coverage?

The NLRA specifically excludes from its coverage individuals who are

Employed as a supervisor

Employed by a parent or spouse

Employed as an independent contractor

Employed in the domestic service of any person or family in a home

Employed as agricultural laborers

Employed by an employer subject to the Railway Labor Act

Employed by a federal, state, or local government

Employed by any other person who is not an employer as defined in the NLRA

SOURCE: National Labor Relations Board, *Basic Guide to the National Labor Relations Act*, www.nlrb.gov, accessed March 21, 2021.

Concerted Activity

The National Labor Relations Act protects “concerted activity” (taking action on behalf of a group to address work conditions) by workers, whether they are represented by a union or not.³⁵ As one example, in an effort to create a national movement to raise hourly wages to \$15/hour (the “Fight for 15”), a primary target has been McDonald’s. In recent years, workers and supporters took part in rallies to pressure McDonald’s to increase its lowest wage rates (which it eventually did). The workers who participated in these rallies for a higher wage were protected from discipline for protesting, despite not being members of a union, because their participation constitutes concerted activity.³⁶

In another example, three nonunion employees at a Hyundai plant in Alabama were scheduled to work from 6:00 a.m. to 2:00 p.m. on the last day before a holiday break. Two days before that, a supervisor told them they would instead work from 6:30 a.m. to 3:00 p.m. The workers, nevertheless, punched out and left at 2:00. They were subsequently informed that they had “voluntarily resigned” by leaving at 2:00 and would no longer be employed at Hyundai. A National Labor Relations Board (NLRB) judge ruled that the company had violated the employees’ rights and ordered it to reinstate the employees, pay them back pay (lost wages) and expenses, and post a notice stating that the NLRB had determined that the company “violated Federal labor law.”³⁷

Concerted activity among nonunion employees and its legal protections is not something that only large companies need to understand. For example, employees at an urgent care center in Minnesota sent an anonymous letter to the owner, a doctor, who had announced a plan to cut wages by 10%. They suggested alternative ways to save money. Shortly thereafter, two employees who wrote the letter—one, a radiation technologist, and the other, a physician’s assistant—were fired. One of the fired employees filed a charge with the NLRB regional office in Minneapolis. After an investigation, a complaint was issued alleging the owner’s actions were unlawful. A trial was held before an administrative law judge, who concurred. He ordered the employees reinstated with back pay (for the period of time they missed work due to being fired). The owner appealed the judge’s decision to the full NLRB in Washington, DC. A panel of three members of the board unanimously decided to uphold the judge’s decision.³⁸

Unfair Labor Practices—Employers

The NLRA prohibits certain activities by both employers and labor unions. Unfair labor practices by employers are listed in Section 8(a) of the NLRA. Section 8(a)(1) prohibits employers from interfering with, restraining, or coercing employees in exercising their rights to join or assist a labor organization or to refrain from such activities. Section 8(a)(2) prohibits employer domination of or interference with the formation or activities of a labor union. Section 8(a)(3) prohibits discrimination (e.g., firing employees engaged in union organizing) in any aspect of employment that attempts to encourage or discourage union-related activity. Section 8(a)(4) prohibits discrimination against employees for providing testimony relevant to enforcement of the NLRA. Section 8(a)(5) prohibits employers from refusing to bargain collectively with a labor organization that has standing under the act. Examples of employer unfair labor practices are listed in [Table 14.4](#).

Table 14.4 Examples of Employer Unfair Labor Practices

Threatening employees with loss of their jobs or benefits if they join or vote for a union

Threatening to close down a plant if organized by a union

Questioning employees about their union membership or activities in a manner that restrains or coerces them

Spying or pretending to spy on union meetings

Granting wage increases that are timed to discourage employees from forming or joining a union

Taking an active part in organizing a union or committee to represent employees

Providing preferential treatment or aid to one of several unions trying to organize employees

Discharging employees for urging other employees to join a union or refusing to hire applicants because they are union members

Refusing to reinstate workers when job openings occur because the workers participated in a lawful strike

Ending operation at one plant and opening the same operation at another plant with new employees because employees at the first plant joined a union

Demoting or firing employees for filing an unfair labor practice or for testifying at an NLRB hearing

Refusing to meet with employees' representatives because the employees are on strike

Refusing to supply the employees' representative with cost and other data concerning a group insurance plan covering employees

Announcing a wage increase without consulting the employees' representative

Failing to bargain about the effects of a decision to close one of employer's plants

SOURCE: National Labor Relations Board, *Basic Guide to the National Labor Relations Act*, www.nlr.gov, accessed March 21, 2021.

Unfair Labor Practices—Labor Unions

Originally the NLRA did not list any union unfair labor practices. These were added through the 1947 Taft-Hartley Act. The 1959 Landrum-Griffin Act further regulated unions' actions and their internal affairs (like financial disclosure and conduct of elections). Section 8(b)(1)(a) of the NLRA states that a labor organization is not to "restrain or coerce employees in the exercise of the rights guaranteed in Section 7" (described earlier). [Table 14.5](#) provides examples of union unfair labor practices.

Table 14.5 Examples of Union Unfair Labor Practices

Mass picketing in such numbers that nonstriking employees are physically barred from entering the plant

Acts of force or violence on the picket line or in connection with a strike

Threats to employees of bodily injury or that they will lose their jobs unless they support the union's activities

Fining or expelling members for crossing a picket line that is unlawful

Fining or expelling members for filing unfair labor practice charges or testifying before the NLRB

Insisting during contract negotiations that the employer agree to accept working conditions that will be determined by a group to which it does not belong

Fining or expelling union members for the way they apply the bargaining contract while carrying out their supervisory responsibilities

Causing an employer to discharge employees because they spoke out against a contract proposed by the union

Making a contract that requires an employer to hire only members of the union or employees "satisfactory" to the union

Insisting on the inclusion of illegal provisions in a contract

Terminating an existing contract and striking for a new one without notifying the employer, the Federal Mediation and Conciliation Service, and the state mediation service (where one exists)

Attempting to compel a beer distributor to recognize a union (the union prevents the distributor from obtaining beer at a brewery by inducing the brewery's employees to refuse to fill the distributor's orders)

Picketing an employer to force it to stop doing business with another employer who has refused to recognize the union (a "secondary boycott")

SOURCE: National Labor Relations Board, *A Guide to Basic Law and Procedures under the National Labor Relations Act*, www.nlr.gov, accessed March 21, 2021.

Enforcement

Enforcement of the NLRA rests with the National Labor Relations Board, which is composed of a five-member board, the general counsel, and 33 regional offices. The basis for the NLRA is the commerce clause of the U.S. Constitution. Therefore, the NLRB's jurisdiction is limited to employers whose operations affect commerce generally and interstate commerce in particular. In practice, only purely local firms are likely to fall outside the NLRB's jurisdiction. Specific jurisdictional standards (nearly 20) that vary by industry are applied. Two examples of businesses that are covered (and the standards) are retail businesses that had more than \$500,000 in annual business and newspapers that had more than \$200,000 in annual business.

The NLRB’s two major functions are to conduct and certify representation elections and prevent unfair labor practices. In both realms, it does not initiate action. Rather, it responds to requests for action. The NLRB’s role in representation elections is discussed in the next section. Here we discuss unfair labor practices.

Unfair labor practice cases begin with the filing of a charge, which is investigated by a regional office. A charge must be filed within six months of the alleged unfair practice, and copies must be served on all parties. (Registered mail is recommended.) If the NLRB finds the charge to have merit and issues a complaint, there are two possible actions. It may defer to a grievance procedure agreed on by the employer and union. Otherwise, a hearing is held before an administrative law judge. The judge makes a recommendation, which can be appealed by either party. The NLRB has the authority to issue cease-and-desist orders to halt unfair labor practices. It can also order reinstatement of employees, with or without back pay. In one recent year, for example, \$110 million in back pay was awarded. Note, however, that the NLRA is not a criminal statute, and punitive damages are not available. If an employer or union refuses to comply with an NLRB order, the board has the authority to petition the U.S. Court of Appeals. The court can choose to enforce the order, remand it to the NLRB for modification, change it, or set it aside altogether.

Union and Management Interactions: Organizing

LO 14-4

Describe the major labor–management interactions: organizing, contract negotiations, and contract administration.

To this point we have discussed macro trends in union membership. Here we shift our focus to the more micro questions of why individual employees join unions and how the organizing process works at the workplace level. As a starting point, consider the data in [Table 14.6](#). It indicates that roughly one-half (48%) of nonunion workers would support being represented by a union, up from roughly one-third in earlier surveys. The authors of this study interpret these results to mean “the decline in the number of workers joining unions cannot be attributed to a lack of interest” and suggest instead that “the effectiveness of employer resistance to organizing efforts” (and as page 637 we will see, evidence that this has increased over time) is an important explanation. [Table 14.6](#) also indicates that a strong majority (83%) of current union members would vote to support a union again, down a bit from an earlier survey conducted a few decades earlier.

Table 14.6 Worker Support for Union Representation

Nonunion Workers Who Would Vote for a Union, by Year		
1977	1995	2017
33%	32%	48%
Union Workers Who Would Vote (again) for a Union, by Year		
1977	1995	2017
NA	90%	83%

SOURCE: T. A. Kochan, D. Yang, W. T. Kimball, and E. L. Kelly, “Worker Voice in America: Is There a Gap between What Workers Expect and What They Experience?” *ILR Review* 72, no. 1 (2019), pp. 3–38.

Why Do Employees Join Unions?

Virtually every model of the decision to join a union focuses on two questions.³⁹ First, is there a gap between the pay, benefits, and other conditions of employment that employees actually receive versus what they believe they should receive? Second, if such a gap exists and is sufficiently large to motivate employees to try to remedy the situation, is union membership seen as the most effective or instrumental means of change? The outcome of an election campaign hinges on how the majority of employees answer these two questions.⁴⁰

The Process and Legal Framework of Organizing

The NLRB is responsible for ensuring that the organizing process follows certain steps. At the most general level, the NLRB holds a union representation election if at least 30% of employees in the bargaining unit sign authorization cards (see [Figure 14.5](#)). If more than 50% of the employees sign authorization cards, the union may request that the employer voluntarily recognize it. If 50% or fewer of the employees sign, or if the employer refuses to recognize the union voluntarily, the NLRB conducts a secret-ballot election. The union is certified by the NLRB as the exclusive representative of employees if more than 50% of employees vote for the union. If more than one union appears on the ballot and neither gains a simple majority, a runoff election is held. Once a union has been certified as the exclusive representative of a group of employees, no additional elections are permitted for one year. After the negotiation of a contract, an election cannot be held for the contract's duration or for three years, whichever comes first. The parties to the contract may agree not to hold an election for longer than three years, but an outside party cannot be barred for more than three years.

YES, I WANT THE IAM

I, the undersigned employee of _____
(Company)

authorize the International Association of Machinists and Aerospace Workers (IAM) to act as my collective bargaining agent for wages, hours and working conditions. I agree that this card may be used either to support a demand for recognition or an NLRB election, at the discretion of the union.

Name (print) _____ Date _____
Home Address _____ Phone _____
City _____ State _____ Zip _____
Job Title _____ Dept. _____ Shift _____
Sign Here X

Note: This authorization to be SIGNED and DATED in employee's own handwriting.
YOUR RIGHT TO SIGN THIS CARD IS PROTECTED BY FEDERAL LAW.

RECEIVED BY (Initial) _____

Figure 14.5 Authorization Card

As mentioned previously, union members' right to be represented by leaders of their own choosing was expanded under the Taft-Hartley Act to include the right to vote an existing union out—that is, to decertify it. The process follows the same steps as a representation election. A decertification election is not permitted when a contract is in effect. Research indicates that when decertification elections are held, unions typically do not fare well, losing the majority of the time.⁴¹

The NLRB also is responsible for determining the appropriate bargaining unit and the employees who are eligible to participate in organizing activities. A unit may cover employees in one facility or multiple facilities within a single employer, or the unit may cover multiple employers. In general, employees on the payroll just prior to the ordering

of an election are eligible to vote, although this rule is modified in some cases where, for example, employment in the industry is irregular. Most employees page 638who are on strike and who have been replaced by other employees are eligible to vote in an election (such as a decertification election) that occurs within 12 months of the onset of the strike.

As shown in [Table 14.3](#), the following types of employees cannot be included in bargaining units: agricultural laborers, independent contractors, supervisors, and managers. Beyond this, the NLRB attempts to group together employees who have a community of interest in their wages, hours, and working conditions. In many cases this grouping will be sharply contested, with management and the union jockeying to include or exclude certain employee subgroups in the hope of influencing the outcome of the election.

The NLRB is led by a five-member board, which acts as a quasi-judicial body. Its members serve five-year terms. Changes in presidential administration eventually influence how pro-labor versus pro-business the NLRB is, as the terms of current board members expire and the new president has the opportunity to appoint new board members. The rulings issued by the NLRB can thus change over time and lead to significant changes in how the law is interpreted and enforced.⁴² In the past, for example, NLRB rulings have changed the amount of time between the announcement and actual conduct of an election, and weighed in on when a company is considered a joint employer (e.g., whether McDonald’s is a joint employer with its franchisees). One NLRB ruling may be of particular interest to current or future graduate students reading this book. It ruled that teaching assistants and research assistants at private universities are employees under the NLRA, thus giving them the right to organize and join a union. (At public universities, state laws apply.)⁴³

Organizing Campaigns: Management and Union Strategies and Tactics

[Table 14.7](#) lists common issues that unions and companies raise during union organizing campaigns.⁴⁴ Unions attempt to persuade employees that their wages, benefits, treatment by employers, and opportunity to influence workplace decisions are not sufficient and that the union will be effective in obtaining improvements. Management emphasizes that it has provided a good package of wages, benefits, and so on. It also argues that, whereas a union is unlikely to provide improvements in such areas, it will likely lead to certain costs for employees, such as union dues and the income loss resulting from strikes.

Table 14.7 Most Common Issues Raised by Unions and Companies in Representation Election Campaigns

UNION ISSUES	PERCENTAGE OF CAMPAIGNS
Union will prevent unfairness and will set up a grievance procedure and seniority system.	82%
Union will improve unsatisfactory wages.	79
Union strength will give employees voice in wages, working conditions.	79

Union, not outsider, bargains for what employees want.	73
Union has obtained gains elsewhere.	70
Union will improve unsatisfactory sick leave and insurance.	64
Dues and initiation fees are reasonable.	64
Union will improve unsatisfactory vacations and holidays.	61
Union will improve unsatisfactory pensions.	61
Employer promises and good treatment may not be continued without union.	61
COMPANY ISSUES	
Improvements not dependent on unionization.	85%
Wages good, equal to, or better than under union contract.	82
Financial costs of union dues outweigh gains.	79
Union is outsider.	79
Get facts before deciding; employer will provide facts and accept employee decision.	76
If union wins, strike may follow.	70
Loss of benefits may follow union win.	67
Strikers will lose wages; lose more than gain.	67
Unions not concerned with employee welfare.	67

SOURCE: J. Getman, S. Goldberg, and J. B. Herman, *Union Representation Elections: Law and Reality* (New York: Russell Sage Foundation, 1976), [Table 4-2](#); N = 33 representation election campaigns.

As [Table 14.8](#) indicates, the most prevalent tactics U.S. employers use to oppose unions in organizing campaigns include requiring employees to hear the company's views on union representation, hiring of a management consultant, and making changes to improve the workplace. The list also includes the threat to close the work-place if a union is voted in, which goes beyond what U.S. law permits. This is consistent with the rise in employer unfair

labor practices over time. (See [Figure 14.4](#).) Similar information on how employers either support or resist union organizing attempts and the important effect that has on union organizing success, this time from the United Kingdom, appears in [Table 14.9](#).

Table 14.8 U.S. Employer Actions (most prevalent) to Resist Union Organizing Efforts (as reported by union organizers)

Held 5+ captive audience meetings ^a	66% ^b
Held weekly one-on-one meetings with supervisor ^a	62 ^b
Made promises of improvement	62
Distributed 5+ anti-union letters/leaflets	58 ^b
Hired management consultant	53 ^b
Made unilateral changes	31
Threatened partial or full closure of workplace	26

^aRefers to management's requiring employees to attend a session on company time at which the disadvantages of union membership are emphasized.

^bThis employer tactic was used less frequently in organizing drives involving professional workers.

SOURCE: Rachel Aleks, "What Professionals Want: Union and Employer Tactics in Representation Elections of Professional Workers." *ILR Review* 72 (2019), pp. 693–717.

Table 14.9 Employer Actions to Support or Resist Union Organizing Efforts and Organizing Success, United Kingdom

EMPLOYER ACTIONS	UNION ORGANIZING SUCCESS	
	UNION RECOGNIZED (%)	UNION NOT RECOGNIZED (%)
Employer support		
Provision of employee list	63	13
Allowing organizers access to the workplace	94	32
Encouraging workers to join the union	40	11

Allowing use of facility time for recruitment	67	16
Providing union with rooms or equipment	81	22
Permitting union presence at induction	62	12
Employer resistance		
Threat of legal or police involvement against union	4	21
Denying organizers access to the workplace	8	63
Discouraging employees from joining the union	11	61
Distributing anti-union literature	4	25
Victimization of union activists	7	35
Improving pay and conditions to reduce demand for union membership	3	23
Setting up or strengthening alternative channels of worker participation to substitute for union	10	53
Use of a management consultant to advise on avoiding unionization of the workforce	0	22

SOURCE: E. Heery and M. Simms, "Employer Responses to Union Organizing: Patterns and Effects," *Human Resource Management Journal* 20 (2010), pp. 3–22. N = 97 cases where union recognized and 139 cases where union not recognized.

A number of these practices are aggressive and in the case of the U.S. system, appear to cross the line to be illegal/unfair labor practices. Why would U.S. employers break the law? J. A. Fossum suggests that the consequences (like back pay and reinstatement of workers) of doing so are "slight."⁴⁵ His review of various studies suggests that discrimination against employees involved in union organizing decreases union organizing success significantly and that the cost of back pay to union activists reinstated in their jobs is far smaller than the costs that would be incurred if the union managed to organize and gain better wages, benefits, and so forth.

Still, the NLRB attempts to maintain a noncoercive atmosphere under which employees feel they can exercise free choice. It will set aside an election if it believes that either the union or the employer has created “an atmosphere of confusion or fear of reprisals.”⁴⁶ Examples of conduct that may lead to an election result being set aside include the following:

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Threats of loss of jobs or benefits by an employer or union to influence votes or organizing activities

A grant of benefits or a promise of benefits as a means of influencing votes or organizing activities

An employer or union making campaign speeches to assembled groups of employees on company time less than 24 hours before an election

The actual use or threat of physical force or violence to influence votes or organizing activities⁴⁷

Supervisors have the most direct contact with employees. Thus, as [Table 14.10](#) indicates, it is critical that they be proactive in establishing good relationships with employees if the company wishes to avoid union organizing attempts. It is also important for supervisors to know what not to do (Threatening, Interrogating, Promising, Spying—TIPS) should a drive take place.

Table 14.10 What Supervisors Should and Should Not Do to Stay Union-Free

WHAT TO DO:
Report any direct or indirect signs of union activity to a core management group.
Deal with employees by carefully stating the company’s response to pro-union arguments. These responses should be coordinated by the company to maintain consistency and to avoid threats or promises.
Take away union issues by following effective management practice all the time: Deliver recognition and appreciation. Solve employee problems. Protect employees from harassment or humiliation. Provide business-related information. Be consistent in treatment of different employees. Accommodate special circumstances where appropriate. Ensure due process in performance management. Treat all employees with dignity and respect.
WHAT TO AVOID:

Threatening employees with harsher terms and conditions of employment or employment loss if they engage in union activity.

Interrogating employees about pro-union or anti-union sentiments that they or others may have or reviewing union authorization cards or pro-union petitions.

Promising employees that they will receive favorable terms or conditions of employment if they forgo union activity.

Spying on employees known to be, or suspected of being, engaged in pro-union activities.

SOURCE: J. A. Segal, *HR Magazine*. Reproduced with permission of Society for Human Resource Management (www.shrm.org), Alexandria, VA, publisher of *HR Magazine*.

In response to organizing difficulties, the union movement in the United States has tried alternative approaches. [Associate union membership](#) is not linked to an employee's workplace and does not provide representation in collective bargaining. Instead the union provides other services, such as discounts on health and life insurance or credit cards.⁴⁸ In return, the union receives membership dues and a broader base of support for its activities. Associate membership may be attractive to employees who wish to join a union but cannot because their workplace is not organized by a union. Other types of (nonunion) employee representation models, not covered under the National Labor Relations Act, are evolving. For example, Uber and the International Association of Machinists (IAM) union reached an agreement for how workers' interests would be represented by the IAM in New York City. In other cases, page 642 some companies have taken steps on their own, most recently during the pandemic, to help contingent and gig workers. See the [Competing through Environmental, Social, and Governance Practices](#) box for examples.

[Associate union membership](#)

A form of union membership by which the union receives dues in exchange for services (e.g., health insurance, credit cards) but does not provide representation in collective bargaining.

Supervisors and their employers must also recognize that social media is increasingly used as a tool in union-organizing drives and understand how to effectively and legally respond to such communications. Workers' concerted activity protections under the NLRA apply here.

One challenge is that, unlike the days of discussions around the water cooler, when employees go online to criticize their company or supervisor, such complaints can now reach millions of people, including customers and clients.⁴⁹ Companies have sought to prevent such actions by developing policies for use of social media and to protect against disparagement. Such policies are likely to be less subject to challenge to the extent that they are not overly broad (i.e., such that they prohibit almost any topics or any concerted action) and allow discussion of clearly legitimate topics such as wages, hours, and working conditions. Employers may (though it depends on the circumstances) prohibit the use of social media (for any purpose) by employees when they are scheduled to be working. Employers can also prohibit harassment of colleagues.

Employers also need to be aware that the NLRB has changed its rules on employee use of employer e-mail systems for the purpose of labor organizing a number of times, typically as new presidential administrations appoint new board members. At one point, it changed the rule to state that use of e-mail for union-related communications must be permitted by employers in cases where employers allow employees general access to the employer's e-mail system. Although the board said a total ban was possible, it also stated that "it will be the rare case." As such, in general, the board stated that employees are permitted to use e-mail to engage in "statutorily protected discussions about the terms and conditions of their employment while on nonworking time." The board also stated

that employees had the right to use the employer e-mail system for “an initial organizational campaign” when attempting to form a union. Although technically this activity is not to be done during working time, as a practical matter it may be difficult to tell whether an employee was on work time or break time when the e-mail was sent. Finally, it should be noted that an employer is typically permitted to monitor employee e-mail communications as long as it does not increase the intensity of such monitoring in response to union-related activity. However, the NLRB later changed its email rules to be more restrictive. We will see whether further changes are in store. Given the power of technology and how it can be used for union-organizing purposes, it is perhaps no surprise that both companies and unions are active on this front as they each seek to make their cases to employees. See the [Competing through Technology](#) box for more on this point.

[Corporate campaigns](#) seek to bring public, financial, or political pressure on employers during the organizing (and negotiating) process.⁵⁰ For example, the Building and Construction Trades Department of the AFL-CIO successfully lobbied Congress to eliminate \$100 million in tax breaks for a Toyota truck plant in Kentucky until Toyota agreed to use union construction workers and pay union wages.⁵¹ The Amalgamated Clothing and Textile Workers Union (ACTWU) corporate campaign against J. P. Stevens during the late 1970s was one of the first and best known. The ACTWU organized a boycott of J. P. Stevens products and threatened to withdraw its pension funds from financial institutions where J. P. Stevens officers acted as directors. J. P. Stevens subsequently agreed to a contract with the ACTWU.⁵²

[Corporate campaigns](#)

Union activities designed to exert public, financial, or political pressure on employers during the union-organizing process.

Unions also hope to use their financial assets to influence companies. Unions directly control billions in pension funds and share control with employers of billions more. All told, unions may have an influence over about \$3 trillion in such investments.⁵³

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COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Keeping Contingent and Gig Workers from Falling through the Cracks During Difficult Times

As workers began to work remotely because of the pandemic, office buildings emptied. That raised the question of what would happen to those who could not work remotely, such as those in janitorial, food service, administrative, security and other hourly positions. Many of these are contract employees. In response, Microsoft early on announced it would continue to pay affected hourly workers and a number of other companies followed their lead, including Google, Facebook, and Twitter. Cisco and Salesforce followed soon thereafter. Facebook announced it would pay contingent workers who cannot work at home “when we close an office, when we choose to send an employee home, or when they are sick.” Google has similar plans, including paying temporary, vendor, and contractor workers (called TVCs at Google). Twitter likewise announced that “for contractors and hourly workers” unable to work from home, it would continue to pay them until work returned to the office.

Although these companies, in the San Francisco Bay and Seattle areas, chose to take steps to help workers, including those they don’t employ, through the financial crisis the pandemic caused, other workers have had to fend more or entirely for themselves. Part of the issue is that the “contractors” described above are usually not independent contractors, but rather are employees of the company that contracts with companies like Microsoft to provide their services at their office locations. Independent contractors, including gig workers, do not have an employer. In the United States, a major new program, Pandemic Unemployment Assistance, was created and provided unemployment benefits for the first time to gig workers, self-employed persons, and others not ordinarily

eligible. One estimate is that they accounted for about 40% of Americans receiving unemployment benefits. However, there is no provision to continue this program once the pandemic is over.

In Europe, government aid was directed toward companies who were required to keep employees on their payrolls. This resulted in dramatically fewer layoffs and increases in unemployment than was seen in the United States. However, that seems to have left independent contractors to fend for themselves. That problem is made more serious by the fact that independent contractors/self-employed workers may be twice as prevalent in Europe as in the United States. As one example, in Germany, one survey found that 60% of the self-employed in Germany reported a loss of income during the pandemic versus 15% of employed workers. Going forward, both the United States and Europe will need to address whether the economic security of independent contractor/self-employed workers is at the desired level. In the interim, we see that some companies take steps beyond what is required of them to be socially responsible.

DISCUSSION QUESTIONS

Should more companies assist workers, including those who are not their employees, in times of financial crisis, as Microsoft and others did? What are the pros and cons of such a policy?

Are Microsoft and the other companies mentioned typical companies? How feasible would it be for other companies to follow their lead?

When it comes to employees, in Europe, the government gave aid to employers and prevented them from laying off employees (and thus, unemployment barely increased). In the United States, by contrast, with some exceptions, the approach was instead to leave employers mostly on their own, which led to layoffs (unemployment tripled in the United States), and then help workers directly. What are the pros and cons of these two very different approaches?

SOURCES: Margherita Stancati and Paul Hannon, "As U.S. Throws Workers a Lifeline, Europe's Safety Net Leaves Many Behind: In a Continent That Prides Itself on Social Protections, Many Self-Employed and Temporary Workers Are Falling Through the Cracks," [WSJ.com](https://www.wsj.com/articles/as-u-s-throws-workers-a-lifeline-europes-safety-net-leaves-many-behind-11615384000), March 8, 2021; Tyler Sonnemaker, "Amazon, Uber, Salesforce, and Cisco Join a Growing Chorus of Tech Companies Paying Hourly and Wage Workers Impacted by the Coronavirus Outbreak," [Businessinsider.com](https://www.businessinsider.com/amazon-uber-salesforce-cisco-pay-hourly-workers-covid-19-2020-3), March 9, 2020; Staffing Industry Analysts, "World—Google Sets Up Sick Leave Fund for All of Its Temporary Staff and Vendors, Recommends All Staff Work from Home," [Staffingindustry.com](https://www.staffingindustry.com/news/world-google-sets-up-sick-leave-fund-for-all-of-its-temporary-staff-and-vendors-recommends-all-staff-work-from-home-2020-3), March 12, 2020; Tyler Sonnemaker, "Google Sets Up Fund to Offer Paid Sick Leave to Contractors and Temp Workers Who Can't Work Due to COVID-19 Symptoms or Quarantines," [Businessinsider.com](https://www.businessinsider.com/google-sets-up-fund-to-offer-paid-sick-leave-to-contractors-and-temp-workers-who-cant-work-due-to-covid-19-symptoms-or-quarantines-2020-3), March 10, 2020.

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COMPETING THROUGH TECHNOLOGY

Worker Organizing and Competing Messages

In the chapter opening, we learned about union organizing efforts at Amazon's Bessmer, Alabama, facility and the company's response. Here, we provide additional information on the role of technology in these situations. For starters, the Retail, Wholesale and Department Store Union (RWDSU) and Amazon have competing websites. It is unclear whether these websites will still be available by the time you read this, but just in case:

<https://bamazonunion.org/> and <https://www.doitwithoutdues.com/>.

The RWDSU website says that "Together We Can Improve Our Workplace. Vote Union Yes!" It also says that "When workers come together to form a union, they win dignity and respect at work. We, the worker-driven

organizing committee at Amazon in Bessemer, Alabama are fighting for just that. Together we can win a real seat at the table with Amazon, make our working conditions safer, fight for needed benefits and ensure good jobs in our community.” Clicking the “Learn More” button takes you to a description of “Steps to Forming a Union at Amazon.” The third step is called “Union Busting Period.” Recall from the chapter opening, there is a 7-week voting period. The website says “Over the next 30-60 days management is going to try to convince us that the union is going to ruin our lives. They will use misinformation to distract us from the real issues.... We must keep our eyes on the goal and not let management trick us and distract us. We have a common goal of improving the benefits, wages, and working conditions at Amazon.” There is also a link to a one-minute YouTube video on “Why Do We Need a Union at Amazon?” The website also has detailed instructions on how to vote “yes” for the RWDSU and many places to click on “contact us.”

AMAZON UNION NOW!

When we come together to form a union, we win dignity and respect at work. We, the worker-driven organizing committee at Amazon in Bessemer, Alabama are fighting for just that. Together we can win a real seat at the table with Amazon. make our working conditions safer. fight for needed benefits and ensure good jobs in our community.

Are you interested in joining our BAmazon Union?

Contact us today to learn more from a worker-organizer.

LEARN MORE

BAmazonUnion, <https://bamazonunion.org/>

With a look at Amazon’s web-site, you can identify a key theme. Entering the website removes any question of Amazon’s position. For example, it says “Be a doer not a Due’r.” It goes on to say “Don’t buy that dinner, don’t buy those school supplies, don’t buy those gifts because you won’t have that almost \$500 you paid in dues. WHY NOT save the money and get the books, gifts & things you want? DO IT without dues!” It also says that “IF you signed a card [i.e., an authorization card in support of the union], feel misled or concerned someone submitted your name/info without your consent, you have the RIGHT to get your card and your voice back.... call the National Labor Relations Board, or click below.”

One Bessemer worker filed an unfair labor practice claim because of his/her view that the Amazon website, DoltWithoutDues.com, falsely claims that page 645workers would have to pay union dues. Alabama is a right-to-work state, which means that union members cannot be compelled to pay union dues. (The union must still represent them.) The worker feels that Amazon was using its website to try to “restrain” employees from forming a union.

In a different vein, CNBC reported that Amazon “posted a job listing for two intelligence analysts who could monitor ‘labor organizing threats’ and other sensitive topics, and report their findings to ‘internal stakeholders, up to and including executive leadership.’” Amazon subsequently deleted the listings and said they were not accurate. There are also reports that Amazon corporate employees (including in HR) were monitoring closed Facebook groups and employee listservs to monitor union organizing activity. A number of (Democratic) U.S. senators wrote to Amazon to ask for information on what steps Amazon takes when it learns of union organizing efforts and to reiterate that “Labor organizing campaigns are legally protected activity.” They specifically asked for a response to a report in Vice that Amazon had infiltrated private social media groups and a report by Recode that it purchased technology to track union organizing. Amazon responded that it does not track those who participate in “protected activities” such as union organizing. Other politicians too have weighed in on the union organizing drive at Amazon, including (Republican) senator Marc Rubio and President Joe Biden. (If you search for their comments, by way of context,

you may wish to keep in mind that the head of Amazon, Jeff Bezos, is the owner of the *Washington Post*.)

DISCUSSION QUESTIONS

What is your view on whether Amazon employees need a union at Bessemer, Alabama? Would you join if in their shoes? Why or why not?

From a union's perspective, what are some advantages of using technology, whether websites or social media for its communications? (Hint: Consider how much access unions have to workers in physical work locations.)

Look at the information on unfair labor practices in this chapter. Which unfair labor practices seem most at risk of occurring on the (a) union side, and (b) company side?

SOURCES: Jay Greene, "Amazon Fights Aggressively to Defeat Union Drive in Alabama, Fearing a Coming Wave," *Washington Post*, March 9, 2021; Arnie Palmer, "How Amazon Keeps a Close Eye on Employee Activism to Head Off Unions," [CNBC.com](https://www.cnbc.com), October 24, 2020; Annie Palmer, "How Amazon Keeps a Close Eye on Employee Activism to Head Off Unions," [CNBC.com](https://www.cnbc.com).

In some success stories, unions have eschewed elections in favor of strikes and negative publicity to pressure corporations to accept a union. Several years ago, the Hotel Employees and Restaurant Employees (HERE) union organized 9,000 workers, with 80% of these memberships resulting from pressure on employers rather than a vote. The Union of Needletrades, Industrial, and Textile Employees (UNITE) also succeeded with this approach. After losing an election by just two votes among employees of Up-to-Date Laundry, which cleans linens for Baltimore hotels and hospitals, UNITE decided to try other tactics, including a corporate campaign. It called a strike to demand that Up-to-Date recognize the union. It also persuaded several major customers of the laundry to threaten to stop using the laundry's services, shared claims of racial and sexual harassment with state agencies and the National Association for the Advancement of Colored People (NAACP), and convinced the Baltimore city council to require testimony from Up-to-Date. Eventually, the company gave in, recognized the union, and negotiated a contract that raised the workers' \$6/hour wages and gave them better benefits. A final example would be the "Fight for 15," which involved holding rallies and demonstrations by nonunion workers at companies such as McDonald's and Walmart to pressure businesses to raise their minimum hourly wage to \$15/hour (and to call for increases in state, local, and federal minimum wages to \$15 as well). Although these and other companies did (at that time) raise their minimum hourly wage, they did not raise it to \$15 and it is difficult to know whether it was the "Fight for 15" campaign or a tightening labor market that was the cause or perhaps both played a role. (By 2022, McDonald's announced it was raising its minimum wage to \$15 and Walmart was getting close to that level.) In any case, by one estimate, the SEIU has spent \$19 million in supporting this effort.⁵⁴

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Another advantageous union-organizing strategy is to negotiate employer neutrality and card-check provisions into a contract. Under a *neutrality provision*, the employer pledges not to oppose organizing attempts elsewhere in the company. A *card-check provision* is an agreement that if a certain percentage—by law, at least a majority—of employees sign an authorization card, the employer will recognize their union representation. An impartial outside agency, such as the American Arbitration Association, counts the cards. The Communication Workers of America negotiated these provisions in its dispute with Verizon. Evidence suggests that this strategy can be very effective for unions.

However, unions must avoid running afoul of the Racketeer Influenced and Corrupt Organizations Act (RICO). For example, the SEIU waged a corporate campaign against Sodexo, a French-owned food service company operating in the United States. The SEIU's campaign, "Clean Up Sodexo," focused on bringing to the public's attention food safety and other concerns at Sodexo, something that could damage its business. Sodexo sued the SEIU, claiming the campaign was an attempt to conspire to extort Sodexo with the threat of financial damage unless Sodexo agreed to a card-check provision for recognizing the union (rather than requiring that workers vote in a secret-ballot

election). Sodexo alleged that the SEIU engaged in blackmail, vandalism, and other prohibited actions in an effort to prevent Sodexo from winning food contracts. A few years later, a legal settlement was reached before trial, under which the SEIU agreed to end its campaign against Sodexo.⁵⁵

Union and Management Interactions: Contract Negotiation

The majority of contract negotiations take place between unions and employers that have been through the process before. In most cases, management has come to accept the union as an organization that it must work with. But when the union has just been certified and is negotiating its first contract, the situation can be very different. In fact, unions are unable to negotiate a first contract in 27–37% of the cases.⁵⁶ As noted previously, more than half of all unfair labor practice charges filed against employers pertain to the refusal to negotiate.

Labor–management contracts differ in their bargaining structures—that is, the range of employees and employers that are covered. As [Table 14.11](#) indicates, the page 647 contracts differ, first, according to whether narrow (craft) or broad (industrial) employee interests are covered. Second, they differ according to whether they cover multiple employers or multiple plants within a single employer. (A single employer may have multiple plants, some union and some nonunion.) Different structures have different implications for bargaining power and the number of interests that must be incorporated in reaching an agreement.

Table 14.11 Types and Examples of Bargaining Structures

EMPLOYEE INTERESTS COVERED	EMPLOYEE INTERESTS COVERED		
	MULTIEMPLOYER (CENTRALIZED)	SINGLE-EMPLOYER—MULTIPLANT	SINGLE-EMPLOYER—SINGLE PLANT (DECENTRALIZED)
Craft (narrow)	Construction trades Interstate trucking Longshoring Hospital association	Airline Teacher Police Firefighters Railroad	Craft union in small manufacturing plant Hospital
Industrial or multiskill (broad)	Coal mining (underground) Basic steel (pre-1986) Hotel association	Automobiles Steel (post-1986) Farm equipment State government Textile	Industrial union in small manufacturing plant

SOURCE: H. C. Katz, T. A. Kochan, and A. J. S. Colvin, *An Introduction to Collective Bargaining and Industrial Relations*, 5th ed. (Ithaca, NY: Cornell University Press, 2017), [Table 7.1](#).

The Negotiation Process

Richard Walton and Robert McKersie suggested that labor–management negotiations could be broken down into four subprocesses: distributive bargaining, integrative bargaining, attitudinal structuring, and intraorganizational bargaining.⁵⁷ [Distributive bargaining](#) focuses on dividing a fixed economic “pie” between the two sides. A wage increase, for example, means that the union gets a larger share of the pie, management a smaller share. It is a win–lose situation. [Integrative bargaining](#) has a win–win focus; it seeks solutions beneficial to both sides. So if management needs to reduce labor costs, it could reach an agreement with the union to avoid layoffs in return for the union agreeing to changes in work rules that might enhance productivity.

[Distributive bargaining](#)

The part of the labor–management negotiation process that focuses on dividing a fixed economic “pie.”

[Integrative bargaining](#)

The part of the labor–management negotiation process that seeks solutions beneficial to both sides.

[Attitudinal structuring](#) refers to the relationship and trust between labor and management negotiators. Where the relationship is poor, it may be difficult for the two sides to engage in integrative bargaining because each side hesitates to trust the other side to carry out its part of the deal. For example, the union may be reluctant to agree to productivity-enhancing work-rule changes to enhance job security if, in the past, it has made similar concessions but believes that management did not stick to its assurance of greater job security. Thus the long-term relationship between the two parties can have a very important impact on negotiations and their outcomes.

[Attitudinal structuring](#)

The aspect of the labor–management negotiation process that refers to the relationship and level of trust between the negotiators.

[Intraorganizational bargaining](#) reminds us that labor–management negotiations involve more than just two parties. Within management, and to an even greater extent within the union, different factions can have conflicting objectives. High-seniority workers, who are least likely to be laid off, may be more willing to accept a contract that has layoffs (especially if it also offers a significant pay increase for those whose jobs are not at risk). Less senior workers would likely feel very differently. Thus negotiators and union leaders must simultaneously satisfy both the management side and their own internal constituencies. If they do not, they risk the union membership’s rejecting the contract, or they risk being voted out of office in the next election. Management, too, is unlikely to be of one mind about how to approach negotiations. Some will focus more on long-term employee relations, others will focus on cost control, and still others will focus on what effect the contract will have on stockholders.

[Intraorganizational bargaining](#)

The part of the labor–management negotiation process that focuses on the conflicting objectives of factions within labor and management.

Management’s Preparation for Negotiations

Clearly, the outcome of contract negotiations can have important consequences for labor costs and labor productivity and, therefore, for the company’s ability to compete in the product market. Adapting Fossum’s discussion, we can divide management preparation into the following seven areas, most of which have counterparts on the union side:⁵⁸

Establishing interdepartmental contract objectives: The employer’s industrial relations department needs to meet with the accounting, finance, production, marketing, and other departments and set contract goals that will permit each department to meet its responsibilities. As an example, finance may suggest a cost figure above which a contract settlement would seriously damage the company’s financial health. The bargaining team needs to be constructed to take into account these various interests.

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Reviewing the old contract: This step focuses on identifying provisions of the contract that might cause difficulties by hindering the company’s productivity or flexibility or by leading to significant disagreements between management and the union.

Preparing and analyzing data: Information on labor costs and the productivity of competitors, as well as data the union may emphasize, needs to be prepared and analyzed. The union data might include cost-of-living changes and agreements reached by other unions that could serve as a target. Data on employee demographics and

seniority are relevant for establishing the costs of such benefits as pensions, health insurance, and paid vacations. Finally, management needs to know how much it would be hurt by a strike. How long will its inventory allow it to keep meeting customer orders? To what extent are other companies positioned to step in and offer replacement products? How difficult would it be to find replacement workers if the company decided to continue operations during a strike?

Anticipating union demands: Recalling grievances over the previous contract, having ongoing discussions with union leaders, and becoming aware of settlements at other companies are ways of anticipating likely union demands and developing potential counterproposals.

Establishing the cost of possible contract provisions: Wages have not only a direct influence on labor costs but often an indirect effect on benefit costs (such as Social Security and paid vacation). Recall that benefits add about 46 cents to every dollar's worth of wages. Also, wage or benefit increases that seem manageable in the first year of a contract can accumulate to less manageable levels over time.

Preparing for a strike: If management intends to operate during a strike, it may need to line up replacement workers, increase its security, and figure out how to deal with incidents on the picket line and elsewhere. If management does not intend to operate during a strike (or if the company will not be operating at normal levels), it needs to alert suppliers and customers and consider possible ways to avoid the loss of their business. This could even entail purchasing a competitor's product in order to have something to sell to customers.

Determining strategy and logistics: Decisions must be made about the amount of authority the negotiating team will have. What concessions can it make on its own, and which ones require it to check with top management? On which issues can it compromise, and on which can it not? Decisions regarding meeting places and times must also be made.

