



Fifteenth Edition

# Human Resource Management

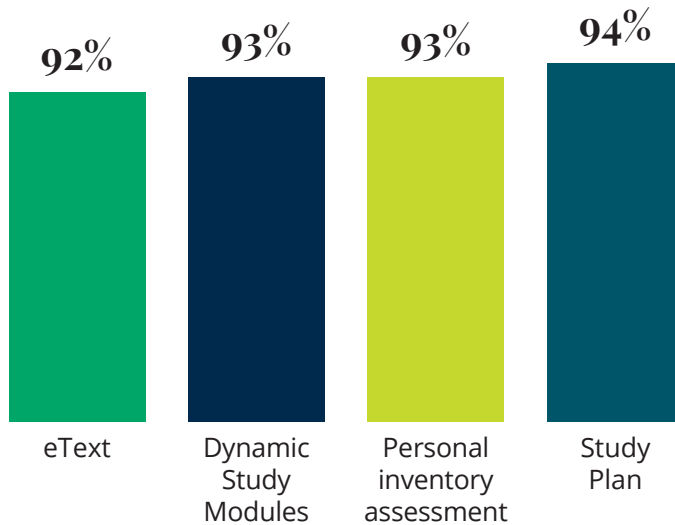
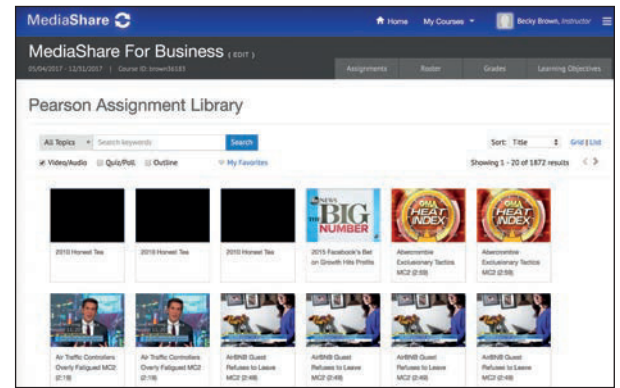
Joseph J. Martocchio



Pearson



**MediaShare for Business** offers a curated collection of business videos that provide customizable, auto-scored assignments. MediaShare for Business helps students understand why they are learning key concepts and how they will **apply** those in their careers.



**Pearson eText** enhances student learning—both in and outside the classroom. Take notes, highlight, and bookmark important content, or engage with interactive lecture and example videos that bring learning to life (available with select titles). Accessible anytime, anywhere via MyLab or the app.

% of students who found learning tool helpful

86%



of students would tell their instructor to keep using MyLab Management

The **MyLab Gradebook** offers an easy way for students and instructors to view course performance. Item Analysis allows instructors to quickly see trends by analyzing details like the number of students who answered correctly/incorrectly, time on task, and median time spend on a question by question basis. And because it's correlated with the AACSB Standards, instructors can track students' progress toward outcomes that the organization has deemed important in preparing students to be **leaders**.

*"I was able to find myself actually learning at home rather than memorizing things for a class."*

— Katherine Vicente, Student at County College of Morris

For additional details visit: [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management)



*This page intentionally left blank*



# Human Resource Management

Joseph J. Martocchio

Fifteenth Edition



New York, NY



**Vice President, Business, Economics, and UK Courseware:** Donna Battista  
**Director of Portfolio Management:** Stephanie Wall  
**Editorial Assistant:** Linda Siebert Albelli  
**Vice President, Product Marketing:** Roxanne McCarley  
**Product Marketer:** Kaylee Claymore  
**Product Marketing Assistant:** Marianela Silvestri  
**Manager of Field Marketing, Business Publishing:** Adam Goldstein  
**Field Marketing Manager:** Nicole Price  
**Vice President, Production and Digital Studio, Arts and Business:** Etain O'Dea  
**Director of Production, Business:** Jeff Holcomb  
**Managing Producer, Business:** Melissa Feimer  
**Content Producer:** Yasmita Hota  
**Operations Specialist:** Carol Melville

**Design Lead:** Kathryn Foot  
**Manager, Learning Tools:** Brian Surette  
**Content Developer, Learning Tools:** Lindsey Sloan  
**Managing Producer, Digital Studio and GLP, Media Production and Development:** Ashley Santora  
**Managing Producer, Digital Studio:** Diane Lombardo  
**Digital Studio Producer:** Monique Lawrence  
**Digital Studio Producer:** Alana Coles  
**Project Manager:** Nicole Suddeth and Raja Natesan, SPi Global  
**Interior Design:** SPi Global  
**Cover Design:** SPi Global  
**Cover Art:** A-Digit/DigitalVision Vectors/Getty Images  
**Printer/Binder:** LSC Communications, Inc./Menasha  
**Cover Printer:** Phoenix Color/Hagerstown

Copyright © 2019, 2016, 2014 by Pearson Education, Inc. or its affiliates. All Rights Reserved. Manufactured in the United States of America. This publication is protected by copyright, and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise. For information regarding permissions, request forms, and the appropriate contacts within the Pearson Education Global Rights and Permissions department, please visit [www.pearsoned.com/permissions/](http://www.pearsoned.com/permissions/).

Acknowledgments of third-party content appear on the appropriate page within the text, which constitutes an extension of this copyright page.

PEARSON, ALWAYS LEARNING, and MYLAB are exclusive trademarks owned by Pearson Education, Inc. or its affiliates in the U.S. and/or other countries.

Unless otherwise indicated herein, any third-party trademarks, logos, or icons that may appear in this work are the property of their respective owners, and any references to third-party trademarks, logos, icons, or other trade dress are for demonstrative or descriptive purposes only. Such references are not intended to imply any sponsorship, endorsement, authorization, or promotion of Pearson's products by the owners of such marks, or any relationship between the owner and Pearson Education, Inc., or its affiliates, authors, licensees, or distributors.

#### **Library of Congress Cataloging-in-Publication Data**

Names: Martocchio, Joseph J., author. | Mondy, R. Wayne, 1940- Human resource management.

Title: Human resource management / Joseph J. Martocchio.

Description: Fifteenth Edition. | Boston : Pearson, [2017] | Revised edition of Human resource management, [2016]

Identifiers: LCCN 2017037154 | ISBN 9780134739724 | ISBN 0134739728

Subjects: LCSH: Personnel management—United States. | Personnel management.

Classification: LCC HF5549.2.U5 M66 2017 | DDC 658.3—dc23 LC record available at <https://lcn.loc.gov/2017037154>



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



*This page intentionally left blank*



# Brief Contents

## **Part One**   **Setting the Stage**   **1**

- Chapter 1**   Human Resource Management: An Overview   2
- Chapter 2**   Business Ethics, Corporate Social Responsibility, and Sustainability   28
- Chapter 3**   Equal Employment Opportunity, Affirmative Action, and Workforce Diversity   52

## **Part Two**   **Staffing**   **89**

- Chapter 4**   Strategic Planning, Human Resource Planning, and Job Analysis   90
- Chapter 5**   Recruitment   120
- Chapter 6**   Selection   146

## **Part Three**   **Performance Management and Training**   **179**

- Chapter 7**   Performance Management and Appraisal   180
- Chapter 8**   Training and Development   208

## **Part Four**   **Compensation**   **243**

- Chapter 9**   Direct Financial Compensation (Monetary Compensation)   244
- Chapter 10**   Indirect Financial Compensation (Employee Benefits)   278

## **Part Five**   **Labor Relations, Employee Relations, Safety, and Health**   **305**

- Chapter 11**   Labor Unions and Collective Bargaining   306
- Chapter 12**   Internal Employee Relations   338
- Chapter 13**   Employee Safety, Health, and Wellness   362