Negotiation Stages and Tactics

Negotiations go through various stages.⁵⁹ In the early stages, many more people are often present than in later stages. On the union side, this may give all the various internal interest groups a chance to participate and voice their goals. This, in turn, helps send a message to management about what the union feels it must do to satisfy its members, and it may also help the union achieve greater solidarity. Union negotiators often present an extensive list of proposals at this stage, partly to satisfy their constituents and partly to provide themselves with issues on which they can show flexibility later in the process. Management may or may not present proposals of its own; sometimes it prefers to react to the union's proposals.

During the middle stages, each side must make a series of decisions, even though the outcome is uncertain. How important is each issue to the other side? How likely is it that disagreement on particular issues will result in a strike? When and to what extent should one side signal its willingness to compromise on its position?

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In the final stage, pressure for an agreement increases as the deadline for a strike approaches. Public negotiations may be only part of the process. Negotiators from each side may have one-on-one meetings or small-group meetings where public relations pressures are reduced. In addition, a neutral third party may become involved, someone who can act as a go-between or facilitator. In some cases, the only way for the parties to convince each other of their resolve (or to convince their own constituents of the other party's resolve) is to allow an impasse to occur.

Various books suggest how to avoid impasses by using mutual gains or integrative bargaining tactics. For example, *Getting to Yes*, by Roger Fisher and William Ury, describes four basic principles:⁶⁰

Separate the people from the problem.

Focus on interests, not positions.

Generate a variety of possibilities before deciding what to do.

Insist that the results be based on some objective standard.

Bargaining Power, Impasses, and Impasse Resolution

Employers' and unions' conflicting goals are resolved through the negotiation process just described. An important determinant of the outcome of this process is the relative bargaining power of each party, which can be defined as the "ability of one party to achieve its goals when faced with opposition from some other party to the bargaining process."⁶¹ In collective bargaining, an important element of power is the relative ability of each party to withstand a strike. Although strikes in the United States are rare, the threat of a strike often looms large in labor–management negotiations. The relative ability to take a strike, whether one occurs or not, is an important determinant of bargaining power and, therefore, of bargaining outcomes.

Management's Willingness to Take a Strike

Management's willingness to take a strike comes down to two questions:

Can the company remain profitable over the long run if it agrees to the union's demands? The answer is more likely to be yes to the extent that higher labor costs can be passed on to consumers without losing business. This, in turn, is most likely when the price increase is small because labor costs are a small fraction of total costs or there is little price competition in the industry. Low price competition can result from regulated prices, from competition based on quality (rather than price), or from the union's organizing all or most of the employers in the industry, which eliminates labor costs as a price factor. Unions share part of management's concern with long-term competitiveness because a decline in competitiveness can translate into a decline in employment levels. However, the majority of union members may prefer to have higher wages, despite employment declines, particularly if a minority of the members (those with low seniority) suffer more employment loss and the majority keep their employment with higher wages.

Can the company continue to operate in the short run despite a strike? Although "hanging tough" on its bargaining goals may pay off for management in the long run, the short-run concern is the loss of revenues and profits from production being disrupted. The cost to strikers is a loss of wages and possibly a permanent loss of jobs.

Under what conditions is management most able to take a strike? The following factors are important:⁶²

Product demand: Management is less able to afford a strike when the demand for its product is strong because that is when more revenue and profits are lost.

page 650*Product perishability:* A strike by certain kinds of employees (farm workers at harvest time, truckers transporting perishable food, airline employees at peak travel periods) will result in permanent losses of revenue, thus increasing the cost of the strike to management.

Technology: An organization that is capital intensive (versus labor intensive) is less dependent on its employees and more likely to be able to use supervisors or others as replacements. Telephone companies are typically

able to operate through strikes, even though installing new equipment or services and repair work may take significantly longer than usual.

Availability of replacement workers: When jobs are scarce, replacement workers are more available and perhaps more willing to cross picket lines. Using replacement workers to operate during a strike raises the stakes considerably for strikers who may be permanently replaced. Most strikers are not entitled to reinstatement until there are job openings for which they qualify. If replacements were hired, such openings may not occur for some time (if at all). In some cases, companies can use managers to temporarily replace striking workers. For example, decades ago, the third author of this text recalls his father, a manager at Ohio Bell in Cleveland, going to New York Bell in New York state to cover for jobs left open by striking workers. (Years before that, he was walking the picket line on strike before he got promoted.) More recently, Caterpillar prepared for a possible strike by “training managerial and support staff for production jobs” at one of its plants.⁶³

Multiple production sites and staggered contracts: Multiple sites and staggered contracts permit employers to shift production from the struck facility to facilities that, even if unionized, have contracts that expire at different times (so they are not able to strike at the same time). For decades, Boeing’s production of key aircraft was limited to its unionized Seattle location. It subsequently opened a second production facility in South Carolina, the state with the lowest union membership. Boeing has been successful in its goal of keeping the second production facility nonunion and it can now use it as leverage in negotiations with its unionized workers in Seattle.⁶⁴

Integrated facilities: When one facility produces something that other facilities need for their products, the employer is less able to take a strike because the disruption to production goes beyond that single facility. The just-in-time production system, which provides very little stockpiling of parts, further weakens management’s ability to take a strike.

Lack of substitutes for product: A strike is more costly to the employer if customers have a readily available alternative source from which to purchase the goods or services the company provides.



Management has several factors to consider before taking on a strike. Most negotiations do not result in a strike since it is often not in the best interests of either party.

Chris Cooper-Smith/Alamy Stock Photo

Bargaining outcomes also depend on the nature of the bargaining process and relationship, which includes the types of tactics used and the history of labor relations. The vast majority of labor–management negotiations do not result in a strike because a strike is typically not in the best interests of either party. Furthermore, both the union and management usually realize that if they wish to interact effectively in the future, the experience of a strike can be difficult to overcome. When strikes do occur, the conduct of each party during the strike can also have a lasting effect on labor–management relations. Violence by either side or threats of job loss by hiring replacements can make future relations difficult.

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Impasse Resolution Procedures: Alternatives to Strikes

Given the substantial costs of strikes to both parties, procedures that resolve conflicts without strikes have arisen in both the private and public sectors. Because many public-sector employees do not have the right to strike, alternatives are particularly important in that arena. In the private sector, alternatives may be used to avoid a strike or to help settle an ongoing dispute and end a strike.

Three often-used impasse resolution procedures are mediation, fact finding, and arbitration. All of them rely on the intervention of a neutral third party, most typically provided by the Federal Mediation and Conciliation Service (FMCS), which must be notified 60 days prior to contract expiration and 30 days prior to a planned change in contract terms (including a strike). Each year, the FMCS's annual report describes its activities in avoiding disputes and in settling ongoing disputes.⁶⁵ [Mediation](#) is the least formal but most widely used of the procedures (in both the public and private sectors). One survey found it was used by nearly 40% of all large private-sector bargaining units.⁶⁶ A mediator has no formal authority but, rather, acts as a facilitator and go-between in negotiations.

[Mediation](#)

A procedure for resolving collective bargaining impasses by which a mediator with no formal authority acts as a facilitator and go-between in the negotiations.

A [fact finder](#), most commonly used in the public sector, typically reports on the reasons for the dispute, the views and arguments of both sides, and (in some cases) a recommended settlement, which the parties are free to decline. That these recommendations are made public may give rise to public pressure for a settlement. Even if a fact finder's settlement is not accepted, the hope is that he or she will identify or frame issues in such a way as to facilitate an agreement. Sometimes, for the simple reason that fact finding takes time, the parties reach a settlement during the interim.

[Fact finder](#)

A person who reports on the reasons for a labor–management dispute, the views and arguments of both sides, and a nonbinding recommendation for settling the dispute.

The most formal type of outside intervention is [arbitration](#), under which a solution is actually chosen by an arbitrator (or arbitration board). In some instances the arbitrator can fashion a solution (conventional arbitration). In other cases the arbitrator must choose either the management's or union's final offer (final offer arbitration) on either the contract as a whole or on an issue-by-issue basis. Traditionally, arbitrating the enforcement or interpretation of contract terms (rights arbitration) has been widely accepted, whereas arbitrating the actual writing or setting of contract terms (interest arbitration, our focus here) has been reserved for special circumstances. These include some public-sector negotiations, where strikes may be especially costly (such as those by police or firefighters) and a very few private-sector situations, where strikes have been especially debilitating to both sides (the steel industry in the 1970s).⁶⁷ One reason for avoiding greater use of interest arbitration is a strong belief that the parties closest to the situation (unions and management, not an arbitrator) are in the best position to effectively resolve their

conflicts.

[Arbitration](#)

A procedure for resolving collective bargaining impasses by which an arbitrator chooses a solution to the dispute.

Union and Management Interactions: Contract Administration

Grievance Procedure

Although the negotiation process (and the occasional resulting strike) receives the most publicity, the negotiation process typically occurs only about every three years, whereas contract administration goes on day after day, year after year. The two processes—negotiation and administration—are linked, of course. Vague or incomplete contract language developed in the negotiation process can make administration of the contract difficult. Such difficulties can, in turn, create conflict that can spill over into the next negotiation process.⁶⁸ Furthermore, events during the negotiation process—strikes, the use of replacement workers, or violence by either side—can lead to management and labor difficulties in working successfully under a contract.

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A key influence on successful contract administration is the grievance procedure for resolving labor–management disputes over the interpretation and execution of the contract. During World War II, the War Labor Board helped institutionalize the use of arbitration as an alternative to strikes to settle disputes that arose during the term of the contract. The soon-to-follow Taft-Hartley Act further reinforced this preference. Today the great majority of grievance procedures have binding arbitration as a final step, and only a minority of strikes occur during the term of a contract. (Most occur during the negotiation stage.) Strikes during the term of a contract can be especially disruptive because they are more unpredictable than strikes during the negotiation phase, which occur only at regular intervals.

Beyond its ability to reduce strikes, a grievance procedure can be judged using three criteria.⁶⁹ First, how well are day-to-day contract questions resolved? Time delays and heavy use of the procedure may indicate problems. Second, how well does the grievance procedure adapt to changing circumstances? For example, if the company's business turns downward and the company needs to cut costs, how clear are the provisions relating to subcontracting of work, layoffs, and so forth? Third, in multiunit contracts, how well does the grievance procedure permit local contract issues (like work rules) to be included and resolved?⁷⁰

From the employees' perspective, the grievance procedure is the key to fair treatment in the workplace, and its effectiveness rests both on the degree to which employees feel they can use it without fear of recrimination and whether they believe their case will be carried forward strongly enough by their union representative. The [duty of fair representation](#) is mandated by the NLRA and requires that all bargaining unit members, whether union members or not, have equal access to and representation by the union in the grievance procedure. Too many grievances may indicate a problem, but so may too few. A very low grievance rate may suggest a fear of filing a grievance, a belief that the system is not effective, or a belief that representation is not adequate.

[Duty of fair representation](#)

The National Labor Relations Act requirement that all bargaining unit members have equal access to and representation by the union.

As [Table 14.12](#) suggests, most grievance procedures have several steps prior to arbitration. Moreover, the majority of grievances are settled during the earlier steps of the process, which is desirable both to reduce time delays and

to avoid the costs of arbitration. If the grievance does reach arbitration, the arbitrator makes the final ruling in the matter. A series of Supreme Court decisions in 1960, commonly known as the Steelworkers' Trilogy, established that the courts should essentially refrain from reviewing the merits of arbitrators' decisions and, instead, limit judicial review to the question of whether the issue was subject to arbitration under the contract.⁷¹ Furthermore, unless the contract explicitly states that an issue is not subject to arbitration, it will be assumed that arbitration is an appropriate means of deciding the issue. Giving further strength to the role of arbitration is the NLRB's general policy of deferring to arbitration.

Table 14.12 Steps in a Typical Grievance Procedure

Employee-initiated grievance
Step 1 Employee discusses grievance or problem orally with supervisor. Union steward and employee may discuss problem orally with supervisor. Union steward and employee decide (1) whether problem has been resolved or (2) if not resolved, whether a contract violation has occurred.
Step 2 Grievance is put in writing and submitted to production superintendent or other designated line manager. Steward and management representative meet and discuss grievance. Management's response is put in writing. A member of the industrial relations staff may be consulted at this stage.
Step 3 Grievance is appealed to top line management and industrial relations staff representatives. Additional local or international union officers may become involved in discussions. Decision is put in writing.
Step 4 Union decides on whether to appeal unresolved grievance to arbitration according to procedures specified in its constitution and/or bylaws. Grievance is appealed to arbitration for binding decision.

Discharge grievance

Procedure may begin at step 2 or step 3.

Time limits between steps may be shorter to expedite the process.

Union or group grievance

Union representative initiates grievance at step 1 or step 2 on behalf of affected class of workers or union representatives.

SOURCE: H. C. Katz, T. A. Kochan, and A. J. S. Colvin, *An Introduction to Collective Bargaining and Industrial Relations*, 5th ed. (New York: McGraw-Hill, 2017). Reprinted with permission of The McGraw-Hill Companies, Inc.

What types of issues most commonly reach arbitration? Data from the FMCS on a total of 2,473 grievances show that discharge and disciplinary issues topped the list with 913 cases.⁷² Other frequent issues include the use of seniority in promotion, layoffs, transfers, work assignments, and scheduling (309 cases); wages (178); and benefits (127).

What criteria do arbitrators use to reach a decision? In the most common case—discharge or discipline—the following due process questions are important:⁷³

Did the employee know what the rule or expectation was and what the consequences of not adhering to it were?

Was the rule applied in a consistent and predictable way? In other words, are all employees treated the same?

Are facts collected in a fair and systematic manner? An important element of this principle is detailed record keeping. Both employee actions (such as tardiness) and management's response (verbal or written warnings) should be carefully documented.

Does the employee have the right to question the facts and present a defense? An example in a union setting is a hearing with a shop steward present.

Does the employee have the right to appeal a decision? An example is recourse to an impartial third party, such as an arbitrator.

Is there progressive discipline? Except perhaps for severe cases, an arbitrator will typically look for evidence that an employee was alerted as early as possible that behavior was inappropriate and the employee was given a chance to change prior to some form of severe discipline, such as discharge.

Are there unique mitigating circumstances? Although discipline must be consistent, individuals differ in terms of their prior service, performance, and discipline record. All of these factors may need to be considered.

Cooperative Labor–Management Strategies

Describe new, less adversarial approaches to labor–management relations.

Jack Barbash described the nature of the traditional relationship between labor and management (during both the negotiation and administration phases) as follows:

Bargaining is a love–hate, cooperation–conflict relationship. The parties have a common interest in maximizing the total revenue which finances their respective returns. But they take on adversarial postures in debating how the revenue shall be divided as between wages and profits. It is the adversarial posture which has historically set the tone of the relationship.⁷⁴

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Although there had always been exceptions to the adversarial approach, one reading is that there has been a general trend toward less adversarial workplace relations (at least where the union's role is accepted by management).⁷⁵ This transformation has two basic objectives: (1) to increase the involvement of individuals and work groups in overcoming adversarial relations and increasing employee commitment, motivation, and problem solving and (2) to reorganize work so that work rules are minimized and flexibility in managing people is maximized. These objectives are especially important for companies that need to be able to shift production quickly in response to changes in markets and customer demands. The specific programs aimed at achieving these objectives include employee involvement in decision making, self-managing employee teams, labor–management problem-solving teams, broadly defined jobs, and sharing of financial gains and business information with employees. Examples include the labor–management relationships at Ford, Harley-Davidson, and Chrysler's engine plant in Dundee, Michigan.⁷⁶

The Dundee engine plant is not only an example of a new approach to labor relations. It also has the blessing of the UAW. Why? According to the president of the UAW local, "It's a question of survival." Hourly workers at the plant are highly educated and skilled and rotate through different jobs to provide skill flexibility to support production flexibility, engage workers, and reduce repetitive motion injuries. Unlike a traditional plant where there can be scores of hourly job classifications/titles, the Dundee plant has only two: team member and team leader. There are no supervisors. Team leaders, rather than only observing, work alongside teams of six team members. The guiding principles are captured by what are called the "four As": "anyone can do anything anytime, anywhere." That is much different from the more typical idea of "if it's not in my job description, I don't have to do it, I won't do it, and if I did do it, I would probably get in trouble." The UAW was concerned at first with the "four As" approach because without narrow job descriptions, management has more discretion, and workers less discretion, in what workers do each day. As the UAW put it, it could allow management to "pull out anybody, anytime." However, the need for flexibility in production is so central to the success of the plant in a global competitive environment and to Chrysler being willing to make future investments (the key to jobs) in the plant that the UAW leadership agreed. The team approach, job rotation, and flexibility expectations translate into higher skill and education requirements. Hourly workers at the plant must have a two-year technical degree, hold a skilled journeyman's card, or have had several years of experience in advanced manufacturing.⁷⁷

Union resistance to such programs has often been substantial, precisely because the programs seek to change workplace relations and the role that unions play. Without the union's support, these programs are less likely to survive and less likely to be effective if they do survive.⁷⁸ Union leaders have often feared that such programs will weaken unions' role as an independent representative of employee interests. Indeed, according to the NLRA, to "dominate or interfere with the formation or administration of any labor organization or contribute financial or other support to it" is an unfair labor practice. An example of a prohibited practice is "taking an active part in organizing a union or committee to represent employees."⁷⁹

One case that has received much attention is that of Electromation, a small electrical parts manufacturer. In 1992 the NLRB ruled that the company had violated Section 8(a)(2) of the NLRA by setting up worker–management committees (typically about six workers and one or two managers) to solve problems having to do with absenteeism and pay scales.⁸⁰ The original complaint was filed by the Teamsters union, which was trying to

organize the (nonunion) company and felt that the committees were, in effect, illegally competing with them to be workers’ representatives. Similarly, Polaroid dissolved an employee committee that had been in existence for over 40 years in response to the U.S. Department of Labor’s claim that it violated the NLRA. The primary functions of the employee committee had been to page 655represent employees in grievances and to advise senior management on issues such as pay and company rules and regulations. In a third case, the NLRB ruled in 1993 that seven worker–management safety committees at DuPont were illegal under the NLRA because they were dominated by management. The committee members were chosen by management and their decisions were subject to the approval of the management members of the committees. Finally, the committees made decisions about issues that were mandatory subjects of bargaining with the employees’ elected representative—the chemical workers’ union.⁸¹ The impact of such cases will be felt both in nonunion companies, as union organizers move to fill the worker representation vacuum, and in unionized companies, as managers find they must deal more directly and effectively with their unions.

Employers must take care that employee involvement meets the legal test, but the NLRB has clearly supported the legality of involvement in important cases. For example, in a 2001 ruling, the NLRB found that the use of seven employee participation committees at a Crown Cork & Seal aluminum can manufacturing plant did not violate federal labor law. The committees in question make and implement decisions regarding a wide range of issues, including production, quality, training, safety, and certain types of worker discipline. The NLRB determined that these committees were not employer-dominated labor organizations, which would have violated federal labor law. Instead of “dealing with” management in a bilateral manner where proposals are made that are either rejected or accepted by management, the teams and committees exercise authority, delegated by management, to operate the plant within certain parameters. Indeed, the NLRB noted that rather than “dealing with management,” the evidence indicated that within delegated areas of authority, the teams and committees “are management.” This authority was found to be similar to that delegated to a first-line supervisor. Thus the charge that the teams and committees did not have final decision-making authority (and so were not acting in a management capacity) did not weigh heavily with the NLRB, which noted, “Few, if any, supervisors in a conventional plant have authority that is final and absolute.” Instead, it was noted that managers typically make recommendations that move up through “the chain of command.”⁸² [Table 14.13](#) summarizes factors that may indicate a team or committee is in violation of national labor law.

Table 14.13 When Teams or Employee Participation May Be Illegal

Primary factors to look for that could mean a team violates national labor law:	
Representation	Does the team address issues affecting nonteam employees? (Does it represent other workers?)
Subject matter	Do discussions include “mandatory bargaining subjects” such as wages, grievances, hours of work, and working conditions. (An employee group that only makes recommendations about production and process might not be a risk.) Also, who sets the agenda for meetings? If it is management, that increases the risk.
Management involvement	Does the team deal with any supervisors, managers, or executives on any issue?

Employer domination	Did the company create the team or decide what it would do and how it would function? Did the company decide which employees would be on the team? (There is less risk if employees initiated and organized the participation program.)

SOURCE: *Bloomberg Businessweek*, January 25, 1993; T. Mahoney and A. Drutchas, "Could Your Employee Participation Program Be Illegal?" *Society for Human Resource Management*, June 9, 2016, www.shrm.org.

Although there are legal concerns to address, some evidence suggests that these new approaches to labor relations—incorporating greater employee participation in decisions, using employee teams, multiskilling, rotating jobs, and sharing financial gains—can contribute significantly to an organization's effectiveness,⁸³ as well as to workers' wages and job satisfaction.⁸⁴ Indeed, these practices are now often referred to as *high-performance work systems*. One study, for example, compared the features of traditional and transformational approaches to labor relations at Xerox.⁸⁵ As [Table 14.14](#) indicates, the transformational approach was characterized by better conflict resolution, more shop-floor cooperation, and greater worker autonomy and feedback in decision making. Furthermore, compared with the traditional approach, transformational labor relations were found to be associated with lower costs, better product quality, and higher productivity. Several years ago, a presidential commission concluded that the evidence is "overwhelming that employee participation and labor-management partnerships are good for workers, firms, and the national economy." National survey data also indicate that most employees want more influence in workplace decisions and believe that such influence leads to more effective organizations.⁸⁶

Table 14.14 Patterns in Labor–Management Relations Using Traditional and Transformational Approaches

DIMENSION	PATTERN	
	TRADITIONAL	TRANSFORMATIONAL
Conflict resolution		
Frequency of conflicts	High	Low
Speed of conflict resolution	Slow	Fast
Informal resolution of grievances	Low	High
Third- and fourth-step grievances	High	Low
Shop-floor cooperation		
Formal problem-solving groups (such as quality, reducing scrap, employment security)	Low	High
Informal problem-solving activity	Low	High
Worker autonomy and feedback		

Formal autonomous work groups	Low	High
Informal worker autonomous activity	Low	High
Worker-initiated changes in work design	Low	High
Feedback on cost, quality, and schedule	Low	High

SOURCE: J. Cutcher-Gershenfeld, "The Impact on Economic Performance of a Transformation in Work-Place Relations," *Industrial and Labor Relations Review* 44 (1991), pp. 241–60. Reprinted with permission.

Labor Relations Outcomes

The effectiveness of labor relations can be evaluated from management, labor, and societal perspectives.⁸⁷ Management seeks to control costs and enhance productivity and quality. Labor unions seek to raise wages and benefits and exercise control over how employees spend their time at work (such as through work rules). Each of the three parties typically seeks to avoid forms of conflict (like strikes) that impose significant costs on everyone. In this section we examine several outcomes.

Strikes

[Table 14.15](#) presents data on work stoppages in the United States that involved 1,000 or more employees. In 2020, there were 8 such work stoppages, 6 in in state/local government, 2 in the private sector. This makes sense, given the unionization rate is much higher in the public sector than in the private sector. By industry, 75% of workers were page 657in education and health services. Strikes in manufacturing have been rare in recent years. However, 2019 was an important exception, when the largest stoppage was the United Automobile Workers strike at General Motors. It involved 46,000 workers, lasted 29 working days, and resulted in the lost of 1.33 million work days.

Table 14.15 Work Stoppages Involving 1,000 or More Workers

YEAR	STOPPAGES	NUMBER OF WORKERS (THOUSANDS)	PERCENTAGE OF TOTAL WORKING TIME LOST
1950	424	1,698	0.26%
1960	222	896	0.09
1970	381	2,468	0.29
1980	187	795	0.09
1990	44	185	0.02
2000	39	394	0.06
2010	11	45	<0.005
2019	25	425	.01
2020	8	27	<0.005

SOURCE: U.S. Bureau of Labor Statistics, *Work Stoppages*, <https://www.bls.gov/wsp/>, accessed March 23, 2021.

Because strikes are more likely in large units, the lack of data on smaller units is probably not a major concern, although such data would, of course, raise the figure on the estimated time lost to strikes. For example, for the 1960s, this estimate is 0.12% using data on strikes involving 1,000 or more employees versus 0.17% for all strikes. Although strikes impose significant costs on union members, employers, and society, it is clear from [Table 14.15](#) that strikes are the exception rather than the rule. Very little working time is lost to strikes in the United States (with annual work hours of 1,800, less than 6 minutes per worker and less than 1 hour per unionized worker in 2020) and their frequency in recent years is generally low by historical standards. Does this mean that the industrial relations system is working well? Not necessarily. Those who believe labor should be strong to represent its members would view the low number (by historical standards) of strikes as another sign that labor is too weak to do so.

Wages and Benefits

[Table 14.16](#) compares wages and benefits of union members to nonunion members using both a survey of working individuals (CPS) and a survey of employers/establishments (NCS). Unionized and/or union-represented workers almost always receive higher compensation than their nonunion counterparts, depending on the survey.⁸⁸ Both surveys indicate 19% higher wages for union members. Including benefits (see bottom part of table, NCS survey) results in a still larger, 43% higher total compensation for union members.⁸⁹ However, these are raw differences. To assess the net effect of unions more accurately, adjustments must be made.⁹⁰ We now briefly highlight a few of these.

Table 14.16 Compensation, Union versus Nonunion Employees, United States, Worker Survey and Employer Survey

MEDIAN WEEKLY EARNINGS BY UNION REPRESENTATION AND % IN UNION, FULL-TIME WORKERS ^a (WORKER SURVEY, CPS)				
	% IN UNION	MEDIAN WEEKLY EARNINGS		
		UNION REPRESENTED	NONUNION	UNION/ NONUNION
All	11	\$ 1,144	\$ 958	1.19
Men	11	1,216	1,051	1.16
Women	11	1,067	862	1.24
Management and professional	11	1,313	1,366	0.96
Service	11	931	599	1.55
Sales and office	6	947	797	1.19
Production, transportation, and material moving	13	954	720	1.33
Private sector	6	1,089	948	1.15
Public sector	35	1,186	1,022	1.16
HOURLY WAGES/SALARIES, BENEFITS, AND TOTAL COMPENSATION (EMPLOYER SURVEY, NCS)				
		UNION MEMBERS	NONUNION	UNION/ NONUNION
Total compensation		\$49.74	\$ 34.72	1.43
Wages and salaries		\$29.62	\$ 24.84	1.19
Benefits		\$20.12	\$ 9.88	2.04

^aPart-time workers (6.2%) are less likely than full-time workers (12.8%) to be union members.

SOURCES: Median weekly earnings and percentages in union data based on the Current Population Surveys (CPS): U.S. Bureau of Labor Statistics, Union Members—2020, USDL-21-0081, January 22, 2021; wages/salaries, benefits, and total compensation data, based on a survey of employers, are from U.S. Bureau of Labor Statistics, National Compensation Survey (NCS), Employer Costs for Employee Compensation—September 2020. USDL-20-2266, December 17, 2020; the worker survey includes civilian (private-sector and public-sector) employees. The employer survey includes private-sector employees only.

The union wage effect is likely to be overestimated to the extent that unions can more easily organize workers who are already highly paid or who are more productive. The gap is likely to be underestimated to the extent that nonunion employers raise wages and benefits in response to the perceived “union threat” in the hope that their employees will then have less interest in union representation. When these and other factors are taken into account, the net union advantage in wages is reduced somewhat, but is still substantial at around 15%. The union benefits advantage is also reduced, but it remains larger than the union wage effect, and the union effect on total compensation is therefore larger than the wage effect alone.⁹¹

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Beyond differences in pay and benefits, unions typically influence the way pay and promotions are determined. Whereas management often seeks to deal with employees as individuals, emphasizing performance differences in pay and promotion decisions, unions seek to build group solidarity and avoid the possibly arbitrary treatment of employees. To do so, unions focus on equal pay for equal work. Any differences among employees in pay or promotions, they say, should be based on seniority (an objective measure) rather than on performance (a subjective measure susceptible to favoritism). It is very common in union settings for there to be a single rate of pay for all employees in a particular job classification.

Although wages and benefits are higher for union members, job satisfaction is lower, on average.⁹² Reasons include less positive perceptions of supervision, promotion opportunities, and the interest and discretion in their work. Given that dissatisfaction is an important driver of union activity, it may be that unionization is part consequence (workers in worse jobs are more likely to organize), as well as part cause of job dissatisfaction.

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Productivity

There has been much debate regarding the effects of unions on productivity.⁹³ Unions are believed to decrease productivity in at least three ways: (1) The union pay advantage causes employers to use less labor and more capital per worker than they would otherwise, which reduces efficiency across society; (2) union contract provisions may limit permissible workloads, restrict the tasks that particular workers are allowed to perform, and require employers to use more employees for certain jobs than they otherwise would; and (3) strikes, slowdowns, and working-to-rule (slowing down production by following every workplace rule to an extreme) result in lost production.⁹⁴

On the other hand, unions can have positive effects on productivity.⁹⁵ Employees, whether members of a union or not, communicate to management regarding how good a job it is doing by either the “exit” or “voice” mechanisms. “Exit” refers to simply leaving the company to work for a better employer. “Voice” refers to communicating one’s concerns to management without necessarily leaving the employer. Unions are believed to increase the operation and effectiveness of the voice mechanism.⁹⁶ This, in turn, is likely to reduce employee turnover and its associated costs. More broadly, voice can be seen as including the union’s contribution to the success of labor–management cooperation programs that make use of employee suggestions and increased involvement in decisions. A second

way that unions can increase productivity is (perhaps ironically) through their emphasis on the use of seniority in pay, promotion, and layoff decisions. Although management typically prefers to rely more heavily on performance in such decisions, using seniority has a potentially important advantage—namely, it reduces competition among workers. As a result, workers may be less reluctant to share their knowledge with less senior workers because they do not have to worry about less senior workers taking their jobs. Finally, the introduction of a union may have a “shock effect” on management, pressuring it into tightening standards and accountability and paying greater heed to employee input in the design and management of production.⁹⁷

Although there is evidence that unions have both positive and negative effects on productivity, most studies have found that union workers are more productive than nonunion workers. Nevertheless, it is generally recognized that most of the findings on this issue are open to a number of alternative explanations, making any clear conclusions difficult. For example, if unions raise productivity, why has union representation of employees declined over time, even within industries?⁹⁸ A related concern is that unionized establishments are more likely to survive where there is some inherent productivity advantage unrelated to unionism that actually offsets a negative impact of unionism. If so, these establishments would be overrepresented, whereas establishments that did not survive the negative impact of unions would be underrepresented. Consequently, any negative impact of unions on productivity would be underestimated.

Profits and Stock Performance

Even if unions do raise productivity, a company's profits and stock performance may still suffer if unions raise costs (such as wages) or decrease investment by a greater amount. Evidence shows that unions have a large negative effect on profits and that union coverage tends to decline more quickly in firms experiencing lower shareholder returns, suggesting that some firms become more competitive partly by reducing union strength.⁹⁹ Similarly, one study found that each dollar of unexpected increase in collectively bargained labor costs resulted in a dollar reduction in shareholder wealth. Another study estimated that if policies were changed to encourage the unionization rate in the United States to double, the value of shareholder equity in newly organized firms would be decreased by 4.3%.¹⁰⁰ Other research suggests that investment in research and development is lower in unionized firms.¹⁰¹ Strikes, although infrequent, lower shareholder returns in both the struck companies and firms (like suppliers) linked to those companies.¹⁰² These research findings describe the average effects of unions. The consequences of more innovative union–management relationships for profits and stock performance are less clear.

The International Context

LO 14-6

Explain how changes in competitive challenges (e.g., product market competition and globalization) are influencing labor–management interactions.

Except for China, Russia, and Ukraine, the United States has more union members than any other country. (If one were to include only countries where workers can freely elect union leaders of their own choosing, then the United States would arguably rank first in union membership.) Yet, as [Table 14.17](#) indicates, the United States has a low unionization rate (union density) relative to most countries with highly developed economies. Even more striking are differences in union coverage, the percentage of employees whose terms and conditions of employment are governed by a union contract. (See [Table 14.17](#).) In the European Union, for example, the union coverage rate is 60.6%, meaning that the influence of labor unions far outstrips what would be implied by their membership levels (21.7%).¹⁰³ (In France, the coverage rate has traditionally been above 90%.) Why are the unionization rate and

coverage comparatively low in the United States? One explanation is that the United States does not have as strong a history of deep class-based divisions in society as other countries do. For example, labor and social democratic political parties are commonplace in western Europe, and they are major players in the political process. Furthermore, the labor movement in western and northern Europe is broader than that in the United States. It extends not just to the workplace but—through its own or closely related political parties—directly into the national political process.

Table 14.17 Union Membership and Union Coverage, Selected Countries

COUNTRY	MEMBERSHIP		COVERAGE
	PERCENTAGE OF EMPLOYMENT		PERCENTAGE OF EMPLOYMENT
Mexico	12.5%		9.9%
United States	10.3		11.5
Argentina	27.7		51.8
China	44.9		40.6
Japan	17.3		16.7
France	7.9		98.5
Germany	17.0		56.0
United Kingdom	23.5		26.3

SOURCE: International Labor Organization, <https://ilostat.ilo.org/topics/union-membership/> and <https://ilostat.ilo.org/topics/collective-bargaining/>, February 10, 2021.

What is the trend in union membership rates and coverage? In the United States, we saw earlier that the trend is clearly downward, at least in the private sector. Although there have also been declines in membership rates in many other countries, coverage rates have stayed high in many of these countries. In the United States, deregulation and competition from foreign-owned companies have forced companies to become more efficient. Combined with the fact that the union wage premium in the United States is substantially larger than in other advanced industrialized countries, it is not surprising that management opposition would be higher in the United States than elsewhere.¹⁰⁴ This, in turn, may help explain why the decline in union influence has been especially steep in the United States.

It seems likely that—with the growing globalization of markets—labor costs and productivity will continue to be key challenges. The European Union (EU) added 10 new member countries in 2004, 2 more in 2007, and 1 more in 2013, bringing its total to 28 countries and more than 500 million people, or about 63% larger than the United States. The newer EU countries (e.g., Bulgaria, Croatia, the Czech Republic, Poland, Romania, Slovakia) have much lower wages than the existing EU countries. Closer to home, we had the North American Free Trade Agreement, superseded by the United States-Mexico-Canada Agreement (USMCA) among the United States,

Canada, and Mexico. These common market agreements mean that goods, services, and production will continue to move more freely across international borders. Where substantial differences in wages, benefits, and other costs of doing business (such as regulation) exist, there will be a tendency to move to areas that are less costly, unless skills are unavailable or productivity is significantly lower there. Unless labor unions can increase their productivity sufficiently or organize new production facilities, union influence is likely to decline.

In addition to membership and coverage, the United States differs from western Europe in the degree of formal worker participation in decision making. Works councils (joint labor–management decision-making institutions at the enterprise level) and worker representation on supervisory boards of directors (codetermination) are mandated by law in countries such as Germany. The Scandinavian countries, Austria, and Luxembourg have similar legislation. German works' councils make decisions about changes in work or the work environment, discipline, pay systems, safety, and other human resource issues. The degree of codetermination on supervisory boards depends on the size and industry of the company. For example, in German organizations having more than 2,000 employees, half of the board members must be worker representatives. (However, the chairman of the board, a management representative, can cast a tie-breaking vote.) In contrast, worker representation on boards of directors in the United States is still rare.¹⁰⁵

The works councils exist in part because collective bargaining agreements in countries such as Germany tend to be oriented toward industrywide or regional issues, with less emphasis on local issues. However, competitive forces have led employers to increasingly opt out of centralized bargaining, even in the countries best known for centralized bargaining, like Sweden and Germany.¹⁰⁶

What happens when a company from a country with low union strength operates in a country with high union strength? In the case of Amazon, an American company operating in Germany, the answer for now is that it is following its American strategy toward unions in Germany. Amazon has a works council (required by German law), and it deals with worker representatives “directly” (i.e., without the presence of a union). Verdi, a major German labor union, has been trying to change that, saying that Amazon has “a culture that we see as foreign.” Amazon similarly says that, “Verdi and Amazon do not go together.” Amazon and its “U.S. way of doing business” are sometimes referred to as using a “Wild West” approach to management. (This is not meant as a compliment but rather indicates the belief that there is a lack of concern for worker welfare.) Verdi has called on workers to strike. So far, those actions do not appear to have interrupted Amazon’s deliveries to customers in Germany, and Amazon continues to hold to its no-union policy in Germany (as in the United States).¹⁰⁷

Another interesting example is Volkswagen, a German company operating an automobile production plant in Chattanooga, Tennessee, in the United States. It has a strong, formal relationship with unions in Germany but has no union in the United States. Volkswagen has not actively opposed unionization at its U.S. plant (in contrast to the opposition unions would face from many U.S. companies). The UAW did not receive the necessary 50% + 1 votes in a recent representation election to become the sole representative of workers at VW’s Chattanooga plant. Subsequently, Volkswagen, it is said under pressure from its unions in Germany, announced a new labor page 662policy for its Chattanooga plant. Any labor group that receives (based on an independent outside audit) support from at least 15% of workers can have on-site space to post announcements and hold regular meetings with the plant’s human resource department. Any group that receives support from at least 45% of workers would additionally be able to meet every two weeks with plant managers. Note that, unlike in Germany, Volkswagen is thought to be unable to use a works council at the Chattanooga plant because under U.S. labor law, it might be deemed an employer-dominated labor organization. (See our earlier discussion of the Electromation case and the closely related [Table 14.13](#).)¹⁰⁸ A more recent development is that the UAW, after losing the plantwide election, did win an organizing vote (108 for, 44 against) to represent a group of skilled tradesmen at Volkswagen’s Chattanooga plant. Although the group is a very small portion of the plant’s 1,450 manufacturing employees (and 2,500 employees overall), this is the first time any organizing drive at a foreign-owned plant in the U.S. South has been successful. Nevertheless, the UAW was not able to negotiate a first contract with Volkswagen, which, as we have seen, is a step where unions often fail, even after winning an organizing vote. Subsequently, the UAW ended its affiliation with the unit, turning to a focus on its plantwide organizing drive, which, as we have seen, it lost.¹⁰⁹

China is now the world's second largest economy and one of its fastest growing. Workers increasingly want to share in economic growth through higher wages and more purchasing power. That means collective action can be expected to increase. Indeed, recent research finds that the level of strike activity and labor unrest has increased dramatically in China. Moreover, strikes, which were once predominantly defensive or reactive (to protect what workers already had), have become increasingly offensive or proactive (with the aim of achieving new gains for workers, such as higher wages). In some sense, China, on its economic development path, may be now going through what the U.S. economy and labor relations went through many decades ago.¹¹⁰

As part of this, Chinese companies are learning how labor relations work differently abroad. An example of a new facility built in the United States by a Chinese company is the new Golden Dragon Precise Copper Tube Group.¹¹¹ The \$120 million plant created 290 jobs for locals in Wilcox County, Alabama, one of the poorest counties in the country. Golden Dragon makes copper pipes used in air conditioning machinery. State and local governments gave Golden Dragon a variety of incentives such as free land, infrastructure, money to train workers, and a grant of \$20 million. Another reason said to influence Golden Dragon's decision to choose Alabama as the location of its new plant is that it is generally a much less union-friendly environment than in most other states, especially those in the Northeast, Midwest, and Northwest. Thus, Golden Dragon was "taken aback" when workers, who wanted higher pay and reported "difficulties in communicating with Chinese bosses," undertook a union-organizing drive shortly after the plant opened. (One example of a difference in culture might be a banner that hangs inside the factory. It says "One Quality escape erases All the good you have done in the past." Some workers describe its tone as "hectoring.") That was not expected in Alabama. Indeed, Robert Bentley, the governor of Alabama, sent letters to employees urging them to vote against the union. However, by a narrow vote, certified by the NLRB, employees chose to be represented by the United Steelworkers Union. The company is unlikely to have had any experience with union activity of the sort encountered in Alabama, as unions in China work much differently, typically in close coordination with the Communist Party. As a final note, the fact that employees at Golden Dragon in Alabama voted to join a union is only one step toward achieving employee goals. The next step, which is to successfully negotiate a contract with the company, is also necessary. That is far from automatic.

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As the [Competing through Globalization](#) box demonstrates, the nature of labor-related public policies across the world (in France in this case) can be quite different from in the United States, and the reaction to attempts to change such policies can be stronger and more widespread than might often be the case in the United States.



COMPETING THROUGH GLOBALIZATION

France and Labor and Pension Reforms: President Macron Says He Does Not Plan to End Up Like Louis XVI and Marie-Antoinette

President Emmanuel Macron of France, former investment banker, has been pursuing labor law reform and pension reform. He believes both are necessary to increase the country's international competitiveness. A key part of labor reform is making it easier for companies to undertake layoffs and/or dismissals of employees. Under the old system, a company had to prove that it was in financial difficulty before carrying out layoffs. Penalties for not adhering to the law were substantial and a company could be ordered to hire back employees it had dismissed. Under Macron's proposed reform, companies would instead be permitted to negotiate voluntary severance agreements with employees, regardless of the company's financial situation. Of course, even with such reform, French companies would remain significantly more constrained in making workforce reductions than a company in the United States. Despite extensive protests in the streets, President Macron said he would stick to the labor reforms and would not suffer the same fate of Louis XVI and Marie-Antoinette, who were guillotined 226 years earlier. Indeed, in a speech, he said, "If they met such an end, it is because they had given up on reforming." President Macron's office said that major foreign companies were prepared to invest large sums in France, but

implied this would not happen without the proposed labor reforms.

President Macron has also proposed pension reform. As an indicator of its importance for international competitiveness, consider that France spends 14% of its economic output (gross domestic product) on pensions, versus 10% in Germany and 7% in the United States. One reason for the high cost in France is that its pension system in the public sector and private sector continues to be a defined benefit plan. Recall that in the United States, such plans (especially plans still accepting new participants), although still common in the public sector, are now quite rare in the private sector. One proposal is to combine the country's 42 separate pension systems into one system. His plan would also change pension calculation in a way that would reduce benefits for many. Another objective is to raise the retirement age from 62 to 64 (to lower pension costs per worker) for those who start working in 2022. Those born before 1975 would not be affected. These pension changes, like the labor law reforms, have been met with extensive protests.

DISCUSSION QUESTIONS

Why is the ability to hire and dismiss workers with less regulation/restriction relevant in making France's economy more internationally competitive? How can this policy influence job growth or loss?

France relies on a defined benefit retirement plan in the private sector. Thinking of how differently retirement is typically handled (the type of plan used) in the United States compared to France, how relevant would issues like retirement age and calculation of benefits be to U.S. private sector workers?