## **Part Six**   **Operating in a Global Environment**   **391**

- Chapter 14**   Global Human Resource Management   392



*This page intentionally left blank*



# Contents

## Part One Setting the Stage 1

### Chapter 1 Human Resource Management: An Overview 2

#### Human Resource Management: What It is and Why It is Important 3

Why Study HRM? 4

Human Resource Management Functions 4

#### Who Performs Human Resource Management Activities? 6

Human Resource Management Professional 7

Line Managers 7

Human Resources Outsourcing 8

Human Resources Shared Service Centers 8

Professional Employer Organizations 9

More about HR Professionals 9

■ **HR BLOOPERS: Staffing Stone Consulting** 9

#### Human Resources as a Strategic Business Partner in a Dynamic Environment 12

Capital and Human Capital 13

Dynamic Human Resource Management Environment 13

#### The Role of HRM in Building Corporate Culture and Employer Branding 16

Corporate Culture 16

Employer Branding 17

#### Human Resource Management in Small Businesses 18

#### Country Culture and Global Business 18

#### Developing Skills for Your Career 20

Communication 20

Critical Thinking 20

Collaboration 20

Knowledge Application and Analysis 21

Business Ethics and Social Responsibility 21

Information Technology Application and Computing Skills 21

Data Literacy 21

Scope of This Book 21

Preparing for Exams/Quizzes 22 • Key Terms 23

Questions for Review 23 • Preparing for My Career 24

■ **ETHICS DILEMMA: Broken Promises** 24

HRM Is Everyone's Business 24 • HRM by the Numbers 25

Working Together: Team Exercise 25 • INCIDENT 1: HR

After a Disaster 25 • INCIDENT 2: Parental Leave at

Yahoo 26 • Endnotes 26

### Chapter 2 Business Ethics, Corporate Social Responsibility, and Sustainability 28

#### Defining Ethics and the Sources of Ethical Guidance 29

Business Ethics 29

Sources of Ethical Guidance 30

Legislating Ethics 31

#### Creating an Ethical Culture and a Code of Ethics 34

Ethical Culture 34

Code of Ethics 35

#### Human Resource Ethics 36

Linking Pay to Ethical Behavior 37

Ethics Training 38

■ **HR BLOOPERS: Sales Incentives at Pinser Pharmaceuticals** 39

#### Corporate Social Responsibility and Sustainability 39

Corporate Social Responsibility 40

Corporate Sustainability 42

#### Conducting a Social Audit 44

Preparing for Exams/Quizzes 45 • Key Terms 46

Questions for Review 46 • Preparing for My Career 46

■ **ETHICS DILEMMA: A Selection Quandary** 46

HRM Is Everyone's Business 47 • HRM by

the Numbers 47 • Working Together: Team

Exercise 47 • INCIDENT 1: An Ethical Flaw 48

INCIDENT 2: Illegal Hiring 48 • Endnotes 49

### Chapter 3 Equal Employment Opportunity, Affirmative Action, and Workforce Diversity 52

#### Equal Employment Opportunity and the Federal Laws Affecting EEO 54

Constitutional Amendments and the Civil Rights Act of 1866 54

Title VII of the Civil Rights Act of 1964, Amended in 1972 54

Equal Pay Act of 1963, Amended in 1972 57

Lilly Ledbetter Fair Pay Act of 2009 58

Pregnancy Discrimination Act of 1978 58

Civil Rights Act of 1991 59

Age Discrimination in Employment Act of 1967, Amended in 1978, 1986, and 1990 60

Age Can Actually Be a Bona Fide Occupational Qualification 60

Rehabilitation Act of 1973 61

Vietnam Era Veteran's Readjustment Assistance Act of 1974 61

Vietnam Era Veterans' Readjustment Assistance Act of 1974, as Amended 61

Americans with Disabilities Act of 1990 62

Americans with Disabilities Act Amendments Act of 2008 62

Immigration Reform and Control Act of 1986 63

Uniformed Services Employment and Reemployment Rights Act of 1994 63

Genetic Information Nondiscrimination Act of 2008 63

State and Local Laws 63

#### Who's Responsible for Ensuring Equal Employment Opportunity? 64

Equal Employment Opportunity Commission 64



Office of Federal Contract Compliance Programs	65
Employers	65
<b>Illegal Discrimination and Affirmative Action</b>	<b>66</b>
Uniform Guidelines on Employee Selection Procedures	66
Types of Unlawful Employment Discrimination	66
Affirmative Action	68
<b>Uniform Guidelines on Preventing Specific Illegal Employment Discrimination</b>	<b>70</b>
Guidelines on Sexual Harassment	71
Guidelines on Discrimination Because of National Origin	72
Guidelines on Discrimination Because of Religion	73
Guidelines on Caregiver (Family Responsibility) Discrimination	74
Discrimination Because of Disability	74
<b>Diversity and Diversity Management</b>	<b>75</b>
<b>Elements of the Diverse Workforce</b>	<b>76</b>
Single Parents and Working Mothers	76
Women in Business	76
Mothers Returning to the Workforce (on Ramping)	77
Dual-Career Families	77
Ethnicity and Race	77
Older Workers	78
People with Disabilities	78
Immigrants	78
Foreign Workers	79
Young Persons, Some with Limited Education or Skills	79
Baby Boomers, Gen X, Gen Y, and Gen Z	80
■ <b>HR BLOOPERS: Affirmative Action and Workforce Diversity</b>	<b>80</b>
Multi-generational Diversity	81
Lesbian, Gay, Bisexual, and Transgender Employees	82
Preparing for Exam/Quizzes	82 • Key Terms 83
Questions for Review	83 • Preparing for My Career 84
■ <b>ETHICS DILEMMA: How About Me?</b>	<b>84</b>
HRM Is Everyone's Business	84 • HRM by the Numbers 85
Working Together: Team Exercise	85 • INCIDENT 1: You're
Not a Good Employee	86 • INCIDENT 2: So, What's Affirmative
Action?	86 Endnotes 87

## Part Two Staffing 89

### Chapter 4 Strategic Planning, Human Resource Planning, and Job Analysis 90

<b>HR Strategic Planning Process</b>	<b>91</b>
Mission Determination	92
<b>Human Resource Planning</b>	<b>96</b>
Forecasting Human Resource Requirements	97
■ <b>HR BLOOPERS: Workforce Planning at Master Cleaners</b>	<b>97</b>
Forecasting Human Resource Availability	98
Shortage or Surplus of Workers Forecasted	98
Succession Planning: A Component of Strategic Planning	101
<b>Job Analysis: Process and Methods</b>	<b>102</b>
Reasons for Conducting Job Analysis	103

Job Analysis Methods	105
<b>Job Descriptions</b>	<b>107</b>
Job Identification	107
Date of the Job Analysis	107
Job Summary	108
Duties Performed	108
Job Specification	108
Standard Occupational Classification (SOC)	109
The Occupational Information Network (O*NET)	110
<b>Competencies and Competency Modeling</b>	<b>110</b>
<b>Job Design Concepts</b>	<b>112</b>
Preparing For Exam/Quizzes	114 • Key Terms 115
Questions for Review	115 • Preparing For My Career 116
■ <b>ETHICS DILEMMA: Which "Thinker" Should Go?</b>	<b>116</b>
HRM Is Everyone's Business	116 • HRM by the
Numbers	117 • Working Together: Team Exercise 117
INCIDENT 1: Competitive Strategy at Buddy Dog Foods	117
INCIDENT 2: Who's Flying the Plane?	118 • Endnotes 118

## Chapter 5 Recruitment 120

<b>Recruitment and the Recruitment Process</b>	<b>121</b>
<b>Environment of Recruitment</b>	<b>122</b>
Labor Market Conditions	122
Active or Passive Job Seekers	123
Legal Considerations	124
<b>Internal Recruitment Methods</b>	<b>124</b>
Human Resource Databases	124
Job Posting and Job Bidding	124
■ <b>HR BLOOPERS: Recruiting Skilled Machinists</b>	<b>125</b>
Employee Referrals	125
<b>External Recruitment Sources</b>	<b>126</b>
High Schools and Vocational Schools	127
Community Colleges	127
Colleges and Universities	127
Competitors in the Labor Market	128
Former Employees	128
Unemployed	128
Military Personnel	129
Self-Employed Workers	129
Ex-Offenders	129
<b>External Recruitment Methods</b>	<b>130</b>
Online and Mobile Recruiting	130
Traditional Methods	134
Tailoring Recruitment Methods to Sources	138
<b>Alternatives to Recruitment</b>	<b>138</b>
Promotion Policies	139
Overtime	139
Preparing for Exam/Quizzes	140 • Key Terms 140
Questions for Review	141 • Preparing for My Career 141
■ <b>ETHICS DILEMMA: Unfair Advantage?</b>	<b>141</b>
HRM Is Everyone's Business	141 • HRM by the
Numbers	142 • Working Together: Team Exercise 142
INCIDENT 1: A Problem Ad?	142 • INCIDENT 2: I Am Qualified,
Why Not Me?	143 • Endnotes 143