Who will benefit from President Macron's policy changes?

SOURCES: Matthew Dalton, "Macron Bypasses Lawmakers to Pass France Pension Overhaul," [WSJ.com](https://www.wsj.com), March 1, 2020; The Editorial Board, "Macron Doesn't Blink on Pension Reform: The French President Faces Parliament after Facing Down the Unions," [WSJ.com](https://www.wsj.com), March 5, 2020; "Emmanuel Macron's Reforms Are Working, But Not for Him. Unemployment in France Is Falling. So Are the President's Poll Ratings," *The Economist*, February 20, 2020; Jean-Baptiste Vey and Michel Rose, "In Versailles, Macron Vows to Reform to Avoid King's Fate," Reuters, January 21, 2019, www.reuters.com; William Horobin and Nick Kostov, "Macron's Law Jolts French Labor Market," *The Wall Street Journal*, February 20, 2018.

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The Public Sector

LO 14-7

Explain how labor relations in the public sector differ from labor relations in the private sector.

Unlike the private sector, union membership in the public sector grew in the 1960s and 1970s and remained fairly stable through the 1980s. As we saw earlier in [Figure 14.3](#), 35% of government employees (versus 6% of private-sector employees) are currently union members. Like the NLRA in the private sector, changes in the legal framework contributed significantly to union growth in the public sector. One early step was the enactment in Wisconsin of collective bargaining legislation in 1959 for its state employees.¹¹² (However, things change. In 2011, Wisconsin's governor signed a bill, Act 10, that stripped most state and local employees of most of their collective bargaining rights.) Executive Order 10988 provided collective bargaining rights for federal employees in 1962. By the end of the 1960s, most states had passed similar laws. The Civil Service Reform Act of 1978, Title VII, later established the Federal Labor Relations Authority (modeled after the NLRB). Many states have similar administrative agencies to administer their own laws.

An interesting aspect of public-sector union growth is that much of it has occurred in the service industry and among white-collar employees—groups that have traditionally been viewed as difficult to organize. Indeed, as we saw earlier in [Table 14.2](#), of the four currently largest labor unions in the United States, two represent teachers, and the other two represent service workers and public-sector workers.

In contrast to the private sector, strikes are illegal at the federal level of the public sector and in most states. At the local level, all states prohibit strikes by police (Hawaii being a partial exception) and firefighters (Idaho being the exception). Teachers and state employees are somewhat more likely to have the right to strike, depending on the state. In 2020, of the eight work stoppages involving 1,000 or more workers, six were in the public sector (primarily local government, teachers, and health care workers).

Nonunion Representation Systems

With unions now representing just 11% of U.S. workers, the question is to what degree are forms of nonunion representation operating to cover the remaining 88.9% of workers? [Table 14.18](#) indicates that in one survey, about one-third (274 of 823) of nonunion workers were covered by a representation system established by management. In other words, more workers in this survey (274) were covered by nonunion representation systems than were covered by union–management collective bargaining contracts (170). In addition, the perceptions of workers regarding how strongly worker representatives “stand up” for them and how actively they consult with them about their ideas and concerns were remarkably similar under both management-established systems and union collective bargaining agreements. That, of course, does not mean that a nonunion representation system, which ordinarily does not have the same independence and leverage as an elected labor union, is equivalent to having a collective bargaining agreement and union. But clearly, nonunion representation systems play an important role in the workplace.¹¹³

Table 14.18 Worker Representation Systems, Union and Nonunion

	COLLECTIVE BARGAINING AGREEMENT (N = 170)	NO COLLECTIVE BARGAINING AGREEMENT (N = 823)	
		MANAGEMENT ESTABLISHED SYSTEM ^a (N = 274)	NO SYSTEM (N = 549)
Representatives can be counted on to stand up for workers, even if it means disagreeing with management ^b	84%	84%	NA
Representatives actively consult with workers about their ideas and concerns ^b	77	89	NA
Representatives actively consult with management over wages and benefits	100 ^c	77	NA

N = 993 U.S. workers

^aCovered by a “nonunion, management established system, where worker representatives meet with management.”

^bSum of those responding either “To Some Extent” or “To a Great Extent.”

^cEstimated.

SOURCE: J. Godard and C. Frege, “Labor Unions, Alternative Forms of Representation, and the Exercise of Authority Relations in U.S. Workplaces,” *Industrial and Labor Relations Review* 66 (2013), pp. 142–68.

Alternative dispute resolution (ADR) systems, which include mediation and arbitration, are used by nonunion firms to settle workplace disputes in the absence of a union and to avoid the legal system alternative. From the employer point of view, the advantages of ADR over litigation include lower monetary costs, better ability to protect relationships with employees, maintaining confidentiality of the proceedings, being able to influence the choice of the neutral mediator or arbitrator, limiting discovery of facts and evidence, and avoiding judges and jury trials/awards.¹¹⁴ Just as in a union grievance procedure, dispute/conflict resolution at an earlier step may be advisable. For example, an integrated conflict management system may train supervisors page 665 in how to conduct private one-on-one meetings with subordinates to resolve prior or potential conflicts through frank two-way discussions and following that up by developing and revising action plans. The goal is to “prevent conflicts from occurring and to reduce the extent to which they escalate to avoid more severe, time-consuming, and costly organizational responses.” Evidence indicates that such a system can reduce (more costly) formal grievances, as well as employee turnover, to the degree it is well-implemented, which in turn rests on the skill and commitment of supervisors.¹¹⁵



A LOOK BACK

Labor Union Strength Continues Its Decline in the United States, but Remains a Factor in Certain Sectors

The membership rate, and thus influence, of labor unions in the United States and in many other long-industrialized countries has been on the decline in the private sector. However, even in the United States, there continue to be companies in certain sectors (e.g., automobile manufacturers, warehousing and transport, health care, education, airlines) where labor unions represent a large share of employees and thus play a major role in the operation and success of those companies. In each of these situations, effective labor relations are crucial for both companies and workers, as well as for society. In nonunion companies, employers that do not have effective employee relations are more likely to face union organizing efforts. Also, as we have seen, workers can take collective action without formal union representation as a possible means of improving their jobs.

QUESTIONS

Many people picture labor union members as being men in blue-collar jobs in manufacturing plants. Is that accurate? Are there certain types of jobs where an employer can be fairly certain that employees will not join a union? Give examples.

Why do people join labor unions? Would you be interested in joining a labor union if given the opportunity? Why or why not? As a manager, would you prefer to work with a union, or would you prefer that employees not be represented by a union? Explain.

page 666How relevant are unions to nonunion companies? Explain. Provide an example.

What role do (or can) labor unions play in low-wage countries, including in supplier companies?

SUMMARY

Labor unions seek to represent the interests of their members in the workplace. Although this may further the cause of industrial democracy, management often finds that unions increase labor costs while setting limits on the company's flexibility and discretion in decision making. As a result, the company may witness a diminished ability to compete effectively in a global economy. Not surprisingly, management in nonunion companies often feels compelled to actively resist the unionization of its employees. This, together with a host of economic, legal, and other factors, has contributed to union losses in membership and bargaining power in the private sector. In some cases, however, management and unions have created effective relationships and work together to enhance competitiveness while being responsive to what employees seek, including a voice in how workplace decisions are

made. Finally, as we emphasized, the existence of unions can influence the approach nonunion companies take in their relationship with their employees.

KEY TERMS

[Checkoff provision, 627](#)

[Closed shop, 628](#)

[Union shop, 629](#)

[Agency shop 629](#)

[Maintenance of membership, 629](#)

[Taft-Hartley Act, 629](#)

[Right-to-work laws, 629](#)

[Associate union membership, 641](#)

[Corporate campaigns, 642](#)

[Distributive bargaining, 647](#)

[Integrative bargaining, 647](#)

[Attitudinal structuring, 647](#)

[Intraorganizational bargaining, 647](#)

[Mediation, 651](#)

[Fact finder, 651](#)

[Arbitration, 651](#)

[Duty of fair representation, 652](#)

DISCUSSION QUESTIONS

Why do employees join unions?

What has been the trend in union membership in the United States, and what are the underlying reasons for the trend?

What are the consequences for management and owners of having a union represent employees?

What are the general provisions of the National Labor Relations Act, and how does it affect labor–management interactions?

What are the features of traditional and nontraditional labor relations? What are the potential advantages of the “new” nontraditional approaches to labor relations?

How does the U.S. industrial and labor relations system compare with systems in other countries, such as those in western Europe?

SELF-ASSESSMENT EXERCISE

Would You Join a Union?

If you have been assigned this Self-Assessment in Connect, you will rate a series of items that express opinions about the effects of a union on employees' jobs in order to ascertain whether or not a union would affect your job.

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EXERCISING STRATEGY

Union Issues at Union (and Nonunion) Companies

Certain industries in the United States private sector have a strong union presence. One is the airlines. Even at Southwest, which has generally had a strong relationship with its employees, almost all eligible employees are unionized and have collective bargaining contracts with Southwest. JetBlue operated without any labor union presence since its founding; however, that began to change recently, as first pilots and then flight attendants voted in strong majorities to be represented by unions. The pilots reached an agreement with JetBlue on a contract, which JetBlue said would raise costs significantly. The flight attendants rejected a contract negotiated by their union, the Transport Union of America, with Jet-Blue. Contract disputes like this sometimes result in work stoppages to gain leverage, which will cost the company revenues. Whether or not that occurs, when a contract is negotiated, it will likely again raise JetBlue's operating costs. Thus, JetBlue will face challenges as it seeks to be competitive as it transforms to having a unionized work-force like its larger competitors.

Turning to the automobile industry, we noted in [Chapter 11](#) that the United Auto Workers (UAW) and General Motors went through a long work stoppage (the longest strike in 50 years in the U.S. auto industry). We also saw that the resulting contract, which runs through 2023, significantly raised costs for General Motors. This contract served to set the pattern for the other major U.S. auto producers, meaning they agreed to similar contract terms, raising their costs as well.

As in the other industries, nonunion automobile companies in the United States also have union issues. In [Chapter 11](#), we saw that the UAW sought to represent workers at Volkswagen's plant in Chattanooga, Tennessee, but lost the representation election supervised by the National Labor Relations Board (NLRB). Nonunion companies decide where to locate their plants to an important degree based on labor union considerations. As we noted, non-U.S. automakers have placed all of their U.S. plants in the southern United States, which are less receptive to unions (e.g., because of right-to-work laws).

Even Google, which had been ranked by *Fortune* as the #1 best company to work for six years in a row (but not in the past few years), has at least some union issues. One source of employee relations issues at Google stemmed from concerns among some employees that Google was attempting to minimize some employee voices, including by terminating them. The National Labor Relations Board (NLRB) filed a complaint against Google, alleging it had violated federal labor law by illegally surveilling employees and by terminating employees in retaliation for union organizing activities and sharing work grievances and information (concerted activity) using calendars, e-mail, meeting rooms, and Google internal communication apps. At the same time, a group of 226 Google employees organized a union open to not only employees, but also contractors. These employees have signed authorization cards with the Communication Workers of America. Importantly, however, the union is not seeking to be ratified by the NLRB (e.g., via a representation election), which means it will not be able to collectively bargain on behalf of employees. Obviously, at the moment, the group of active employees is a very small percentage of Google (Alphabet) employees and/or contractors as well. Taken together, this particular union does not have real standing as representing Google employees overall, and Google is not obligated to meet and consult with it.

QUESTIONS

After reading this chapter, and thinking about the experiences of JetBlue, Volkswagen, and Google above (and Amazon in the chapter opening), to what degree do you agree with the statement, “Unions are relevant even in nonunion companies”? Identify reasons you agree or disagree.

Why do nonunion companies typically seek to avoid unionization? How do nonunion companies go about trying to avoid unionization?

It can be tempting to speak of union versus nonunion companies. However, focusing on the automobile makers we have talked about, is the distinction entirely accurate?

In what ways can a union company influence the degree of union representation?

SOURCES: Siladitya Ray, “‘We’ve Had Enough’: Google Employees Form Union,” www.forbes.com, January 4, 2021; Ron Holland, “Google’s Fake Union Insults the Labor Movement: Alphabet Has No Legal Obligation to Recognize or Negotiate with the Well-funded Pressure Group,” WSJ.com, January 13, 2021; Jennifer Elias, “U.S. Labor Board Accuses Google of Spying on Employees, Discouraging Worker Organization, and Retaliation,” CNBC.com, December 2, 2020; “Jet-Blue Flight Attendants Reject Tentative Contract,” *Aviation Week*, November 23, 2020, Aviationweek.com; Mary Schlangenhein and Justin Bachman, “JetBlue Pilots Approve First Labor Deal in Airline’s History,” *Bloomberg Business*, July 27, 2018, www.bloomberg.com; Jet-Blue, Annual Report (10-K), February 16, 2018, www.sec.gov; Ted Reed, “JetBlue ‘Disappointed’ as 66% of Flight Attendants Vote to Join Transport Workers Union,” *Forbes*, April 17, 2018, www.forbes.com; Jason Wingard, “Not the Best Place to Work: Leadership Missteps that Dropped Facebook and Google Out of the Top 10,” *Forbes.com*, December 20, 2019; Noam Schreiber and Daisuke Wakabayashi, “Google Hires Firm Known for Anti-Union Efforts,” *The New York Times*, November 20, 2019.

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MANAGING PEOPLE

Twinkies, HoHos, and Ding Dongs: No Treat for Labor Unions

Let’s talk about Twinkies, HoHos, and Ding Dongs. They have long been found in the snack food aisle and have even been described as having “a legendary history.” One fun fact: The cream inside a Twinkie was banana flavored for many years. But when World War II brought rationing, including of bananas, Hostess changed the flavor of the cream to vanilla. OK, one more fun fact: Although there is an urban legend that Twinkies never go bad, it seems that the reality is they have a shelf life of about 25 days. That is considered quite a long shelf life for a baked good product. What is the secret? It may be that Twinkies lack any dairy products.

Unfortunately, whatever the flavor of the “cream” inside or the shelf life of a Twinkie, the company that makes them, Hostess Brands, recently declared bankruptcy. Metropoulos & Co. and Apollo purchased Hostess Brands, reopening four bakery/plants, coming to the rescue of Twinkie-deprived consumers (Hostess Brands was subsequently sold again to The Gores Group).

One thing Hostess will not do going forward after reopening plants is use union workers. The 86-year-old company closed down and entered bankruptcy, in part, due to a nationwide strike by one of its unions. Chief executive C. Dean Metropoulos said \$60 million in capital investments will be spent on the plants and that the plan is to hire at least 1,500 workers. But Mr. Metropoulos, in an interview, made his views on the role of unions clear: There will be no role.

Hostess Brands Inc. once employed 19,000 workers. Of those, 15,000 were represented by unions. The second-largest union, the Bakery, Confectionery, Tobacco Workers & Grain Millers International Union, began a nationwide work stoppage after failing to agree on a contract with the company, which led to the company imposing a new, less favorable contract on the union. The resulting strike, according to the company, crippled its operations, ultimately leading the company to shut down. The Teamsters union, which represented the largest share of

Hostess Brands workers, after difficult negotiations, tentatively agreed to a new collective bargaining contract following the bankruptcy trial in court.

The company and the bakers union express different views on the importance of the unionized bakers. The president of the bakers union, David Durkee, stated that because only members of the bakers union know how to run the equipment in the plants used to bake snacks, the bakers union members would be hired back to work. The new owners of Hostess have said that they will be able to find capable nonunion workers in the areas where plants are reopening, all located where unemployment is high. Prior to bankruptcy, Hostess plants had been running at less than 50% of capacity. Going forward, the plants are expected to run at 85–90% capacity, making production much more efficient and, presumably, allowing the company to make an adequate profit. If the nonunion workers to be used going forward are also less costly, that will further bring costs down and push profits up. The caveat is that it remains to be seen whether new nonunion bakers can quickly learn how to efficiently do the work in the plants. To avoid hiring Teamsters as drivers, Hostess plans to outsource driving/delivery and related tasks. It will also outsource sales.

QUESTIONS

Why did Hostess Brands Inc. go into bankruptcy?

Did unions act in the best interests of the workers they represented? Did the two unions involved follow the same strategy?

Will the new company, Hostess Brands LLC, perform better? Why or why not?

SOURCES: R. Feintzeig, "New Twinkie Maker Shuns Union Labor," *The Wall Street Journal*, April 24, 2013; A. Kleinman, "Twinkie Facts: 12 Things You Didn't Know about the Beloved Snack," *Huffington Post*, November 16, 2012, www.huffingtonpost.com/2012/11/16/twinkie-facts-12-things_n_2144143.html; "Twinkies Shelf Life," www.snopes.com/food/ingredient/twinkies.asp.

HR IN SMALL BUSINESS

Kickstarter Employees Vote to Unionize

Brooklyn-based Kickstarter was founded to fund opportunities for creative people. People with ideas post them on Kickstarter's website, along with a request for donations. If the donations meet the goals set by the creator, the creators can keep the money; otherwise, Kickstarter voids the donations. In its first decade Kickstarter reported it had grown to more than 150 employees and had helped creators raise more than \$4.5 billion to fund 170,000 projects.

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About that time, it ran into a public relations problem that became a labor relations problem. One of the projects on the site was a comic book called "Always Punch Nazis." While some people saw it as a satire opposing racism, others saw it as a work advocating violence. Some of Kickstarter's employees held strong views on the issue but began to feel they had little control in the decision about whether to leave the project on the company's website. Calling for greater transparency from management, these workers began to advocate for forming a union.

The employees who engaged in organizing said they had the backing of a majority of the workers and asked Kickstarter to recognize a union. The company refused, saying it wanted the employees to vote in a secret-ballot election conducted by the National Labor Relations Board (NLRB). While this was playing out, semiannual performance appraisals were completed, and two of the employees who had been organizing were terminated. Both former employees said they had been fired in retaliation for organizing, but management said they were dismissed for performance problems documented in the review process.

The organizing effort moved forward, with management saying a union would not be in the best interests of employees and the company. CEO Aziz Hasan said the “inherently adversarial” approach of union-management negotiations was inconsistent with Kickstarter’s problem-solving culture. Nevertheless, in a 46-to-37 vote, the employees approved representation by the Office and Professional Employees International Union (OPEIU). The union announced that it planned to begin negotiating a contract with Kickstarter as soon as possible, focusing on equal pay and inclusive hiring practices. It also filed charges with the NLRB related to the earlier firing of the two employees involved in organizing.

Just two months after the vote, Kickstarter was struggling to stay alive during a significant economic downturn. The number of projects on the site had fallen by 35%, with no sign of a turnaround, and the prior year’s profits had already been reinvested in the business. Management explored cost-cutting efforts, including pay cuts for management, but would have to conduct layoffs. Now with the OPEIU representing employees, managers negotiated with union representatives about layoffs. Union members would be offered voluntary buyouts, and terms for any additional layoffs included four months of severance pay and continued health insurance for up to six months.

QUESTIONS

According to the information given, how well did Kickstarter comply with National Labor Relations Act requirements? Note any areas where you believe they could have done better.

Did unionizing benefit Kickstarter employees? The company?

If bargaining ever breaks down between Kickstarter management and the OPEIU, what option would you recommend the parties try first to resolve differences?

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CHAPTER 15

Managing Human Resources Globally



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO15-1 Identify the recent changes that have caused companies to expand into international markets.](#)

[LO15-2 Discuss the four factors that most strongly influence HRM in international markets.](#)

[LO15-3 List the different categories of international employees.](#)

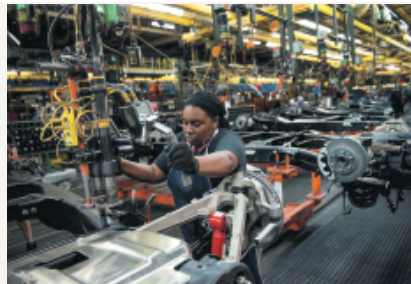
[LO15-4 Identify the four levels of global participation and the HRM issues faced within each level.](#)

[LO15-5 Discuss the ways companies attempt to select, train, compensate, and reintegrate expatriate managers.](#)

ENTER THE WORLD OF BUSINESS



H&M Disappears in China



Matthew Busch/Bloomberg/Getty Images

Doing business in foreign countries always presents difficulties and these difficulties get greater in countries with authoritarian governments. In [Chapter 2](#), we noted how a number of companies doing business in China have been criticized because some of their suppliers are located in the Xinjiang province where the Chinese government has allegedly engaged in a number of human rights violations against Uighur Muslims.

However, recent developments have pointed to what happens when Western companies question such practices or change their supply chain to protect themselves from being accused of being complicit in the violations of human rights. In 2020 Hennes & Mauritz (H&M), a Europe-based retailer, stated that they would no longer source from Xinjiang province because of the allegations of forced labor there. By March 2021 Chinese social media saw a huge surge of criticisms and calls for boycotts of H&M. By then, ordering a car on Didi (the Chinese version of Uber) to get to an H&M was a challenge because the ride-hailing app did not recognize an H&M store as a valid destination. In addition, trying to find any of the 400 H&M stores in China was not possible on multiple Chinese map

apps.

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Well, if you cannot go to the store, you can always order from H&M online, right? Not a chance. China's largest e-commerce companies such as Alibaba, Pinduoduo, and [JD.com](https://www.jd.com) no longer allowed searches for H&M. Also, H&M's shopping apps were seemingly removed from a number of Chinese Android app stores.

James McGregor, the chairman of public-affairs company APCO's Greater China region, stated, "What we are seeing goes way beyond what has been done in the past. I think we will see more of this taking place as China seeks to use commercial pressure to get foreign governments to tone down and back off."

While Nike and Adidas also issued statements similar to H&M's, they have so far only received lots of negative comments in Chinese social media. But H&M's experience could be a warning to other multinational companies that criticizing the Chinese government could be extremely costly.

SOURCE: E. Xiao, "H&M Is Erased from Chinese e-Commerce over XinJiang Stance," *The Wall Street Journal*, March 25, 2021,

https://www.wsj.com/articles/h-m-is-erased-from-chinese-e-commerce-over-xinjiang-stance-11616695377?mod=hp_lead_pos

Introduction

The environment in which business competes is rapidly becoming globalized. More and more companies are entering international markets by exporting their products overseas, building plants in other countries, and entering into alliances with foreign companies. In the mid-1980s, 61 of the top 100 organizations had their headquarters in the United States. By 2004 that number had dropped to 35, and [Table 15.1](#) shows the world's 25 largest companies in 2020, only 12 of those headquartered in the United States, 7 in Asia, and 6 in Europe. As you can see from the table, whereas General Motors used to dominate the globe in market share, Volkswagen, Toyota, and Daimler all had greater sales than GM in 2020, and GM now does not even appear in the top 20 of the Global 500.

Table 15.1 *Fortune* World's Largest Companies, 2020

RANK	COMPANY	REVENUES (\$ MILLIONS)
1	Walmart	500,343
2	State Grid	348,903
3	Sinopec Group	326,953
4	China National Petroleum	326,008
5	Royal Dutch Shell	311,870
6	Toyota Motor	265,172
7	Volkswagen	260,028
8	BP	244,582

9	ExxonMobil	244,363
10	Berkshire Hathaway	242,137
11	Apple	229,234
12	Samsung Electronics	211,940
13	McKesson	208,357
14	Glencore	205,476
15	United Health Group	201,159
16	Daimler	185,235
17	CVS Health	184,765
18	Amazon.com	184,765
19	Exor Group	177,866
20	AT&T	161,677
21	General Motors	160,546
22	Ford Motor	156,776
23	China State Construction Engineering	156,071
24	Hon Hai Precision Industry	154,699
25	AmericanBergen	153,144

SOURCE: From *Fortune*, 2020, Time Inc.

Most organizations now function in the global economy. U.S. businesses are entering international markets at the same time that foreign companies are entering the U.S. market. In addition, cross-border mergers (e.g., Merck/Schering-Plough, New York Stock Exchange/Deutsche Börse) are increasing. In fact, in the first three quarters of 2018, global mergers totaled \$3.3 trillion, the largest in history.

What is behind the trend toward expansion into global markets? Companies are attempting to gain a competitive advantage, which can be provided by international expansion in a number of ways. First, these countries are new markets with large numbers of potential customers. For companies that are producing below their capacity, expansion provides a means of increasing sales and profits. Second, many companies are building production facilities in other countries as a means of capitalizing on those countries' lower labor costs for relatively unskilled jobs. For example, many of the Mexican *maquiladora* plants provide low-skilled labor at considerably lower cost

than in the United States. In 2016 the average hourly manufacturing wage in Mexico was \$3.91, versus \$39.03 in the United States.¹ Third, the rapid increase in telecommunications and information technology enables work to be done more rapidly, efficiently, and effectively around the globe. With the best college graduates available for \$2.00 an hour in India versus \$12–\$18 an hour in the United States, companies can hire the best talent (resulting in better work) at a lower cost. And because their day is our night, work done in the United States can be handed off to those in India for a 24/7 work process.² (While these factors have moved jobs from the United States overseas, technological advances may make the disappearance of jobs a global phenomenon.)

Deciding whether to enter overseas markets and whether to develop plants or other facilities in other countries, however, is no simple matter, and many human resource issues surface. This chapter discusses the human resource issues that must be addressed to gain competitive advantage in a world of global competition. This is not a chapter on international human resource management (the specific HRM policies and programs companies use to manage human resources across international boundaries).³ The chapter focuses instead on the key factors that must be addressed to strategically manage human resources in an international context. We discuss some of the important events that have increased the global nature of business over the past few years. We then identify some of the factors that are most important to HRM in global environments. Finally, we examine particular issues related to managing expatriate managers. All of these suggest unique opportunities for firms to gain competitive advantage.

Current Global Changes

LO 15-1

Identify the recent changes that have caused companies to expand into international markets.

Several recent social and political changes have accelerated the movement toward international competition. The effects of these changes have been profound and far reaching. Many are still evolving. In this section we discuss the major developments that have accentuated the need for organizations to gain a competitive advantage through effectively managing human resources in a global economy.

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European Union and “BREXIT”

European countries have managed their economies individually for years. Because of the countries' close geographic proximity, their economies have become intertwined. This created a number of problems for international businesses; for example, the regulations of one country, such as France, might be completely different from those of another country, such as Germany. In response, most of the European countries agreed to participate in the European Union by signing the Maastricht Treaty in 1992. The EU is a confederation of most of the European nations that agree to engage in free trade with one another, with commerce regulated by an overseeing body called the European Commission (EC). Under the EU, legal regulation in the participating countries has become more, although not completely, uniform. Within the EU the countries accept shared rule and regulations to allow the free movement of people, goods, services, and capital within all the member states. In addition, members apply the same taxes on goods coming from countries outside the EU to ensure that they can then be shipped tariff-free to other countries within the bloc.

Assuming that the EU's trend toward free trade among members continues, Europe has become one of the largest free markets in the world. In addition, as of 1999, all of the members of the EU share a common currency, the euro. This ties the members' economic fates even more closely with one another. In addition to the previous 15 EU

states, as of May 1, 2004, 12 EU accession states—Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia—were added to the European Union, expanding the economic zone covered by the European Union. In 2013, Croatia was added to the European Union, and Iceland, Macedonia, Montenegro, Serbia, and Turkey are candidates to be admitted into the European Union.

The European Union has recently been threatened by the exit of the United Kingdom. This “Brexit” stemmed from a slim majority of U.K. voters deciding that they no longer wanted to be governed largely from a bureaucracy located in Brussels, Belgium. However, because Europe is Britain’s largest export market and the greatest source of foreign direct investment, the exit has created a number of problems.

First, because the EU member countries allow the free movement of people, goods, services, and capital among them, by exiting Britain had to negotiate a specific trade agreement with the bloc. Initially there will be no tariffs or taxes on products moving between them, but if one side of the deal feels they are being treated unfairly, they can begin a process to reconcile the differences.

Second, British citizens lost their ability to have an EU passport. Again, initially British passports will be treated as if they were members of the EU making movement easy, but it is unclear how this will play out over time.

Third, the greatest negative impact on Britain will be on its large services sector (financial, lawyers, architects, etc.) which accounts for approximately 80% of Britain’s economic activity. For instance, prior to Brexit a bank in London could make loans to a business in Amsterdam or Paris. However, many financial institutions are now creating new locations in EU countries to be able to service businesses in the EU.

Among other reasons for Brexit, a slim majority of the British people felt that the costs of leaving the EU would ultimately be outweighed by the benefits of being able to create unique trade deals with countries outside the EU (U.S., China, etc.) and not having as onerous a set of regulations to deal with. The next few years should reveal more clearly the exact costs and benefits to both the U.K. and the EU.

United States–Mexico–Canada Trade Agreement

The North American Free Trade Agreement (NAFTA) was an agreement among Canada, the United States, and Mexico that created a free market even larger than the European Union. The United States and Canada already had a free trade agreement since 1989, but NAFTA brought Mexico into the consortium. The agreement was prompted by Mexico’s increasing willingness to open its markets and facilities in an effort to promote economic growth.⁴ As previously discussed, the *maquiladora* plants exemplify this trend. In addition, some efforts have been made to expand the membership of NAFTA to other Latin American countries, such as Chile.

NAFTA increased U.S. investment in Mexico because of Mexico’s substantially lower labor costs for low-skilled employees. This has had two effects on employment in the United States. First, many low-skilled jobs went south, decreasing employment opportunities for U.S. citizens who lack higher-level skills. Second, it has increased employment opportunities for Americans with higher-level skills.⁵

The USMCA updated the 25-year-old NAFTA agreement which President Trump called “the worst trade deal in history.” The purpose was to create freer and fairer trade among the three countries, and provisions included:

Automobiles must have 75% of their components manufactured in the three countries in order to avoid tariffs.

By 2023, 40-45% of those components must be made by workers who make at least \$16 per hour.

Mexico agreed to pass new labor laws that would provide greater protections for workers.

U.S. dairy farmers were given more access to the Canadian market.

Duties were prohibited on digital products such as music and e-books.

The act contains a sunset clause, meaning it will expire after 16 years. In addition, the act allows for the three partners to evaluate how it is working every six years. The agreement went into force on July 1, 2020, so we will observe its actual impact over the next few years.

Tax Cut and Jobs Act

Another driver of globalization is global tax policy. Countries such as Ireland have instituted low corporate taxes (12%) as an incentive for companies to incorporate in Ireland. For example, when you think of companies such as Medtronic (Minneapolis), Accenture (Chicago), Johnson Controls (Milwaukee), and Trane Technologies (Charlotte), you think of them as American companies because most of their top executives work out of corporate offices in those cities. However, these are all companies legally incorporated in Ireland. Why?

Prior to President Trump passing the 2017 Tax Cut and Jobs Act (TCJA) the corporate tax rate on income in the U.S. was 35%. If a U.S. company wanted to repatriate its earnings from other countries, they would have to pay the difference (e.g., 35% - 12% = 23%) between what they paid in the other country and what they would owe in the U.S. If 50% of a company's profits come from outside the U.S. it saves them millions and in some cases billions to be incorporated in one of those lower tax countries. In fact, this has caused many companies to engage in what is known as a *corporate inversion* where a larger U.S. company acquires a smaller, say Irish, company, and then declares Ireland the country in which they are incorporated.

The TCJA changed global corporate taxation in the following ways. First, it reduced the corporate tax rate to 21%. Second, it provided a one-time amnesty to repatriate earnings from other countries back to the U.S. as a means of providing more capital for investment in the U.S. Third, it created a deduction for foreign-derived intangible income (FDII) and global intangible low-tax income (GILTI). These were aimed at making the U.S. a more attractive home for income derived from intangible resources such as patents, copyrights, etc. by cutting the rate to approximately 13%. It was estimated that these changes resulted in \$717 billion of the roughly \$1 trillion in profits stored overseas to be repatriated to the U.S. in 2018. As of the writing of this page 680chapter the Biden administration has proposed raising the corporate tax rate to 28% from 21%, putting a global minimum tax of 21% on foreign earnings, and eliminating both FDII and GILTI.

The Growth of Asia

A global market that is of huge economic consequence to many firms lies in Asia. Whereas Japan has been a dominant economic force for well over 20 years, countries such as Singapore, Hong Kong (SAR), and Malaysia recently have become significant economic forces. More important, China, with its population of more than 1 billion and trend toward opening its markets to foreign investors, presents a tremendous potential market for goods. Some observers predict that China's economy will soon be larger than that of the United States. China now has more companies (122) on the *Fortune* Global 500 list than the U.S. (121) and more in the top 10 (3 vs. 2) of the world's largest global corporations.

General Agreement on Tariffs and Trade

The General Agreement on Tariffs and Trade (GATT) is an international framework of rules and principles for reducing trade barriers across countries around the world. It currently has more than 100 member-nations as signatories. The most recent round of GATT negotiations resulted in an agreement to cut tariffs (taxes on imports) by 40%, reduce government subsidies to businesses, expand protection of intellectual property such as copyrights

and patents, and establish rules for investing and trading in services. It also established the World Trade Organization (WTO) to resolve disputes among GATT members.

These developments—the European Union, Brexit, USMCTA, the growth of Asia, and GATT—all exemplify events that are pushing companies to compete in a global economy, opening new markets and new sources of technology and labor in a way that has never been seen before in history. Our era of increasing international competition accentuates the need to manage human resources to gain competitive advantage in a global marketplace, requiring an understanding of the factors that can determine the effectiveness of various HRM practices and approaches.

Factors Affecting HRM in Global Markets

LO 15-2

Discuss the four factors that most strongly influence HRM in international markets.

Companies that enter global markets must recognize that these markets are not simply mirror images of their home country. Countries differ along a number of dimensions that influence the attractiveness of direct foreign investment in each country. These differences determine the economic viability of building an operation in a foreign location, and they have a particularly strong impact on HRM in that operation. Researchers in international management have identified a number of factors that can affect HRM in global markets, and we focus on four factors, as depicted in [Figure 15.1](#): culture, education–human capital, the political–legal system, and the economic system.⁶

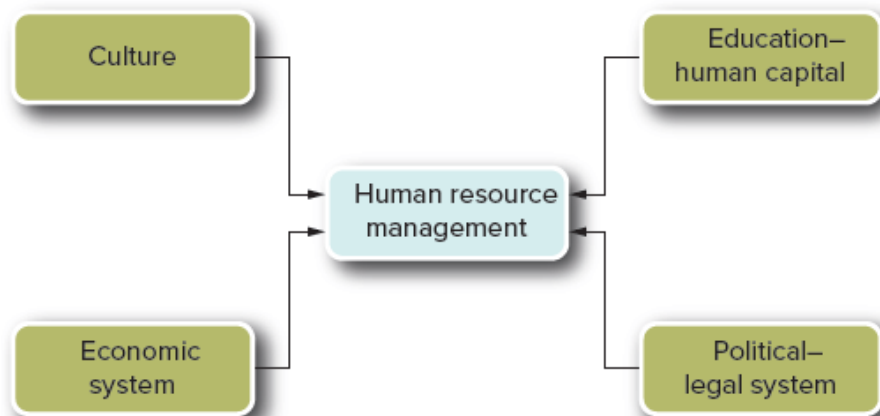


Figure 15.1 Factors Affecting Human Resource Management in International Markets

Culture

By far the most important factor influencing international HRM is the culture of the country in which a facility is located. Culture is defined as “the set of important assumptions (often unstated) that members of a community share.”⁷ These assumptions consist of beliefs about the world and how it works and the ideals that are worth striving for.⁸

Culture is important to HRM for two reasons. First, it often determines the other three factors affecting HRM in global markets. Culture can greatly affect a country’s laws, in that laws are often the codification of right and wrong as defined by the culture. Culture also affects human capital, because if education is greatly valued by the culture,

then members of the community try to increase their human capital. Finally, as we discuss later, cultures and economic systems are closely intertwined.⁹

However, the most important reason culture is important to HRM is that it often determines the effectiveness of various HRM practices. Practices found to be effective in the United States may not be effective in a culture that has different beliefs and values.¹⁰ For example, U.S. companies rely heavily on individual performance appraisal, and rewards are tied to individual performance. In Japan, however, individuals are expected to subordinate their wishes and desires to those of the larger group. Thus, individualbased evaluation and incentives are not nearly as effective there and, in fact, are seldom observed among Japanese organizations.¹¹



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“Getting that first hire right, we’ve found, is the key differentiator for how well an operation will evolve over time in a region or not.”

—Christine M. Pambianchi, Senior Vice President of Human Resources, Intel

Source: Video produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Filmworks

In this section we examine a model that attempts to characterize different cultures. This model illustrates why culture can have a profound influence on HRM.

Hofstede’s Cultural Dimensions

In a classic study of culture, Geert Hofstede identified four dimensions on which various cultures could be classified.¹² In a later study he added a fifth dimension that aids in characterizing cultures.¹³ The relative scores for 10 major countries are provided in [Table 15.2](#). [Individualism–collectivism](#) describes the strength of the relation between an individual and other individuals in the society—that is, the degree to which people act as individuals rather than as members of a group. In individualist cultures, such as the United States, Great Britain, and the Netherlands, people are expected to look after their own interests and the interests of their immediate families. Individuals are expected to stand on their own two feet rather than be protected by the group. In collectivist cultures, such as Colombia, Pakistan, and Taiwan, people are expected to look after the interest of the larger community, which is expected to protect people when they are in trouble.

[Individualism–collectivism](#)

One of Hofstede’s cultural dimensions; describes the strength of the relation between an individual and other individuals in a society.

Table 15.2 Cultural Dimension Scores for 10 Countries

	PD ^a	ID	MA	UA	LT
United States	40 L ^b	91 H	62 H	46 L	29 L
Germany	35 L	67 H	66 H	65 M	31 M
Japan	54 M	45 M	95 H	92 H	80 H
France	68 H	71 H	43 M	86 H	30 ^c L
Netherlands	38 L	80 H	14 L	53 M	44 M
Hong Kong (SAR)	68 H	25 L	57 H	29 L	96 H
Indonesia	78 H	14 L	46 M	48 L	25 ^c L
West Africa	77 H	20 L	46 M	54 M	16 L
Russia	95 ^c H	50 ^c M	40 ^c L	90 ^c H	10 ^c L
Mainland China	80 ^c H	20 ^c L	50 ^c M	60 ^c M	118 H

^aPD = power distance; ID = individualism; MA = masculinity; UA = uncertainty avoidance; LT = long-term orientation.

^bH = top third; M = medium third; L = bottom third (among 53 countries and regions for the first four dimensions; among 23 countries for the fifth).

^cEstimated.

SOURCE: From Geert Hofstede, "Cultural Constraints in Management Theories," *Academy of Management Executive*, February 1993, Vol. 7, No. 1, p. 91. Reproduced with permission of Academy of Management, via Copyright Clearance Center.

The second dimension, [power distance](#), concerns how a culture deals with hierarchical power relationships—particularly the unequal distribution of power. It describes the degree of inequality among people that is considered to be normal. Cultures with small power distance, such as those of Denmark and Israel, seek to eliminate inequalities in power and wealth as much as possible, whereas countries with large power distances, such as India and the Philippines, seek to maintain those differences.

[Power distance](#)

One of Hofstede's cultural dimensions; concerns how a culture deals with hierarchical power relationships—particularly the unequal distribution of power.

Differences in power distance often result in miscommunication and conflicts between people from different cultures. For example, in Mexico and Japan individuals are always addressed by their titles (Señor Smith or Smith-san, respectively). Individuals from the United States, however, often believe in minimizing power distances by using first names. Although this is perfectly normal, and possibly even advisable in the United States, it can be offensive and a sign of disrespect in other cultures.

The third dimension, [uncertainty avoidance](#), describes how cultures seek to deal with the fact that the future is not perfectly predictable. It is defined as the degree to which people in a culture prefer structured over unstructured situations. Some cultures, such as those of Singapore and Jamaica, have weak uncertainty avoidance. They socialize individuals to accept this uncertainty and take each day as it comes. People from these cultures tend to be rather easygoing and flexible regarding different views. Other cultures, such as those of Greece and Portugal, socialize their people to seek security through technology, law, and religion. Thus, these cultures provide clear rules as to how one should behave.

[Uncertainty avoidance](#)

One of Hofstede's cultural dimensions; describes how cultures seek to deal with an unpredictable future.

The [masculinity–femininity dimension](#) describes the division of roles between the genders within a society. In “masculine” cultures, such as those of Germany and Japan, what are considered traditionally masculine values—showing off, achieving something visible, and making money—permeate the society. These societies stress assertiveness, performance, success, and competition. “Feminine” cultures, such as those of Sweden and Norway, promote values that have been traditionally regarded as feminine, such as putting relationships before money, helping others, and preserving the environment. These cultures stress service, care for the weak, and solidarity.

[Masculinity–femininity dimension](#)

One of Hofstede's cultural dimensions; describes the division of roles between the sexes within a society.

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Finally, the fifth dimension comes from the philosophy of the Far East and is referred to as the [long-term–short-term orientation](#). Cultures high on the long-term orientation focus on the future and hold values in the present that will not necessarily provide an immediate benefit, such as thrift (saving) and persistence. Hofstede found that many Far Eastern countries such as Japan and China have a long-term orientation. Short-term orientations, by contrast, are found in the United States, Russia, and West Africa. These cultures are oriented toward the past and present and promote respect for tradition and fulfilling social obligations.

[Long-term–short-term orientation](#)

One of Hofstede's cultural dimensions; describes how a culture balances immediate benefits with future rewards.

The current Japanese criticism of management practices in the United States illustrates the differences in long-term–short-term orientation. Japanese managers, traditionally exhibiting a long-term orientation, engage in five-to ten-year planning. This leads them to criticize U.S. managers, who are traditionally much more short term in orientation because their planning often consists of quarterly to yearly time horizons.

These five dimensions help us understand the potential problems of managing employees from different cultures. Later in this chapter we will explore how these cultural dimensions affect the acceptability and utility of various HRM practices. However, it is important to note that these differences can have a profound influence on whether a company chooses to enter a given country. One interesting finding of Hofstede's research was the impact of culture on a country's economic health. He found that countries with individualist cultures were more wealthy. Collectivist cultures with high power distance were all poor.¹⁴ Cultures seem to affect a country's economy through their promotion of individual work ethics and incentives for individuals to increase their human capital.

Implications of Culture for HRM

Cultures have an important impact on approaches to managing people. As we discuss later, the culture can strongly affect the education–human capital of a country, the political–legal system, and the economic system. As Hofstede found, culture also has a profound impact on a country's economic health by promoting certain values that either aid or inhibit economic growth.