**Chapter 6 Selection 146****Selection and Environmental Factors Affecting the Selection Process 147**

The Selection Process 147

The Environment of Selection 148

**Preliminary Screening and Review of Applications and Résumés 151****Selection Tests 153**

Preliminary Considerations 153

Advantages and Disadvantages of Selection Tests 154

Characteristics of Properly Designed Selection Tests 154

Test Validation Approaches 155

Employment Tests 156

Unique Forms of Testing 158

Legal Considerations 159

**Employment Interview 160**

Interview Planning 160

■ **HR BLOOPERS: The First Interview 160**

Content of the Interview 161

Candidate's Role and Expectations 161

General Types of Interviews 162

Methods of Interviewing 163

Potential Interviewing Problems 164

Concluding the Interview 166

**Pre-Employment Screening and Background Checks 166**

Employment Eligibility Verification (Form I-9) 167

Continuous Background Investigation 167

Background Investigation with Social Media 167

Remembering Hiring Standards to Avoid 168

**Selection Decision and Evaluating the Effectiveness of Selection Decisions 169**

Making the Selection Decision 170

Evaluating Selection Decisions 170

Preparing for Exam/Quizzes 172 • Key Terms 173

Questions for Review 173 • Preparing for My Career 173

■ **ETHICS DILEMMA: Hiring with Incomplete Information 174**

HRM Is Everyone's Business 174 • HRM by the

Numbers 174 • Working Together: Team Exercise 175

INCIDENT 1: A Matter of Priorities 175 • INCIDENT 2: National

Career Day 176 • Endnotes 176

**Part Three Performance Management and Training 179****Chapter 7 Performance Management and Appraisal 180****Performance Management, Performance Appraisal, and the Performance Appraisal Process 181**

Performance Management 182

Performance Appraisal 182

Performance Appraisal Process 182

**The Uses of Performance Appraisal and Performance Criteria 183**

Uses of Performance Appraisal 183

Performance Criteria 184

Responsibility for Performance Appraisal 185

Performance Appraisal Period 187

**Choosing a Performance Appraisal Method 188**

Trait Systems 188

Comparison Systems 189

Behavioral Systems 191

Results-Based Systems 193

■ **HR BLOOPERS: Appraising Performance at Global Insurance 193****Assessing the Effectiveness and Limitations of Performance Appraisal Practices 195**

Characteristics of an Effective Appraisal System 195

Limitations of Performance Appraisal 197

Legal Considerations 199

**Performance Appraisal Interview 199**

Scheduling the Interview 199

Interview Structure 200

Use of Praise and Criticism 200

Employees' Role 200

Concluding the Interview 201

**Trends in Performance Appraisal Practice 201**

Preparing for Exams/Quizzes 202 • Key Terms 203

Questions for Review 203 • Preparing for My Career 204

■ **ETHICS DILEMMA: Abdication of Responsibility 204**

HRM Is Everyone's Business 204 • HRM by the Numbers 205

Working Together: Team Exercise 205 • INCIDENT 1:

These Things Are a Pain 206 • INCIDENT 2: Good

Job! 206 • Endnotes 207

**Chapter 8 Training and Development 208****Training and Development and Related Practices 209****Training and Development Process 210**

Determine Specific Training and Development Needs 211

Establish Training and Development Program Objectives 212

Training Methods 213

Training and Development Delivery Systems 217

Implementing Training and Development Programs 219

Metrics for Evaluating Training and Development 219

Factors Influencing Training and Development 221

**Human Resource Management Training Initiatives 223****Careers and Career Planning Approaches and Methods 225**

Traditional Career Path 225

Network Career Path 225

Lateral Skill Path 226

Dual-Career Path 226

Adding Value to Your Career 226

Demotion 226

Free Agents (Being Your Own Boss) 227

Career Planning Approaches 227

Career Development Methods 230

**Management Development 231**

Mentoring and Coaching 232

Reverse Mentoring 233

■ **HR BLOOPERS: Management Development at Trends Apparel 233**



**Organization Development and the Learning Organization 234**

- OD Interventions 234
- Learning Organization 235
- Preparing for Exams/Quizzes 236 • Key Terms 237
- Questions for Review 237 • Preparing for My Career 237
- **ETHICS DILEMMA: Consequences of Inadequate Training Design 238**
- HRM Is Everyone's Business 238 • HRM by the Numbers 239 • Working Together: Team Exercise 239
- INCIDENT 1: Career Development at Meyers and Brown 239
- INCIDENT 2: There's No Future Here! 240 • Endnotes 240

**Part Four Compensation 243**

**Chapter 9 Direct Financial Compensation (Monetary Compensation) 244**

**Total Compensation and the Environment of Compensation Practice 245**

- Direct and Indirect Financial Compensation 246
- Structure of Direct Financial Compensation Plans 247
- Contextual Influences 248

**Direct Financial Compensation Components 252**

- Base Pay 252
- Cost-of-Living Adjustments 252
- Seniority Pay 252
- Performance-Based Pay 253

■ **HR BLOOPERS: Motivating Software Development Teams 258**

- Person-Focused Pay 259

**Building Job Structures 260**

- Ranking Method 260
- Classification Method 261
- Factor Comparison Method 261
- Point Method 261

**Establishing Competitive Compensation Policies 261**

- Pay Level Compensation Policies 262
- Pay Mix 263

**Building Pay Structures 263**

- Pay Grades 264
- Pay Ranges 265
- Broadbanding 265
- Two-Tier Wage System 266
- Adjusting Pay Rates 266
- Pay Compression 267

**Exceptions to the Rules: Sales Professionals, Contingent Workers, and Executives 267**

- Sales Professionals 267
- Contingent Workers 268
- Executive Compensation 268

- Preparing for Exams/Quizzes 270 • Key Terms 271
- Questions for Review 272

■ **ETHICS DILEMMA: Sales Tactics at Wells Fargo Bank 272**

- HRM Is Everyone's Business 272 • Questions for Review 272 • HRM by the Numbers 273 • Working Together: Team Exercise 274 • INCIDENT 1: The Pay Gap

- at Barker Enterprise 274 • INCIDENT 2: The Controversial Job 274 • Endnotes 275

**Chapter 10 Indirect Financial Compensation (Employee Benefits) 278**

**Indirect Financial Compensation (Employee Benefits) 279**

**Legally Required Benefits 280**

- Social Security 281
- Unemployment Insurance 281
- Workers' Compensation 281
- Health Care 282

**Discretionary Benefits 285**

- Retirement Plans 286
- Life Insurance and Disability Insurance 288
- Paid Time-Off 288
- Employee Services 291

**Workplace Flexibility (Work–Life Balance) 293**

- Flextime 294
- Compressed Workweek 294
- Job Sharing 295
- Two-in-a-Box 295
- Telecommuting 295
- Part-Time Work 296

■ **HR BLOOPERS: The Job-Sharing Problem at SunTrust Bank 297**

**Customized Benefit Plans 297**

**Communicating Information about the Benefits Package 297**

- Preparing for Exams/Quizzes 298 • Key Terms 298
- Questions for Review 299

■ **ETHICS DILEMMA: A Poor Bid 299**

- HRM Is Everyone's Business 300 • HRM by the Numbers • 300 • Working Together: Team Exercise 301 • INCIDENT 1: Flextime 301 • INCIDENT 2: Communicating Benefits at Seaview Property Management Company 301 • Endnotes 302

**Part Five Labor Relations, Employee Relations, Safety, and Health 305**

**Chapter 11 Labor Unions and Collective Bargaining 306**

**The Role of Labor Unions 307**

- Why Employees Join Unions 308
- Prevalence of Unions 309

**Union Structure and Labor Strategies 310**

- Structure of Unions 310
- Organized Labor's Strategies for Promoting a Stronger Labor Movement 312

**Laws Affecting Collective Bargaining 314**

- National Labor Relations Act 314
- **HR BLOOPERS: Stopping Unionization at Packer Industries 315**
- Labor-Management Relations Act 315
- Antidiscrimination Laws and Executive Orders 316

**Bargaining Unit Formation and the Collective Bargaining Process 316**



Forming a Bargaining Unit 316  
 Collective Bargaining Process 318  
 Bargaining Issues 319  
 Preparation for Negotiations 321  
 Negotiating the Agreement 322  
 Overcoming Breakdowns in Negotiations 324  
 Reaching the Labor-Management Agreement 327  
 Ratifying the Labor-Management Agreement 327  
 Administration of the Labor-Management Agreement 327  
 Public Sector Collective Bargaining 328

### **Grievance Procedure in a Union Environment 328**

### **Union Decertification 330**

Preparing for Exams/Quizzes 331 • Key Terms 332  
 Questions for Review 333 • Preparing for My Career 333

### **■ ETHICS DILEMMA: A Strategic Move 333**

HRM Is Everyone's Business 334 • HRM by the Numbers 334 • Working Together: Team Exercise 335  
 INCIDENT 1: Break Down the Barrier 335 • INCIDENT 2: We're Listening 336 • Endnotes 336

## **Chapter 12 Internal Employee Relations 338**

### **Employment at Will 339**

### **Discipline and Disciplinary Action 340**

Disciplinary Action Process 341  
 Approaches to Disciplinary Action 342  
 Problems in the Administration of Disciplinary Action 344

### **Employment Termination 345**

"Just Cause" as a Standard for Choosing to Terminate Employment 345  
 Considerations in Communicating the Termination Decision 346  
 Termination of Employees at Various Levels 346

### **■ HR BLOOPERS: Effective Discipline at Berries Groceries 346**

Demotion as an Alternative to Termination 347  
 Downsizing 348

### **Ombudspersons and Alternative Dispute Resolution 350**

Ombudspersons 350  
 Alternative Dispute Resolution 351

### **More Considerations for Internal Employee Relations 351**

Transfers 351  
 Promotions 352  
 Resignations 352  
 Retirements 354

Preparing for Exams/Quizzes 355 • Key Terms 356  
 Questions for Review 356 • Preparing for My Career 356

### **■ ETHICS DILEMMA: To Fire or Not to Fire 356**

HRM Is Everyone's Business 357 • HRM by the Numbers 357 • Working Together: Team Exercise 359  
 INCIDENT 1: Employment at Will 359 • INCIDENT 2: To Heck with Them! 359 • Endnotes 360

## **Chapter 13 Employee Safety, Health, and Wellness 362**

### **Nature and Role of Safety, Health, and Wellness 363**

Occupational Safety and Health Administration 364

OSHA and Whistle-Blowers 366  
 OSHA and the Small Business 367

### **■ HR BLOOPERS: Health and Safety Problems at XIF Chemicals 367**

The Economic Impact of Safety 368

### **Workplace Safety Programs 368**

Unsafe Employee Actions 368  
 Unsafe Working Conditions 368  
 Developing Safety Programs 368  
 Accident Investigation 370  
 Evaluation of Safety Programs 370  
 Musculoskeletal Disorders 370  
 Ergonomics 371

### **Workplace Bullying and Violence 372**

Workplace Bullying 372  
 Workplace Violence 373  
 Legal Consequences of Workplace Violence 374

### **Employee Stress and Burnout 376**

Potential Consequences of Stress 377  
 Stressful Jobs 377  
 Burnout 377

### **Substance Abuse, Substance-Abuse-Free Workplaces, and Drug-Testing Programs 378**

Alcohol Abuse 379  
 Drug Abuse 379  
 Substance-Abuse-Free Workplace and Drug Testing 379

### **Employee Wellness and Employee Assistance Programs 382**

Wellness Programs 382  
 Social Networking and Wellness 383  
 Employee Assistance Programs 384

Preparing for Exams/Quizzes 384 • Key Terms 385  
 Questions for Review 386 • Preparing for My Career 386

### **■ ETHICS DILEMMA: In Confidence 386**

HRM Is Everyone's Business 387  
 HRM by the Numbers 387 • Working Together: Team Exercise 388 • INCIDENT 1: Something Isn't Quite Right 388 • INCIDENT 2: A Commitment to Safety? 388 • Endnotes 389

## **Part Six Operating in a Global Environment 391**

## **Chapter 14 Global Human Resource Management 392**

### **Evolution and Context of Global Business and Human Resource Management 393**

Evolution of Global Business 393  
 Context of Global Business 395

### **Global Staffing 400**

Expatriate 400  
 Host-Country National 400  
 Third-Country National 400  
 Approaches to Global Staffing 400  
 Recruiting Host-Country Nationals 401  
 Selecting Expatriates 401  
 Background Investigation 402



■ **HR BLOOPERS: United Architect's Expatriate Problems** 402

**Global Performance Management and Human Resource Development** 403

- Performance Management 403
- Expatriate Human Resource Development 403
- Pre-Move Orientation and Training 404
- Continual Development: Online Assistance and Training 404
- Repatriation Orientation and Training 405
- Global E-learning 405
- Virtual Teams in a Global Environment 406

**Global Compensation** 407

- Compensation for Host-Country Nationals 407
- Expatriate Compensation 408

**Global Safety, Health, and Employee and Labor Relations** 408

- Safety and Health 408

Global Employee Relations 409

Global Labor Relations 410

**Globalization for Small to Medium-Sized Businesses** 410

- Preparing for Exams/Quizzes 411 • Key Terms 412
- Questions for Review 412 • Preparing for My Career 413

■ **ETHICS DILEMMA: Meeting Customer Demand at Any Cost** 413

- HRM Is Everyone's Business 413 • HRM by the Numbers 414
- Working Together: Team Exercise 414 • INCIDENT 1: My Darling 414 • INCIDENT 2: Was There Enough Preparation? 415 • Endnotes 415

*Glossary* 418

*Name Index* 429

*Company Index* 430

*Subject Index* 432



# Preface

## New to this Edition

Four new features appear in each chapter that enable students to integrate knowledge and valuable skills regardless whether choosing a career in the HRM profession or other business function in smaller or larger organizations, all available in MyLab.

### HRM Is Everyone's Business

Most company leaders and employees will face ethical challenges at one time or another. Some employees will intentionally commit ethics violations for personal gain. Other employees may unknowingly do so. Whether you are a manager or HR professional—an employee may bring concerns about possible ethical violations to your attention or you may observe them yourself. Once you are aware of a situation where ethics are in question, you are obligated to respond.

#### Action checklist for managers and HR—responding to allegations of unethical behavior

##### HR takes the lead

- ☒ Work with managers to ensure that they understand the company's code of ethics and communicate the procedures for addressing instances of potential ethical violations.
- ☒ Encourage managers to share the company's code of ethics with employees, lead open discussions about everyone's obligation to behave ethically, and create a safe environment for employees to report their concerns about possible ethical violations to the appropriate authority.
- ☒ Guide managers through the process of handling employees who are suspected of committing ethical violations.

##### Managers take the lead


- ☒ Educate HR on certain aspects of employee roles to better understand how unethical behavior may manifest in your department. Bringing HR up to speed creates a partnership for more effectively responding to possible ethical violations.
- ☒ Discuss concerns with HR about possible ethical violations and follow through based on company policy and procedures.
- ☒ Work together with HR to implement a training plan on the company's code of ethics and creating hypothetical scenarios illustrating ethical and unethical behavior relevant to your departmental activities.