More important to this discussion, however, is that cultural characteristics influence the ways managers behave in relation to subordinates, as well as the perceptions of the appropriateness of various HRM practices. First, cultures differ strongly on such things as how subordinates expect leaders to lead, how decisions are handled within the hierarchy, and (most important) what motivates individuals. For example, in Germany, managers achieve their status by demonstrating technical skills, so employees look to them to assign their tasks and resolve technical problems. In the Netherlands, by contrast, managers focus on seeking consensus among all parties and must

engage in an open-ended exchange of views and balancing of interests.¹⁵ Clearly, these methods have different implications for selecting and training managers in the different countries.

Second, cultures may influence the appropriateness of HRM practices. For example, as discussed previously, the extent to which a culture promotes an individualistic versus a collectivist orientation will impact the effectiveness of individually oriented HRM systems. In the United States, companies often focus selection systems on assessing an individual's technical skill and, to a lesser extent, social skills. In collectivist cultures, by contrast, companies focus more on assessing how well an individual will perform as a member of the work group.

Culture often influences how employees value certain aspects of their work environment. In an interesting study comparing call center workers in India (a collectivist culture) and the United States (an individualistic culture), researchers found that in the United States person–job fit was the stronger predictor of turnover relative to India, where person–organization fit, links to the organization, and links to the community were the stronger predictors of turnover.¹⁶

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Similarly, cultures can influence compensation systems. Individualistic cultures such as those found in the United States often exhibit great differences between the highest- and lowest-paid individuals in an organization, with the highest-paid individual often receiving 200 times the salary of the lowest. Collectivist cultures tend to have much flatter salary structures, with the top-paid individual receiving only about 20 times the overall pay of the lowest-paid one.

Cultural differences can affect the communication and coordination processes in organizations. Collectivist cultures, as well as those with less of an authoritarian orientation, value group decision making and participative management practices more highly than do individualistic cultures. When a person raised in an individualistic culture must work closely with those from a collectivist culture, communication problems and conflicts often appear. Much of the emphasis on “cultural diversity” programs in organizations focuses on understanding the cultures of others in order to better communicate with them. The [Evidence-Based HR](#) box discusses the effectiveness of such programs.



EVIDENCE-BASED HR

Is National Culture as Important as We Thought?

Although national culture is important, research suggests that its importance may be vastly overstated, particularly with regard to how firms manage people. Researchers reexamining Hofstede's original work found that, in addition to differences across nations, significant cultural differences also existed within nations. They further found that the differences in cultures across organizations within countries was larger than the differences across countries. Their results imply that although one cannot ignore national culture, one must not think that certain HR practices may be effective simply based on a regard for national culture. People of varying cultural backgrounds within a nation will be drawn to organizations whose cultures better match their individual, as opposed to national, value systems.

In addition, many observers have suggested that the effectiveness of high-performance work systems (HPWS) depends on the cultural or institutional constraints, such that they may be ineffective in cultures that exhibit high power distance or high collectivism. However, a meta-analysis revealed that the effects of HPWS on firm performance were positive in all cultures, and contrary to expectations, if anything, higher in the cultures where the cultural hypothesis suggested they would be lower.

Thus, it seems that the conclusions reached by many regarding how important culture is to determining the effectiveness of HR practices may be at best overstated, and at worst completely wrong.

SOURCES: T. Rable, M. Jayasinghe, B. Gerhart, and T. Kuhlmann, "A Meta-Analysis of Country Differences in the High-Performance Work System– Business Performance Relationship: The Roles of National Culture and Managerial Discretion," *Journal of Applied Psychology* 99, no. 6 (2014), pp. 1011–41; B. Gerhart and M. Fang, "National Culture and Human Resource Management Assumptions and Evidence," *International Journal of Human Resource Management* 16, no. 6 (June 2005), pp. 971–86.

Education–Human Capital

A company's potential to find and maintain a qualified workforce is an important consideration in any decision to expand into a foreign market. Thus, a country's human capital resources can be an important HRM issue. *Human capital* refers to the productive capabilities of individuals—that is, their knowledge, skills, and experience that have economic value.¹⁷

A country's human capital is determined by a number of variables. A major variable is the educational opportunities available to the labor force. In the Netherlands, for instance, government funding of school systems allows students to go all the way through graduate school without paying.¹⁸ Similarly, the free education provided to citizens in the former Soviet bloc resulted in high levels of human capital, in spite of the poor infrastructure and economy that resulted from the socialist economic systems. In contrast, some developing countries, such as Nicaragua and Haiti, have relatively low levels of human capital because of a lack of investment in education.

A country's human capital may profoundly affect a foreign company's desire to locate there or enter that country's market. Countries with low human capital attract facilities that require low skills and low wage levels. This explains why U.S. companies desire to move their currently unionized low-skill–high-wage manufacturing and assembly jobs to Mexico, where they can obtain low-skilled workers for substantially lower wages. Similarly, Japan ships its messy, low-skill work to neighboring countries while maintaining its high-skill work at home.¹⁹ Countries like Mexico, with relatively low levels of human capital, might not be as attractive for operations that consist of more high-skill jobs.

Countries with high human capital are attractive sites for direct foreign investment that creates high-skill jobs. In Ireland, for example, more than 25% of 18-year-olds attend college, a rate much higher than in other European countries. In addition, Ireland's economy supports only 1.1 million jobs for a population of 3.5 million. The combination of high education levels, a strong work ethic, and high unemployment makes the country attractive for foreign firms because of the resulting high productivity and low turnover. The Met Life insurance company set up a facility for Irish workers to analyze medical insurance claims. It has found the high levels of human capital and the high work ethic provide such a competitive advantage that the company is currently looking for other work performed in the United States to be shipped to Ireland. Similarly, as already discussed, the skills of newly graduated technology workers in India are as high as or higher than those found among their counterparts in the United States. In addition, because jobs are not as plentiful in India, the worker attitudes are better in many of these locations.²⁰

The [Competing through Technology box](#) discusses how Amazon's new CEO, Andy Jassy, will face a question as to whether to help or replace employees.



COMPETING THROUGH TECHNOLOGY

Manual or Automated Work? That Is the Amazon Question

Amazon has become one of the largest employers in the world, and unlike competitors such as Google, Microsoft, or Apple, the vast majority of its workforce are lower-skilled manual laborers. But unlike most companies that have

large manual workforces, Amazon manages its workforce with levels of technology much closer to Uber or Lyft. Amazon monitors, evaluates, rewards and even reprimands employees via an extensive network of software.

As software and robotics technology continue to advance, Amazon's new CEO Andy Jassy will face a decision: use the technologies to better enable employees to perform their jobs or use the technologies to replace them. Jassy has run Amazon Web Services for a number of years and built it into an industry power-house. In doing so he developed a reputation as being a warmer and fuzzier version of Jeff Bezos. But that part of Amazon's business is unlike the traditional order fulfillment part of the business where people are managed by algorithms. Amazon executives express their desire to provide an environment where employees can grow, but the "big brother" type monitoring systems seem to create a disconnect between what the executives want and what the employees feel.

The recent unsuccessful union organizing campaign at a fulfillment center in Alabama created speculation regarding how Amazon might respond to having 686 unions in these facilities. They are currently experimenting with robotic technologies that could potentially replace humans at some small facilities, but these are nowhere near a scale that could be implemented at the large facilities Amazon continues to build across the U.S. However, as competition increases and labor costs rise, one has to wonder how Amazon will respond.

DISCUSSION QUESTIONS

Should Andy Jassy focus technological development on enabling its workforce or on replacing it? Why?

If a new technology came along that could replace the workforce and save the company 10% relative to its current labor costs, should it implement it? What if it was 50%? What if it was 75%? At what point do you think returns to shareholders outweigh the jobs of workers?

SOURCE: C. Mims, "Amazon's New CEO, Andy Jassy, Can Either Help Workers and Sellers or Automate Them Away," February 6, 2021,

<https://www.wsj.com/articles/amazons-new-ceo-can-either-help-workers-and-sellers-or-automate-them-away-11612587602?m>

Political–Legal System

The regulations imposed by a country's legal system can strongly affect HRM. The political–legal system often dictates the requirements for certain HRM practices, such as training, compensation, hiring, firing, and layoffs. In large part, the legal system is an outgrowth of the culture in which it exists. Thus, the laws of a particular country often reflect societal norms about what constitutes legitimate behavior.²¹ Many countries allow (or even expect) that payoffs be made to decision makers, be they procurement employees or politicians. However, the Foreign Corrupt Practices Act prohibits any American companies from doing so, even if they are doing so in another country. The [Competing through Globalization](#) box provides an example of the kinds of challenges firms face when they set up operations in other countries with different legal systems.



COMPETING THROUGH GLOBALIZATION

Chevron's Never-ending Lawsuit

From the 1960s energy company Texaco operated an oil-drilling site in Ecuador in partnership with the government-run Petroecuador. The site was in the Amazon, in an area occupied by only migrant farmers and native peoples. In the aftermath of their operation, Texaco spent \$40 million to clean up the site and came to an agreement with the Ecuadorian government to release them from any liability, believing that any additional cleanup was the responsibility of their government-run partner. However, in 1993 a group of Amazonians brought suit

against Texaco in a U.S. federal court alleging that they had been sickened by the water and air pollution. Texaco argued that the suit belonged in the Ecuadorian courts and so a new suit was filed in 2003.

Chevron inherited the suit when they acquired Texaco in 2001. The plaintiffs' legal team was led by Steven Donziger, a lawyer fluent in Spanish and apparently even more fluent in public relations. He sought to win in the court of public opinion by holding protests and having a documentary film crew follow him as he burst into judges' offices making demands for how the case would be handled. His strategy apparently worked like a charm as in 2011 an Ecuadorian court found for the plaintiffs and told Chevron to pay \$9.5 billion in damages.

However, Chevron did not back down, and in fact, they turned the attack around to the plaintiffs. They went after dozens of individuals who had helped the plaintiffs, and unearthed video clips from the documentary outtakes that painted the plaintiffs' legal team in a negative light. They also obtained the notes of Mr. Donziger and showed how his own words contradicted his legal arguments.

The seminal victory came in 2014 when a New York judge found that Mr. Donziger and the page 687 plaintiffs' legal team had offered a bribe to the Ecuadorian judge and had written the legal opinion for him. This finding resulted in Mr. Donziger losing his law license. He also has refused to turn over records to Chevron in contempt of a judge's order. His bank accounts have been frozen and he has been under house arrest in his Manhattan apartment for almost two years.

The original suit was filed 28 years ago, the original verdict handed down 10 years ago, and the verdict in favor of Chevron was issued 7 years ago. The case and related cases have been heard by over 100 judges across 36 different courts in 7 different countries. The \$9.5 billion verdict against Chevron still stands in Ecuador.

So, Chevron believes it has been a victim of injustice in the original court ruling that still stands. Mr. Donziger feels he has been a victim of injustice in the loss of his license, freezing of his bank accounts, and house arrest. However, the victims that have been left out are the original native Amazonians who suffered from the water pollution. Judith Kimerling, a professor of environmental law whose research sparked the original lawsuit says, "Chevron wants to talk about the injustices they have suffered. Steven wants to talk about the injustice he is suffering. Who is talking about the people on the ground and how they've been affected?"

DISCUSSION QUESTIONS

How does this story illustrate the perils of doing business in different countries?

How do the differences between the legal systems in the U.S. vs. Ecuador play out in this story?

SOURCE: S. Randazzo, "Litigation without End: Chevron Battles on in 28-year-old Ecuador Lawsuit," *The Wall Street Journal*, May 2, 2021,

<https://www.wsj.com/articles/litigation-without-end-chevron-battles-on-in-28-year-old-ecuador-lawsuit-116199-75500?mod=hp>

The United States has led the world in eliminating discrimination in the workplace. Because of the importance this has in our culture, we also have legal safeguards such as equal employment opportunity laws (discussed in [Chapter 3](#)) that strongly affect the hiring and firing practices of firms. As a society, we also have strong beliefs regarding the equity of pay systems; thus, the Fair Labor Standards Act (discussed in [Chapter 11](#)), among other laws and regulations, sets the minimum wage for a variety of jobs. We have regulations that dictate much of the process for negotiation between unions and management. These regulations profoundly affect how human resources are managed in the United States.

Similarly, the legal regulations regarding HRM in other countries reflect their societal norms. For example, in Germany employees have a legal right to "codetermination" at the company, plant, and individual levels. At the company level, a firm's employees have direct influence on the important decisions that affect them, such as large investments or new strategies. This is brought about through having employee representatives on the supervisory council (*Aufsichtsrat*). At the plant level, codetermination exists through works councils. These councils have no

rights in the economic management of the company, but they can influence HRM policies on such issues as working hours, payment methods, hirings, and transfers. Finally, at the individual level, employees have contractual rights, such as the right to read their personnel files and the right to be informed about how their pay is calculated.²²

Most recently, Germany has been discussing setting quotas for women in terms of their representation on executive leadership teams in large German companies. This is discussed in the [Competing through Environmental, Social, and Governance Practices](#) box.

The European Economic Community provides another example of the effects of the political–legal system on HRM. The EEC’s Community Charter of December 9, 1989, provides for the fundamental social rights of workers. These rights include freedom of movement, freedom to choose one’s occupation and be fairly compensated, guarantee of social protection via social security benefits, freedom of association and collective bargaining, equal treatment for men and women, and a safe and healthful work environment, among others. While not specific to HRM, Google was recently fined \$1.7 billion by the European Union. The European Union alleges Google did not allow rivals’ advertisements to show up on certain websites. This is the third judgment by the European Union against Google since 2017, with the total fines equaling over \$7.6 billion.



COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Will Germany Require Quotas for Women on Executive Teams?

As part of their pursuit of ESG goals, most companies seek to increase the diversity of their boards of directors (BOD), executive leadership teams (ELT), and designated high potentials (HIPO). Germany is considering requiring a quota of at least one woman on the ELT for the 70 largest German companies. Currently only 30 of those companies have a woman as part of the ELT.

The regulation was approved by the cabinet and is being debated in the parliament. If passed the law would require companies with more than 2000 employees and a management team with more than three seats to have at least one female member. It would also apply to 94 companies that are majority owned by the federal government.

Germany’s version of the New York Stock Exchange called the DAX includes the 30 largest companies and those companies have an average of 18% female representation on the executive boards. Wiebke Ankerson, managing director at Allbright, describes the situation as follows: “We always say that in Germany a woman can be chancellor, but not a CEO. Until recently, we saw more executives named Thomas or Michael than female executives in publicly listed German companies.”

DISCUSSION QUESTIONS

Do you think it is a good idea to set required quotas of women or members of underrepresented racial or ethnic groups for ELTs? Why or why not?

How can companies increase the representation of women and minority racial and ethnic groups at the most senior ranks of corporations?

SOURCE: K. Richters and D. Holger, “Germany Readies Quota for Women Board Members,” *The Wall Street Journal*, March 16, 2021, <https://www.wsj.com/articles/germany-readies-quota-for-women-board-members-11615887001>.

One way that the U.S. government has tried to influence the behavior of representatives of multinational companies doing business in other countries is through the Foreign Corrupt Practices Act (FCPA). One of the problems with

doing business with countries that differ from the U.S. in terms of their norms of business conduct is that in many countries, the quickest and easiest way to get any type of government approval is to essentially “bribe” the government official(s) in charge. While the U.S. government cannot dictate the practices of other countries, they can dictate the practices of U.S. companies doing business in those countries. Thus, they created the Foreign Corrupt Practices Act in 1977 to make it unlawful for persons (individuals) and entities (companies) to give remuneration (money or anything of value) to government officials in order to obtain or maintain business. The act was amended in 1998 to include foreign firms who either directly, or through agents engage in such corruption within any territory of the U.S. In addition to outlawing bribery, it also dictates what are considered illegal accounting practices for firms doing business in other countries. For instance, in 2020, Goldman Sachs reached a record settlement with the SEC for violating the anti-bribery, books and records, and internal accounting controls provisions of the FCPA with regard to its role in the 1Malaysia Development Berhad (1MDB) scandal. 1MDB was a fund set up to help economic development projects in Malaysia. Goldman Sachs’ Asian subsidiary company admitted to its role in conspiring to loot billions of dollars from the fund to pay bribes to Malaysian and Abu Dhabi government officials to obtain their business. The firm agreed to pay \$2.9 billion in the U.S. and over \$5 billion globally as part of the settlement.

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Economic System

A country’s economic system influences HRM in a number of ways. As previously discussed, a country’s culture is tied integrally to its economic system, and these systems provide many of the incentives for developing human capital. In socialist economic systems there are ample opportunities for developing human capital because the education system is free. However, under these systems, there is little economic incentive to develop human capital because there are no monetary rewards for increasing human capital. In addition, in former Soviet bloc countries, an individual’s investment in human capital did not always result in a promotion. Rather, it was investment in the Communist Party that led to career advancements.

In capitalist systems the opposite situation exists. There is less opportunity to develop human capital without higher costs. (You have probably observed tuition increases at U.S. universities.) However, those who do invest in their individual human capital, particularly through education, are more able to reap monetary rewards, thus providing more incentive for such investment. In the United States, individuals’ salaries usually reflect differences in human capital (high-skill workers receive higher compensation than low-skill workers). In fact, research estimates that an individual’s wages increase by between 10% and 16% for each additional year of schooling.²³

In addition to the effects of an economic system on HRM, the health of the system can have an important impact. For example, we referred earlier to lower labor costs in India. In developed countries with a high level of wealth, labor costs tend to be quite high relative to those in developing countries. Although labor costs are related to the human capital of a country, they are not perfectly related, as shown by [Figure 15.2](#). This chart provides a good example of the different hourly labor costs for manufacturing jobs in various countries.

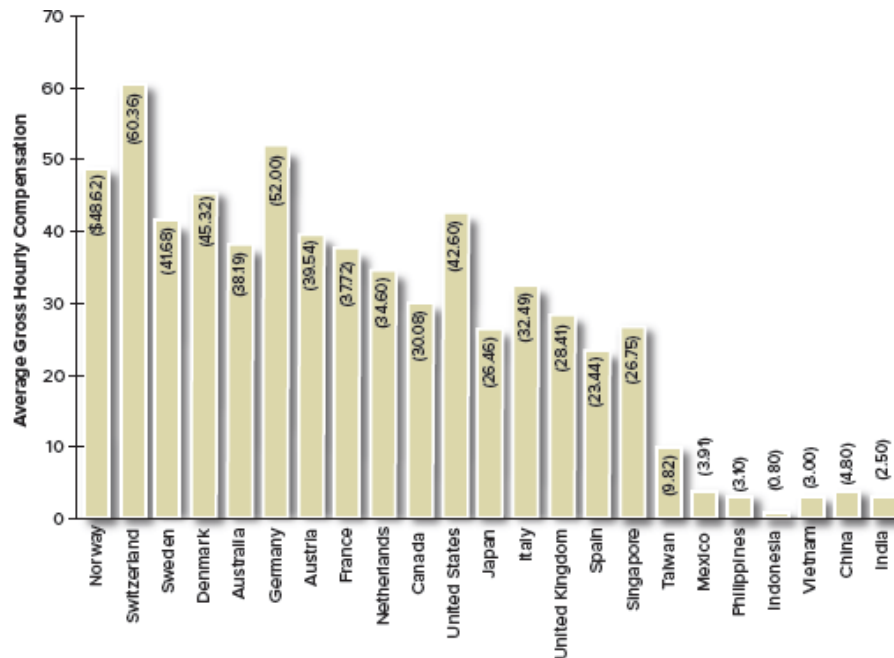


Figure 15.2 Manufacturing Labor Costs Per Hour in 2019

SOURCE: <https://www.statista.com/statistics/744060/manufacturing-labor-costs-per-hour-for-select-countries/>.

An economic system also affects HRM directly through its taxes on compensation packages. Thus, the differential labor costs shown in [Figure 15.2](#) do not always reflect the actual take-home pay of employees. Socialist systems are characterized by tax systems that redistribute wealth by taking a higher percentage of workers' income as they move up the economic ladder. Capitalist systems attempt to reward individuals for their efforts by allowing them to keep more of their earnings. Companies that do business in other countries have to present compensation packages to expatriate managers that are competitive in take-home, rather than gross, pay. HRM responses to these issues affecting expatriate managers will be discussed in more detail later in this chapter.

These differences in economies can have a profound impact on pay systems, particularly among global companies seeking to develop an international compensation and reward system that maintains cost controls while enabling local operations to compete in the war for talent. One recent study examining how compensation managers design these systems indicates that they look at a number of factors including the global firm strategy, the local regulatory and political context, institutions and stakeholders, local markets, and national culture. While they try to learn from the best practices that exist globally, they balance these approaches with the constraints imposed by the local environment.²⁴ The [Integrity in Action](#) box describes how the Chair of Harvard's Chemistry department has been arrested for lying about his involvement and compensation for participating in China's Thousand Talents program.



INTEGRITY IN ACTION

Scandal in Harvard's Chemistry Department

Obtaining funding for research serves as one of the main roles of professors at research universities. In addition, the most successful researchers often conduct joint research projects with professors and doctoral students from universities all across the globe, and the funding for those projects can come from any country. However, because of serious concerns about China's efforts to illegally obtain intellectual property, researchers in the U.S. must report any funding coming from China when applying for U.S.-backed research funding.

Charles Lieber, the chairman of Harvard University's chemistry department, was recently arrested for running afoul of these regulations. China supports what they call the "Thousand Talents Program" where they pay scientists from outside of China to work with Chinese institutions. Lieber received \$50,000 per month plus \$150,000 per year for living expense from the Wuhan University of Technology (WUT) to set up a research laboratory. In return, he was to work for WUT for nine months each year from 2012 through 2017 "declaring international cooperation projects, cultivating young teachers and PhD students, organizing international conference(s), applying for patents, and publishing articles" under the WUT name.

While none of this was illegal, Lieber broke the law when he failed to declare the arrangement while receiving \$15 million from the Defense Department and the National Institutes of Health to fund his Harvard research group. When asked about his research collaborations in 2018 he told Defense Department investigators that he had never been involved with the Thousand Talents Program. Kevin Droegemeier from the White House Office of Science and Technology Policy stated, "Failures to disclose the receipt of substantial resources, participation in certain types of programs, and dual employment distort decisions about the appropriate use of taxpayer funds and result in hidden transfers of information, know-how and time."

The FBI's Joseph Bonavolonta sums up the problem, "While we are still confronted with traditional spies ... I can tell you China is also using what we call nontraditional collectors such as professors, researchers, hackers and front companies."

DISCUSSION QUESTIONS

Why do you think Professor Lieber was not completely honest with Defense Department investigators when they asked about his work with the Thousand Talents Program?

Do you think that American researchers need to be wary of working with researchers from other countries such as China? Why or why not?

SOURCE: A. Viswanatha and K. O'Keeffe, "Harvard Chemistry Chairman Charged on Alleged Undisclosed Ties to China," January 28, 2020, <https://www.wsj.com/articles/harvards-chemistry-chair-charged-on-alleged-undisclosed-ties-to-china-11580228768>.

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In conclusion, every country varies in terms of its culture, education–human capital, political–legal system, and economic system. These variations directly influence the types of HRM systems that must be developed to accommodate the particular situation. The extent to which these differences affect a company depends on how involved the company is in global markets.

Immigration

One perennial but currently important issue that crosses all of the above factors, culture, education, political–legal, and economic, is immigration. Because American families are having fewer children, there may be a growing need for workers. In addition, many tech companies claim there are not enough Americans with the tech skills they need, so they seek to bring in workers from around the globe. Finally, because of the strong economy, large numbers of foreign citizens seek to enter the U.S. illegally in the hopes of finding work.

In 1986 Congress passed the Immigration Reform and Control Act (IRCA) which made it illegal for any employer to knowingly hire individuals who were not authorized (usually through a green card) to work in the U.S. It also created the e-Verify system which enables employers to check the immigration status of applicants. Note that the responsibility and legal accountability falls on the employers who can be fined between \$100 and \$1000 per hire

and can face possible imprisonment for repeatedly violating the act.

While a number of different visa types exist, the predominant ones in the public's eyes are H-1B and H-2A. H-1B visas are currently capped at 65,000 per year. These are the visas that many companies want access to so that they can bring in highly skilled workers from other countries. H-2A visas are for temporary or seasonal workers who are performing jobs that not enough U.S. citizens are able, willing or qualified to do, and for which bringing in these workers will not adversely affect the wages of U.S. citizens. These represent the major categories through which immigrants can legally work in the U.S. However, a large number of immigrants enter the U.S. without legal documentation, and it is expected the number of undocumented immigrants will increase.

With the Biden administration taking office after campaigning on a more open immigration policy, as of March 2021, the southern border was overwhelmed with foreign citizens, primarily Hispanic, seeking to enter the U.S. Because of the overwhelming numbers, the administration reinstituted a "catch and release" strategy of apprehending the border crossers, processing them, and giving them a court date to reappear to plea their case (usually 2 to 3 years later given the case backlogs). Combined with the fact that estimates range from 12 million to 30 million undocumented immigrants currently living in the U.S., considerable debate has emerged regarding what types of new reforms to the IRCA need to be implemented.

In the next section we discuss important concepts of global business and various levels of global participation, particularly noting how these factors come into play.

Managing Employees in a Global Context

Types of International Employees

LO 15-3

List the different categories of international employees.

Before discussing the levels of global participation, we need to distinguish between parent countries, host countries, and third countries. A [parent country](#) is the country in which the company's corporate headquarters is located. For example, the United States is the parent country of General Motors. A [host country](#) is the country in which the parent country organization seeks to locate (or has already located) a facility. Thus, Great Britain is a host country for General Motors because GM has operations there. A [third country](#) is a country other than the host country or parent country, and a company may or may not have a facility there.

[Parent country](#)

The country in which a company's corporate headquarters is located.

[Host country](#)

The country in which the parent-country organization seeks to locate or has already located a facility.

[Third country](#)

A country other than a host or parent country.

There are also different categories of employees. The term [expatriate](#) is generally used for employees sent by a company in one country to manage operations in a different country. With the increasing globalization of business, it is now important to distinguish among different types of expatriates. [Parent-country nationals \(PCNs\)](#) are employees who were born and live in the parent country. [Host-country nationals \(HCNs\)](#) are those employees who

were born and raised in the host, as opposed to the parent, country. Finally, [third-country nationals \(TCNs\)](#) are employees born in a country other than the parent country and host country but who work in the host country. Thus, a manager born and raised in Brazil employed by an organization located in the United States and assigned to manage an operation in Thailand would be considered a TCN.

[Expatriate](#)

Employee sent by his or her company to manage operations in a different country.

[Parent-country nationals \(PCNs\)](#)

Employees who were born and live in a parent country.

[Host-country nationals \(HCNs\)](#)

Employees born and raised in a host, not parent, country.

[Third-country nationals \(TCNs\)](#)

Employees born in a country other than a parent or host country.

Research shows that countries differ in their use of various types of international employees. One study revealed that Japanese multinational firms have more ethnocentric HRM policies and practices (they tend to use Japanese expatriate managers more than local host-country nationals) than either European or U.S. firms. This study also found that the use of ethnocentric HRM practices is associated with more HRM problems.²⁵

Levels of Global Participation

We often hear companies referred to as “multinational” or “international.” However, it is important to understand the different levels of participation in international markets. This is especially important because as a company becomes more involved in international trade, different types of HRM problems arise. In this section we examine Nancy Adler’s categorization of the various levels of international participation from which a company may choose.²⁶ [Figure 15.3](#) depicts these levels of involvement.

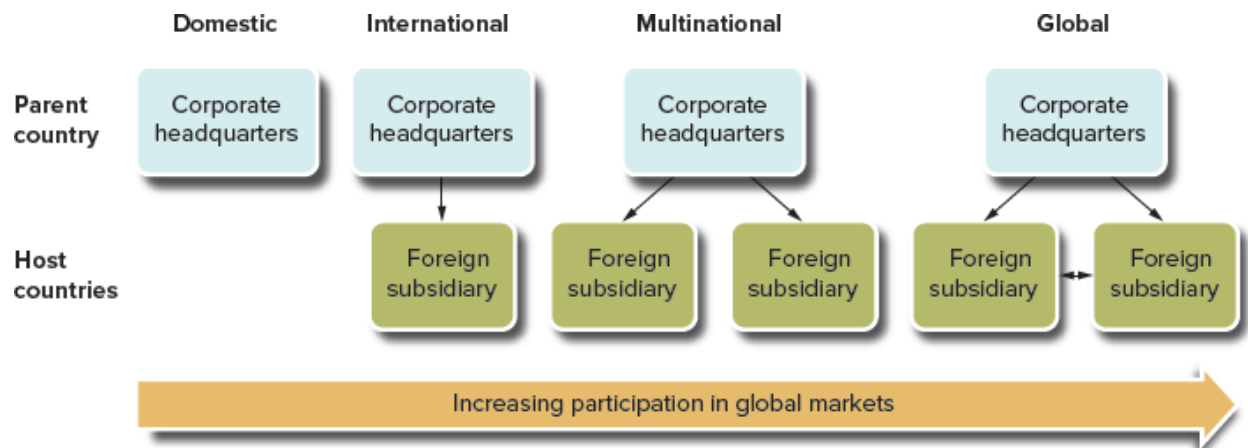


Figure 15.3 Levels of Global Participation

Domestic

Identify the four levels of global participation and the HRM issues faced within each level.

Most companies begin by operating within a domestic marketplace. For example, an entrepreneur may have an idea for a product that meets a need in the U.S. marketplace. This individual then obtains capital to build a facility that produces the product or service in a quantity that meets the needs of a small market niche. This requires recruiting, hiring, training, and compensating a number of individuals who will be involved in the production process, and these individuals are usually drawn from the local labor market. The focus of the selection and training programs is often on the employees' technical competence to perform job-related duties and to some extent on interpersonal skills. In addition, because the company is usually involved in only one labor market, determining the market rate of pay for various jobs is relatively easy.

As the product grows in popularity, the owner might choose to build additional facilities in different parts of the country to reduce the costs of transporting the product over large distances. In deciding where to locate these facilities, the owner must consider the attractiveness of the local labor markets. Various parts of the country may have different cultures that make those areas more or less attractive according to the work ethics of the potential employees. Similarly, the human capital in the different areas may vary greatly because of differences in educational systems. Finally, local pay rates may differ. It is for these reasons that the U.S. economy in the past 10 years has experienced a movement of jobs from northern states, which are characterized by strong unions and high labor costs, to the Sunbelt states, which have lower labor costs and are less unionized.

Incidentally, even domestic companies face problems with cultural diversity. In the United States, for example, the representation of women and ethnic and racial minority groups is increasing within the workforce. These groups come to the workplace with worldviews that differ from those of the traditional white man. Thus, we are seeing more and more emphasis on developing systems for managing cultural diversity within single-country organizations, even though the diversity might be on a somewhat smaller scale than the diversity of cultures across national boundaries.²⁷

In a meta-analysis of the effects of cultural diversity on the functioning of multicultural work groups, Stahl and colleagues found that cultural diversity leads to process losses through increased task conflict and decreased social integration. At the same time, it leads to process gains through increasing creativity and satisfaction.²⁸

It is important to note that companies functioning at the domestic level face an environment with very similar cultural, education–human capital, political–legal, and economic situations, although some variation might be observed across states and geographic areas.

International

As more competitors enter the domestic market, companies face the possibility of losing market share; thus, they often seek other markets for their products. This usually requires entering international markets, initially by exporting products but ultimately by building production facilities in other countries. The decision to participate in international competition raises a host of human resource issues. All the problems regarding locating facilities are magnified. One must consider whether a particular location provides an environment where human resources can be successfully acquired and managed.

Now the company faces an entirely different situation with regard to culture, education–human capital, the political–legal system, and the economic system. For example, the availability of human capital is of utmost importance, and there is a substantially greater variability in human capital between the United States and other countries than there is among the various states in the United States.

A country's legal system may also present HRM problems. For example, France has a relatively high minimum wage, which drives up labor costs. In addition, regulations make it extremely difficult to fire or lay off an employee. In Germany companies are legally required to offer employees influence in the management of the firm.

Companies that develop facilities in other countries have to adapt their HRM practices to conform to the host country's laws. This requires the company to gain expertise in the country's HRM legal requirements and knowledge about how to deal with the country's legal system, and it often requires the company to hire one or more host-country nationals. In fact, some countries legally require companies to hire a certain percentage of HCNs for any foreign-owned subsidiary.

Finally, cultures have to be considered. To the extent that the country's culture is vastly different from that of the parent organization, conflicts, communication problems, and morale problems may occur. Expatriate managers must be trained to identify these cultural differences, and they must be flexible enough to adapt their styles to those of their host country. This requires an extensive selection effort to identify individuals who are capable of adapting to new environments and an extensive training program to ensure that the culture shock is not devastating.

Multinational

Whereas international companies build one or a few facilities in another country, they become multinational when they build facilities in a number of different countries, attempting to capitalize on lower production and distribution costs in different locations. The lower production costs are gained by shifting production from higher-cost locations to lower-cost locations. For example, some of the major U.S. automakers have plants all over the world. They continue to shift their production from the United States, where labor unions have gained high wages for their members, to *maquiladora* facilities in Mexico, where the wages are substantially lower. Similarly, these companies minimize distribution and labor costs by locating facilities in central and eastern European countries such as Poland, Hungary, and the Slovak Republic for manufacturing and assembling automobiles to sell in the European market.

The HRM problems multinational companies face are similar to those international companies face, only magnified. Instead of having to consider only one or two countries' cultural, education–human capital, political–legal, and economic systems, the multinational company must address these differences for a large number of countries. This accentuates the need to select managers capable of functioning in a variety of settings, give them necessary training, and provide flexible compensation systems that take into account the different market pay rates, tax systems, and costs of living.

Multinational companies now employ many “inpatriates”—managers from different countries who become part of the corporate headquarters staff. This creates a need to integrate managers from different cultures into the culture of the parent company. In addition, multinational companies now take more expatriates from countries other than the parent country and place them in facilities of other countries. For example, a manager from Scotland, working for a U.S. company, might be assigned to run an operation in South Africa. This practice accentuates the need for cross-cultural training to provide managerial skills for interaction with individuals from different cultures.

Global

Many researchers now propose a fourth level of integration: global organizations. Global organizations compete on state-of-the-art, top-quality products and services and do so with the lowest costs possible. Whereas multinational companies attempt to develop identical products distributed worldwide, global companies increasingly emphasize flexibility and mass customization of products to meet the needs of particular clients. Multinational companies are usually driven to locate facilities in a country as a means of reaching that country's market or lowering production costs, and the company must deal with the differences across the countries. Global firms, by contrast, choose to locate a facility based on the ability to effectively, efficiently, and flexibly produce a product or service and attempt to create synergy through the cultural differences.

This creates the need for HRM systems that encourage flexible production (thus presenting a host of HRM issues). These companies proactively consider the cultures, education–human capital, political–legal systems, and economic systems to determine where production facilities can be located to provide a competitive advantage. Global companies have multiple headquarters spread across the globe, resulting in fewer hierarchically structured organizations that emphasize decentralized decision making. This results in the need for human resource systems that recruit, develop, retain, and use managers and executives who are competent transnationally.

A transnational HRM system is characterized by three attributes.²⁹ [Transnational scope](#) refers to the fact that HRM decisions must be made from a global rather than a national or regional perspective. This creates the need to make decisions that balance the need for uniformity (to ensure fair treatment of all employees) with the need for flexibility (to meet the needs of employees in different countries). [Transnational representation](#) reflects the multinational composition of a company's managers. Global participation does not necessarily ensure that each country is providing managers to the company's ranks. This is a prerequisite if the company is to achieve the next attribute. [Transnational process](#) refers to the extent to which the company's planning and decision-making processes include representatives and ideas from a variety of cultures. This attribute allows for diverse viewpoints and knowledge associated with different cultures, increasing the quality of decision making.

[Transnational scope](#)

A company's ability to make HRM decisions from an international perspective.

[Transnational representation](#)

Reflects the multinational composition of a company's managers.

[Transnational process](#)

The extent to which a company's planning and decision-making processes include representatives and ideas from a variety of cultures.

These three characteristics are necessary for global companies to achieve cultural synergy. Rather than simply integrating foreigners into the domestic organization, a successful transnational company needs managers who will treat managers from other cultures as equals. This synergy can be accomplished only by combining selection, training, appraisal, and compensation systems in such a way that managers have a transnational rather than a parochial orientation. However, a survey of 50 companies in the United States and Canada found that global companies' HRM systems are far less transnational in scope, representation, and process than the companies' strategic planning systems and organizational structures.³⁰

In conclusion, entry into international markets creates a host of HRM issues that must be addressed if a company is to gain competitive advantage. Once the choice has been made to compete in a global arena, companies must seek to manage employees who are sent to foreign countries (expatriates and third-country nationals). This causes the need to shift from focusing only on the culture, education–human capital, political–legal, and economic influences of the host country to examining ways to manage the expatriate managers who must be located there. Selection systems must be developed that allow the company to identify managers capable of functioning in a new culture. These managers must be trained to identify the important aspects of the new culture in which they will live as well as the relevant legal–political and economic systems. Finally, these managers must be compensated to offset the costs of uprooting themselves and their families to move to a new situation vastly different from their previous lives. In the next section we address issues regarding management of expatriates.

Managing Expatriates in Global Markets

LO 15-5

Discuss the ways companies attempt to select, train, compensate, and reintegrate expatriate managers.

We have outlined the major macro-level factors that influence HRM in global markets. These factors can affect a company's decision whether to build facilities in a given country. In addition, if a company does develop such facilities, these factors strongly affect the HRM practices used. However, an important issue recognized over the past few years is the set of problems inherent in selecting, training, compensating, and reintegrating expatriate managers.

According to a study by the National Foreign Trade Council (NFTC), there were 250,000 Americans on assignments overseas and that number was expected to increase. In addition, the NFTC estimates that the average one-time cost for relocating an expatriate is \$60,000.³¹ The importance to the company's profitability of making the right expatriate assignments should not be underestimated. Expatriate managers' average compensation package is approximately \$250,000,³² and the cost per page 696 of an unsuccessful expatriate assignment (i.e., a manager returning early) is approximately \$100,000.³³ The failure rate for expatriate assignments among U.S. firms had been estimated at between 15% and 40%. However, more recent research suggests that the current figure is much lower. Some recent studies of European multinationals put the rate at 5% for most firms. Although the failure rate is generally recognized as higher among U.S. multinationals, it is doubtful that the proportion reaches the 15–40% range.³⁴

In the final section of the chapter, we discuss the major issues relevant to the management of expatriate managers. These issues cover the selection, training, compensation, and reacculturation of expatriates.

Selection of Expatriate Managers

One of the major problems in managing expatriate managers is determining which individuals in the organization are most capable of handling an assignment in a different culture. Expatriate managers must have technical competence in the area of operations; otherwise, they will be unable to earn the respect of subordinates. However, technical competence has been almost the sole variable used in deciding who to send on overseas assignments, despite the fact that multiple skills are necessary for successful performance in these assignments.³⁵

According to Brookfield Global Relocation Services's 2016 Global Mobility Trends report, almost 80% of companies do not formally assess international assignment candidates in terms of their adaptability, and only 20% use a candidate's self-assessment of their adaptability. Also, 48% are unsure if the attrition rate of their expatriates is higher than the attrition rate in the rest of their workforce.

A successful expatriate manager must be sensitive to the country's cultural norms, flexible enough to adapt to those norms, and strong enough to make it through the inevitable culture shock. In addition, the manager's family must be similarly capable of adapting to the new culture. These adaptive skills have been categorized into three dimensions:³⁶ (1) *the self dimension* (the skills that enable a manager to maintain a positive self-image and psychological well-being), (2) *the relationship dimension* (the skills required to foster relationships with the host-country nationals), and (3) *the perception dimension* (those skills that enable a manager to accurately perceive and evaluate the host environment). One study of international assignees found that they considered the following five factors to be important, in descending order of importance: family situation, flexibility and adaptability, job knowledge and motivation, relational skills, and extracultural openness.³⁷ **Table 15.3** presents a series of considerations and questions to ask potential expatriate managers to assess their ability to adapt to a new cultural environment.

One construct that has been emerging in the expatriate literature is cultural intelligence (CQ). This characteristic refers to an individual's ability to adapt across cultures through sensing the different cues regarding appropriate

behavior across cultural settings or in multicultural settings. In fact, one set of researchers found that CQ was related to cultural adjustment and task performance among a sample of international executives.³⁸

Little evidence suggests that U.S. companies have invested much effort in attempting to make correct expatriate selections. One researcher found that only 5% of the firms surveyed administered any tests to determine the degree to which expatriate candidates possessed cross-cultural skills.³⁹ More recent research reveals that only 35% of firms choose expatriates from multiple candidates and that those firms emphasize only technical job-related experience and skills in making these decisions.⁴⁰ These findings glaringly demonstrate that U.S. organizations need to improve their success rate in overseas assignments. As discussed in [Chapter 6](#), the technology for assessing individuals' knowledge, skills, and abilities has advanced. The potential for selection testing to decrease the failure rate and productivity problems of U.S. expatriate managers seems promising. For instance, research has examined the "Big Five" personality dimensions as predictors of expatriate success (remember these from [Chapter 6](#)). For instance, one study distinguished between expatriate success as measured by not terminating the assignment and success as measured by supervisory evaluations of the expatriate. The researcher found that agreeableness, emotional stability, and extraversion were negatively related to the desire to terminate the assignment (i.e., they wanted to stay on the assignment longer), and conscientiousness was positively related to supervisory evaluations of the expatriate.⁴¹

Table 15.3 Select Topics for Assessing Candidates for Overseas Assignments

Motivation What are the candidate's reasons and degree of interest in wanting an overseas assignment? Does the candidate have a realistic understanding of what is required in working and living overseas? What is the spouse's attitude toward an overseas assignment?
Health Are there any health issues with the candidate or family members that might impact the success of the overseas assignment?
Language ability Does the candidate have the potential to learn a new language? Does the candidate's spouse have the ability to learn a new language?

Family considerations

How many moves has the family made among different cities or parts of the United States? What problems were encountered?

What is the spouse's goal in this move overseas?

How many children are in the family, and what are their ages? Will all the children move as part of the overseas assignment?

Has divorce or its potential, or the death of a family member, had a negative effect on the family's cohesiveness?