- **HRM Is Everyone's Business.** This feature explains how HR professionals and managers throughout the organization work together to address important workplace issues by highlighting specific connections and the reality that HR activities are never performed in isolation.

- **HRM by the Numbers.** This feature provides an excellent opportunity to think through concepts and their applications as well as analyze quantitative data to facilitate problem solving.

### HRM by the Numbers

#### Paying the Price for Underpaying Workers

 An additional HRM by the Numbers exercise can be found on MyLab Management.

HR professionals should ensure that workers are paid for their work on a timely basis. Sometimes, companies pay workers less than what they should and there are various possible reasons such as intent to save money or in error. Either way, paying employees lesser amounts than owed may violate the law. For instance, the Fair Labor Standards Act (FLSA), which we will discuss in Chapter 3, requires employers to pay eligible workers a higher pay for overtime work. Specifically, the overtime pay rate equals 1.5 times the regular hourly pay rate for each additional hour exceeding 40 in a work week.

You've learned that the company has not been paying employees appropriately for overtime work hours. It is your responsibility to calculate the amount of overtime pay owed to workers. After reviewing the payroll records, you discovered the following details:

1. Group 1: 225 workers. Each worker earns a regular hourly pay rate of \$18.00. For each of the past 15 work weeks, every-one worked 45 hours.
2. Group 2: 310 workers. Each worker earns a regular hourly pay rate of \$21.00. For each of the past 20 work weeks, every-one worked 47 hours.

Every worker received regular pay for all their hours worked, but they did not receive an additional overtime pay amount.

#### Questions

- 2-13. Calculate the hourly overtime pay rate for each worker in (a) group 1 and (b) group 2.
- 2-14. How much money does the company owe all the workers in (a) group 1 over 15 weeks and (b) group 2 over 20 weeks?
- 2-15. How much money did the company save by not paying all the workers (groups 1 and 2 combined) overtime pay?

### Working Together: Team Exercise

In small groups of three or four, come up with specific answers to the following questions. Talk through your perspectives and come up with a brief team response. Be prepared to share your ideas with the class.

- **Working Together.** This feature offers opportunities for students to collaborate through sharing ideas, listening to others' ideas, and coming up with a cohesive team response to the assignment.

- **FYI.** This feature provides tidbits of information from survey research and extensive databases (e.g., employment statistics) that illuminate trends, opinions, and the use of specific HR practices.

#### FYI

The 2017 Global 100 Most Sustainable Corporations were most commonly found in the following countries:

- United States: 19 companies
- France: 12 companies
- United Kingdom: 11 companies
- Canada and Germany: 6 companies
- Netherlands: 5 companies<sup>105</sup>



## Updates to the 15th Edition

There are three significant updates made to this edition of the textbook; revised learning objectives, updates to HRM practices, and new content in the majority of special features. First, the learning objectives in each chapter have been revised to be consistent across chapters (there are now six learning objectives per chapter with the exception of chapter 1) in order to better integrate the chapter material together in a more effective manner to improve learning.

Second, there are substantial updates that highlight evolving HRM practices, statistics, and business professionals' perspectives. For instance, Chapter 7 (performance management and performance appraisal) includes a section on trends in performance appraisal practice. In a nutshell, some companies are providing performance feedback more frequently and as needed on a less structured basis rather than putting off providing feedback until structured annual reviews are given. This section also addresses the pros and cons of this more contemporary thinking as well as the same of longstanding approaches to provide students a balanced view.

Third, fifty percent of the *Ethics Dilemma* and fifty percent of the *Incident* features are new. Business ethics are sets of guiding principles that influence the way individuals and organizations behave within the society that they operate. Analysis of the incidents, which depict realistic scenarios, requires interpretation and proposed actionable responses. Many new *Watch It!* videos appear throughout this edition.

## Solving Teaching and Learning Challenges

Increasingly, students expect to see the applicability of their coursework to life and work after graduation. When the connection is not clear to students, many may lose interest and, perhaps, choose to do as little as possible to earn a good enough grade on quizzes and exams. How the author conveys content and the choice of pedagogical features can pique interest in the subject matter and enhance learning and development of seven critical employability skills, which I have discussed in the Developing Employability Skills section in Chapter 1.

I approach the study of HRM in a realistic, practical, interesting, and stimulating manner. I focus on showing how HRM is practiced in the real world. Throughout the book, you will see examples of how organizations practice HRM. In explaining a concept, I often quote HRM professionals and other business professionals, yet all HRM discussion is based on sound theoretical concepts and practice. Where appropriate, the strategic role of HRM is apparent in the discussion of each major HRM function. In addition, I show how HRM topics are related to other HRM topics. For instance, a firm that emphasizes recruiting top-quality candidates but neglects to provide satisfactory compensation is wasting time, effort, and money. If a firm's compensation system pays below-market wages, the firm will always be hiring and training new employees only to see the best leave for a competitor's higher wages. Besides this one example, the interrelationship of HRM practices set in a dynamic business environment will become more obvious as these topics are addressed throughout the book. These interrelationships are also shown to be important as organizations operate within the global environment. I included several features that appear in the textbook and MyLab, designed to enhance student learning by actively engaging students.

### ★ Learn It

If your professor has chosen to assign this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to see what you should particularly focus on and to take the Chapter 2 Warm-Up.

### Learn It Practice

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

## Watch It Videos

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

### ★ Watch It I

If your instructor has assigned this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to watch a video titled Patagonia: Ethics and Social Responsibility and to respond to questions.



**★ Try It!**

If your instructor has assigned this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete the Management & Ethics simulation and test your application of these concepts when faced with real-world decisions.


**Try It Mini Simulations**

Recommends a mini simulation that can be assigned to students as an outside classroom activity or it can be done in the classroom. As the students watch the simulation they will be

asked to make choices based on the scenario presented in the simulation. At the end of the simulation the student will receive immediate feedback based on the answers they gave. These simulations reinforces the concepts of the chapter and the students' comprehension of those concepts.

**HR Bloopers Exercises**

*HR Bloopers* present scenarios that describe potential mistakes that may occur in HR practice. Questions that follow in MyLab Management provide students with the opportunity to test their understanding and recall of the chapter material based on the information contained in the scenarios.



**HR BLOOPERS**

**Sales Incentives at Pincer Pharmaceuticals**

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

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

★ If your professor has assigned this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

**PREPARING FOR MY CAREER**

**P I A Personal Inventory Assessment**

★ An additional Personal Inventory Assessment can be found on MyLab Management.

**Ethical Leadership Assessment**

Organizations need ethical leadership from all employees, but especially from managers. In this PIA, you'll see how much thought and effort goes into being ethical in your workplace behavior.

**Personal Inventory Assessments**

The *Personal Inventory Assessment* feature, included in most chapters, gives students the opportunity for self-assessment and personal reflection. Understanding yourself and finding your voice will help you approach situations within and outside the employment setting with greater confidence.

**HRM Is Everyone's Business**

As noted earlier, *HRM Is Everyone's Business* explains how HR professionals and managers throughout the organization work together to address important workplace issues. This feature highlights some of the specific connections between managers and HR professionals, and the reality that HR activities are never performed in isolation.

**HRM Is Everyone's Business**

In Chapter 5, we explained the role of HR professionals and managers in the recruitment process. Together, identified the best approaches to building a pool of qualified candidates. Now, it's time to make selection (hiring) decisions. Successful selection decisions are based on the collaboration between HR professionals and hiring managers who bring complementary expertise and perspectives to the task. HR professionals are experts on every aspect of the selection process (e.g., reliability and validity), and hiring managers are most well-acquainted with their staffing needs.

**Action checklist for managers and HR—understanding and applying selection concepts and methods**

**HR takes the lead**

- ✓ Review the appropriate guidelines for evaluating applications and résumés. Communicate what should and should not be considered. For example, some people list birthdate or marital status on their résumés and this information should never be considered when formulating interview questions or making the selection decision.
- ✓ Discuss whether testing will add useful information for making more accurate selection decisions.
- ✓ Review the guidelines for conducting effective interviews and coordinate the types of interview questions that will be asked by HR and the questions that will be asked by managers.
- ✓ HR professionals conduct background checks.
- ✓ HR professionals share their evaluations of the job candidates, and inform managers whether the results of the background check warrant further consideration.

**Managers take the lead**

- ✓ Review the top candidates with HR after prescreening applications and résumés.
- ✓ If testing is considered relevant, explain the minimum performance standards expected of successful employees.
- ✓ Share interview questions with HR to ensure job-relatedness.
- ✓ Consider all the job-related information and discuss whether a job offer should be made.

**HRM by the Numbers**

**Detecting Adverse Impact**

★ An additional HRM by the Numbers exercise can be found on MyLab Management.

Adverse impact *usually* takes place when an employment decision, practice, or policy has a disproportionately negative effect on a protected group. HR professionals rely on the "four-fifths" or "80 percent" rule to judge whether adverse impact may have occurred. Consider the situation for men and for women:

Sex	Total Applicants	Selected Applicants	Selection Rate
Female	750	375	
Male	1,050	450	
Total	1,800	825	

3-18. Calculate (a) the selection rate for females and (b) the selection rate for males.

3-19. What is the ratio of the female selection rate to the male selection rate?

3-20. Based on your answer to question 3-19, is there evidence of possible adverse impact?

**HRM By The Numbers Exercises**

As noted earlier, *HRM by the Numbers* provides an excellent opportunity to sharpen problem solving skills through the analysis of numerical data, creating the foundation for quantifying HRM concepts and practices. There are two data-driven exercises per chapter, one in the book and both in MyLab Management. Answers are found in the Instructor's Manual and in MyLab Management.



### Working Together Exercise

As noted earlier, *Working Together* offers opportunities for students to collaborate through sharing ideas, listening to others' ideas, and coming up with a cohesive team response to the assignment. If assigned by the instructor, students may make brief oral presentations of their ideas to the class, creating an additional opportunity for working together.

### Assisted Graded Writing Questions

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

## MyLab Management

### Reach every student with MyLab

MyLab is the teaching and learning platform that empowers you to reach *every* student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and improves results for each student. Learn more at MyLab Management.

### Deliver trusted content

You deserve teaching materials that meet your own high standards for your course. That's why we partner with highly respected authors to develop interactive content and course-specific resources that you can trust — and that keep your students engaged.

### Empower each learner

Each student learns at a different pace. Personalized learning pinpoints the precise areas where each student needs practice, giving all students the support they need — when and where they need it — to be successful.

### Teach your course your way

Your course is unique. So whether you'd like to build your own assignments, teach multiple sections, or set prerequisites, MyLab gives you the flexibility to easily create *your* course to fit *your* needs.

### Improve student results

When you teach with MyLab, student performance improves. That's why instructors have chosen MyLab for over 15 years, touching the lives of over 50 million students. Learn more.

## Developing Employability Skills

For students to succeed in a rapidly changing job market, they should be aware of their career options and how to go about developing a variety of skills. In this book and MyLab, I focus on developing these skills in the following ways: In this course, and, specifically in this text, students will have the opportunity to develop and practice seven important skills based on various learning features that are summarized in the matrix and subsequently illustrating some of the connections between the employability skills and learning features:



	Communication	Critical Thinking	Collaboration	Knowledge Application and Analysis	Business Ethics and Social Responsibility	Information Technology and Computing Skills	Data Literacy
FYI				✓			✓
Watch It!		✓		✓			
Try It! Simulation	✓	✓		✓	✓		
HR Bloopers		✓	✓	✓	✓		
Chapter Review		✓		✓			
Personal Inventory Assessment			✓	✓			
Ethics Dilemma		✓		✓	✓		
HRM Is Everyone's Business	✓		✓	✓			
HRM by the Numbers		✓		✓		✓	✓
Working Together	✓		✓	✓			
Case Incident 1		✓		✓	✓		
Case Incident 2		✓		✓	✓		

## Instructor Teaching Resources

*Human Resource Management* comes with the following teaching resources.

Supplements available to instructors at <a href="http://www.pearsonhighered.com/">www.pearsonhighered.com/</a>	Features of the Supplement
Instructor's Manual	<ul style="list-style-type: none"> <li>Chapter-by-chapter summaries</li> <li>Examples and activities not in the main book</li> <li>Teaching outlines</li> <li>Solutions to all questions and problems in the book</li> </ul>
Test Bank	More than 2,000 multiple-choice, true/false, and short-answer questions with these annotations: <ul style="list-style-type: none"> <li>Difficulty level (1 for easy, 2 for moderate, 3 for difficult)</li> <li>Type (Multiple-choice, true/false, short-answer, essay)</li> <li>Topic (The term or concept the question supports)</li> <li>Learning outcome</li> <li>AACSB learning standard (Written and Oral Communication, Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge; Interpersonal Relations and Teamwork)</li> </ul>
Computerized TestGen	TestGen allows instructors to: <ul style="list-style-type: none"> <li>Customize, save, and generate classroom tests</li> <li>Edit, add, or delete questions from the Test Item Files</li> <li>Analyze test results</li> <li>Organize a database of tests and student results.</li> </ul>
PowerPoints	Slides include many of the figures and table in the textbook PowerPoints meet accessibility standards for students with disabilities. Features include, but not limited to: <ul style="list-style-type: none"> <li>Keyboard and Screen Reader access</li> <li>Alternative text for images</li> <li>High color contrast between background and foreground colors</li> </ul>



## Acknowledgments

I wish to give a special thank you to R. Wayne Mondy whose dedication and expertise in the first 14 editions have positively impacted thousands of students' educational experiences. I am thrilled and honored to carry the torch forward in pursuit of doing the same for thousands more.

At Pearson, I wish to thank my editor, Dan Tylman, who provided excellent insights throughout the preparation of this edition. Many others at Pearson provided excellent advice throughout the process and project management oversight, including Yasmita Hota, Ashley Santora, Melissa Feimer, and Stephanie Wall. At SPi Global, I thank Raja Natesan and Nicole Suddeth. In addition, student feedback has made this book an invaluable resource. Finally, the support and encouragement of many practicing HRM professionals and faculty members has helped to make this book possible.



## About Joseph J. Martocchio

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

I advanced my education in the human resource management (HRM) field by earning a master's degree and Ph.D. degree at Michigan State University. My master's degree enabled me to build an even stronger foundation in practice and my doctoral degree provided me with the skills to conduct scholarly research and teach college-level courses. Since earning my graduate degrees, I have been a professor in the School of Labor and Employment Relations at the University

of Illinois, Urbana–Champaign and assumed administrative roles as a Provost Fellow, Associate Dean for Academic Affairs, and Interim Dean. All the while, I have taught a variety of courses in the HRM field. These include compensation systems, employee benefits, employment systems (HRM and labor relations), HR planning and staffing, and statistics. I also teach the compensation and statistics courses online. For many years, I served as the faculty advisor to the student chapter of the Society for Human Resource Management at the University of Illinois during which time students earned Merit Awards and Superior Merit awards on multiple occasions.

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

Besides writing scholarly articles and *Human Resource Management*, I have two sole-authored textbooks: *Strategic Compensation: A Human Resource Management Approach* (Pearson Higher Education), which is in its 9th edition, and *Employee Benefits: A Primer for Human Resource Professionals* (McGraw-Hill), which is in its 6th edition.



# Part One

## Setting the Stage

### **Chapter 1**

Human Resource Management: An Overview

### **Chapter 2**

Business Ethics, Corporate Social Responsibility,  
and Sustainability

### **Chapter 3**

Equal Employment Opportunity, Affirmative  
Action, and Workforce Diversity





# 1

## Human Resource Management: An Overview

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

- 1.1** Define human resource management (HRM) and the importance of studying it.
- 1.2** Describe who performs HRM.
- 1.3** Explain how the HRM function serves as a strategic business partner and the elements of the dynamic HRM environment.
- 1.4** Discuss the role of HRM in building corporate culture and employer branding.
- 1.5** Summarize HRM issues for small businesses.
- 1.6** Identify ways that country culture influences global business.
- 1.7** Explore essential skills for developing your career in HR or any other career path.