Are there any adjustment problems the candidate would expect, should the family move overseas?

Resourcefulness and initiative

Is the candidate independent and capable of standing by his or her decisions?

Is the candidate able to meet objectives and produce positive results with whatever human resources and facilities are available regardless of challenges that might arise in a foreign business environment?

Can the candidate operate without a clear definition of responsibility and authority?

Will the candidate be able to explain the goals of the company and its mission to local managers and workers?

Does the candidate possess sufficient self-discipline and self-confidence to handle complex problems?

Can the candidate operate effectively in a foreign country without normal communications and supporting services?

Adaptability

Is the candidate cooperative, open to the opinions of others, and able to compromise?

How does the candidate react to new situations and efforts to understand and appreciate cultural differences?

How does the candidate react to criticism, constructive or otherwise?

Will the candidate be able to make and develop contacts with peers in a foreign country?

Does the candidate demonstrate patience when dealing with problems? Is he or she resilient and able to move forward after setbacks?

Career planning

Does the candidate consider the assignment more than a temporary overseas trip?

Is the overseas assignment consistent with the candidate's career development and one that was planned by the company?

What is the candidate's overall attitude toward the company?

Is there any history or indication of interpersonal problems with this candidate?

Financial

Are there any current financial and/or legal considerations that might affect the assignment (e.g., house or car purchase, college expenses)?

Will undue financial pressures be put upon the candidate and his or her family as a result of an overseas assignment?

SOURCES: P. Caligiuri, *Cultural Agility: Building a Pipeline of Successful Global Professionals* (San Francisco: Jossey-Bass, 2012); P. Caligiuri, D. Lepak, and J. Bonache, *Managing the Global Workforce* (West Sussex, United Kingdom: John Wiley & Sons, 2010); M. Shaffer, D. Harrison, H. Gregersen, S. Black, and L. Ferzandi, "You Can Take It with You: Individual Differences and Expatriate Effectiveness," *Journal of Applied Psychology* 91 (2006), pp. 109–25; P. Caligiuri, "Developing Global Leaders," *Human Resource Management Review* 16 (2006), pp. 219–28; P. Caligiuri, M. Hyland, A. Joshi, and A. Bross, "Testing a Theoretical Model for Examining the Relationship between Family Adjustment and Expatriates' Work Adjustment," *Journal of Applied Psychology* 83 (1998), pp. 598–614; David M. Noer, *Multinational People Management: A Guide for Organizations and Employees* (Arlington, VA: Bureau of National Affairs, 1975).

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A final issue with regard to expatriate selection is the use of women in expatriate assignments. For a long time, U.S. firms believed that women would not be successful managers in countries where women have not traditionally been promoted to management positions (such as in Japan and other Asian countries). However, recent evidence indicates that this is not true. Robin Abrams, an expatriate manager for Apple Computer's Hong Kong office, states that nobody cares whether "you are wearing trousers or a skirt if you have demonstrated core competencies." In fact, some women believe that the novelty of their presence among a group of men increases their credibility with locals. In fact, some research suggests that male and female expatriates can perform equally well in international assignments, regardless of the country's cultural predispositions toward women in management. However, female expatriates self-rate their adjustment lower in countries that have few women in the workforce.⁴² Research has shown that female expatriates were perceived as being effective regardless of the cultural toughness of the host country.⁴³ The fact is that female expatriates feel more strongly than their supervisors that prejudice does not limit women's ability to be successful.⁴⁴

Training and Development of Expatriates

Once an expatriate manager has been selected, it is necessary to prepare that manager for the upcoming assignment. Because these individuals already have job-related skills, some firms have focused development efforts on cross-cultural training. A review of the cross-cultural training literature found support for the belief that cross-cultural training has an impact on effectiveness.⁴⁵ Even so, cross-cultural training is hardly universal. According to one survey, 69% of the 150 respondent companies offered cultural training for their outbound employees.⁴⁶

What exactly is emphasized in cross-cultural training programs? The details regarding these programs were discussed in [Chapter 7](#). Most programs attempt to create an appreciation of the host country’s culture so that expatriates can behave appropriately.⁴⁷ This entails emphasizing a few aspects of cultural sensitivity. First, expatriates must be clear about their own cultural background, particularly as it is perceived by the host nationals. With an accurate cultural self-awareness, managers can modify their behavior to accentuate the effective characteristics while minimizing those that are dysfunctional.⁴⁸

Second, expatriates must understand the particular aspects of culture in the new work environment. Although culture is an elusive, almost invisible phenomenon, astute expatriate managers must perceive the culture and adapt their behavior to it. This entails identifying the types of behaviors and interpersonal styles that are considered acceptable in both business meetings and social gatherings. For example, Germans value promptness for meetings to a much greater extent than do Latin Americans. [Table 15.4](#) displays some ways body language conveys different messages in different countries.

Finally, expatriates must learn to communicate accurately in the new culture. Some firms attempt to use expatriates who speak the language of the host country, and a few provide language training. However, most companies simply assume that the host-country nationals all speak the parent-country’s language. Although this page 699assumption might be true, seldom do these nationals speak the parent-country language fluently. Thus, expatriate managers must be trained to communicate with others when language barriers exist.

Table 15.4 International Body Language

COUNTRY	NONVERBAL MESSAGES
Argentina	If the waiter approaches pointing to the side of his head and making a spinning gesture with his finger, don't think he's lost it—he's trying to say you have a phone call.
Bangladesh	Bursting to go to the toilet? Hold it. It is considered very rude to excuse yourself from the table to use the bathroom.
Bolivia	Don't make "the sign of the fig" (thumb protruding between index and middle finger), historically a sign that you couldn't care less—it is very insulting.
Bulgaria	Bulgarians nod the head up and down to mean no, not yes. To say yes, a Bulgarian nods the head back and forth.

Mainland China	In Eastern culture, silence really can be golden. So don't panic if long periods of silence form part of your meeting with Chinese clients. It simply means they are considering your proposal carefully.
Egypt	Because across the Arab world the left hand is unclean, use your right to accept business cards and to greet someone. Use only your right hand for eating.
Fiji	To show respect to your Fijian hosts when addressing them, stand with your arms folded behind your back.
France	The French don't like strong handshakes, preferring a short, light grip or air kissing. If your French colleague is seen to be playing an imaginary flute, however, it means he thinks you are not being truthful.
Germany	When Germans meet across a large conference table and it is awkward to reach over and shake hands, they will instead rap their knuckles lightly on the table by way of a greeting.
Greece	Beware of making the okay sign to Greek colleagues as it signifies bodily orifices. A safer bet is the thumbs-up sign. The thumbs-down, however, is the kind of gesture reserved for when a Greek motorist cuts you off on the highway.
Hong Kong (SAR)	When trying to attract someone's attention, don't use your index finger with palm extended upward. This is how the Cantonese call their dogs.
India	Beware of whistling in public—it is the height of rudeness here.
Japan	Japan is a real minefield for Western businesspeople, but one that always gets to them is the way the Japanese heartily slurp their noodles at lunch. Far from being rude, it actually shows appreciation of the food in Japanese culture.
Jordan	No matter how hungry you are, it is customary to refuse seconds from your host twice before finally accepting a third time.

Lebanon	Itchy eyebrow? Don't scratch it. Licking your little finger and brushing it across your eyebrow is provocative.
Malaysia	If you find a Malaysian standing with hands on hips before you, you've clearly said something wrong. It means he's livid.
Mexico	Mexicans are very tactile and often perform a bizarre handshake whereby, after pressing together the palms, they will slide their hands upward to grasp each other's thumbs.
Netherlands	The Dutch may seem open-minded, but if Dutch people tap the underside of their elbow, it means they think you're unreliable.
Pakistan	The overt display of a closed fist is an incitement to war.
Philippines	The "Roger Moore" is a common greeting here—a quick flash of the eyebrows supersedes the need for handshakes.
Russia	The Russians are highly tactile meet and greeters, with bear hugs and kisses directly on the lips commonplace. Don't take this habit to nearby Uzbekistan, however. They'd probably shoot you.
Saudi Arabia	If a Saudi man takes another's hand on the street, it's a sign of mutual respect.
Samoa	When your new Samoan host offers you a cup of the traditional drink, kava, make sure to deliberately spill a few drops on the ground before taking your first sip.
Turkey	Be careful not to lean back on your chair and point the sole of your foot at anyone in a meeting in Istanbul. Pointing with the underside of the foot is highly insulting.

SOURCES: K. Elkins and M. Nudelman, "The Shocking Differences in Basic Body Language Around the World," *Business Insider*, March 17, 2015, <http://www.businessinsider.com/body-language-around-the-world-2015-3>; R. Axtell, *Gestures: The Dos and Taboos of Body Language Around the World*, (New York: Wiley, 1991); P. Harris and R. Moran, *Managing Cultural Differences*, 3rd ed. (Houston, TX: Gulf Publishing, 1991); R. Linowes, "The Japanese Manager's Traumatic Entry into the United States: Understanding the American-Japanese Cultural Divide," *Academy of Management Executive* 7, no. 4 (1993), p. 26; D. Doke, "Perfect Strangers," *HR Magazine*, December 2004, pp. 62–68.

Recent research has validated some of the most important expatriate adjustment factors. These are listed in [Table 15.5](#).

Table 15.5 Expatriate Adjustment Factors

Work Environment (the employees, culture, and climate where the expatriate works)
Language (the ability of the expatriate to communicate effectively)
Job or Task Characteristics (the expatriate's freedom, autonomy and variety in how they work)
Leisure Time (opportunities to engage in sports, hobbies and other leisure activities)
Urbanity (pollution, traffic, and beauty of the location)
Work–Life Balance (ability to balance time spent at work and with family)
Living Quarters (size and type of living accommodations)
Family Life (family cohesion and harmony with partner)
Local Friendships (number and depth of local friendships)
Contact to Those Left Behind (ability to maintain relationships with family and friends in the home country)

SOURCE: T. Hippler, P. Caligiuri, J. Johnson, and N. Baytalskaya, "The Development and Validation of a Theory-Based Expatriate Adjustment Scale," *International Journal of Human Resource Management* 25, no. 14 (2014), pp. 1938–59.

Effective cross-cultural training helps ease an expatriate's transition to the new work environment. It can also help avoid costly mistakes, such as the expatriate who attempted to bring two bottles of brandy into the Muslim country of Qatar. The brandy was discovered by customs; not only was the expatriate deported, but the company also was "disinvited" from the country.⁴⁹

Compensation of Expatriates

One of the more troublesome aspects of managing expatriates is determining the compensation package. As discussed previously, these packages average \$250,000, but it is necessary to examine their exact breakdown. Most use a balance sheet approach to determine the total package level. This approach entails developing a total compensation package that equalizes the purchasing power of the expatriate manager with that of employees in similar positions in the home country and provides incentives to offset the inconveniences incurred in the location. Purchasing power includes all of the expenses associated with the expatriate assignment. Expenses include goods and services (food, personal care, clothing, recreation, and transportation), housing (for a principal residence), income taxes (paid to federal and local governments), reserve (savings, payments for benefits, pension contributions), and shipment and storage (costs associated with moving and/or storing personal belongings). A typical balance sheet is shown in [Figure 15.4](#).

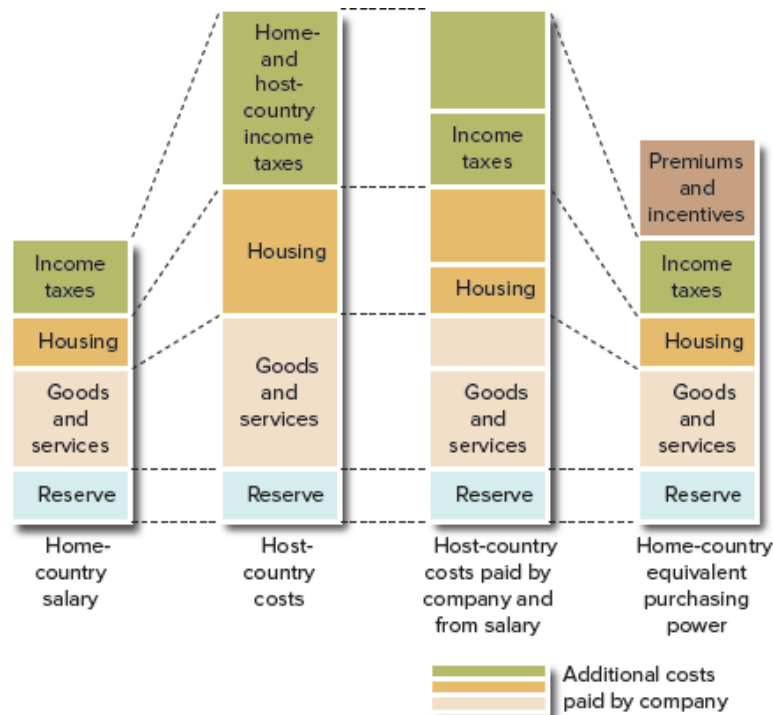


Figure 15.4 The Balance Sheet for Determining Expatriate Compensation

SOURCE: From C. Reynolds, "Compensation of Overseas Personnel." In *Handbook of Human Resource Administration*, 2nd ed., edited by J. J. Famulari, 1986. Copyright 1986. Reproduced with permission of The McGraw-Hill Companies, Inc.

As you can see from this figure, the employee starts with a set of costs for taxes, housing, goods and services, and reserve. However, in the host country, these costs are significantly higher. Thus, the company must make up the difference between costs in the home and those in the host country, and then provide a premium and/or incentive for the employee to go through the trouble of living in a different environment.

Total pay packages have four components. First, there is the base salary. Determining the base salary is not a simple matter, however. Fluctuating exchange rates between countries may make an offered salary a raise some of the time, a pay cut at page 701 other times. In addition, the base salary may be based on comparable pay in the parent country, or it may be based on the prevailing market rates for the job in the host country. Expatriates are often offered a salary premium beyond that of their present salary as an inducement to accept the expatriate assignment.

Tax equalization allowances are a second component. They are necessary because of countries' different taxation systems in high-tax countries.⁵⁰ Under most tax equalization plans, the company withholds the amount of tax to be paid in the home country, then pays all of the taxes accrued in the host country.

A third component, benefits, presents additional compensation problems. Most of the problems have to do with the transportability of the benefits. For example, if an expatriate contributing to a pension plan in the United States is moved to a different country, does the individual have a new pension in the host country, or should the individual be allowed to contribute to the existing pension in her home country? What about health care systems located in the United States? How does the company ensure that expatriate employees have equal health care coverage? For example, in one company, the different health care plans available resulted in situations where it might cost significantly less to have the employee fly to the United States to have a procedure performed rather than to have it done in the host country. However, the health plans did not allow this alternative.

Finally, allowances are often offered to make the expatriate assignment less unattractive. Cost-of-living allowances are payments that offset the differences in expenditures on day-to-day necessities between the host country and

the parent country. For instance, [Table 15.6](#) shows the differences in cost of living among some of the larger international cities. Housing allowances ensure that the expatriate can maintain the same home-country living standard. Education allowances reimburse expatriates for the expense of placing their children in private English-speaking schools. Relocation allowances cover all the expenses of making the actual move to a new country, including transportation to and from the new location, temporary living expenses, page 702 and shipping and/or storage of personal possessions. [Figure 15.5](#) illustrates a summary sheet for an expatriate manager's compensation package at Abbvie.

Table 15.6 The 10 Most Expensive Cities (New York = 100)

CITY, COUNTRY	WCOL INDEX	RANK	RANK MOVEMENT (SINCE 2016)
Singapore, Singapore	129	1	0
Paris, France	126	2	0
Oslo, Norway	124	3	0
Zurich, Switzerland	121	4	0
Sydney, Australia	120	5	0
Melbourne, Australia	118	6	0
Geneva, Switzerland	116	7	-1
Copenhagen, Denmark	115	8	2
Hong Kong, Hong Kong (SAR)	113	9	4
Seoul, South Korea	113	9	6

SOURCE: Economist Intelligence Unit (2015), "Worldwide Cost of Living 2016." www.eiu.com.

The cost of a U.S. expatriate working in another country is approximately three to four times that of a comparable U.S. employee.⁵¹ In addition, "about 38% of multinational companies surveyed by KPMG LLP for its 2006 Global Assignment Policies and Practices say overseas assignment programs are 'more generous than they need to be.'"⁵² These two facts combined have put pressure on global organizations to rethink their tax equalization strategy and expatriate packages.

Reacculturation of Expatriates

A final issue of importance to managing expatriates is dealing with the reacculturation process when the managers reenter their home country. Reentry is no simple feat. Culture shock takes place in reverse. The individual has changed, the company has changed, and the culture has changed while the expatriate was overseas. According to one source, 60–70% of expatriates did not know what their position would be upon their return, and 46% ended up with jobs that gave them reduced autonomy and authority.⁵³ Twenty percent of workers want to leave the company when they return from an overseas assignment, and this presents potentially serious morale and productivity problems.⁵⁴ In fact, the most recent estimates are that 25% of expatriate managers leave the company within one year of returning from their expatriate assignments.⁵⁵ If these repatriates leave, the company has virtually no way to recoup its substantial investment in human capital.⁵⁶

Companies are increasingly making efforts to help expatriates through reacculturation. Two characteristics help in this transition process: communication and validation.⁵⁷ *Communication* refers to the extent to which the expatriate receives information and recognizes changes while abroad. The closer the contact with the home organization while abroad, the more proactive, effective, and satisfied the expatriate will be upon reentry. *Validation* refers to the amount of recognition received by the expatriate upon return home. Expatriates who receive recognition from their peers and their bosses for their foreign work and their future potential contribution to the company have fewer

troubles with reentry compared with those who are treated as if they were “out of the loop.” Given the tremendous investment that firms make in expatriate employees, usually aimed at providing global experience that will help the company, firms certainly do not want to lose expatriates after their assignments have concluded.

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A research study noted the role of an expatriate manager’s expectations about the expatriate assignment in determining repatriation adjustment and job performance. This study found that managers whose job expectations (constraints and demands in terms of volume and performance standards) and nonwork expectations (living and housing conditions) were met exhibited a greater degree of repatriation adjustment and higher levels of job performance.⁵⁸ Monsanto has an extensive repatriation program that begins long before the expatriate returns. The program entails providing extensive information regarding the potential culture shock of repatriation and information on how family members, friends, and the office environment might have changed. Then, a few months after returning, expatriate managers hold “debriefing” sessions with several colleagues to help work through difficulties. Monsanto believes that this program provides them with a source of competitive advantage in international assignments.⁵⁹

In sum, a variety of HR practices can support effective expatriation. In general, the selection system must rigorously assess potential expatriates’ skills and personalities and even focus on the candidate’s spouse. Training should be conducted prior to and during the expatriate assignment, and the assignment itself should be viewed as a career development experience. Effective reward systems must go beyond salary and benefits, and while keeping the employee “whole” and even offering a monetary premium, should also provide access to career development and learning opportunities. Finally, serious efforts should be made to manage the repatriation process.⁶⁰ A summary of the key points is provided in [Table 15.7](#).

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Staffing and Selection

Communicate the value of international assignments for the company's global mission.

Ensure that those with the highest potential move internationally.

Provide short-term assignments to increase the pool of employees with international experience.

Recruit employees who have lived or who were educated abroad.

Training and Career Development

Make international assignment planning a part of the career development process.

Encourage early international experience.

Create learning opportunities during the assignment.

Use international assignments as a leadership development tool.

Performance Appraisal and Compensation

Differentiate performance management based on expatriate roles.

Align incentives with expatriation objectives.

Tailor benefits to the expatriate's needs.

Focus on equality of opportunities, not cash.

Emphasize rewarding careers rather than short-term outcomes.

Expatriation and Repatriation Activities

Involve the family in the orientation program at the beginning and the end of the assignment.

Establish mentor relationships between expatriates and executives from the home location.

Provide support for dual careers.

Secure opportunities for the returning manager to use knowledge and skills learned while on the international assignment.

SOURCE: Evans, P., V. Pucik, and J. Barsoux. *The Global Challenge: Framework for International Human Resource Management*, 2002. Reproduced with permission of The McGraw-Hill Companies, Inc.



A LOOK BACK

The Challenges of a Supply Chain

The chapter opening illustrates how companies have to examine a number of factors in determining where to locate manufacturing, sales, and supply chains across the globe because different countries have different cultures and different governmental systems. While for many years firms seemed to focus almost entirely on where they could get the lowest labor costs, increasingly, political turmoil potentially encourages them to trade off lower costs for higher stability. As the world becomes more complex, firms must also consider a greater variety of factors before deciding where in the world they want to be.

QUESTIONS

While companies used to consider only cost, they now have to consider a number of other factors. What other factors do you think they need to consider?

To what extent do you think companies should consider things like a country's stand on human rights or environmental responsibility? How can they do that?

SOURCE: J. Stoll, "'Made in China' Was Once the Easy Answer. Not Anymore," *The Wall Street Journal*, January 19, 2019, <https://www.wsj.com/articles/made-in-china-was-once-the-easy-answer-not-anymore-11547827204>.

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SUMMARY

Today's organizations are more involved in international commerce than ever before, and the trend will continue. Recent historic events such as the development of the European Union, NAFTA, USMCTA, the economic growth of Asia, and GATT have accelerated the movement toward a global market. Companies competing in the global marketplace require top-quality people to compete successfully. This requires that managers be aware of the many factors that significantly affect HRM in a global environment, such as culture, education–human capital, the political–legal system, and the economic system, and that they understand how these factors come into play in the various levels of global participation. Finally, it requires that they be adept at developing HRM systems that maximize the effectiveness of all human resources, particularly with regard to expatriate managers. Managers cannot overestimate the importance of effectively managing human resources to gain competitive advantage in today's global marketplace.

KEY TERMS

[Individualism–collectivism, 681](#)

[Power distance, 682](#)

[Uncertainty avoidance, 682](#)

[Masculinity–femininity dimension, 682](#)

[Long-term–short-term orientation, 683](#)

[Parent country, 691](#)

[Host country, 692](#)

[Third country, 692](#)

[Expatriate, 692](#)

[Parent-country nationals \(PCNs\), 692](#)

[Host-country nationals \(HCNs\), 692](#)

[Third-country nationals \(TCNs\), 692](#)

[Transnational scope, 695](#)

[Transnational representation, 695](#)

[Transnational process, 695](#)

DISCUSSION QUESTIONS

What current trends and/or events (besides those mentioned at the beginning of the chapter) are responsible for the increased internationalization of the marketplace?

According to Hofstede (in [Table 15.2](#)), the United States is low on power distance, high on individuality, high on masculinity, low on uncertainty avoidance, and low on long-term orientation. Russia, by contrast, is high on power distance, moderate on individuality, low on masculinity, high on uncertainty avoidance, and low on long-term orientation. Many U.S. managers are transplanting their own HRM practices into Russia while companies seek to develop operations there. How acceptable and effective do you think the following practices will be and why? (a) Extensive assessments of individual abilities for selection (b) Individually based appraisal systems (c) Suggestion systems (d) Self-managing work teams

The chapter notes that political–legal and economic systems can reflect a country’s culture. The former Eastern bloc countries seem to be changing their political–legal and economic systems. Is this change brought on by their cultures, or will culture have an impact on the ability to change these systems? Why?

Think of the different levels of global participation. What companies that you are familiar with exhibit the different levels of participation?

Think of a time when you had to function in another culture (on a vacation or job). What were the major obstacles you faced, and how did you deal with them? Was this a stressful experience? Why? How can companies help expatriate employees deal with stress?

What types of skills do you need to be able to manage in today’s global marketplace? Where do you expect to get those skills? What classes and/or experiences will you need?

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SELF-ASSESSMENT EXERCISES



How Likely Are You to Succeed in an Expatriate Assignment?

If you have been assigned this Self-Assessment in Connect, you will rate a number of items that have been identified as being associated with success in an expatriate assignment to determine the degree to which you possess each quality.

EXERCISING STRATEGY

Changing the Offshoring Game

For years companies have offshored much of their manufacturing to China because of the low labor costs there. However, such moves, while financially beneficial, have had some negative side effects. One of the more important is the loss of intellectual property, as the Chinese government often requires companies to partner with Chinese companies forcing them to transfer their technologies. In addition, companies doing business in China have often found their intellectual property stolen.

As the Trump administration laid tariffs on a number of goods imported to the United States from China, companies began rethinking their supply chains. Rather than setting up all their operations in China, now companies seek to set up factories in several different countries in order to reduce the political and economic risks that come with concentrating too much in one country.

For instance, Yeti Holdings Inc. (makers of Yeti coolers and mugs) had already been modernizing its supply chains by reducing its dependency on China and building more capacity in the Philippines. When it discovered that some of its products were on the list of those targeted by the tariffs, it was able to mitigate the negative consequences by simply shifting more of its China production to the Philippines. While long and costly, such shifts are perceived to pay off. Yeti CEO Matt Reintjes says, "Sometimes China is the easiest answer, but sometimes it's not the best one for the long term."

The pandemic exposed problems with global supply chains. When countries began locking down, it made it difficult to get products from across the globe. Some medical items (protective medical facemasks, generic drugs, etc.) and nutritional products (e.g., vitamins) were largely produced in China. In some cases the Chinese government shipped only what they did not need for their own citizens, creating shortages in the U.S.

QUESTIONS

How do global supply chains make the task of managing people more challenging ?

The global pandemic showed that reliance on global supply chains, and particularly, China-based suppliers, can create problems for companies. Do you think the pandemic will result in U.S. companies bringing more manufacturing back to the U.S.? Why or why not?

SOURCE: J. Stoll, "'Made in China' Was Once the Easy Answer; Not Anymore," *The Wall Street Journal*, January 19, 2019, <https://www.wsj.com/articles/made-in-china-was-once-the-easy-answer-not-anymore-11547827204>.

MANAGING PEOPLE

Huawei's Culture

What is the world's third largest smartphone maker by shipments? Chinese telecommunications company Huawei Technologies Co. has earned that spot over the past years while doubling revenues to almost \$60 billion. But the bigger question is, to what has the company attributed its success? The answer is, its hard-driving culture.

Chief executive officer (CEO) Ren Zhengfei was a former People's Liberation Army engineer, and his military background clearly has influenced the culture. He has been quoted as saying, "In victory, we raise glasses to celebrate together. In defeat, we risk our lives to rescue each other."

That may sound like high-blown rhetoric, but in the midst of the Ebola outbreak in 2014, the Chinese workers page 709 stayed in the affected areas to maintain production even while other companies were evacuating. In Huawei's 2015 annual report Chairwoman Sun Yafang wrote, "When a crisis occurs, you will find Huawei employees heading toward it."

Examples of employee sacrifice have become part of the history of the company. Stories are told of employees in Siberia building telecom networks in sub-zero temperatures, of expatriates in Germany living in dormitories and sharing bathrooms, and of engineers in Shenzhen keeping mattresses under their desks to pull all-nighters.

But as CEO Zhengfei nears retirement, two questions have emerged. First, can such a sacrificial corporate culture continue to exist, particularly in an industry known for its war for talent? Second, can Mr. Zhengfei's successor lead the company with the same level of authority as he did?

QUESTIONS

Would you want to work in a company with a culture like Huawei's? Why or why not?

Do you think it is possible to sustain such a culture as leaders change? Why or why not?

SOURCE: J. Osawa, "Huawei's Hard-Charging Workplace Culture Drives Growth, Demands Sacrifice," *The Wall Street Journal*, December 4, 2016, <https://www.wsj.com/articles/huaweis-founder-casts-a-long-shadow-over-telecom-giant-1480715055>.

HR IN SMALL BUSINESS

RM International Builds a Cultural Bridge for Tech Innovators

Ricardo Mora is a descendant of entrepreneurs and a serial entrepreneur. One of his grandfathers started the first customs brokerage in Ciudad Juarez, Mexico. His father, besides working in manufacturing management, earned money as a translator, and his mother ran a business bottling salsa. Mora's own businesses have included mobile-phone stores, restaurants, investing, and start-up assistance for other entrepreneurs. His enterprises are incorporated as RM International.

All of Mora's businesses have reflected the context in which he lives: a border community where the people from two countries interact so much that they function as neighbors. Mora, born in El Paso, Texas, is a U.S. citizen who grew up in Juarez. As a child, he crossed the border daily to attend school in Texas. Now he lives in El Paso, works mainly in Juarez, and owns businesses on both sides of the border. Mora notes that the distance between El Paso and the next-closest U.S. town is much farther than the distance between El Paso and Juarez. Likewise, Juarez is much nearer to El Paso than to the closest Mexican city. Thus, residents of the two cities--population of more than 2.5 million--find it more natural to cross the border than to make the longer drive on their own side.

Mora launched his first business while attending college in El Paso in the early 1990s. He sold cell phones while that was a new and attractive product in Mexico. He opened a store to sell the phones in Juarez, and as sales grew, he expanded to 32 stores in Mexico and 6 in the United States. He later sold the U.S. stores and moved into the restaurant businesses, opening U.S. franchises of a Mexican chain called El Taco Tote.

As he built his wealth and looked for investment opportunities, he observed that the more than 300 Juarez maquiladoras, or factories serving large U.S.-based companies, were meeting strong demand for basic manufacturing but could see much greater opportunities if they could apply modern technology. So Mora created a business incubator called Juarez Technology Hub (T-Hub), backed by investments from several large corporations. The incubator provides space for members to work on business plans and puts on workshops; as of 2018, it counted 100 companies renting space and 300 tech jobs created. In partnership with a similar El Paso incubator, T-Hub runs workshops for six Mexican companies and six U.S. companies at a time, meeting on both sides of the border. The initiative, called Bridge Accelerator, has been creating investment and jobs on both sides of the border. Bridge Accelerator helps participants develop successful businesses at the same time as they are learning how to work across the cultural differences of the two countries.

QUESTIONS

Would you describe RM International as a "born-global" company? Why or why not?

What are three or four HR challenges that RM International faces as a consequence of operating in two different countries?

SOURCES: Ricardo Mora, "How I Built Businesses on Both Sides of the Border--and Why We Shouldn't Have It Any Other Way," *Inc.*, July/August 2019, pp. 44-47; Julian Resendiz, "Border Cities Team Up to Help Businesses Cash in on Global Trade," KXAN, October 25, 2019, <https://www.kxan.com>; Brendan O'Boyle, "AQ Top Five Urban Visionaries: Ricardo Mora," *Americas Quarterly*, October 10, 2018, <https://www.americasquarterly.org>.

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CHAPTER 16

Strategically Managing the HRM Function



LEARNING OBJECTIVES

After reading this chapter, you should be able to:

[LO16-1 Describe the roles that HRM plays in firms today and the categories of HRM activities.](#)

[LO16-2 Discuss how the HRM function can define its mission and market.](#)

[LO16-3 Explain the approaches to evaluating the effectiveness of HRM practices.](#)

[LO16-4 Describe the new structures for the HRM function.](#)

[LO16-5 Describe how outsourcing HRM activities can improve service delivery efficiency and effectiveness.](#)

[LO16-6 Relate how process reengineering is used to review and redesign HRM practices.](#)

[LO16-7 Discuss the types of new technologies that can improve the efficiency and effectiveness of HRM.](#)

[LO16-8 List the competencies the HRM executive needs to become a strategic partner in the company.](#)

ENTER THE WORLD OF BUSINESS



Robinhood's Customer Service Problems

Many college students may have been introduced to investing by Robinhood. This company has specialized in making it easy to put in small amounts of money to buy a few shares of large companies. It rose in popularity to a point that the leaders developed a plan to take the company public. However, a number of problems have plagued the company.

First, the company garnered negative publicity when it limited its customers' ability to trade their shares of rising stocks such as Gamestop. Many of their retail customers believed this was to protect the large institutional investors at the expense of the small investors and their dissatisfaction resulted in the trending hashtag #DeleteRobinhood.

However, their problems are much larger than that. They have gained a reputation as having terrible customer service. According to a J.D. Power Associates survey of investor satisfaction, Robinhood fell below Vanguard, Charles Schwab, and T. Rowe Price. They wrote that Robinhood's "strength in digital channels and value for fees was offset by poor performance on trust, people, and problem resolution."

For instance, customer Brenton Place was notified on February 4, 2021, that due to some bank transfers that had gone awry, his account was frozen. His portfolio plunged over five weeks as he repeatedly tried to get the issue resolved. After he began tweeting about his experience using the hashtag #Robinhoodhostage, he was contacted

by a company representative. However, it still took an additional week before his account was unfrozen.

Part of Robinhood's inability to adequately serve customers stems from its lack of a general purpose page 713hotline that customers can call. They developed a phone line for options-trading customers, but only after one of them committed suicide apparently because of his belief that he had amassed huge trading losses.

The lack of customer service capability has resulted in long delays in responding to customer requests. Robinhood has acknowledged its problems in a blog post, stating, "Serving our customers through this volume has meant it has taken us longer than usual to respond, and we know this has been frustrating. Rest assured, we are working diligently to get back to you and resolve any issues as fast as we can."

SOURCES: R. Ensign and P. Rudegeir, "Robinhood Has a Customer Service Problem," *The Wall Street Journal*, April 28, 2021,

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Introduction

Throughout this book we have emphasized how human resource management practices can help companies gain a competitive advantage. We identified specific practices related to managing the internal and external environment; designing work and measuring work outcomes; and acquiring, developing, and compensating human resources. We have also discussed the best of current research and practice to show how they may contribute to a company's competitive advantage. As the chapter opening story notes, firms compete based on a number of capabilities they need to deliver value to their customers (like customer service!), and HR plays a significant role in helping to build those capabilities.

As we said in [Chapter 1](#), the role of the HRM function has been evolving over time. Although it began as a purely administrative function, most HR executives now see the function's major role as being much more strategic. However, this evolution has resulted in a misalignment between the skills and capabilities of members of the function and the new requirements placed on it. Virtually every HRM function in top companies is going through a transformation process to create a function that can play this new strategic role while successfully fulfilling its other roles. This transformation process is also going on globally. Managing this process is the subject of this chapter. First we discuss the various activities of the HRM function. Then we examine how to develop a market- or customer-oriented HRM function. We then describe the current structure of most HRM functions. We discuss some of the software applications used by the HR function. We examine the competencies that will be needed in the future for HR professionals. Finally, we provide a specific analysis of the role that the chief human resources officer plays in making companies more successful.

Activities of HRM

LO 16-1

Describe the roles that HRM plays in firms today and the categories of HRM activities.

To understand the transformation going on in HRM, one must understand HRM activities in terms of their strategic value. One way of classifying these activities is depicted in [Figure 16.1](#). Transactional activities (the day-to-day transactions such as benefits administration, record keeping, and employee services) are low in their strategic value. Traditional activities such as performance management, training, recruiting, selection, compensation, and employee relations are the nuts and bolts of HRM. These activities have moderate strategic value because they often form the practices and systems to ensure strategy execution. For instance, one role of HR is often to set

policies regarding the legitimate activities that salespeople can engage in to make sales in other countries. Transformational activities create long-term capability and adaptability for the firm. These activities include knowledge management, management development, cultural change, and strategic redirection and renewal. Obviously, these activities comprise the greatest strategic value for the firm.

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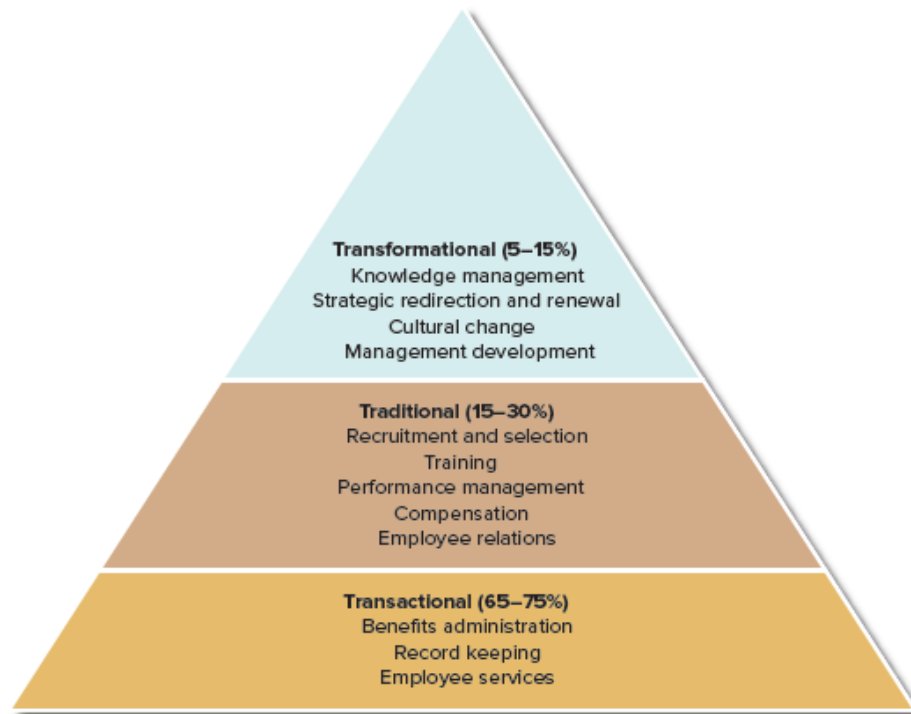


Figure 16.1 Categories of HRM Activities and Percentages of Time Spent on Them

SOURCE: P. Wright, G. McMahan, S. Snell, and B. Gerhart, *Strategic Human Resource Management: Building Human Capital and Organizational Capability*. Technical report. Cornell University, 1998.

As we see in the figure, historically HRM functions have spent the vast majority of their time on transactional activities, with substantially less on traditional and very little on transformational activities. However, virtually all HRM functions, in order to add value to the firm, must increase their efforts in the traditional and transformational activities. To do this, however, requires that HR executives (1) develop a strategy for the HRM function, (2) assess the current effectiveness of the HRM function, and (3) redesign, reengineer, or outsource HRM processes to improve efficiency and effectiveness. These issues will be discussed in the following sections.

Strategic Management of the HRM Function

In light of the various roles and activities of the HRM function, it is highly unlikely that any function can (or should) effectively deliver on all roles and all activities. Although this is a laudable goal, resource constraints in terms of time, money, and head count require that the HR executive make strategic choices about where and how to allocate these resources for maximum value to the firm.

[Chapter 2](#) explained the strategic management process that takes place at the organization level and discussed the role of HRM in this process. HRM has been seen as a strategic partner that has input into the formulation of the company's strategy and develops and aligns HRM programs to help implement the strategy. However, for the HRM function to become truly strategic in its orientation, it must view itself as a separate business entity and engage in strategic management in an effort to effectively serve the various internal customers.

In this respect, one recent trend within the field of HRM, consistent with the total quality management philosophy, is for the HR executive to take a customer-oriented approach to implementing the function. In other words, the strategic planning process page 715 that takes place at the level of the business can also be performed with the HRM function. HR executives in more progressive U.S. companies have begun to view the HRM function as a strategic business unit and have tried to define that business in terms of their customer base, their customers' needs, and the technologies required to satisfy customers' needs (Figure 16.2). For example, Joe Ruocco, the former chief HR officer at Goodyear, encouraged his HR function to take a customer-centric approach. As you can see in Figure 16.3, Goodyear views the business (line clients) and the employees (associates) as its main customers. The figure provides examples of the different tools and processes at the company's disposal to meet those customer needs.

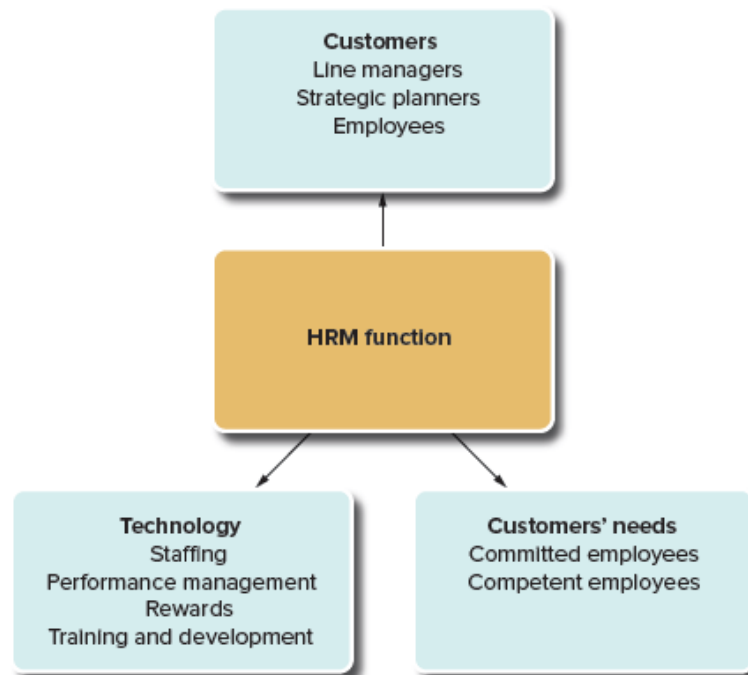


Figure 16.2 Customer-Oriented Perspective of the HRM Function

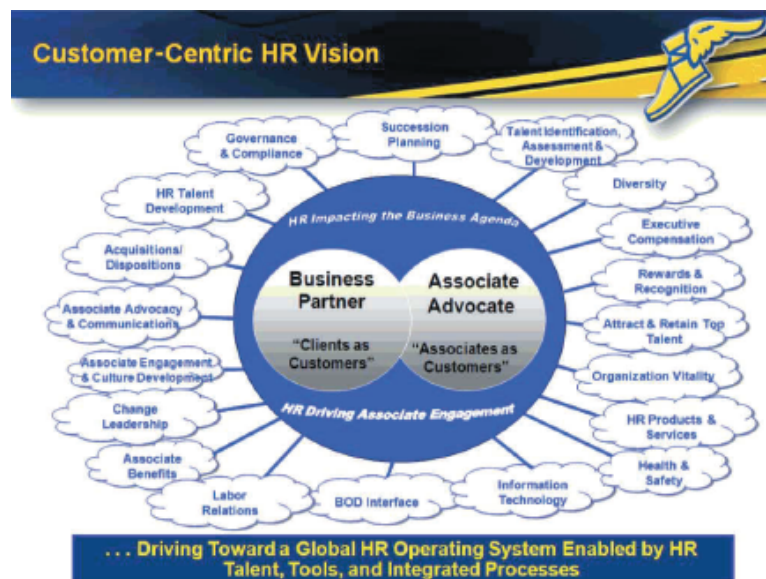


Figure 16.3 Goodyear's Customer-Centric View of HR

SOURCE: Courtesy of former Goodyear chief HR officer Joe Ruocco.