### MyLab Management

#### ★ Improve Your Grade!

If your professor is using MyLab Management, visit [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) for videos, simulations, and writing exercises.

#### ★ Learn It

If your professor has chosen to assign this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to see what you should particularly focus on and to take the Chapter 1 Warm-Up.





Like many students, you've probably had a job (or two) at some time or another while working on your degree. Your work experiences are likely to have been influenced by the knowledge and skills of a human resource (HR) manager and your manager. Both HR professionals and managers work together to recruit and hire the right individuals as well as evaluating and rewarding job performance. This textbook is about the important work that HR managers accomplish and how they work with managers and employees to promote a mutually beneficial employment experience. Mutually beneficial employment experiences can be described by goal-directed managers who create a positive environment for you to achieve exemplary job performance, which, together with other employees, will help the company meet its strategic objectives.

This chapter will enable you to describe and understand the human resource management function and why it is worthwhile to study it. In the sections that follow, we introduce you to the functions that make up human resource management (HRM) and identify who is responsible for managing it. Next, we discuss HRM as a strategic business partner and the dynamic role of the environment that influences HRM practice, followed by considering the role of HRM in building corporate culture and employer branding. Then, we turn our attention to HRM in small businesses and the influence of country culture on global business. Finally, we explore essential skills for developing your career in HR or any other career path.

---

**1.1** Define human resource management (HRM) and the importance of studying it.

---

**human resource management (HRM)**

Utilization of individuals to achieve organizational objectives.

## Human Resource Management: What It is and Why It is Important

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





be more conscious of costs and productivity. Because of the critical nature of human resource issues, these matters must receive major attention from upper management.

### Why Study HRM?

Many of you plan to seek a career in HRM; others do not. Even if you don't, HRM is everyone's business. Why should you care about studying HRM if you plan to work in accounting, finance, marketing, operations, or starting your own business? Here are two things to consider. First, understanding HRM will give you a solid foundation for understanding your rights and responsibilities as an employee. For instance, you will be more informed about whether the employer is evaluating your performance relative to other employees' performance or on an absolute standard. Knowing about the Fair Labor Standards Act primes an understanding about whether you qualify for overtime pay. The list goes on and on. Just read the book!

Second, at some point in the future, you will probably have the opportunity to supervise employees or lead a department. When you do, you will need to have the most qualified employees on your team; and, you will want to ensure that they are achieving exemplary performance by providing regular feedback and rewarding excellence. Also, when employees are not performing to standard, you will be responsible for identifying strategies for improvement, perhaps by recommending participation in a training program or two, or deciding to terminate employment. You will seek guidance from HR professionals and they will work with you to use appropriate methods to recruit, select, evaluate, and reward employees. In the end, success in your career will not only depend on your expertise, but also on having good employees.

### Human Resource Management Functions

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

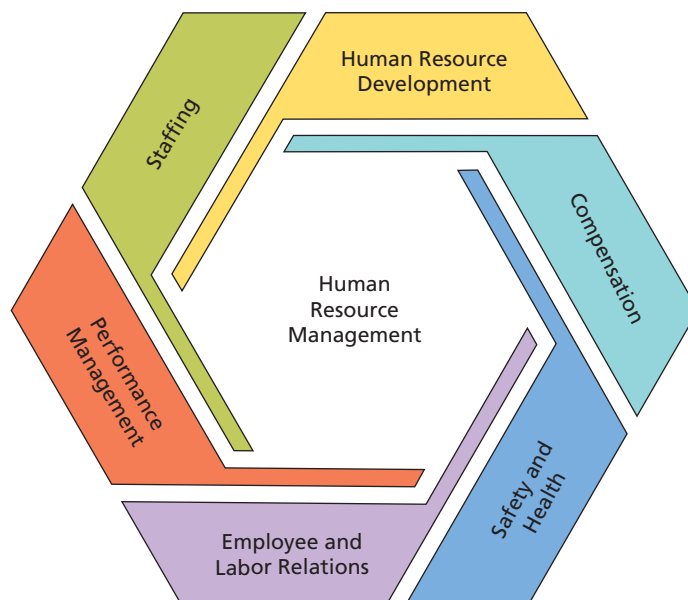
#### staffing

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

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

*Job analysis* is the systematic process of determining the skills, duties, and knowledge required for performing jobs in an organization. It impacts virtually every aspect of HRM, including planning, recruitment, and selection. *Human resource planning* is the systematic process of

**FIGURE 1-1**  
Human Resource  
Management Functions





matching the internal and external supply of people with job openings anticipated in the organization over a specified period. The data provided set the stage for recruitment or other HR actions. *Recruitment* is the process of attracting individuals on a timely basis, in sufficient numbers, and with appropriate qualifications to apply for jobs with an organization. *Selection* is the process of choosing the individual best suited for a position and the organization from a group of applicants. Successful accomplishment of the staffing function is vital if the organization is to effectively accomplish its mission. These topics are collectively often referred to as staffing.

### performance management (PM)

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

### human resource development (HRD)

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

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

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

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

*Career planning* is an ongoing process whereby an individual sets career goals and identifies the means to achieve them. According to the U.S. Bureau of Labor Statistics, today's employees will work for approximately 7 to 10 companies during their careers based on the assumption that most people will work 30 to 40 years.<sup>2</sup> A survey conducted by LinkedIn revealed that on average, individuals under the age of 32 change jobs four times.<sup>3</sup> Employee loyalty loses its meaning in this environment.

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

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

- **Direct Financial Compensation (Monetary Compensation):** Pay that a person receives in the form of wages, salaries, commissions, and bonuses.
- **Indirect Financial Compensation (Employee Benefits):** All financial rewards that are not included in direct compensation, such as paid vacations, sick leave, holidays, and medical insurance.
- **Non-financial Compensation:** Satisfaction that a person receives from the job itself or from the psychological or physical environment in which the person works.<sup>4</sup>

### direct financial compensation (monetary compensation)

Pay that a person receives in the form of wages, salary, commissions, and bonuses.

### indirect financial compensation (employee benefits)

All financial rewards that are not included in direct financial compensation.

### non-financial compensation

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

**EMPLOYEE AND LABOR RELATIONS** Businesses are required by law to recognize a union and bargain with it in good faith if the firm's employees want the union to represent them. In the past, this relationship was an accepted way of life for many employers, but most firms today would rather have a union-free environment. As a starting point, union wages and benefits are on average 54 percent higher than nonunion wages and benefits.<sup>5</sup> When a labor union represents a firm's employees, the human resource activity is often referred to as labor relations, which handles the job of collective bargaining (i.e., negotiating employment terms such as work hours). Internal employee relations comprise the HRM activities associated with the movement of employees within the organization such as promotions, demotion, termination, and resignation.



**safety**

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

**health**

Employees' freedom from physical or emotional illness.

**SAFETY AND HEALTH** **Safety** involves protecting employees from injuries caused by work-related accidents. **Health** refers to the employees' freedom from physical or emotional illness. These aspects of the job are important because employees who work in a safe environment and enjoy good health are more likely to be productive and yield long-term benefits to the organization. For instance, one survey showed that the injury rate in highly productive organizations was 18 times lower than in average performing companies and 60 percent lower than in less productive organizations.<sup>6</sup> Today, because of federal and state legislation that reflect societal concerns, most organizations have become attentive to their employees' safety and health needs.

**HUMAN RESOURCE DATA ANALYTICS** Although human resource data analytics is not a traditional HRM function, it pervades all functional areas. Analyzing employment data (e.g., employee productivity) and business outcomes (e.g., profits) has empowered HR professionals to quantify its influence. In 2016, 51 percent of companies correlated business outcomes with HR programs, which is up from 38 percent just one year earlier.<sup>7</sup> Data analytics go a long way toward establishing the HRM function as a strategic business partner.