A customer orientation is one of the most important changes in the HRM function's attempts to become strategic. It entails first identifying customers. The most obvious example of HRM customers are the line managers who require HRM services. In addition, the strategic planning team is a customer in the sense that it requires identification, analysis, and recommendations regarding people-oriented business problems. Employees are also HRM customers because the rewards they receive from the employment relationship are determined or administered by the HRM department. In essence, just as the business must serve its external customers, part of what HR does is to service its internal customers. The [Competing through Globalization](#) box describes an issue that Tesla has faced with its customers in China.



COMPETING THROUGH GLOBALIZATION

Tesla's China Challenge

Tesla has gone from a cool, but financially troubled company to a super-cool and financially stable company in the U.S. However, its performance and reputation in China remain a challenge.

The Chinese government banned military members as well as personnel at key state-owned companies from driving Teslas due to the concern that the vehicles posed a security risk. CEO Elon Musk had to issue a statement assuring government officials as well as all customers that the cars cannot be used to spy on those in the cars. It has also faced a number of complaints regarding quality issues from customers in China, and these complaints sparked regulators to publicly rebuke the company for its quality problems.

The most recent blemish came at the Auto Shanghai expo where an angry Tesla customer alleged that her parents were hospitalized following an accident caused by faulty brakes. In an earlier response to the same protestor Tesla claimed that a police report on the accident suggested that her father had been speeding at the time. Tesla's response irritated the Communist Party regulator that has jurisdiction over the country's legal system. "Tesla has to face up to the torment of its Chinese customers" and cease "pretending to be oblivious to hidden dangers of which it is well aware" stated the Central Political and Legal Affairs Commission.

Chastened by the protestor and the regulator, Tesla stated on Weibo, China's Twitter-like platform, "We will try our best to learn the lessons of this experience." They also noted that they are obedient to the government, respect customers, and cooperate with any investigations. Finally they announced they would set up a department whose purpose would be to deliver customer satisfaction.

DISCUSSION QUESTIONS

In what ways do you think doing business in China differs from doing business in the U.S.?

Do you think Tesla's response to Chinese regulators and customers is sufficient? Why or why not?

SOURCE: T. Moss, "Tesla Apologizes for Its Handling of China Customer after Outcry," April 21, 2021, <https://www.wsj.com/articles/tesla-apologizes-for-its-handling-of-china-customer-after-outcry-11618997411>.

In addition, the products of the HRM department must be identified. Line managers want to have high-quality employees committed to the organization. The strategic planning team requires information and recommendations for the planning process as well as programs that support the strategic plan once it has been identified. Employees want compensation and benefit programs that are consistent, adequate, and equitable, and they want fair promotion decisions. At Southwest Airlines, the "People" department administers customer surveys to all clients as they leave the department to measure how well their needs have been satisfied.

Finally, the technologies through which HRM meets customer needs vary depending on the need being satisfied. Selection systems ensure that applicants selected for page 717 employment have the necessary knowledge, skills, and abilities to provide value to the organization. Training and development systems meet the needs of both line managers and employees by giving employees development opportunities to ensure they are continually increasing their human capital and, thus, providing increased value to the company. Performance management systems make clear to employees what is expected of them and assure line managers and strategic planners that employee behavior will be in line with the company's goals. Finally, reward systems similarly benefit all customers (line managers, strategic planners, and employees). These systems assure line managers that employees will use their skills for organizational benefit, and they provide strategic planners with ways to ensure that all employees are acting in ways that will support the strategic plan. Obviously, reward systems provide employees with an equitable return for their investment of skills and effort.

Building an HR Strategy

The Basic Process

LO 16-2

Discuss how the HRM function can define its mission and market.

How do HR functions build their HR strategies? Research has examined how HR functions go about the process of building their HR strategies that should support the business strategies. Conducting case studies on 20 different companies, Wright and colleagues describe the generic approach as somewhat consistent with the process for developing a business strategy:¹

As depicted in [Figure 16.4](#), the function first scans the environment to determine the trends or events that might have an impact on the organization (e.g., future talent shortage, increasing immigrant population, aging of the workforce).



Figure 16.4 Basic Process for HR Strategy

It then examines the strategic business issues or needs (e.g., is the company growing, expanding internationally, needing to develop new technologies?). For instance, [Figure 16.5](#) displays Goodyear's major business strategy priorities. As can be seen in this example, a clear strategic priority is the attraction, motivation, and retention of talent.



Figure 16.5 Goodyear's Strategic Business Priorities

From these issues, the HR strategy team needs to identify the specific people issues that will be critical to address in order for the business to succeed (a potential leadership vacuum, lack of technological expertise, lack of diversity, etc.). All of this information is used in designing the HR strategy, which provides a detailed plan regarding the major priorities and the programs, policies, and processes that must be developed or executed. Finally, this HR strategy is communicated to the relevant parties, both internal and external to the function. Again, Goodyear's talent management strategy, depicted in [Figure 16.6](#), shows how Goodyear seeks to differentiate itself in the labor market as well as the major priority areas that the HR strategy seeks to address. Thus, the HR strategy is a framework that guides individuals in HR by helping them understand where and how they will impact the company. At Google this four-pronged People Operations strategy consists of the following elements:

"Find them, Grow them, Keep them." The idea is to find great people to work for Google, grow and develop their skills, and do everything possible to keep them at Google.

page 718 "Put our users first." This goal echoes what Google does as a company, also illustrating how those in HR should think about the users of people operations, which are all the other Google employees.

"Put on your own oxygen mask before assisting others." The thinking behind this goal is that in many organizations HR is doing all this work in the company for others and they forget to grow and develop their own people. Eventually this cripples the function's ability to serve the rest of the organization because the very best, most talented people get recruited out of HR to go be heads of HR at other companies.

"This space intentionally left blank." In Google's environment, things change very, very quickly and that creates a lot of uncertainty. Uncertainty causes people to put less discretionary effort into their work, to be less satisfied, less collaborative, more competitive with fellow employees as well as making them more likely to leave the company. Hence, this goal is an attempt to explicitly recognize the dynamic nature of Google's internal and external environment.²



Figure 16.6 Goodyear's Global Talent Management Process

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Involving Line Executives

This generic process provides for the potential to involve line executives in a number of ways. Because the HR strategy seeks to address business issues, involving those in charge of running the business can increase the quality of information from which the HR strategy is created. This involvement can occur in a few ways. First, line executives could simply provide input, through surveys or interviews about the business challenges and strategy. Second, they could be members of the team that actually develops the HR strategy. Third, once the strategy is developed, they could receive communications with the HR strategy information. Finally, they could have to formally approve the strategy, in essence “signing off” that the HR strategy fully supports the business strategy. The most progressive organizations use all four forms of involvement, asking a large group of executives for input, having one or two executives on the team, communicating the HR strategy broadly to executives, and having the senior executive team formally approve it.

Characterizing HR Strategies

As you can see in [Figure 16.7](#), a study of 20 companies revealed the variety of ways that HR strategies can be generated to create a linkage to the business.

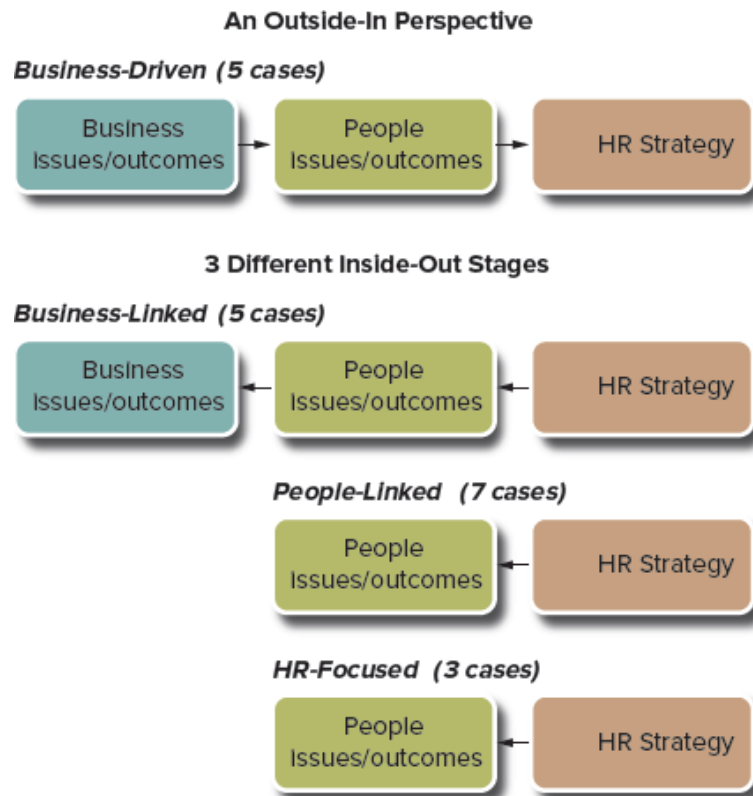


Figure 16.7 Approaches to Developing an HR Strategy

First, at the most elementary level, “HR-focused” HR functions articulate people outcomes that stem more from an analysis of what their functions currently do than from an understanding of how those people outcomes relate to the larger business. Second, “people-linked” functions have clearly identified, articulated, and aligned their HR activities around people issues and outcomes, but not business issues and outcomes. Third, “business-linked” HR functions begin with an assessment of what HR is doing, then identify the major people outcomes they should focus on, and, in a few cases, how those might translate into positive business outcomes. Finally, “business-driven” functions have fully developed HR strategies that begin by identifying the major business needs and issues, consider how people fit in and what people outcomes are necessary, and then build HR systems focused on meeting those needs. For example, as Kroger sought to develop a new strategy for competing in the retail grocery store market, it required a different approach to leadership. [Figure 16.8](#) shows the leadership competencies necessary to execute the strategy. The larger focus is on leaders who have a passion for people and a passion for results, with a number of more specific competencies making up each.

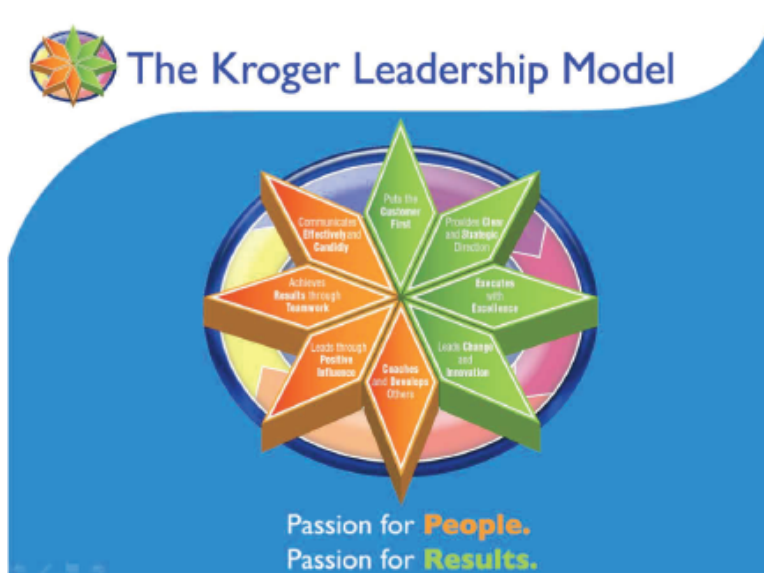


Figure 16.8 Kroger's Leadership Model

SOURCE: Courtesy of Kroger chief HR officer Katy Barclay.

The HR strategy must help address the issues the business faces that will determine its success. As finding, attracting, and retaining talent has become a critical issue, virtually every HR function is addressing this as part of the HR strategy.

Measuring HRM Effectiveness

LO 16-3

Explain the approaches to evaluating the effectiveness of HRM practices.

The strategic decision-making process for the HRM function requires that decision makers have a good sense of the effectiveness of the current HRM function. This information provides the foundation for decisions regarding which processes, systems, and skills of HR employees need improvement. Often HRM functions that have been heavily involved in transactional activities for a long time tend to lack systems, processes, and skills for delivering state-of-the-art traditional activities and are thoroughly unable to contribute in the transformational arena. Thus, diagnosis of the effectiveness of the HRM function provides critical information for its strategic management.

In addition, having good measures of the function's effectiveness provides the following benefits:³

Marketing the function: Evaluation is a sign to other managers that the HRM function really cares about the organization as a whole and is trying to support operations, production, marketing, and other functions of the company. Information regarding cost savings and benefits is useful to prove to internal customers that HRM practices contribute to the bottom line. Such information is also useful for gaining additional business for the HRM function.

Providing accountability: Evaluation helps determine whether the HRM function is meeting its objectives and effectively using its budget. page 721Two approaches are commonly used to evaluate the effectiveness of HRM practices: the audit approach and the analytic approach.

Audit Approach

The [audit approach](#) focuses on reviewing the various outcomes of the HRM functional areas. Both key indicators and customer satisfaction measures are typically collected. [Table 16.1](#) lists examples of key indicators and customer satisfaction measures for staffing, equal employment opportunity, compensation, benefits, training, performance management (employee appraisal and development), succession planning, safety, labor relations, and overall effectiveness. The development of electronic employee databases and information systems has made it much easier to collect, store, and analyze the functional key indicators (more on this later in the chapter) than in the past, when information was kept in file folders.

[Audit approach](#)

Type of assessment of HRM effectiveness that involves review of customer satisfaction or key indicators (e.g., turnover rate, average days to fill a position) related to an HRM functional area (e.g., recruiting, training).

Table 16.1 Examples of Key Indicators and Customer Satisfaction Measures for HRM Functions

KEY INDICATORS	CUSTOMER SATISFACTION MEASURES
Staffing Average days taken to fill open requisitions Ratio of acceptances to offers made Ratio of minority/women applicants to representation in local labor market Per-capita requirement costs Average years of experience/education of hires per job family	Anticipation of personnel needs Timeliness of referring qualified workers to line supervisors Treatment of applicants Skill in handling terminations Adaptability to changing labor market conditions
Equal employment opportunity Ratio of EEO grievances to employee population Minority representation by EEO categories Minority turnover rate	Resolution of EEO grievances Day-to-day assistance provided by personnel department in implementing affirmative action plan Aggressive recruitment to identify qualified women and minority applicants

Compensation Per-capita (average) merit increases Ratio of recommendations for reclassification to number of employees Percentage of overtime hours to straight time Ratio of average salary offers to average salary in community	Fairness of existing job evaluation system in assigning grades and salaries Competitiveness in local labor market Relationship between pay and performance Employee satisfaction with pay
Benefits Average unemployment compensation payment (UCP) Average workers' compensation payment (WCP) Benefit cost per payroll dollar Percentage of sick leave to total pay	Promptness in handling claims Fairness and consistency in the application of benefit policies Communication of benefits to employees Assistance provided to line managers in reducing potential for unnecessary claims
Training Percentage of employees participating in training programs per job family Percentage of employees receiving tuition refunds Training dollars per employee	Extent to which training programs meet the needs of employees and the company Communication to employees about available training opportunities Quality of introduction/orientation programs
Employee appraisal and development Distribution of performance appraisal ratings Appropriate psychometric properties of appraisal forms	Assistance in identifying management potential Organizational development activities provided by HRM department page 722

Succession planning Ratio of promotions to number of employees Ratio of open requisitions filled internally to those filled externally	Extent to which promotions are made from within Assistance/counseling provided to employees in career planning
Safety Frequency/severity ratio of accidents Safety-related expenses per \$1,000 of payroll Plant security losses per square foot (e.g., fires, burglaries)	Assistance to line managers in organizing safety programs Assistance to line managers in identifying potential safety hazards Assistance to line managers in providing a good working environment (lighting, cleanliness, heating, etc.)
Labor relations Ratio of grievances by pay plan to number of employees Frequency and duration of work stoppages Percentage of grievances settled	Assistance provided to line managers in handling grievances Efforts to promote a spirit of cooperation in plant Efforts to monitor the employee relations climate in plant
Overall effectiveness Ratio of personnel staff to employee population Turnover rate Absenteeism rate Ratio of per-capita revenues to per-capita cost Net income per employee	Accuracy and clarity of information provided to managers and employees Competence and expertise of staff Working relationship between organizations and HRM department

SOURCE: Reprinted with permission. Excerpts from [Chapter 15](#), "Evaluating Human Resource Effectiveness," pp. 187–222, by Anne S. Tsui and Luis R. Gomez-Mejia, from *Human Resource Management: Evolving Roles and Responsibilities*, edited by Lee Dyer. Copyright © 1988 by The Bureau of National Affairs, Inc., Washington, DC, 20037. To order BNA publications call toll free 1-800-960-1220.

We previously discussed how HRM functions can become much more customer oriented as part of the strategic management process. If, in fact, the function desires to be more customer focused, then one important source of effectiveness data can be the customers. Just as firms often survey their customers to determine how effectively

the customers feel they are being served, the HRM function can survey its internal customers.

One important internal customer is the employees of the firm. Employees often have both direct contact with the HRM function (through activities such as benefits administration and payroll) and indirect contact with the function through their involvement in activities such as performance appraisals, pay raises, and training programs. Many organizations such as AT&T, Motorola, and General Electric use their regular employee attitude survey as a way to assess the employees as users/customers of the HRM programs and practices.⁴ However, the problem with assessing effectiveness only from the employees' perspective is that often they are responding not from the standpoint of the good of the firm but rather from their own individual perspective. For example, employees notoriously and consistently express dissatisfaction with pay level (who doesn't want more money?), but to simply ratchet up pay across the board would put the firm at a serious labor cost disadvantage.

Thus, many firms have gone to surveys of top line executives as a better means of assessing the effectiveness of the HRM function. The top-level line executives can see how the systems and practices are impacting both employees and the overall effectiveness of the firm from a strategic standpoint. This can also be useful for determining how well HR employees' perceptions of their function's effectiveness align with the views of their line colleagues. For example, a study of 14 firms revealed that HR executives and line executives agreed on the relative effectiveness of HR's delivery of services such as staffing and training systems (i.e., which were most and least effectively delivered) but not on the absolute level of effectiveness. As [Figure 16.9](#) shows, HR executives' ratings of their effectiveness in different roles also diverged significantly from line executives'. In addition, line executives viewed HRM as being significantly less effective with regard to HRM's actual contributions to the firm's overall effectiveness, as we see in [Figure 16.10](#).⁵

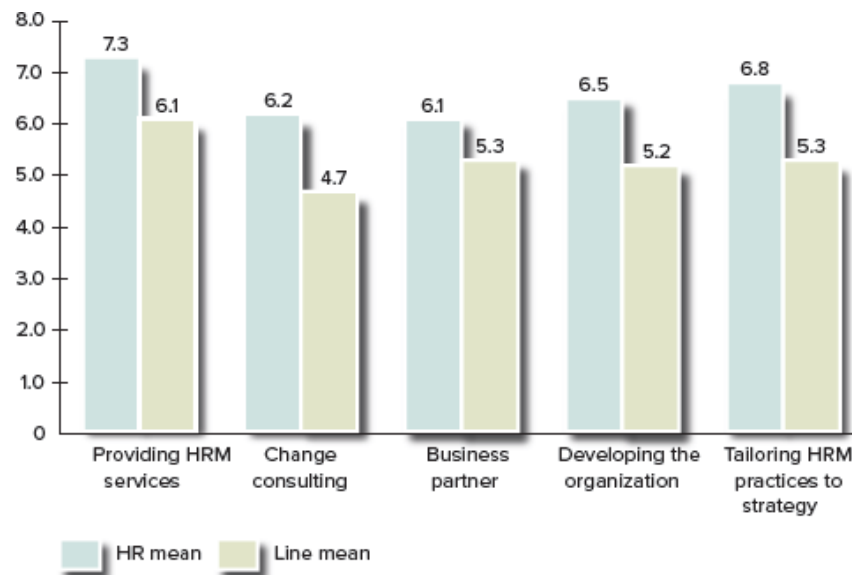


Figure 16.9 Comparing HR and Line Executives' Evaluations of the Effectiveness of HRM Roles

SOURCE: P. Wright, G. McMahan, S. Snell, and B. Gerhart, "Comparing Line and HR Executives' Perceptions of HR Effectiveness: Services, Roles, and Contributions," CAHRS (Center for Advanced Human Resource Studies) working paper 98-29, School of ILR, Cornell University, Ithaca, NY.

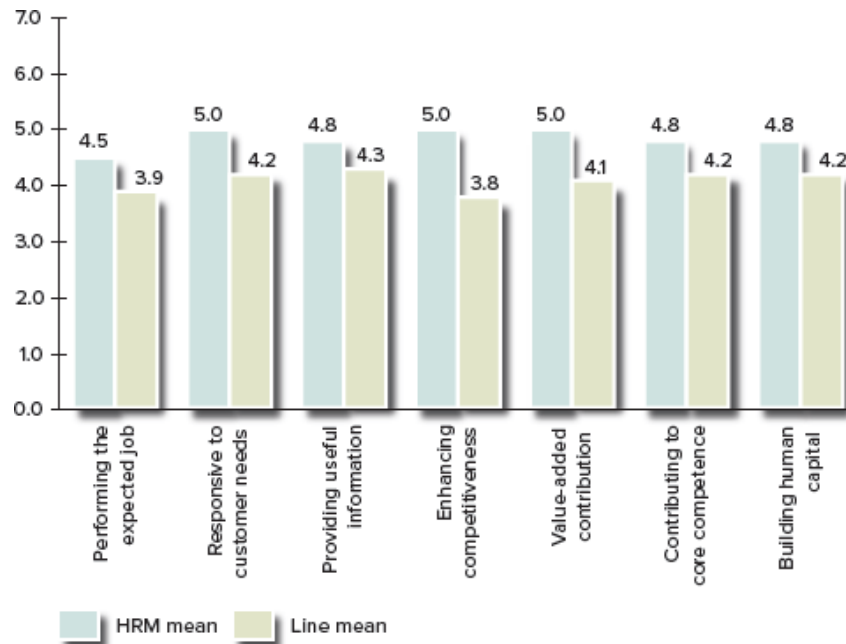


Figure 16.10 Comparing HR and Line Executives' Evaluations of the Effectiveness of HRM Contributions

SOURCE: P. Wright, G. McMahan, S. Snell, and B. Gerhart, "Comparing Line and HR Executives' Perceptions of HR Effectiveness: Services, Roles, and Contributions," CAHRS (Center for Advanced Human Resource Studies) working paper 98-29, School of ILR, Cornell University, Ithaca, NY.

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The Analytic Approach

The [analytic approach](#) focuses on either (1) determining whether the introduction of a program or practice (like a training program or a new compensation system) has the intended effect, (2) estimating the financial costs and benefits resulting from an HRM practice, or (3) using analytic data to increase organizational effectiveness. For example, in [Chapter 7](#) we discussed how companies can determine a training program's impact on learning, behavior, and results. Evaluating a training program is one strategy for determining whether the program works. Typically, in an overall evaluation of effectiveness, we are interested in determining the degree of change associated with the program.

[Analytic approach](#)

Type of assessment of HRM effectiveness that involves determining the impact of, or the financial costs and benefits of, a program or practice.

The second strategy involves determining the dollar value of the training program, taking into account all the costs associated with the program. Using this strategy, we are not concerned with how much change occurred but rather with the dollar value (costs versus benefits) of the program. [Table 16.2](#) lists the various types of cost–benefit analyses that are done. The human resource accounting approach attempts to place a dollar value on human resources as if they were physical resources (like plant and equipment) or financial resources (like cash). Utility analysis attempts to estimate the financial impact of employee behaviors (such as absenteeism, turnover, job performance, and substance abuse).

Table 16.2 Types of Cost–Benefit Analyses

Human resource accounting

Capitalization of salary

Net present value of expected wage payments

Returns on human assets and human investments

Utility analysis

Turnover costs

Absenteeism and sick leave costs

Gains from selection programs

Impact of positive employee attitudes

Financial gains of training programs

SOURCE: A. S. Tsui and L. R. Gomez-Mejia, "Evaluating HR Effectiveness," in *Human Resource Management: Evolving Roles and Responsibilities*, ed. L. Dyer (Washington, DC: Bureau of National Affairs, 1988), pp. 1–196.

For example, wellness programs are a popular HRM program for reducing health care costs through reducing employees' risk of heart disease and cancer. One study explored the value of a workplace health program in a set of 212 Colorado businesses. The results from 2,458 employees showed that the program significantly reduced a number of risk factors (see [Table 16.3](#)) and resulted in a cost savings of \$2.03 for every dollar invested in the program. Results like these can show how HR programs can actually increase value for their companies.

Table 16.3 Reduction in Risk Factors from a Workplace Health Program

Risk Factor	Reduction
Poor physical activity	(–6.5%)
Poor eating habits	(–5.8%)
High stress	(–3.5%)
Depression	(–2.3%)
Obesity	(–2.0%)
High alcohol consumption	(–1.7%)
Tobacco use	(–1.3%)

High total cholesterol	(−0.9%)
High blood pressure	(−0.3%)
High blood glucose	(−0.2%)

SOURCE: R. Goetzel, M. Tabrizi, R. Henke, R. Benevant, C. Brockbank, K. Stinson, M. Trotter, and L. Newman, "Estimating the Return on Investment from a Health Risk Management Program Offered to Small Colorado-based Employers," *Journal of Occupational and Environmental Medicine* 56, no. 5 (May, 2014), pp. 554–60.

The analytic approach is more demanding than the audit approach because it requires the detailed use of statistics and finance. A good example of the level of sophistication that can be required for cost–benefit analysis is shown in [Table 16.4](#). This table shows the types of information needed to determine the dollar value of a new selection test for entry-level computer programmers.

Table 16.4 Example of Analysis Needed to Determine the Dollar Value of a Selection Test

Cost–benefit information	
Current employment	4,404
Number separating	618
Number selected	618
Average tenure	9.69 years
Test information	
Number of applicants	1,236
Testing cost per applicant	\$10
Total test cost	\$12,360
Average test score	0.80 SD
Test validity	0.76
SD _y (per year) ^a	\$10,413

Computation

Quantity = Average tenure × Applicants selected

= 9.69 years × 618 applicants

= 5,988 person-years

Quality = Average test score × Test validity × SD_y

= 0.80 × 0.76 × \$10,413

= \$6,331 per year

Utility = (Quantity × Quality) – Costs

= (5,988 person-year × \$6,331 per year) – \$12,360

= \$37.9 million

^aSD_y = Dollar value of one standard difference in job performance. Approximately 40% of average salary.

SOURCES: J. W. Boudreau, "Utility Analysis," in *Human Resource Management: Evolving Roles and Responsibilities*, ed. L. Dyer (Washington, DC: Bureau of National Affairs, 1988), p. 150; F. L. Schmidt, J. E. Hunter, R. C. McKenzie, and T. W. Muldrow, "Impact of Valid Selection Procedures on Work-Force Productivity," *Journal of Applied Psychology* 64 (1979), pp. 609–26.

Finally, HR analytics can be used by the function to increase the effectiveness of the firm. For instance, Google's analytic approach to HR has revealed which backgrounds and capabilities are correlated with high performance as well as the leading cause of attrition—an employee's feeling of being underused at the company. It also discovered that the ideal number of recruiting interviews is 5, down from a previous average of 10.

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In addition, Project Oxygen was aimed at developing great managers (named because good management, like oxygen, keeps the company alive). The analytics team pored through performance management scores, employee surveys, and other data on group managers based on two dimensions: their task performance and their people performance. They then conducted a double-blind study focusing on those who were top (or bottom) on both dimensions, in order to identify eight behaviors that characterized good managers.⁶

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Improving HRM Effectiveness

LO 16-4

Describe the new structures for the HRM function.

Once a strategic direction has been established and the effectiveness of HRM evaluated, leaders of the HRM function can explore how to improve its effectiveness in contributing to the firm's competitiveness. Returning briefly to [Figure 16.1](#), which depicted the different activities of the HRM function, often the improvement focuses on two aspects of the pyramid. First, within each activity, HRM needs to improve both the efficiency and effectiveness in performing each of the activities. Second, often there is a push to eliminate as much of the transactional work as possible (and some of the traditional work) to free up time and resources to focus more on the higher-value-added transformational work. Redesign of the structure (reporting relationships) and processes (through outsourcing and information technology) enables the function to achieve these goals simultaneously. [Figure 16.11](#) depicts this process.

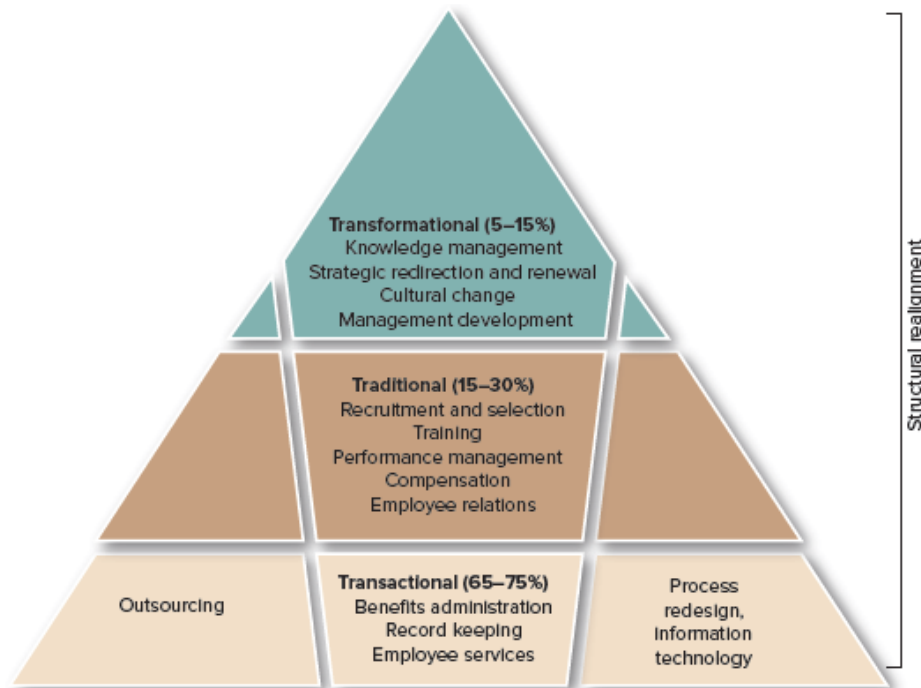


Figure 16.11 Improving HRM Effectiveness

Restructuring to Improve HRM Effectiveness

Traditional HRM functions were structured around the basic HRM subfunctions such as staffing, training, compensation, appraisal, and labor relations. Each of these areas had a director who reported to the VP of HRM, who often reported to a VP of finance and administration. However, for the HRM function to truly contribute strategically to firm effectiveness, the senior HR person must be part of the top management team (reporting directly to the chief executive officer), and there must be a different structural arrangement within the function itself.

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A generic structure for the HRM function is depicted in [Figure 16.12](#). As we see, the HRM function effectively is divided into three divisions: the centers for expertise, the field generalists, and the service center.⁷ The centers for expertise usually consist of the functional specialists in the traditional areas of HRM such as recruitment, selection, training, and compensation. These individuals ideally act as consultants in the development of state-of-the-art systems and processes for use in the organization. The field generalists consist of the HRM generalists who are assigned to a business unit within the firm. These individuals usually have dual reporting relationships to both the head of the line business and the head of HRM (although the line business tends to take priority). They ideally take responsibility for helping the line executives in their business to strategically address people issues, and they ensure that the HRM systems enable the business to execute its strategy. Finally, the service center consists of individuals who ensure that the transactional activities are delivered throughout the organization. These service centers often leverage information technology to efficiently deliver employee services. For example, organizations such as Chevron have created call-in service centers where employees can dial a central number where service center employees are available to answer their questions and process their requests and transactions.

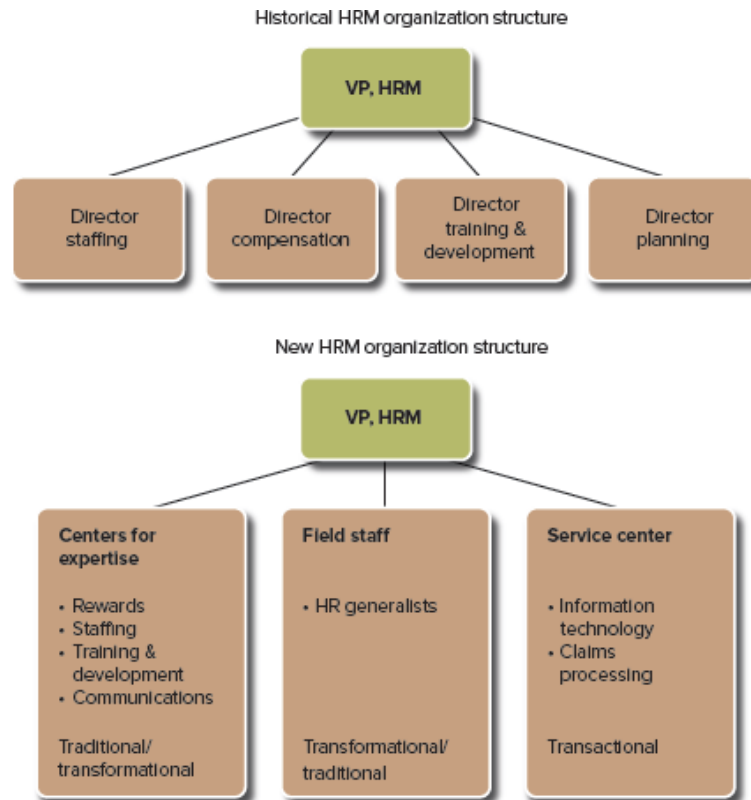


Figure 16.12 Old and New Structures for the HRM Organization

SOURCE: P. Wright, G. McMahan, S. Snell, and B. Gerhart, *Strategic Human Resource Management: Building Human Capital and Organizational Capability*, technical report (Ithaca, NY: Cornell University, 1998).

Such structural arrangements improve service delivery through specialization. Center for expertise employees can develop current functional skills without being distracted by transactional activities, and generalists can focus on learning the business environment without having to maintain expertise in functional specializations. Finally, service center employees can focus on efficient delivery of basic services across business units.

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Outsourcing to Improve HRM Effectiveness

LO 16-5

Describe how outsourcing HRM activities can improve service delivery efficiency and effectiveness.

Restructuring the internal HRM function and redesigning the processes represent internal approaches to improving HRM effectiveness. However, increasingly HR executives are seeking to improve the effectiveness of the systems, processes, and services the function delivers through outsourcing. [Outsourcing](#) entails contracting with an outside vendor to provide a product or service to the firm, as opposed to producing the product using employees within the firm.

[Outsourcing](#)

An organization's use of an outside organization for a broad set of services.

Why would a firm outsource an HRM activity or service? Usually this is done for one of two reasons: Either the outsourcing partner can provide the service more cheaply than it would cost to do it internally, or the partner can provide it more effectively than it can be performed internally. Early on, firms resorted to outsourcing for efficiency reasons. Why would using an outsourced provider be more efficient than having internal employees provide a service? Usually it is because outsourced providers are specialists who are able to develop extensive expertise that can be leveraged across a number of companies.

For example, consider a relatively small firm that seeks to develop a pension system for employees. To provide this service to employees, the HRM function would need to learn all of the basics of pension law. Then it would need to hire a person with specific expertise in administering a pension system in terms of making sure that employee contributions are withheld and that the correct payouts are made to retired employees. Then the company would have to hire someone with expertise in investing pension funds. If the firm is small, requirements of the pension fund might not fill the time (80 hours per week) of these two new hires. Assume that it takes only 20 total hours a week for these people to do their jobs. The firm would be wasting 60 hours of employee time each week. However, a firm that specializes in providing pension administration services to multiple firms could provide the 20 hours of required time to that firm and three other firms for the same cost as if the firm had performed this activity internally. Thus, the specialist firm could charge the focal firm 50% of what it would cost the small firm to do the pensions internally. Of that 50%, 25% (20 hours) would go to paying direct salaries and the other 25% would be profit. Here the focal firm would save 50% of its expenses while the provider would make money.

Now consider the aspect of effectiveness. Because the outsourced provider works for a number of firms and specializes in pensions, its employees develop state-of-the-art knowledge of running pension plans. They can learn unique innovations from one company and transfer that learning to a new company. In addition, employees can be more easily and efficiently trained because all of them will be trained in the same processes and procedures. Finally, with experience in providing constant pension services, the firm is able to develop a capability to perform these services that could never be developed by two individuals working 25% of the time on these services. This is known as *scale*, which refers to larger companies being better able to allocate human resources efficiently.

What kind of services are being outsourced? Firms primarily outsource transactional activities and services of HRM such as pension and benefits administration as well as payroll. However, a number of traditional and some transformational activities have been outsourced as well.

Improving HRM Effectiveness Through Process Redesign

LO 16-6

Relate how process reengineering is used to review and redesign HRM practices.

In addition to structural arrangements, process redesign enables the HRM function to more efficiently and effectively deliver HRM services. Process redesign often uses information technology, but information technology applications are not a requirement. Thus, we will discuss the general issue of process reengineering and then explore information technology applications that have aided HRM in process redesign.

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[Reengineering](#) is a complete review of critical work processes and redesign to make them more efficient and able to deliver higher quality. Reengineering is especially critical to ensuring that the benefits of new technology can be realized. Applying new technology to an inefficient process will not improve efficiency or effectiveness. Instead, it will increase product or service costs related to the introduction of the new technology.

[Reengineering](#)

Review and redesign of work processes to make them more efficient and improve the quality of the end product or service.

Reengineering can be used to review the HRM department functions and processes, or it can be used to review specific HRM practices such as work design or the performance management system. The reengineering process involves the four steps shown in [Figure 16.13](#): identify the process to be reengineered, understand the process, redesign the process, and implement the new process.⁸

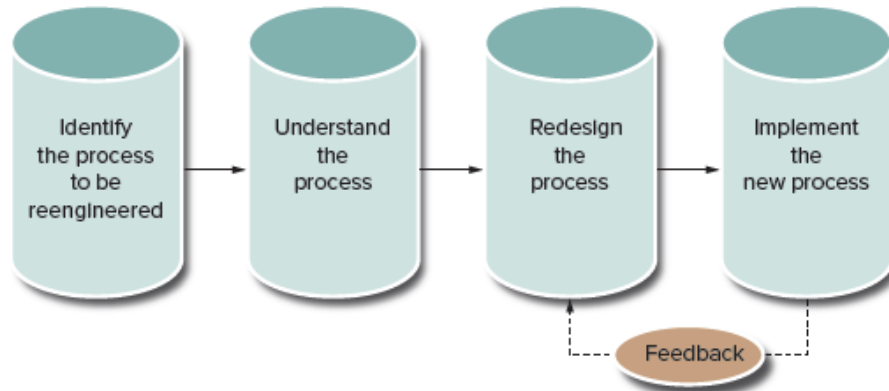


Figure 16.13 The Reengineering Process

Identifying the Process

First, the company should identify the process they want to reengineer and the individuals who are part of that process. Managers who control the process or are responsible for functions within the process (sometimes called “process owners”) should be identified and asked to be part of the reengineering team. Team members should include employees involved in the process (to provide expertise) and those outside the process, as well as internal or external customers who see the outcome of the process.

Understanding the Process

Several things need to be considered when evaluating a process:

Can jobs be combined?

Can employees be given more autonomy? Can decision making and control be built into the process through streamlining it?

Are all the steps in the process necessary?

Are data redundancy, unnecessary checks, and controls built into the process?

How many special cases and exceptions have to be dealt with?

Are the steps in the process arranged in their natural order?

What is the desired outcome? Are all of the tasks necessary? What is the value of the process?

Various techniques are used to understand processes. Data-flow diagrams are useful to show the flow of data among departments. [Figure 16.14](#) shows a data-flow diagram for payroll data and the steps in producing a paycheck. Information about the employee and department are sent to the general account. The payroll check is

issued based on a payment voucher that is generated from the general accounting ledger. page 730Data-entity relationship diagrams show the types of data used within a business function and the relationship among the different types of data. In scenario analysis, simulations of real-world issues are presented to data end users. The end users are asked to indicate how an information system could help address their particular situations and what data should be maintained to deal with those situations. Surveys and focus groups collect information about the data collected, used, and stored in a functional area, as well as information about time and information-processing requirements. Users may be asked to evaluate the importance, frequency, and criticality of automating specific tasks within a functional area. For example, how critical is it to have an applicant tracking system that maintains data on applicants' previous work experience? Cost-benefit analyses compare the costs of completing tasks with and without an automated system or software application. For example, the analysis should include the costs in terms of people, time, materials, and dollars; the anticipated costs of software and hardware; and labor, time, and material expenses.⁹

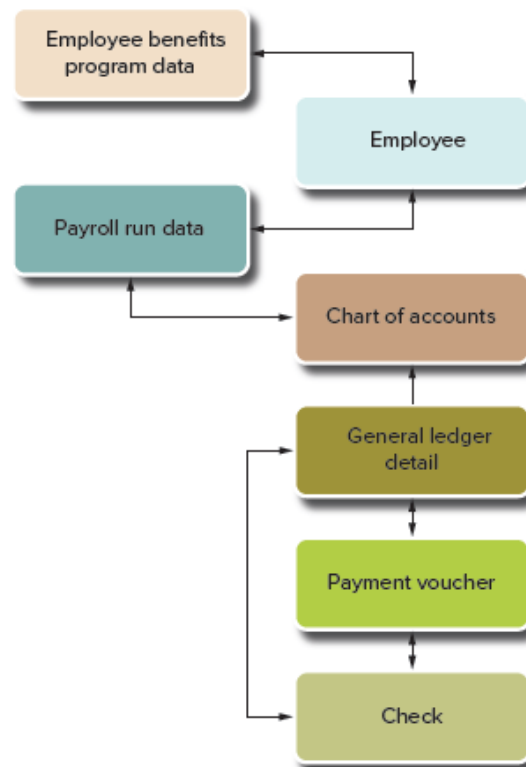


Figure 16.14 A Data-Flow Diagram for Payroll Data

Redesigning the Process

During the redesign phase, the team develops models, tests them, chooses a prototype, and determines how to integrate the prototype into the organization.

Implementing the Process

LO 16-7

Discuss the types of new technologies that can improve the efficiency and effectiveness of HRM.

The company tries out the process by testing it in a limited, controlled setting before expanding companywide. For example, J. M. Huber Corporation, a New Jersey-based conglomerate that has several operating divisions scattered throughout the United States, used reengineering to avoid installing new software onto inefficient processes.¹⁰ HR staff began by documenting and studying the existing work flow and creating a strategy for improving efficiency. Top management, mid-level managers, and HR staff worked together to identify the processes they most wanted to improve. page 731 They determined that the most critical issue was to develop a client-server system that could access data more easily than the mainframe computer they were currently using. Also, the client-server system could eliminate many of the requisitions needed to get access to data, which slowed down work. The HRM department's efforts have streamlined record-keeping functions, eliminated redundant steps, and automated manual processes. The fully automated client-server system allows employees to sign up and change benefits information using an interactive voice-response system that is connected to the company's database. In addition, managers have easier access to employees' salary history, job descriptions, and other data. If an employee is eligible for a salary increase and the manager requests a change and it is approved, the system will process it (without entry by a clerical worker), and the changes will be seen on the employee's paycheck. Results of the reengineering effort are impressive. The redesigned processes have reduced the number of problems that HRM has to give to other departments by 42%, cut work steps by 26%, and eliminated 20% of the original work. Although the company is spending more than \$1 million to make the technology work, it estimates that the investment should pay for itself in five years.

Improving HRM Effectiveness through New Technologies—E-HRM

Since the mid-1990s, as HRM functions sought to play a more strategic role in their organizations, the first task was to eliminate transactional tasks in order to free up time to focus on traditional and transformational activities. Part of building a strategic HR function requires moving much of the transactional work away from being done by HR employees so that they can have time available to work on strategic activities. Consequently, the use of technology can make HR more strategic and by doing so increase the value that HR adds to the business.¹¹ As indicated in [Figure 16.11](#), outsourcing of many of these activities provided one mechanism for reducing this burden. However, more relevant today is the focus on the use of information technology to handle these tasks. Early on this was achieved by the development and implementation of information systems that were run by the HRM function but more recently have evolved into systems that allow employees to serve themselves. As described earlier, employees can access the system and make their benefit enrollment, changes, or claims online. Clearly, technology has freed HRM functions from transactional activities to focus on more strategic actions.

However, the speed requirements of e-business force HRM functions to explore how to leverage technology for the delivery of traditional and transformational HRM activities. This does not imply that over time all of HRM will be executed online, but rather a number of HRM activities currently delivered via paper or face-to-face communications can be delivered electronically with no loss (and even gains) in effectiveness and efficiency. This is illustrated by [Figure 16.15](#). We explore some examples next.

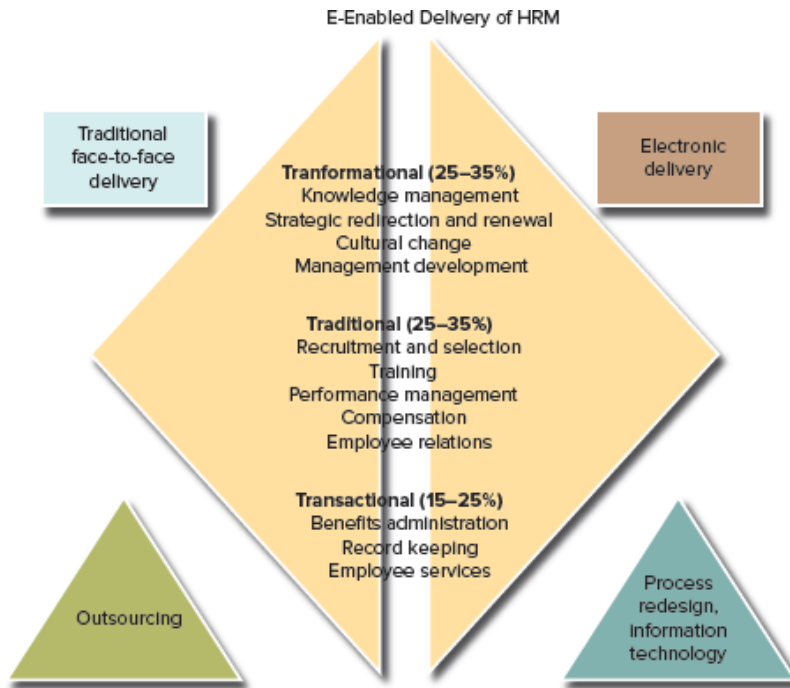


Figure 16.15 Change in Delivery

In a world dominated by social media, companies like Google are now using it for internal purposes. Google developed “Grow,” an internal platform that makes it easy for Googlers to find learning opportunities, jobs, one-on-one advice, and other development resources to suit their needs and interests. Grow unifies myriad learning, development, and job search tools into a one-stop shop for Googlers to manage and act on their development. It suggests courses, opportunities, advisors, and more based on what the company knows about the Googler (e.g., role, level, location) and the data a Googler provides within the tool (e.g., skills the Googler wants to develop). Not surprisingly, given Google’s search capability, this system allows employees to search for learning resources or jobs of interest.

Grow is an inherently social platform, and every Googler has a customizable profile that is visible to others. [Figure 16.16](#) displays the Grow profile of Sunil Chandra, page 732Google’s VP of staffing and operations. As you can see, Googlers can tag skills they have (e.g., consulting, people management, and coaching for Sunil) and those they want to develop (e.g., entrepreneurship and prioritization) in their profile. Skills listed in Grow help the system get to know the user and offer more personalized job recommendations. Googlers can also indicate if they would like to advise others on a particular skill. If Sunil tags himself as a “Skill Advisor” on a topic (e.g., leadership), he will appear in Grow’s search results, and other Googlers can view his skills and contact him for advice. He can select the option to “teach other Googlers,” as well, which would connect him to Google’s g2g (or “Googlers-to-Googlers”) program, an internal volunteer teaching network that allows employees to teach their peers on a variety of subjects.

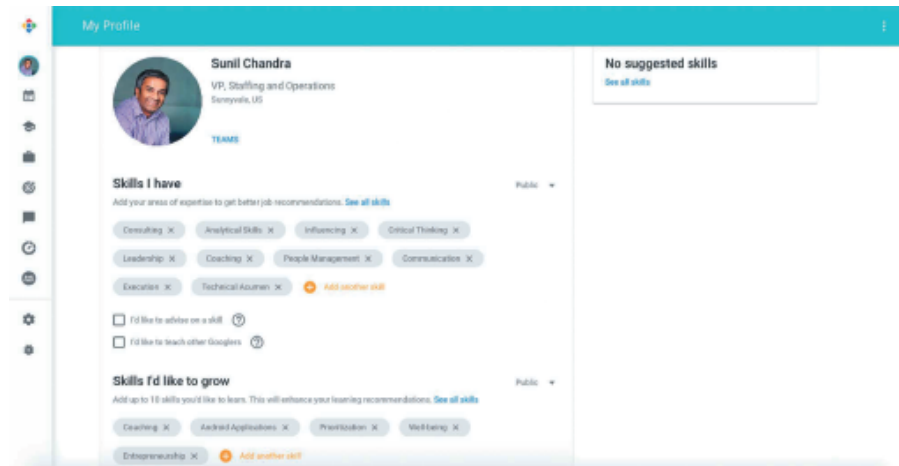


Figure 16.16 Personal Webpage for Sunil Chandra

Google, Inc.

As mentioned earlier, Grow also allows Googlers to list skills they would like to develop. They can add up to 10 skills, and Grow will use these inputs to further customize their learning recommendations. To help Googlers get started, Grow suggests page 733a number of skills on the right-hand side of the page (culled from a multiyear study of the skills that make Googlers effective in their roles). In Sunil's case, he has already added all of his suggested skills directly to his profile, which is why the tool reflects "no suggested skills." Sunil's profile also includes his picture, job title, location, and a link to his internal employee page to help his fellow Googlers get to know him.

In sum, Grow profiles are a great way for Googlers to teach the tool about their skills and development areas, and get better learning and job recommendations in the process. It also helps Googlers connect with their peers as advisors, mentors, or internal teachers, in addition to providing a host of other learning and development resources.

Recruitment and Selection

Traditional recruitment and selection processes have required considerable face-to-face communications with recruitment firms and potential employees, labor-intensive assessment devices, and significant monitoring of managerial decisions to ensure that hiring patterns and decisions do not run afoul of regulatory requirements. However, technology has transformed these processes.

For example, online recruiting accounts for one of every eight hires according to kforce.com's poll of 300 U.S. companies. IBM employees now fill out forms on the Web to identify contract help they need, and that information is immediately sent to 14 temp agencies. Within an hour, agencies respond with resumes for review, allowing IBM to cut hiring time from 10 days to 3 and to save \$3 million per year.

Finally, technology has enabled firms to monitor hiring processes to minimize the potential for discriminatory hiring decisions. For example, Home Depot was accused of forcing female applicants into cashier jobs while reserving the customer service jobs for men. While not admitting guilt, as part of its consent decree Home Depot uses technology to identify people who have skills for jobs they are not applying for based on key words in their resumes. In addition, the technology forces managers to interview diverse candidate sets before making decisions.

Compensation and Rewards

Compensation systems in organizations probably reflect the most pervasive form of bureaucracy within HRM. In spite of the critical role they play in attracting, motivating, and retaining employees, most systems consist of rigid, time-consuming, and ineffective processes. Managers fill out what they believe to be useless forms, ignore guidelines, and display a general disdain for the entire process.

Leveraging technology may allow firms to better achieve their compensation goals with considerably less effort. For example, one problem many merit or bonus pay plans face is that managers refuse to differentiate among performers, giving everyone similar pay increases. This allows them to spend less time thinking about how to manage (rate and review) performance as well as minimizes the potential conflict they might face. Thus, employees do not see linkages between performance and pay, resulting in lower motivation among all employees and higher turnover among top performers (and possibly lower turnover among bottom performers). To minimize this, Cypress Semiconductors requires managers to distinguish between equity and merit and forces distributions with regard to both concepts.¹² For example, equity means that the top-ranked performer in any group of peers should make 50% more than the lowest-ranked performer, and people with comparable performance should receive comparable salaries. With regard to merit, there must be at least a 7% spread between the lowest and highest pay raises (if the lowest raise is 3%, then the highest must be at least 10%). If ratings and raises are input into a system, the firm can monitor and control the rating process to ensure that adequate differentiations are made consistent with the policy.

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Training and Development

Exploring different vehicles for delivering training (PC, video, and the like) certainly is not a new concept. In addition, a number of firms have begun delivering training via the Web. Their experience suggests that some types of training can be done effectively via the Internet or an intranet, whereas others might not. For example, companies such as IBM and Dell both boast that they have developed Internet-based training for some parts of their workforce.

Interestingly, the challenge of speedy delivery of HRM services brings the concept of Internet-based training to the forefront. In today's competitive environment, firms compete to attract and retain both customers and talented employees. How well a firm develops and treats existing employees largely determines how well it achieves these outcomes. Yet the challenges of speed, project focus, and changing technology create environments that discourage managers from managing their people, resulting in a situation where employees may not feel respected or valued.

This presents a challenge to firms to provide both the incentive and the skills for managers to treat employees as assets rather than commodities. Consider how Internet-based training might facilitate this. Assume that you work for Widget.com, a fast-growing, fast-paced e-business. You arrive at work Monday morning, and your e-mail contains a high-priority message with either an attachment or a link to a URL. It is your Monday morning challenge from the CEO, and you know that the system will track whether you link and complete this challenge. When you link to it, you see a digital video of your CEO telling you how people are Widget.com's competitive advantage, and that when they don't feel valued, they leave. Thus, his challenge to you is to make your employees feel valued today. To do so, you will, in the next 10 minutes, learn how to express appreciation to an employee. You receive six learning points; you observe a digitized video model performing the learning points; you review the learning points again and take a quiz. You then see the CEO giving you the final challenge: that in the next 15 minutes you are to take one of your employees aside and express your appreciation using the skill you just developed.

Notice the advantages of this process. First, it was not time consuming, like most three-day or one-week training programs. The entire process (training and demonstration with a real employee) took less than 30 minutes; you have developed a skill; and an employee now probably feels better about the organization. It communicated a real organizational value or necessary competency. It didn't require any travel expenses to a training facility. It did not

overwhelm you with so much information that you would be lucky to remember 10% of what you were exposed to. Finally, it was a push, rather than pull, approach to training. The firm did not wait for you to realize you had a deficiency and then go search and sign up for training. It pushed the training to you.

Technology allows firms to deliver training and development for at least some skills or knowledge faster, more efficiently, and probably more effectively. It can quickly merge training, communication, and immediate response to strategic contingencies. The pandemic forced companies to begin offering training and development programs that they had previously viewed as being necessarily delivered in a face-to-face format. As a result, they found that many of their assumptions were wrong and that a large portion of the content could be delivered in an online format. For example, Home Depot conducts assessment centers to identify development opportunities for their managers. When the pandemic forced them to conduct these virtually, they found that the format was as effective as the face-to-face format, and with a much lower cost.

Creating and nurturing a committed workforce presents a tremendous challenge to firms today. According to a survey conducted by Monster.com, 61% of Americans consider themselves overworked and 86% are not satisfied with their jobs.¹³ Such findings suggest that firms need to find ways to monitor commitment levels, identify potential obstacles to commitment, and respond quickly to eliminate those obstacles. In large part, attitude surveys have constituted the platform from which these activities were managed in the past.

Consider the traditional attitude survey. Surveys are administered to employees over a period of four to six weeks. The data are entered and analyzed, requiring another six to eight weeks. A group interprets the results to identify the major problem areas, and task forces are formed to develop recommendations; this process easily takes another four to six months. Finally, decisions must be made about implementing the task force recommendations. In the end, employees might see responses to their concerns at best 12–18 months after the survey—and then the survey administrators cannot understand why employees think that completing the survey is a waste of time.

Now consider how technology can shorten that cycle. E-pulse represents one attempt to create a platform for almost real-time attitude surveys. Developed by Theresa Welbourne at the University of Alabama, E-pulse is a scalable survey device administered online. Normally three questions are asked regarding how employees feel about work, but more questions can be added to get feedback on any specific issue. The survey goes out online, and when employees complete it, the data are immediately entered and analyzed. In essence, the part of the process that took four months in the past has been reduced to a day.

Next the firm can decide how it wants to use the information. For example, it could be broken down by business, site, or work unit, with the relevant information going to the leader of the chosen unit of analysis. In essence, supervisors could receive almost immediate feedback about the attitudes of their work group, or general managers about their business unit. Supervisors or managers can respond immediately, even if only to communicate that they realize a problem exists and will take action soon.

Although technology provides for faster HRM, only a more systemic approach will ensure better and smarter HRM. For example, using technology to disseminate information to supervisors and managers may be faster, but unless those individuals possess good problem-solving and communication skills, they may either ignore the information or, worse yet, exacerbate the problem with inappropriate responses. As we noted with regard to training, this systemic approach requires knocking down traditional functional walls to deliver organizational solutions rather than functional programs. Thus, the challenge is to view the technology not as a panacea or even as a functional tool but rather as a catalyst for transforming the HRM organization.

Improving HRM Effectiveness through New Technologies—HRM Information Systems

Several new and emerging technologies can help improve the effectiveness of the HRM function. [New technologies](#) are current applications of knowledge, procedures, and equipment that have not been used previously. New technology usually involves automation—that is, replacing human labor with equipment, information processing, or some combination of the two.

[New technologies](#)

Current applications of knowledge, procedures, and equipment that have not been previously used. Usually involves replacing human labor with equipment, information processing, or some combination of the two.

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In HRM, technology has already been used for three broad functions: transaction processing, reporting, and tracking; decision support systems; and expert systems.¹⁴ [Transaction processing](#) refers to computations and calculations used to review and document HRM decisions and practices. This includes documenting relocation, training expenses, and course enrollments and filling out government reporting requirements (such as EEO-1 reports, which require companies to report information to the government regarding employees' race and gender by job category). [Decision support systems](#) are designed to help managers solve problems. They usually include a "what if" feature that allows users to see how outcomes change when assumptions or data change. These systems are useful, for example, for helping companies determine the number of new hires needed based on different turnover rates or the availability of employees with a certain skill in the labor market. [Expert systems](#) are computer systems incorporating the decision rules of people deemed to have expertise in a certain area. The system recommends actions that the user can take based on the information provided by the user. The recommended actions are those that a human expert would take in a similar situation (such as a manager interviewing a job candidate).

[Transaction processing](#)

Computations and calculations used to review and document HRM decisions and practices.

[Decision support systems](#)

Problem-solving systems that usually include a "what-if" feature that allows users to see how outcomes change when assumptions or data change.

[Expert systems](#)

Computer systems incorporating the decision rules of people recognized as experts in a certain area.

The latest trend within HR is the movement toward artificial intelligence (AI) and chatbots. Most HR software systems today (e.g., WorkDay, PeopleSoft, Success Factors) gather significant amounts of information on employees. AI provides a mechanism to mine that information and extract from it what might be optimal decisions. For instance, AI systems can source, screen, and match candidates to positions in a way that eliminates bias.

Chatbots consist of computer-based communications that have traditionally been performed by call center employees. For instance, when employees go through the arduous process of benefits enrollment, a chatbot can lead them through it, answering whatever questions they have.

Predictive Analytics

The more recent use of technology and data has been in the area of predictive analytics. Earlier in the chapter we discussed how HR functions can analytically evaluate their performance through either tracking certain metrics or surveying internal customers. Although such a backward-looking approach can help the function to pinpoint areas for improvement, more recent effort has been devoted to trying to identify problems before they happen.

Predictive analytics refers to the use of data to make predictions about actions or outcomes in the future. For example, many technology companies hate to see good employees leave because they are so hard to replace. Looking at data to identify indicators that an employee is about to leave would be helpful for organizations if they want to intervene. For instance, Adobe Systems has found that a strong predictor of employees' desire to leave is when they begin to update their LinkedIn profile. Google has developed sophisticated algorithms looking at a number of variables and uses these algorithms to identify which employees are likely to leave.

Hershey has recently integrated AI and predictive analytics to create a system that can increase employee retention. Using a compilation of variables predictive of an employee's intention to leave, the system can create a dashboard of which areas or jobs in the organization seem at risk of significant turnover. They can then, within that area or job, create a rank ordering of those employees most likely to turn over in the following six months. Armed with this information, they contact those employees' supervisors with suggestions on how they might better engage and retain those employees.

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Customization

Finally, the vast increases in technological capability and data have a number of companies looking to better customize an employee's experience with the organization. In the past, many companies allowed "cafeteria" benefit plans that allowed employees to choose the benefits they most desired. However, today some firms allow employees to customize their pay mix (e.g., take lesser or greater amounts of fixed versus variable pay, or varying the type of variable pay such as bonuses versus stock). Also, companies can proactively approach employees who may want to think about changing benefits based on changes in life events (e.g, when an employee adds a child as a beneficiary, the company can suggest putting money into life insurance or into educational savings accounts). In all these cases, companies are not forcing changes onto employees but rather are using the information they have about employees to help those employees better manage their work and personal lives. The [Competing through Technology](#) box illustrates how technology has revolutionized the hiring process in many organizations.

COMPETING THROUGH TECHNOLOGY

In Search of Comprehensive Employee Management Systems

Throughout this book you have read about the various activities that fall under the umbrella of HR. Any company has to effectively manage its employees if it wants to succeed, and this requires an HR function that provides the tools and technologies to enable both managers and employees to succeed. For instance, employees want to be paid for their time, so there needs to be a payroll system that records their time at work and integrates it into the system that issues the paychecks. Employees want to develop their skills, get feedback on their performance, and find promotion opportunities within the firm. Managers want their employees to develop, and they also want to know what other talent exists in the organization that might be available to them. All of these activities require technologies. The problem is that most often, the technology to enable one of those activities is not integrated with the technologies that enable the other ones. This has caused some firms to invest heavily into trying to create their own systems to enable better integration.

This has also been viewed as an opportunity by a number of technology companies to create one totally integrated Employee Management System that provides seamless communication across the various activities that touch all aspects of an employee's experience. For instance, Microsoft recently launched its "Viva" which will allow companies to manage payroll, benefits, career development, scheduling and all aspects of an employee's life at work. CEO Satya Nadella says, "From a priority perspective, empowering your people with the very best tools and systems so that they can work in spite of whatever the constraints ... is not a nice to have. In fact it's essential."

Microsoft enters the market competing with more established HR technology companies such as SAP and Workday which have carved out their market niche offering software that enables payroll, performance reviews, and vacation planning. However, Microsoft hopes that its system could act as an umbrella under which the SAP or Workday tools could be integrated while it expands the capabilities to include things like helping employees to manage their mental health. Microsoft is not alone in this strategy as companies like [Salesforce.com](https://www.salesforce.com) and ServiceNow are also developing competing systems.

Nadella sees this as a strategic opportunity for Microsoft. “This can be a very significant growth area for us and it’s a very natural growth area for us given everything we are already doing.”

DISCUSSION QUESTIONS

Do you think these new technologies will be useful for more effectively managing the workforce? Why or why not?

Do you think Microsoft is the right company to develop such a system? Why or why not?

SOURCE: H. A. Tilley, “Microsoft CEO Sees Pandemic Sparking New Wave of Employee-focused Tech,” *The Wall Street Journal*, February 4, 2021,

<https://www.wsj.com/articles/microsoft-ceo-nadella-bets-businesses-are-ready-to-spend-big-on-employee-software-11612447>

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The Future for HR Professionals

LO 16-8

List the competencies the HRM executive needs to become a strategic partner in the company.

The future for careers in the human resource profession seems brighter than ever. CEOs recognize the importance of their workforce in driving competitive success. Firms need to seek the balance between attracting, motivating, and retaining the very best talent and keeping labor and administrative costs as low as possible. Finding such a balance requires HR leaders who have a deep knowledge of the business combined with a deep knowledge of HR issues, tools, processes, and technologies.

For a reader who is just getting a first glimpse of the HRM function, to portray what a vastly different role HRM must play today compared to 20 or even 10 years ago is impossible. As noted earlier, HRM has traditionally played a largely administrative role—simply processing paperwork plus developing and administering hiring, training, appraisal, compensation, and benefits systems—and all of this has been unrelated to the strategic direction of the firm. In the early 1980s, HRM took on more of a one-way linkage role, helping to implement strategy. Now strategic decision makers are realizing the importance of people issues and so are calling for HRM to become the “source of people expertise” in the firm.¹⁵ This requires that HR managers possess and use knowledge of how people can and do play a role in competitive advantage as well as the policies, programs, and practices that can leverage the firm’s people as a source of competitive advantage. This leads to an entirely new set of competencies for today’s strategic HR executive.¹⁶



Visit your instructor’s Connect® course and access your eBook to view this video.



“I don’t believe that it’s our job in HR just to adminster the change or execute the change. I think our job is to agitate for the change.”

— L. Kevin Cox, Chief Human Resources Officer, General Electric

Source: Video produced for the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina by Coal Powered Filmworks

In addition, while the COVID pandemic (and challenges of social injustice, political quagmire, digital 4.0, and emotional malaise) wreaked havoc on organizations, it further elevated the importance of the HR function. Some have said that just as the Y2K crisis elevated Chief Information Officers and the great recession elevated Chief Financial Officers, so the pandemic elevated CHROs. In addition has been the need for organizations to respond to the death of George Floyd by creating a desire for companies to ensure that they are excelling at diversity, equity, and inclusion.

So, what are the competencies necessary to be personally effective and to drive business results post-pandemic? Dave Ulrich (who co-founded the RBL Group and also is a professor at the University of Michigan) and his colleagues have been conducting what has been titled the “Human Resource Competency Study” (HRCS) since 1987, gathering data on HR professional competencies every five years. The latest round of the study was completed during 2021 when the full effects of the pandemic and racial injustice protests had passed, but their effects still lingered. They received 360 ratings on approximately 3600 HR professionals across the globe with ratings from over 25,000 raters on those professionals. Thus, it provided a detailed glimpse into the competencies of HR professionals that drive results. The study identified five competencies important to HR professionals, which are shown in [Figure 16.17](#).

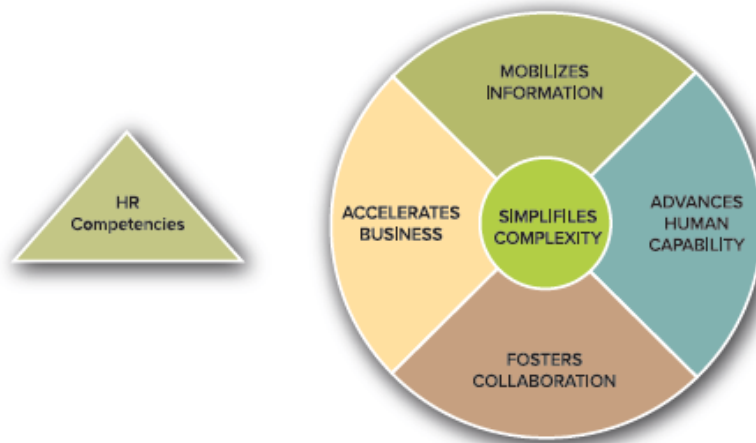


Figure 16.17 The Five Competencies

Accelerates Business refers to a number of aspects of an HR professional that focus on ensuring the success of the business. It requires first that individuals understand the external environment of the company, how they

compete in the marketplace, and how the company creates value for customers. This competency entails using that knowledge to help influence decisions and decision makers in ways that help create effective strategies. Armed with knowledge and influence, HR professionals with this competency know how to prioritize demands in order to deliver results. Finally, this competency entails knowing when and how to drive the types of change that the organization needs to succeed.

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Advances Human Capability focuses on knowing the human capability necessary for the firm to effectively meet the demands of its competitive environment. This entails first ensuring that they develop all of the various pools of talent within the firm. Second, these professionals know which practices, systems, and structures will effectively support the capabilities that the firm needs to differentiate itself in the marketplace. Third, this competency entails an ability to know how to create a culture that supports diversity, equity, and inclusion. These two competencies describe the primary role of accelerating the business's performance through advancing the human capability of the firm. The next three competencies are the "pathways" through which HR professionals are able to do this.

Fosters Collaboration describes the ways in which individuals can build trusting relationships with others in order to effectively navigate getting things done. First, relationship with others starts with individuals' abilities to manage their own selves by being open to feedback and displaying confidence, humility, integrity, and ethics. Second, fostering collaboration entails building trust, working effectively with and valuing people from different organization levels, skill levels, functions backgrounds, and cultures.

In today's environment characterized by massive technological and social change, **Mobilizes Information** describes the extent to which someone is able to navigate these changes. This competency first describes how an individual is able to anticipate technological innovations and then acquire, analyze, and apply information to help make better decisions. Second, with all the recent societal challenges such as pollution, racial strife, political conflicts, and health crises, this competency entails anticipating these changes and providing guidance about human capability interventions for how to most effectively respond.

Finally, **Simplifies Complexity** refers to the ability to sift through the voluminous amounts of information and change and to respond calmly on issues of greatest importance. Part of this competency focuses on thinking critically rather than simply responding to the newest shiny object or rushing after the latest HR fad. The other part ties directly to the events of 2020-21, and describes how, under times of either great uncertainty or dangerous crises, an individual can harness the challenges to drive positive change in the organization.

The [Evidence-Based HR](#) box describes how these competencies relate to various measures of effectiveness.

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EVIDENCE-BASED HR

The Impact of the Five Competencies: The five competencies of HR professionals identified in the Human Resource Competency Study (HRCS) were identified by gathering ratings of over 3600 HR professionals on over 75 behavioral items. These items were then subjected to a statistical technique known as "factor analysis" which uses the correlations among items to identify factors, or groups of items, that correlate more highly with each other than they do with the other items. So, the competency factors emerged from the data about "what is" true of HR professionals. However, a more important question is "what should be" true? How do these competencies relate to some measures of performance?

The HRCS measured four performance dimensions. Personal effectiveness was based on how effective raters rated HR professionals in their role. They also reported how effective HR professionals were in meeting the needs of both Internal Stakeholders (e.g., employees and line managers) and External Stakeholders (e.g., customers and

investors). Finally, they provided an assessment of the business's results in terms of its performance relative to competitors regarding a number of specific metrics in the areas of Financial, Strategic, Customer, and Employee performance.

Figure 16.18 provides an overview of the results regarding the relationships between each of the competencies and the various measures of performance. The bottom row reports how much of the variation in the performance measure was accounted for by the competencies. One way to think about this is to consider all of the variables (business strategy, economic conditions, direct competitors, products, customer preferences, etc.) that could cause the variation (i.e., why one person or organization performed better than another). The results suggest that the competencies account for roughly 45% of the variance in the personal effectiveness and both stakeholder variables. However, they only explain 3.5% of the variance in business results.

Figure 16.18

HR Competencies and Results						
		1	2	3		4
		Mean	Personal Effectiveness (N=3594)	Stakeholders: Value created by the individual (N=3594)		Business Results (N=1013)
				Internal	External	
	Accelerates Business	3.84	23%	23%	24%	23%
	Advances Human Capability	3.84	19%	20%	19%	35%
	Simplifies Complexity	3.83	21%	19%	19%	13%
	Mobilizes Information	3.67	17%	17%	23%	16%
	Fosters Collaboration	4.14	19%	21%	15%	14%
	Overall Regression	—	47.2%	45.5%	44%	3.5%

The columns for each of the performance measures describe the relative impact of each competency relative to the others (out of 100%). This shows that Accelerates Business was one of the most important drivers across all four performance measures. Advances Human Capability had the strongest impact on Business Results, Simplifies Complexity had a strong effect on personal effectiveness, Mobilizes Information was strongly related to External Stakeholders, and Fosters Collaboration had a strong effect on Internal Stakeholders. In addition, all of the competencies were positively related to all of the performance measures, meaning that all are ones that can help HR professionals more effectively perform in their roles.

SOURCE: P. Wright, M. Ulrich, and E. Burns, “HR Competency Study Round 8: A Call to Action(s),” *LinkedIn*. Published online May 24, 2001.

Not all HR professionals can be expected to develop all five competencies at a level of excellence, but rather some competencies may be more important depending upon in what part of the HR function they work. Google has sought to integrate the various skill sets needed within the HR function with what it calls the “three-thirds” staffing model. This consists of the following groups of people with complementary skill sets:

- One-third traditional HR people:* subject matter experts in benefits, compensation, employee relations, learning, and recruiting. Their expertise, pattern recognition, and emotional intelligence serve as the foundation for developing services and programs.
- One-third consultants:* high-end strategy experts with a background in management consulting who thrive on solving big, amorphous problems and bring a deliberate, business approach to people issues.

One-third analytics professionals: master's and doctoral-level folks who measure, analyze, and provide insight into all that the people operations function does, and to prove what really works. They have a healthy appetite for the impossible and drive experimentation to ensure that Google is as innovative on the people side as it is on the product side.

This staffing model has enabled Google to build the required skill base and integrate the various people needed to build a world-class HR organization.¹⁷

The Role of the Chief Human Resource Officer

Having discussed the increasing importance of HR and the new strategic role of HR professionals, in closing we examine the role of the leader of the HR function. These chief human resource officers (CHROs) bear the responsibility for leading the HR function as well as ensuring that HR systems and processes deliver value to the company. Only recently have researchers attempted to examine what these HR leaders do and how they affect the business.

A recent survey identified seven roles that CHROs have to play to one degree or another, and then asked *Fortune* 150 CHROs to identify how they spend their time across those roles. As can be seen in [Figure 16.19](#), CHROs reported spending the second most time (21%) as a [strategic advisor](#) to the executive team. This role entails sharing the people expertise as part of the decision-making process, as well as shaping how the firm's human capital fits into its strategy. This also was the role that was most frequently cited as having the greatest impact on the firm. One CHRO described the importance of the strategic advisor role:

HR is critical, but it's a tool in the firm's portfolio. First, to truly impact the success of the firm, the CHRO needs to have a broad credibility that only comes from understanding every facet of the business at a level deep enough to be able to add business value in discussions with every leader. That means understanding the firm's economics, customer behavior, products, technology, etc. at a level deep enough to steer and shape decisions in these areas. From that flows the trust and credibility to counter the "conventional wisdom" on how best to manage people and shape the firm's talent agenda. Without this broader credibility, the CHRO can talk about talent, but risks not having sufficient context to make the right decisions. Second, from the CEO's perspective, the most useful thing is the integration of the people strategy with every other part of the firm's operations. The only way to truly integrate these areas is to be actively involved in the broader discussions as well.¹⁸

[Strategic advisor](#)

A role of the CHRO that focuses on the formulation and implementation of the firm's strategy.

What percent of your time would you say you spend in each of the following roles?



Figure 16.19 Percentage of Time CHROs Spend in Each Role

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The role of [talent architect](#) also sees a significant portion of time spent (17%) and was also frequently cited as the role in which the CHRO has the greatest impact on the business. Playing the role of talent architect requires that CHROs help the executive team see the importance of talent, identify present and future talent gaps, and come to own the talent agenda. One CHRO described the importance of this role this way:

Keeping the senior team focused on the strategic talent needs of the business allows proper identification of talent gaps and future needs, thus allowing time to develop best talent and design appropriate experiential assignments.¹⁹

[Talent architect](#)

A role of the CHRO that focuses on building and identifying the human capital critical to the present and future of the firm.

CHROs report spending as much time in the role of [counselor/confidante/coach](#) as they do in the talent architect role (17%), and a number of CHROs listed this role as one of the roles with the greatest impact. This role seemingly is a broad one, and it can entail anything from behavioral or performance counseling to being the personal sounding board for the CEO. Perhaps as pressure mounts on CEOs from investors and analysts, the CHRO is the most trusted advisor who can be counted on to give personal advice or simply to listen to the CEO's problems. Sometimes CEOs may tend to behave dysfunctionally, and the CHRO may be the one to help point that out. Often the counselor/confidante/coach role entails coaching senior leaders regarding their communication style, and particularly warning them when their messages might be misinterpreted by those lower in the organization. But other times CEOs inherently understand the importance of people as part of the firm's success. Consider the following poignant comment regarding this role:

If I do my job right, I am the copper wire that connects all the outlets of the firm together effectively. This includes Organization Development work (which some might put in the strategic advisor category), performance counseling and relationship building, business consulting and the strategic elements of talent acquisition and planning.²⁰

[Counselor/confidante/coach](#)

A role of the CHRO that focuses on counseling or coaching team members or resolving interpersonal or political conflicts among team members.

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The [Integrity in Action](#) box describes how Hubert Joly took over a troubled Best Buy and turned it around by focusing on and involving people.



INTEGRITY IN ACTION

Rebuilding Best Buy

In 2012 the electronics retailer Best Buy seemed to be in a free fall. Their stock price was plummeting and they had just fired their CEO after a scandal. In addition, the founder Dick Schulze was engaged in a fight with the board of directors to take the company private. Hubert Joly, in spite of having no background in retailing, was brought in as the new CEO to “right the ship.”

Joly spent the first three days working in one of the stores with the name tag “CEO in Training.” His conversations with employees revealed their love for electronics, their frustration with the company’s website, and their dissatisfaction with the recent decision to eliminate the employee discount. Conversations with the store manager revealed that much of the store space was devoted to low volume/low margin items (physical media like TVs), and little store space was devoted to higher margin/higher volume items (e.g., cell phones). He identified the two major problems at Best Buy: Falling sales and decreasing margins.

Joly rolled out the “Renew Blue” plan that focused on turning around the business. They began implementing a number of changes in their operations that would save costs. For instance, damaged flat-screen TVs cost over \$180 million per year. So, they asked manufacturers to better package the TVs, and have the packaging make clear the box should be upright rather than laid flat. They trained the staff to put the TVs closer to the ground to reduce the risk of dropping a TV. Finally, they offered to deliver TVs to customers in order to ensure that the TVs arrived safely.

Joly focused on cutting as much in nonsalary costs as possible and reducing head count only as a last resort. He notes that since 2012 Best Buy has saved over \$2 billion in costs, and only about one-third of that came from cutting employee costs.

How did Best Buy cut costs while minimizing the impact on employees? They focused on creating more efficient operations. But part of that consisted in empowering employees to do things that made sense. For instance, Joly noted that a green marker had been returned and it had been transported hundreds of miles to the return center. Joly told managers that they could override any policy that did not make sense for dealing with that unique situation.

During the coronavirus pandemic, the company paid workers who were not working for as long as possible, and then furloughed them. At the end of it all, almost all of the furloughed employees were brought back.

They did reduce the workforce some, but focused on doing so in areas that were consistent with the strategy. For instance, they eliminated the “chief of staff” roles for executives. And after the coronavirus shut down they eliminated some jobs that were unnecessary as the company moved toward a more digital future.

Joly writes: “To this day many Best Buy employees tell me that Renew Blue was one of the best times in their professional lives. We were supposed to die. But even now, people who went through it still remember that we had only two problems, and we solved them.”

What do you think about the strategy Hubert Joly used to turn around Best Buy?

What do you think HR's role was in this turnaround?

SOURCE: H. Joly, "How Hubert Joly Changed Best Buy without Everyone Hating Him," *The Wall Street Journal*, April 23, 2021, https://www.wsj.com/articles/how-hubert-joly-changed-best-buy-without-everyone-hating-him-11619193615?mod=hp_list_a_po

The [leader of the HR function](#) is the role in which CHROs spent the most time (22%), but it is not seen as one that has the greatest impact. This role deals with ensuring that the HR function is aligning its activities and priorities toward the needs of the business, and it usually entails meeting with direct reports to provide guidance and check on progress. However, CHROs increasingly rely on their direct reports to design and deliver HR services while they shift their attention to advising and counseling the top executive team.

[Leader of the HR function](#)

A role of the CHRO that focuses on working with HR team members regarding the development, design, and delivery of HR services.

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[Liaison to the board of directors](#) entails all of the activities in which CHROs engage with the board of directors, including discussions of executive compensation, CEO performance, CEO succession, and performance of other members of the executive leadership team. This role is increasing in importance, although it has a long way to go before equaling the strategic advisor, talent architect, and counselor/confidante/coach roles.

[Liaison to the board of directors](#)

A role of the CHRO that focuses on preparation for board meetings, phone calls with board members, and attendance at board meetings.

Finally, CHROs to some extent become the face of the organization to outside constituents such as labor unions, nongovernmental organizations, and the press. They spend the least amount of time in the [representative of the firm](#) role (see [Table 16.5](#)). The [Competing through Environmental, Social, and Governance Practices](#) box describes the dilemma The North Face faced in trying to position itself as being environmentally friendly.

[Representative of the firm](#)

A role of the CHRO that focuses on activities with external stakeholders, such as lobbying, speaking to outside groups, and so on.

Table 16.5 Roles of the CHRO

<i>Strategic advisor to the executive team:</i> activities focused specifically on the formulation and implementation of the firm's strategy.
<i>Counselor/confidante/coach to the executive team:</i> activities focused on counseling or coaching team members or resolving interpersonal or political conflicts among team members.
<i>Liaison to the board of directors:</i> preparation for board meetings, phone calls with board members, attendance at board meetings.
<i>Talent architect:</i> activities focused on building and identifying the human capital critical to the present and future of the firm.

Leader of the HR function: working with HR team members regarding the development, design, and delivery of HR services.

Workforce sensor: activities focused on identifying workforce morale issues or concerns.

Representative of the firm: activities with external stakeholders, such as lobbying, speaking to outside groups, and so on.



COMPETING THROUGH ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Being Virtuous or Just Virtue Signaling?

The North Face, a division of Colorado-based VF Corporation, has as part of its mission statement to “Provide the best gear for our athletes and the modern-day explorer, support the preservation of the outdoors, and inspire a global movement of exploration.” So when Innovex Downhole Solutions, a company in the oil and gas industry, sought to order jackets customized with the company logo for their employees as a Christmas present, The North Face refused the order. Innovex CEO Adam Anderson described their rationale: “They told us we didn’t meet their brand standards. We were separately informed that what that really meant was that we were an oil and gas company.” So far, so good, right? A company with a reputation for its environmental brand declined to do business with an oil and gas company.

However, Anderson did not take the slight sitting down. He penned a four-page letter to VF CEO Steve Rendle and posted it on LinkedIn. The letter noted two things. First, “Low-cost, reliable energy is critical to enable humans to flourish. Oil and natural gas are two main primary resources humanity can use to create low-cost and reliable energy. The work of my company and our industry more broadly page 745enables humans to have a quality of life and life expectancy that were unfathomable only a century ago.”

Second, and more problematic for The North Face, his letter noted, “we were informed North Face would not sell us jackets because we are an oil and gas services company. The irony in this statement is your jackets are made from the oil and gas products the hardworking men and women of our industry produce.”

Then the Colorado Oil and Gas Association (COGA) piled on by awarding The North Face its first “customer appreciation” award, satirically highlighting the fact that many fabrics used in their products come from oil and gas derivatives. COGA CEO Dan Haley stated, “We decided to thank them and appreciate them for being good consumers and good customers of our industry.”

Mr. Anderson says he has not heard back directly from The North Face, but in response to a *Wall Street Journal* inquiry, The North Face responded:

“We consider each request for corporate branded merchandise to ensure any cobranded The North Face products are within our product supply limits and consistent with our brand guidelines and values. We review product requests to ensure they align closely with our goals and commitments surrounding sustainability and environmental protection. Each request is evaluated individually on its own merits, and we don’t share the results of those decisions for a few reasons, including to respect the privacy of those organizations.

“We are continually exploring and prioritizing new supply chain and production opportunities to decrease our environmental footprint and ultimately aim for the use of entirely recycled synthetic materials.”

DISCUSSION QUESTIONS

Do you think that it was right for The North Face to refuse the order from Innovex? Why or why not?

How can companies maintain their desire to engage in sustainable management of their resources when their supply chains may require components that come from environmentally unfriendly sources?

SOURCES: J. Freeman, "Oil Virtue vs. Sustainability Signals," *The Wall Street Journal*, April 16, 2021, https://www.wsj.com/articles/oil-virtue-vs-sustainability-signals-11618605979?mod=opinion_lead_pos11; A. Anderson, "Virtues of Low Cost and Reliable Energy," December 2020, <https://www.linkedin.com/in/adam-anderson-436b8476/detail/recent-activity/documents/>.

The new strategic role for HRM presents both opportunities and challenges. HRM has the chance to profoundly impact the way organizations compete through people. But with this opportunity comes serious responsibility and accountability.²¹ HRM functions of the future must consist of individuals who view themselves as business-people who happen to work in an HRM function, rather than as HRM people who happen to work in a business.



A LOOK BACK

Fixing Robinhood

Clearly, Robinhood has a number of challenges to address regarding its customer service. While more and more small investors appreciate the ease of investing with Robinhood, they find great difficulty in dealing with the company once it has their money. If the company wants to continue to grow, customer trust must be rebuilt. The fact that Robinhood got to this point suggests that the HR function was lacking in skills, capabilities, and/or credibility. Thus, part of building better customer service at Robinhood will require rebuilding of the HR function.

QUESTIONS

In light of what you have read in this chapter, what do you think HR needs to be doing to help Robinhood improve their customer service capability?

What will the HR function need to look like to be able to deliver this transformation?

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SUMMARY

The roles required of the HRM function have changed as people have become recognized as a true source of competitive advantage. This has required a transformation of the HRM function from focusing solely on transactional activities to an increasing involvement in strategic activities. In fact, according to one study, 64% of HR executives said that their HRM function is in a process of transformation.²² The strategic management of the HRM function will determine whether HRM will transform itself to a true strategic partner or simply be blown up.

In this chapter we explored the various changing roles of the HRM function. HRM today includes the roles of administrative expert, employee advocate, change agent, and strategic partner. The function must also deliver transactional, traditional, and transformational services and activities to the firm, and it must be both efficient and effective. HR executives must strategically manage the HRM function just as the firm must be strategically managed. This requires that HRM develop measures of the function's performance through customer surveys and analytic methods. These measures can form the basis for planning ways to improve performance. HRM performance can increase through new structures for the function, through using reengineering and information technology, and through outsourcing.

KEY TERMS

[Audit approach, 721](#)

[Analytic approach, 724](#)

[Outsourcing, 728](#)

[Reengineering, 729](#)

[New technologies, 735](#)

[Transaction processing, 736](#)

[Decision support systems, 736](#)

[Expert systems, 736](#)

[Strategic advisor, 741](#)

[Talent architect, 742](#)

[Counselor/confidante/coach, 742](#)

[Leader of the HR function, 743](#)

[Liaison to the board of directors, 744](#)

[Representative of the firm, 744](#)

DISCUSSION QUESTIONS

Why have the roles and activities of the HRM function changed over the past 20–30 years? What has been driving this change? How effectively do you think HRM has responded?

How can the processes for strategic management discussed in [Chapter 2](#) be transplanted to manage the HRM function?

Why do you think that few companies take the time to determine the effectiveness of HRM practices? Should a company be concerned about evaluating HRM practices? Why? What might people working in the HRM function gain by evaluating the function?

How might imaging technology be useful for recruitment? For training? For benefits administration? For performance management?

Employees in your company currently choose and enroll in benefits programs after reading brochures, completing enrollment forms, and sending them to their HR rep. A temporary staff has to be hired to process the large amount of paperwork that is generated. Enrollment forms need to be checked, sorted, batched, sent to data entry, keypunched, returned, and filed. The process is slow and prone to errors. How could you use process reengineering to make benefits enrollment more efficient and effective?

Some observers argue that outsourcing an activity is bad because the activity is no longer a means of distinguishing the firm from competitors. (All competitors can buy the same service from the same provider, so it cannot be a source of competitive advantage.) Is this true? If so, why would a firm outsource any activity?

How Ethical are You?

If you have been assigned this Self-Assessment in Connect, you will read a series of descriptions and determine whether the behavior described is ethical or unethical.

EXERCISING STRATEGY

Rebuilding Wells Fargo

Wells Fargo needs a new CEO and a new culture. The bank had a sterling reputation and had avoided a number of the negative consequences of the financial crisis. However, then the “fake accounts” scandal emerged, where, under pressure to sign up new customers, personal bankers began creating accounts for customers without their knowledge. As a result, the reputation of the firm has been in tatters and former CEO John Stumpf was under pressure to resign. Tim Sloan took over for Stumpf as the CEO of Wells Fargo, but recently resigned after two years in the job. He had been under pressure from regulators in Washington to get the bank’s numerous problems under control and was quoted as part of his resignation saying, “it has become apparent to me that our ability to successfully move Wells Fargo forward from here will benefit from a new CEO and fresh perspectives.”

Now the bank’s board of directors will seek an outsider to fill the CEO role, as Chairman Elizabeth Duke told investors it would be “the most effective way to complete the transformation at Wells Fargo.”

The new CEO will have a tremendous challenge ahead. The reward system created pressures for employees to serve themselves rather than the customers. It also created a culture focused on achieving results rather than satisfying customers. Thus, the next CEO will need to have an HR function that can help transform Wells Fargo into a bank that again has the respect of customers and industry competitors.

Clearly Wells Fargo has a number of challenges to address. Their workforce has lost its pride. The culture needs to change. Its reputation must be repaired. And customer trust must be rebuilt.

The fact that Wells Fargo got to this point suggests that the HR function was lacking in skills, capabilities, and/or credibility. Thus, part of rebuilding Wells Fargo will require rebuilding the HR function.

Questions

In what ways do you think HR’s lack of effectiveness contributed to the problems at Wells Fargo?

What do you think HR needs to be doing to help rebuild Wells Fargo?

What will the HR function need to look like to be able to deliver this transformation?

SOURCES: R. Ensign, “Wells Fargo CEO Tim Sloan Steps Down,” *Wall Street Journal*, March 28, 2019,

<https://www.wsj.com/articles/help-wanted-wells-fargo-board-seeks-ceo-to-charm-washington-fix-bank-11553877969?mod=hp>

R. Ensign, “Help Wanted: Wells Fargo Board Seeks CEO to Charm Washington, Fix Bank,” *Wall Street Journal*, March 29, 2019,

<https://www.wsj.com/articles/help-wanted-wells-fargo-board-seeks-ceo-to-charm-washington-fix-bank-11553877969?mod=hp>

MANAGING PEOPLE

Wells Fargo’s Recovery?

The power of incentives cannot be underestimated, and if you are looking for an example, look no further than Wells Fargo. The bank recently took a significant reputational and financial hit as illegal and unethical practices on the part of the bank’s employees came to light. The scandal resulted in a \$185 million fine and enforcement action

associated with employees opening as many as 2.1 million customer accounts without their knowledge.

The scandal can be traced back to the bank desiring to increase the number of customer accounts. For instance, a customer who has multiple checking and savings accounts, an auto loan, and a mortgage is much more profitable for a bank than someone with just a savings and/or checking account. So, the goal itself made sense as part of the bank's growth strategy.

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However, a poorly designed incentive scheme took a legitimate goal but encouraged people to achieve it in ways that were both unethical and illegal. For instance, branch employees who hit their targets for new accounts might earn bonuses from \$500 to \$2,000 each quarter, and district managers could earn bonuses from \$10,000 to \$20,000 each year.

The pressure began with a "Jump into January" push where the retail banking head communicated lofty goals for branches and employees. These lofty goals and the bonuses associated with achieving them led many employees to engage in improper behavior.

When these practices came to light, Wells Fargo fired 5,300 lower level staff who had engaged in improper sales practices over the previous five years. Not surprisingly, remaining staff felt skeptical as the senior level executives had not faced discipline. However, that has begun to change. The board clawed back from the CEO and head of retail banking tens of millions of dollars in equity. Neither was fired, but both left the company shortly thereafter. More recently, the board discussed eliminating bonuses for both the current CEO and CFO. The bank has now fired a number of executives below the c-suite.

QUESTIONS

Do you think Wells Fargo has done enough to punish those responsible for this scandal? Why or why not?

Why do you think the board would not fire the CEO and head of retail banking, but rather let them leave voluntarily?

SOURCE: E. Glazer, "Wells Fargo Fires Four Executives Following Probe of Sales-Practices Scandal," *The Wall Street Journal*, February 21, 2017, <https://www.wsj.com/articles/wells-fargo-fires-four-executives-following-probe-of-sales-practices-scandal-1487704642>.

HR IN SMALL BUSINESS

Impossible Foods' Business Mission

If ever there was a mission-driven company, Impossible Foods is it. Pat Brown, the founder and CEO, is a biochemist who decided in his mid-fifties to shift from corporate research to helping the planet. Brown observed that one of the biggest contributors to climate change is beef production. In the United States, more than one-fourth of the land is devoted to cattle, which emit methane, a particularly damaging greenhouse gas. Recognizing that people love hamburgers, Brown set up a laboratory to identify the components of beef and bring together the same chemistry from plant sources. As Brown sees it, if the world's beef lovers would switch to his Impossible Burger, humans would eat delicious food without destroying the planet as we know it. This requires a product that is widely available and affordable.

Brown and his team of scientists pinned down a recipe that has received favorable reviews, but building a company to make it available is at least as challenging. For the first few years, most Impossible Foods employees were research scientists. Brown hired Dana Worth to run a sales operation, which won orders from grocery stores, Burger King, Qdoba, and White Castle. This put a strain on the company's single assembly line, which was running just one shift. Still, for Brown, the mission has remained central. He says a key part of his job is "reminding people of the importance of what we are doing."

The company hired Dennis Woodside from Google to serve as president, applying his experience in managing operations. Woodside, who expected to focus on the sales team, quickly became aware that production workers were overstressed and exhausted. Woodside sought volunteers from the sales force to work on a second assembly line while the company arranged a deal with a food processor in Chicago to make the plant-based meat product.

Despite the stress induced by the fast ramp-up of activity, Brown cares about doing the right thing for his people as well as the planet. He aims to pay what he calls a “thriving wage,” that is, more than a living wage. And during the COVID-19 epidemic, he put safety ahead of production targets, sending workers home with full pay. Because the company produces food, it could have continued operating, but Brown determined that enough products were in inventory already to fill its existing orders.

Impossible Foods recently hired Brian Miller to be its chief people officer, reporting to Woodside. Miller’s prior position was vice president for talent, development, and inclusion at another biotech start-up, Gilead Sciences, so he has experienced the rapid expansion of a business. He previously ran a consulting firm that specialized in helping HR departments apply technology.

QUESTIONS

Brian Miller is taking over the top HR job at a company that has been moving fast without a strategic HR vision. Which of the HR functions would you recommend that Miller prioritize? Why?

page 749Based on the information provided, how do you think the purpose and values of Impossible Foods impact how it treats its employees? Where do you see areas for improvement?

SOURCES: Impossible Foods company page, <https://impossible-foods.com/company>, accessed April 8, 2020; John D. Stoll, “Impossible Foods CEO on Running a \$4 Billion Startup from Children’s Bedroom,” *The Wall Street Journal*, March 19, 2020, <https://www.wsj.com>; John D. Stoll, “The Anti-CEO’s Mission Impossible: Use Capitalism to Kill Meat,” *The Wall Street Journal*, February 15, 2020, <https://www.wsj.com>; “Impossible Foods Hires Biotech Executive and Startup Founder Brian Miller as Chief People Officer,” news release, February 4, 2020, <https://impossiblefoods.com>; Burt Helm, “Company of the Year: Impossible Foods,” *Inc.*, Winter 2019/2020, pp. 28-40, 118.

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GLOSSARY

360-degree appraisal A performance appraisal process for managers that includes evaluations from a wide range of persons who interact with the manager. The process includes self-evaluations as well as evaluations from the manager's boss, subordinates, peers, and customers.

360-degree feedback systems A performance appraisal process for managers that includes evaluations from a wide range of persons who interact with the manager. The process includes self-evaluations as well as evaluations from the manager's boss, subordinates, peers, and customers.

9-box grid A three-by-three matrix used by groups of managers and executives to compare employees within one department, function, division, or the entire company.

Acceptability The extent to which a performance measure is deemed to be satisfactory or adequate by those who use it.

Action learning Training in which teams work on an actual business problem, commit to an action plan, and are accountable for carrying out the plan.

Action plan A document summarizing what the trainee and manager will do to ensure that training transfers to the job.

Action steps The part of a written affirmative action plan that specifies what an employer plans to do to reduce underutilization of protected groups.

Adventure learning Learning focused on the development of teamwork and leadership skills by using structured outdoor activities.

Agency shop A union security provision that requires an employee to pay union membership dues but not to join the union.

Agent In agency theory, a person (e.g., a manager) who is expected to act on behalf of a principal (e.g., an owner).

Agility Companies' and their employees' ability to anticipate and cause change, adapt to it, and take specific actions to support change.

Ally training Training that encourages employees to have conversations about difficult topics and perspectives without fear of blame or shame.

Alternative dispute resolution (ADR) A method of resolving disputes that does not rely on the legal system, often proceeding through the four stages of open-door policy, peer review, mediation, and arbitration.

Americans with Disabilities Act (ADA) A 1990 act prohibiting individuals with disabilities from being discriminated against in the workplace.

Analytic approach Type of assessment of HRM effectiveness that involves determining the impact of, or the financial costs and benefits of, a program or practice.

Appraisal politics A situation in which evaluators purposefully distort a rating to achieve personal or company goals.

Apprenticeship A work-study training method with both on-the-job and classroom training.

Arbitration A procedure for resolving collective bargaining impasses by which an arbitrator chooses a solution to the dispute.

Artificial intelligence Technology that can think like a human.

Assessment Collecting information and providing feedback to employees about their behavior, communication style, or skills.

Assessment center A process in which multiple raters evaluate employees' performance on a number of exercises.

Associate union membership A form of union membership by which the union receives dues in exchange for services (e.g., health insurance, credit cards) but does not provide representation in collective bargaining.

Attitudinal structuring The aspect of the labor–management negotiation process that refers to the relationship and level of trust between the negotiators.

Audit approach Type of assessment of HRM effectiveness that involves review of customer satisfaction or key indicators (e.g., turnover rate, average days to fill a position) related to an HRM functional area (e.g., recruiting, training).

Augmented reality (AR) A training method in which trainees see the physical world around them but their view includes virtual media.

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Balanced scorecard A means of performance measurement that gives managers a chance to look at their company from the perspectives of internal and external customers, employees, and shareholders.

Bench strength The business strategy of having a pool of talented employees who are ready when needed to step in to a new position within the organization.

Benchmarking Comparing an organization's practices against those of the competition.

Big data Information merged from a variety of sources, including HR databases, corporate financial statements, and employee surveys, to make evidence-based HR decisions and show that HR practices can influence the organization's bottom line.

Blended learning Delivering content and instruction with a combination of technology-based and face-to-face methods.

Bona fide occupational qualification (BFOQ) A job qualification based on race, sex, religion, and so on that an employer asserts is a necessary qualification for the job.

Calibration meetings A way to discuss employees' performance with the goal of ensuring that similar standards are applied to their evaluations.

Career support Coaching, protection, sponsorship, and providing challenging assignments, exposure, and visibility.

Cash balance plan A retirement plan in which the employer sets up an individual account for each employee and contributes a percentage of the employee's salary; the account earns interest at a predetermined rate.

Centralization The degree to which decision-making authority resides at the top of the organizational chart.

Change The adoption of a new idea or behavior by a company.

Checkoff provision A union contract provision that requires an employer to deduct union dues from employees' paychecks.

Closed shop A union security provision requiring a person to be a union member before being hired. Illegal under NLRA.

Cloud computing A computing system that provides information technology infrastructure over a network in a self-service, modifiable, and on-demand model.

Coach A peer or manager who works with an employee to motivate the employee, help him or her develop skills, and provide reinforcement and feedback.

Cognitive ability tests Tests that include three dimensions: verbal comprehension, quantitative ability, and reasoning ability.

Communities of practice Groups of employees who work together, learn from each other, and develop a common understanding of how to get work accomplished.

Compa-ratio An index of the correspondence between actual and intended pay.

Comparable worth A public policy that advocates remedies for any undervaluation of women's jobs (also called *pay equity*).

Compensable factors The characteristics of jobs that an organization values and chooses to pay for.

Competencies Sets of skills, knowledge, and abilities and personal characteristics that enable employees to perform their jobs.

Competency model Identifies and provides a description of competencies that are common for an entire occupation, organization, job family, or specific job.

Competitiveness A company's ability to maintain and gain market share in its industry.

Concentration strategy A strategy focusing on increasing market share, reducing costs, or creating and maintaining a market niche for products and services.

Concurrent validation A criterion-related validity study in which a test is administered to all the people currently in a job and then incumbents' scores are correlated with existing measures of their performance on the job.

Consolidated Omnibus Budget Reconciliation Act (COBRA) The 1985 act that requires employers to permit employees to extend their health insurance coverage at group rates for up to 36 months following a qualifying event, such as a layoff.

Content validation A test-validation strategy performed by demonstrating that the items, questions, or problems posed by a test are a representative sample of the kinds of situations or problems that occur on the job.

Continuous learning A learning system that requires employees to understand the entire work process and expects them to acquire new skills, apply them on the job, and share what they have learned with other employees.

Continuous performance management process An approach that encourages ongoing conversations between managers, their direct reports, and teams focused on work progress, providing feedback, accomplishment and necessary adjustment of goals, and development needs.

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Coordination training Training a team in how to share information and decision-making responsibilities to maximize team performance.

Corporate campaigns Union activities designed to exert public, financial, or political pressure on employers during the union-organizing process.

Counselor/confidante/coach A role of the CHRO that focuses on counseling or coaching team members or resolving interpersonal or political conflicts among team members.

Criterion-related validity A method of establishing the validity of a personnel selection method by showing a substantial correlation between test scores and job-performance scores.

Cross-cultural preparation The process of educating employees (and their families) who are given an assignment in a foreign country.

Cross-training Training in which team members understand and practice each other's skills so that members are prepared to step in and take another member's place should he or she temporarily or permanently leave the team.

Decision support systems Problem-solving systems that usually include a "what-if" feature that allows users to see how outcomes change when assumptions or data change.

Delaying Reducing the number of job levels within an organization.

Departmentalization The degree to which work units are grouped based on functional similarity or similarity of work flow.

Development The acquisition of knowledge, skills, and behaviors that improve an employee's ability to meet changes in job requirements and in client and customer demands.

Development planning system A system to retain and motivate employees by identifying and meeting their development needs (also called *career management systems*).

Digital literacy The ability to interpret, create, and strategically use digital information.

Direct applicants People who apply for a job vacancy without prompting from the organization.

Disparate impact A theory of discrimination based on facially neutral employment practices that disproportionately exclude a protected group from employment opportunities.

Disparate treatment A theory of discrimination based on different treatment given to individuals because of their race, color, religion, sex, national origin, age, or disability status.

Distributive bargaining The part of the labor-management negotiation process that focuses on dividing a fixed economic "pie."

Diversity Any dimension that differentiates one person from another.

Diversity training Refers to learning efforts that are designed to change employees' attitudes about diversity and/or develop skills needed to work with a diverse work-force.

Downsizing The planned elimination of large numbers of personnel, designed to enhance organizational effectiveness.

Downward move A job change involving a reduction in an employee's level of responsibility and authority.

Due process policies Policies by which a company formally lays out the steps an employee can take to appeal a termination decision.

Duty of fair representation The National Labor Relations Act requirement that all bargaining unit members have equal access to and representation by the union.

Efficiency wage theory A theory stating that wages influence worker productivity.

E-learning Instruction and delivery of training by computers through the Internet or company intranet.

Employee assistance program (EAP) Employer program that attempts to ameliorate problems encountered by workers who are drug dependent, alcoholic, or psychologically troubled.

Employee engagement The degree to which employees are fully involved in their work and the strength of their job and company commitment.

Employee experience Everything that influences employees' daily life both inside and outside of the workplace.

Employee Retirement Income Security Act (ERISA) The 1974 act that increased the fiduciary responsibilities of pension plan trustees, established vesting rights and portability provisions, and established the Pension Benefit Guaranty Corporation (PBGC).

Employee stock ownership plans (ESOPs) An employee ownership plan that provides employers certain tax and financial advantages when stock is granted to employees.

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Employee value proposition (EVP) A strategic statement that communicates the company values, how they affect employees, and how the employee experience reflects the values.

Employment-at-will doctrine The doctrine that, in the absence of a specific contract, either an employer or an employee could sever the employment relationship at any time.

Employment-at-will policies Policies stating that either an employer or an employee can terminate the employment relationship at any time, regardless of cause.

Empowering Giving employees the responsibility and authority to make decisions.

Equal employment opportunity (EEO) The government's attempt to ensure that all individuals have an equal opportunity for employment, regardless of race, color, religion, sex, age, disability, or national origin.

Equal Employment Opportunity Commission (EEOC) The government commission established to ensure that all individuals have an equal opportunity for employment, regardless of race, color, religion, sex, age, disability, or national origin.

Equity Fair treatment, access, equality of opportunity, and advancement for all employees, while at the same time striving to identify and eliminate barriers that have prevented the full participation of some groups.

Ergonomics The interface between individuals' physiological characteristics and the physical work environment.

Ethics The fundamental principles of right and wrong by which employees and companies interact.

Evidence-based HR Demonstrating that HR practices have a positive influence on the company's bottom line or key stakeholders (employees, customers, community, shareholders).

Exempt Employees who are not covered by the Fair Labor Standards Act. Exempt employees are not eligible for overtime pay.

Expatriate Employee sent by his or her company to manage operations in a different country.

Expectancy theory The theory that says motivation is a function of valence, instrumentality, and expectancy.

Experiential programs Training programs in which trainees gain knowledge and theory, participate in behavioral simulations, analyze the activity, and connect the theory and activity with on-the-job situations.

Expert systems Computer systems incorporating the decision rules of people recognized as experts in a certain area.

Explicit knowledge Knowledge that is well documented and easily transferred to other persons.

External analysis Examining the organization's operating environment to identify strategic opportunities and threats.

External growth strategy An emphasis on acquiring vendors and suppliers or buying businesses that allow a company to expand into new markets.

External labor market Persons outside the firm who are actively seeking employment.

Fact finder A person who reports on the reasons for a labor–management dispute, the views and arguments of both sides, and provides a non-binding recommendation for settling the dispute.

Fair Labor Standards Act (FLSA) The 1938 law that established the minimum wage and overtime pay.

Family and Medical Leave Act The 1993 act that requires employers with 50 or more employees to provide up to 12 weeks of unpaid leave after childbirth or adoption; to care for a seriously ill child, spouse, or parent; or for an employee's own serious illness.

Financial Accounting Statement (FAS) 106 The rule issued by the Financial Accounting Standards Board in 1993 requiring companies to fund benefits provided after retirement on an accrual rather than a pay-as-you-go basis and to enter these future cost obligations on their financial statements.

Forecasting The attempts to determine the supply of and demand for various types of human resources to predict areas within the organization where there will be future labor shortages or surpluses.

Formal education programs Employee development programs, including short courses offered by consultants or universities, executive MBA programs, and university programs.

Formal training Training and development programs and courses that are developed and organized by the company.

Four-fifths rule A rule that states that an employment test has disparate impact if the hiring rate for a minority group is less than four-fifths, or 80%, of the hiring rate for the majority group.

Frame of reference A standard point that serves as a comparison for other points and thus provides meaning.

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Gainsharing A form of group compensation based on group or plant performance (rather than organization-wide profits) that does not become part of the employee's base salary.

General duty clause The provision of the Occupational Safety and Health Act that states an employer has an overall obligation to furnish employees with a place of employment free from recognized hazards.

Gig economy Companies who rely primarily on non-traditional employment to meet service and product demands

Glass ceiling A barrier to advancement to higher-level jobs in the company that adversely affects women and minorities. The barrier may be due to lack of access to training programs, development experiences, or relationships (e.g., mentoring).

Goals What an organization hopes to achieve in the medium- to long-term future.

Goals and timetables The part of a written affirmative action plan that specifies the percentage of women and minorities that an employer seeks to have in each job group and the date by which that percentage is to be attained.

Group- or team-building methods Training methods that help trainees share ideas and experiences, build group identity, understand the dynamics of interpersonal relationships, and get to know their own strengths and weaknesses and those of their co-workers.

Hands-on methods Training methods that require the trainee to be actively involved in learning.

Health maintenance organization (HMO) A health care plan that provides benefits on a prepaid basis for employees who are required to use only HMO medical service providers.

High-performance work systems Work systems that maximize the fit between employees and technology.

High-potential employees Employees that the company believes are capable of being successful in high-level management positions.

Host country The country in which the parent-country organization seeks to locate or has already located a facility.

Host-country nationals (HCNs) Employees born and raised in a host, not parent, country.

HR dashboard HR metrics such as productivity and absenteeism that are accessible by employees and managers through the company intranet or human resource information system.

HR or workforce analytics The practice of using data from HR databases and other data sources to make evidence-based HR decisions.

Human resource information system (HRIS) A system used to acquire, store, manipulate, analyze, retrieve, and distribute information related to human resources.

Human resource management (HRM) The policies, practices, and systems that influence employees' behavior, attitudes, and performances.

Human resource recruitment The practice or activity carried on by the organization with the primary purpose of identifying and attracting potential employees.

In-basket A simulation of the administrative tasks of a manager's job.

Incentive effect The effect a pay plan has on the behaviors of current employees.

Inclusion Creating an environment in which employees share a sense of belonging, mutual respect, and commitment with others so that they can perform their best work.

Individualism–collectivism One of Hofstede's cultural dimensions; describes the strength of the relation between an individual and other individuals in a society.

Informal learning Learning that is learner initiated, involves action and doing, is motivated by an intent to develop, and does not occur in a formal learning setting.

Intangible assets A type of company asset that includes human capital, customer capital, social capital, and intellectual capital.

Integrative bargaining The part of the labor–management negotiation process that seeks solutions beneficial to both sides.

Interactional justice A concept of justice referring to the interpersonal nature of how the outcomes were implemented.

Internal analysis The process of examining an organization's strengths and weaknesses.

Internal growth strategy A focus on new market and product development, innovation, and joint ventures.

Internal labor force Labor force of current employees.

Internship On-the-job learning sponsored by an educational institution, or part of an academic program.

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Interview Employees are questioned about their work and personal experiences, skills, and career plans.

Intraorganizational bargaining The phase or part of the labor–management negotiation process that focuses on the conflicting objectives of factions within labor and management.

Involuntary turnover Turnover initiated by the organization (often among people who would prefer to stay).

ISO 9000:2015 A family of standards developed by the International Organization for Standardization that includes 20 requirements for dealing with such issues as how to establish quality standards and document work processes.

Job analysis The process of getting detailed information about jobs.

Job description A list of the tasks, duties, and responsibilities (TDRs) that a job entails.

Job design The process of defining the way work will be performed and the tasks that will be required in a given job.

Job enlargement Adding challenges or new responsibilities to an employee's current job.

Job evaluation An administrative procedure used to measure internal job worth.

Job experience The relationships, problems, demands, tasks, and other features that employees face in their jobs.

Job hazard analysis technique A breakdown of each job into basic elements, each of which is rated for its potential for harm or injury.

Job involvement The degree to which people identify themselves with their jobs.

Job redesign The process of changing the tasks or the way work is performed in an existing job.

Job rotation The process of systematically moving a single individual from one job to another over the course of time. The job assignments may be in various functional areas of the company, or movement may be between jobs in a single functional area or department.

Job satisfaction A pleasurable feeling that results from the perception that one's job fulfills or allows for the fulfillment of one's important job values.

Job specification A list of the knowledge, skills, abilities, and other characteristics (KSAOs) that an individual must have to perform a job.

Job structure The relative pay of jobs in an organization.

Kaizen Practices participated in by employees from all levels of the company that focus on continuous improvement of business processes.

Key jobs Benchmark jobs, used in pay surveys, that have relatively stable content and are common to many organizations.

Knowledge management The process of enhancing company performance by designing and using tools, systems, and cultures to improve creation, sharing, and use of knowledge.

Knowledge workers Employees who own the intellectual means of producing a product or service.

Leader of the HR function A role of the CHRO that focuses on working with HR team members regarding the development, design, and delivery of HR services.

Leaderless group discussion Process in which a team of five to seven employees solves an assigned problem within a certain time period.

Leading indicator An objective measure that accurately predicts future labor demand.

Lean thinking A way to do more with less effort, equipment space, and time, but still provide customers what they need and want.

Learning management system (LMS) Technology platform that automates the administration, development, and delivery of a company's training program.

Learning organization An organization whose employees are continuously attempting to learn new things and apply what they have learned to improve product or service quality.

Liaison to the board of directors A role of the CHRO that focuses on preparation for board meetings, phone calls with board members, and attendance at board meetings.

Long-term–short-term orientation One of Hofstede's cultural dimensions; describes how a culture balances immediate benefits with future rewards.

Maintenance of membership Union rules requiring members to remain members for a certain period of time (e.g., the length of the union contract).

Malcolm Baldrige National Quality Award An award established in 1987 to promote quality awareness, to recognize quality achievements of U.S. companies, and to publicize successful quality strategies.

Manager support The degree to which trainees' managers emphasize the importance of attending training page 756 programs and stress the application of training content to the job.

Managing diversity, equity, and inclusion Involves creating an environment that allows all employees to contribute to organizational goals, feel a sense of belongingness and fairly treated, and experience personal growth.

Marginal tax rate The percentage of an additional dollar of earnings that goes to taxes.

Masculinity–femininity dimension One of Hofstede's cultural dimensions; describes the division of roles between the sexes within a society.

Massive open online courses (MOOCs) Online learning designed to enroll large numbers of learners who have access to the Internet and composed of interactive coursework including video lectures, discussion groups, wikis, and assessment quizzes.

Mediation A procedure for resolving collective bargaining impasses by which a mediator with no formal authority acts as a facilitator and go-between in the negotiations.

Mentor An experienced, productive senior employee who helps develop a less experienced employee.

Merit bonus Merit pay paid in the form of a bonus, instead of a salary increase.

Merit increase grid A grid that combines an employee's performance rating with his or her position in a pay range to determine the size and frequency of his or her pay increases.

Merit pay Traditional form of pay in which base pay is increased permanently.

Microlearning Training delivered in small pieces or chunks designed to engage trainees, motivate them to learn, and help facilitate retention.

Minimum wage The lowest amount that employers are legally allowed to pay; the 1990 amendment of the Fair Labor Standards Act permits a subminimum wage to workers under the age of 20 for a period of up to 90 days.

Mobile devices Equipment such as smartphones and tablet computers that provide employees with anytime, anywhere access to HR applications and other work-related information.

Mobile learning Training that provides trainees with anytime and anywhere access to instructional resources through a mobile device such as a smartphone, notebook computer, iPad, or even wearables such as Google Glasses.

Motivation to learn The desire of the trainee to learn the content of a training program.

Myers Briggs Type Inventory (MBTI) A psychological test used for team building and leadership development that identifies employees' preferences for energy, information gathering, decision making, and lifestyle.

Needs assessment The process used to determine if training is necessary.

Negative affectivity A dispositional dimension that reflects pervasive individual differences in satisfaction with any and all aspects of life.

New technologies Current applications of knowledge, procedures, and equipment that have not been previously used. Usually involves replacing human labor with equipment, information processing, or some combination of the two.

Nonkey jobs Jobs that are unique to organizations and that cannot be directly valued or compared through the use of market surveys.

Nontraditional employment Includes the use of independent contractors, freelancers, on-call workers, temporary workers, and contract company workers.

Occupational Safety and Health Act (OSHA) The 1970 law that authorizes the federal government to establish and enforce occupational safety and health standards for all places of employment engaging in interstate commerce.

Offshoring A special case of outsourcing, in which the jobs that move leave one country and go to another.

Onboarding Refers to the process of helping new hires adjust to social and performance aspects of their new jobs.

On-the-job training (OJT) Peers or managers training new or inexperienced employees who learn the job by observation, understanding, and imitation.

Opportunity to perform The trainee is provided with or actively seeks experience using newly learned knowledge, skills, or behavior.

Organizational analysis A process for determining the business appropriateness of training.

Organizational commitment The degree to which an employee identifies with the organization and is willing to put forth effort on its behalf.

Outplacement counseling Counseling to help displaced employees manage the transition from one job to another.

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Outsourcing An organization's use of an outside organization for a broad set of services.

Parent country The country in which a company's corporate headquarters is located.

Parent-country nationals (PCNs) Employees who were born and live in a parent country.

Pay grades Jobs of similar worth or content grouped together for pay administration purposes.

Pay level The average pay, including wages, salaries, and bonuses, of jobs in an organization.

Pay policy line A mathematical expression that describes the relationship between a job's pay and its job evaluation points.

Pay structure The relative pay of different jobs (job structure) and how much they are paid (pay level).

Pension Benefit Guaranty Corporation (PBGC) The agency that guarantees to pay employees a basic retirement benefit in the event that financial difficulties force a company to terminate or reduce employee pension benefits.

Performance appraisal The process through which an organization gets information on how well an employee is doing his or her job.

Performance feedback The process of providing employees information regarding their performance effectiveness.

Performance improvement plan (PIP) A plan that describes the performance changes that a poorly performing employee needs to make in a specified time period or face termination.

Performance management The means through which managers ensure that employees' activities and outcomes are congruent with the organization's goals.

Performance support systems Computer applications that can provide (as requested) skills training, information access, and expert advice.

Person analysis A process for determining whether employees need training, who needs training, and whether employees are ready for training.

Power distance One of Hofstede's cultural dimensions; concerns how a culture deals with hierarchical power relationships—particularly the unequal distribution of power.

Predictive validation A criterion-related validity study that seeks to establish an empirical relationship between applicants' test scores and their eventual performance on the job.

Preferred provider organization (PPO) A group of health care providers who contract with employers, insurance companies, and so forth to provide health care at a reduced fee.

Presentation methods Training methods in which trainees are passive recipients of information.

Principal In agency theory, a person (e.g., the owner) who seeks to direct another person's behavior.

Procedural justice A concept of justice focusing on the methods used to determine the outcomes received.

Profit sharing A compensation plan in which payments are based on a measure of organization performance (profits) and do not become part of the employees' base salary.

Progression of withdrawal The theory that dissatisfied individuals enact a set of behaviors to avoid the work situation.

Promotions Advances into positions with greater challenge, more responsibility, and more authority than the employee's previous job.

Prosocial motivation The degree to which people are motivated to help other people.

Protean career A career that is changing frequently due to both changes in the person's interests, abilities, and values and changes in the work environment.

Psychological success The feeling of pride and accomplishment that comes from achieving life goals.

Psychosocial support Serving as a friend and role model, providing positive regard and acceptance, and creating an outlet for a protégé to talk about anxieties and fears.

Quantitative ability Refers to the speed and accuracy with which one can solve arithmetic problems of all kinds.

Range spread The distance between the minimum and maximum amounts in a pay grade.

Rate ranges Different employees in the same job may have different pay rates.

Readiness for training Employee characteristics that provide them with the desire, energy, and focus necessary to learn from training.

Reasonable accommodation Making facilities readily accessible to and usable by individuals with disabilities.

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Reasoning ability Refers to a person's capacity to invent solutions to many diverse problems.

Recruitment The process of seeking applicants for potential employment.

Reengineering Review and redesign of work processes to make them more efficient and improve the quality of the end product or service.

Referrals People who are prompted to apply for a job by someone within the organization.

Reliability The consistency of a performance measure; the degree to which a performance measure is free from random error.

Repatriation The preparation of expatriates for return to the parent company and country from a foreign assignment.

Representative of the firm A role of the CHRO that focuses on activities with external stakeholders, such as lobbying, speaking to outside groups, and so on.

Reshoring Moving jobs from overseas to the United States.

Reskilling Training employees to acquire new knowledge or skills.

Return on investment (ROI) Refers to the estimated dollar return from each dollar invested in learning.

Reverse mentoring A business situation in which younger employees mentor more senior employees.

Right-to-work laws State laws that make union shops, maintenance of membership, and agency shops illegal.

Role behaviors Behaviors that are required of an individual in his or her role as a jobholder in a social work environment.

Role-play A participant taking the part or role of a manager or other employee.

Sabbatical A leave of absence from the company to renew or develop skills.

Safety awareness programs Employer programs that attempt to instill symbolic and substantive changes in the organization's emphasis on safety.

Sarbanes-Oxley Act of 2002 A congressional act passed in response to illegal and unethical behavior by managers and executives. The act sets stricter rules for business, especially related to accounting practices—including requiring more open and consistent disclosure of financial data and the CEO's assurance that the data are completely accurate—and provisions that affect the employee–employer relationship (e.g., development of a code of conduct for senior financial officers).

Selection The process by which an organization attempts to identify applicants with the necessary knowledge, skills, abilities, and other characteristics that will help it achieve its goals.

Self-service Giving employees online access to human resources information.

Serious games Games in which the training content is turned into a game but has business objectives.

Shared service model A way to organize the HR function that includes centers of expertise or excellence, service centers, and business partners.

Simulation A training method that represents a real-life situation, allowing trainees to see the outcomes of their decisions in an artificial environment.

Situational interview An interview procedure where applicants are confronted with specific issues, questions, or problems that are likely to arise on the job.

Six Sigma process A system of measuring, analyzing, improving, and controlling processes once they meet quality standards.

Skill-based pay Pay based on the skills employees acquire and are capable of using.

Social networking Websites and blogs that facilitate interactions between people.

Social performance management Social media and microblogs similar to Facebook, LinkedIn, and Yammer that allow employees to quickly exchange information, talk to each other, provide coaching, and receive feedback and recognition in the form of electronic badges.

Sorting effect The effect a pay plan has on the composition of the current workforce (the types of employees attracted and retained).

Specificity The extent to which a performance measure gives detailed guidance to employees about what is expected of them and how they can meet these expectations.

Stakeholders The various interest groups who have relationships with and, consequently, whose interests are tied to the organization (e.g., employees, suppliers, customers, shareholders, community).

Standard deviation rule A rule used to analyze employment tests to determine disparate impact; it uses the difference between the expected representation for minority groups and the actual representation to determine whether the difference between the two is greater than would occur by chance.

STEM skills Science, technology, engineering, and math skills that U.S. employers need and value, but employees lack.

Stock options An employee ownership plan that gives employees the opportunity to buy the company's stock at a previously fixed price.

Strategic advisor A role of the CHRO that focuses on the formulation and implementation of the firm's strategy.

Strategic choice The organization's strategy; the ways an organization will attempt to fulfill its mission and achieve its long-term goals.

Strategic congruence The extent to which the performance management system elicits job performance that is consistent with the organization's strategy, goals, and culture.

Strategic human resource management (SHRM) A pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.

Strategy formulation The process of deciding on a strategic direction by defining a company's mission and goals, its external opportunities and threats, and its internal strengths and weaknesses.

Strategy implementation The process of devising structures and allocating resources to enact the strategy a company has chosen.

Stretch assignments Job assignments in which there is a mismatch between an employee's skills and past experiences and the skills required for success on the job.

Succession planning The identification and tracking of high-potential employees capable of filling higher-level managerial positions.

Summary plan description (SPD) A reporting requirement of the Employee Retirement Income Security Act (ERISA) that obligates employers to describe the plan's funding, eligibility requirements, risks, and so forth within

90 days after an employee has entered the plan.

Support network Trainees who meet to discuss their progress in using learned capabilities on the job.

Sustainability The ability of a company to make a profit without sacrificing the resources of its employees, the community, or the environment. Based on an approach to organizational decision making that considers the long-term impact of strategies on stakeholders (e.g., employees, shareholders, suppliers, community).

Tacit knowledge Knowledge based on personal experience that is difficult to codify.

Taft-Hartley Act The 1947 act that outlawed unfair union labor practices.

Talent architect A role of the CHRO that focuses on building and identifying the human capital critical to the present and future of the firm.

Talent management Attracting, retaining, developing, and motivating highly skilled employees and managers.

Task analysis The process of identifying the tasks, knowledge, skills, and behaviors that need to be emphasized in training.

Team leader training Training of the team manager or facilitator.

Technic of operations review (TOR) Method of determining safety problems via an analysis of past accidents.

Temporary assignment Job tryouts such as employees taking on a position to help them determine if they are interested in working in a new role.

Third country A country other than a host or parent country.

Third-country nationals (TCNs) Employees born in a country other than a parent or host country.

Total quality management (TQM) A cooperative form of doing business that relies on the talents and capabilities of both labor and management to continually improve quality and productivity.

Training A planned effort to facilitate the learning of jobrelated knowledge, skills, and behavior by employees.

Training design process A systematic approach for developing training programs.

Training outcomes A way to evaluate the effectiveness of a training program based on cognitive, skill-based, affective, and results outcomes.

Transaction processing Computations and calculations used to review and document HRM decisions and practices.

Transfer The movement of an employee to a different job assignment in a different area of the company.

Transfer of training The use of knowledge, skills, and behaviors learned in training on the job.

Transitional matrix A matrix showing the proportion or number of employees in different job categories at different times.

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Transnational process The extent to which a company's planning and decision-making processes include representatives and ideas from a variety of cultures.

Transnational representation Reflects the multinational composition of a company's managers.

Transnational scope A company's ability to make HRM decisions from an international perspective.

Tuition reimbursement The practice of reimbursing employees' costs for college and university courses and degree programs.

Uncertainty avoidance One of Hofstede's cultural dimensions; describes how cultures seek to deal with an unpredictable future.

Unconscious bias A judgment outside of our consciousness that affects decisions based on background, culture, and personal experience.

Union shop A union security provision that requires a person to join the union within a certain amount of time after being hired.

Upskilling Training employees to improve or expand their current skills.

Upward feedback A performance appraisal process for managers that includes subordinates' evaluations.

Utility The degree to which the information provided by selection methods enhances the effectiveness of selecting personnel in real organizations.

Utilization analysis A comparison of the race, sex, and ethnic composition of an employer's workforce with that of the available labor supply.

Validity The extent to which a performance measure assesses all the relevant—and only the relevant—aspects of job performance.

Verbal comprehension Refers to a person's capacity to understand and use written and spoken language.

Virtual classroom Using a computer and the Internet to distribute instructor-led training to geographically dispersed employees.

Virtual reality Computer-based technology that provides trainees with a three-dimensional learning experience. Trainees operate in a simulated environment that responds to their behaviors and reactions.

Virtual teams Teams that are separated by time, geographic distance, culture, and/or organizational boundaries and rely exclusively on technology for interaction between team members.

Voluntary turnover Turnover initiated by employees (whom the company often would prefer to keep).

Volunteer assignments Employees develop skills by serving the local or global community through membership on public or private nonprofit boards, taking on leadership roles in professional associations or clubs, or agreeing to speak at and/or organize conferences or forums.

Webcasting Classroom instruction provided online via live broadcasts.

Webconferencing Software-enabled meetings that allow participants to attend live from one or multiple locations (or view a previously recorded meeting).

Whistle-blowing Making grievances public by going to the media or government.

Workforce utilization review A comparison of the proportion of workers in protected subgroups with the proportion that each subgroup represents in the relevant labor market.

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