The scope of data analytics is growing rapidly. No longer do HR professionals limit analyses to internal data. Nowadays, they leverage technology, which has given unfettered access to external data. (We discuss the available technology as part of the dynamic HRM environment later in this chapter.) Internally, research on job safety may identify the causes of certain work-related accidents. The reasons for problems such as excessive absenteeism or excessive grievances may not be clear. However, when such problems occur, HR analytics can help HR professionals find the causes and offer possible solutions. Externally, data gathered through social media outlets, demographic information, hiring patterns, and turnover can help HR professionals develop strategies for attracting top talent.<sup>8</sup>

HR professionals should not rely exclusively on data analytics for making decisions. Because data, no matter how comprehensive or well analyzed, needs to be tempered by good judgment. For instance, a recent government report states: "Companies should remember that while big data is very good at detecting correlations, it does not explain which correlations are meaningful."<sup>9</sup> For example, researchers have generally established a correlation between pay and turnover (lower pay rates are associated with higher turnover rates). However, it certainly is not the case that every person with low pay will leave the company. Some may stay because they have supportive managers or commute times are short. When making decisions, it is important to remember that correlation does not equate with cause and effect.

**INTERRELATIONSHIPS OF HUMAN RESOURCE MANAGEMENT FUNCTIONS** All HRM functional areas are highly interrelated. Management must recognize that decisions in one area will affect other areas. For instance, a firm that emphasizes recruiting top-quality candidates but neglects to provide satisfactory compensation is wasting time, effort, and money. If a firm's compensation system pays below-market wages, the firm will always be hiring and training new employees only to see the best leave for a competitor's higher wages. For instance, Walmart raised the starting pay rate for store associates to \$9 per hour. Walmart executives reasoned that raising pay is a good business decision because it should promote better customer service, higher sales, and lower expenses.<sup>10</sup> The interrelationships among the HRM functional areas will become more obvious as these topics are addressed throughout the book.

---

## 1.2 Describe who performs HRM activities

---

## Who Performs Human Resource Management Activities?

The person or units who perform the HRM tasks have changed dramatically in recent years, and today there is no typical HR department. Many of these changes are being made so that HR professionals can accomplish a more strategic role. Still, most organizations continue to perform most HR functions within the firm. However, as companies reexamine internal operations, questions are raised, such as: Can some HR tasks be performed more efficiently by line managers or outside vendors? Can some HR tasks be centralized or eliminated altogether? Can technology improve the productivity of HR professionals? One apparent fact is that all functions within today's organizations are being scrutinized for cost cutting, including HR. All units must operate under a lean budget in this competitive global environment, and HR is no exception.



Evidence provided by The Hackett Group shows that the HR functions have been impacted more than other functions with regard to reductions in staff and operating budgets.<sup>11</sup> In fact, the most efficient companies typically spend nearly 30 percent less per employee on HR and operate with 25 percent fewer HR employees.<sup>12</sup> Mobile HR has been a major factor in this trend as we discuss later in the chapter. Also, many HR departments continue to get smaller because others outside the HR department now perform certain functions. For instance, HR outsourcing, shared service centers, professional employer organizations, and line managers now assist in the accomplishment of many traditional HR activities.

### Human Resource Management Professional

Historically, the HR manager was responsible for each of the six HR functions. A **human resource management professional** is an individual who normally acts in an advisory or staff capacity, working with other managers to help them address human resource matters. Often, HR departments are created, with the central figure being the HR manager or executive. The HRM professional is primarily responsible for coordinating the management of HR to help the organization achieve its goals. We say more about the work of HR professionals later in the chapter before looking at HRM as a strategic business partner. In the meantime, Figure 1-2 displays a summary of a typical human resource professional's job along with their usual duties. The typical tasks performed by these professionals.

### Line Managers

All managers get things done through the efforts of others. Consequently, managers at every level naturally concern themselves with HRM, for example, making decisions about which job candidates are likely to meet the needs of company, conducting employee performance evaluations, and determining pay raise amounts. Individuals directly involved in accomplishing the primary purpose of the organization are **line managers**. As the traditional work of HR managers evolves, line managers have assumed some tasks typically done by HR professionals.<sup>13</sup> Automation has assisted greatly in this process. Managers are being assisted by manager self-service, the use of software, and the corporate network to automate paper-based human resource processes that require a manager's approval, recordkeeping or input, and processes that support the manager's job. Everything from recruitment, selection, and performance appraisal to employee development has been automated to assist line managers in performing traditional HR tasks.

#### human resource management professional

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

#### line managers

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

**FIGURE 1-2**

#### Human Resource Professional Job Description

Source: National Center for O\*NET Development. 11-3121.00. *O\*NET OnLine*. Retrieved January 2, 2017, from <http://www.onetonline.org/link/summary/11-3121.00>

Plan, direct, or coordinate HR activities and staff of an organization.

**Sample of reported job titles:** Human Resources Manager (HR Manager), Director of Human Resources, Human Resources Director (HR Director), Employee Benefits Manager, Human Resources Vice President, Employee Relations Manager

#### Tasks

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



There is a shared responsibility between line managers and HR professionals. Frequently, the line manager looks to HR for guidance in topics such as selection, training, promotion, and taking disciplinary action. The relationship between HR professionals and line managers is illustrated by the following account:

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

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

### FYI

- The HR outsourcing industry in 2020 is expected to generate \$53.9 billion in revenue, up from \$42.6 billion in 2015.<sup>14</sup>
- The industry’s expected future annual global growth is nearly 13 percent.<sup>15</sup>

## HR outsourcing (HRO)

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

## Human Resources Outsourcing

**HR outsourcing (HRO)** is the process of hiring external HR professionals to do the HR work that was previously done internally. In the early days of HRO, cost savings was the primary driver in determining which activities to outsource. Today, outsourcing agreements are focusing more on quality of service and saving time, which is often more important than saving money.<sup>16</sup> In addition, HRO enables HR to serve as strategic business partners. Paul Belliveau, global advisor at Avance Human Capital Management Advisors, said “Fundamentally, this is about the transformation of HR. Wherever there’s transformation, you have to take away things HR shouldn’t be doing anymore so they can be more strategic.”<sup>17</sup> As will be stressed throughout the text, strategic HR has become a major driver for HR professionals.<sup>18</sup>

*Discrete services outsourcing* involves one element of a business process or a single set of high-volume repetitive functions to be outsourced.<sup>19</sup> Benefits have often been the HR task most likely to be outsourced. Dan Thomas, president of Trivalent Benefits Consulting Inc., said, “Benefits administration has become so complex that it really takes someone who works with it every single day to keep track of all of the different laws and changes that are going on.”<sup>20</sup> For example, a survey conducted by The Prudential Financial and CFO research revealed that the complexity of employee benefits regulation has prompted companies to outsource or consider outsourcing parts of their benefits function: 46 percent (Affordable Care Act), 40 percent (Americans with Disabilities Act), and 38 percent (Family and Medical Leave Act).<sup>21</sup>

*Business process outsourcing (BPO)* is the transfer of the majority of HR services to a third party. Typically, larger companies are involved with BPO, both as a provider and a user. A major HR outsourcer is Accenture that has more than \$32 billion in revenue.<sup>22</sup> For instance, Levi Strauss & Company signed a multiyear BPO agreement in which Accenture took over recruitment and hiring for all of Levi Strauss’ 55,000 retail outlets in more than 110 countries.<sup>23</sup> Florida created a Web-based HR information system and outsourced administration of most HR functions for approximately 240,000 state employees and retirees. Outsourced services included recruiting, payroll, and HR administration services and benefits administration.<sup>24</sup>

## shared service center (SSC)

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

## Human Resources Shared Service Centers

A **shared service center (SSC)**, also known as a center of expertise, takes routine, transaction-based activities dispersed throughout the organization and consolidates them in one place. For example, a company with 20 strategic business units might consolidate routine HR tasks and perform them in one location. Shared service centers provide an alternative to HRO and can often



**professional employer organization (PEO)**

A company that leases employees to other businesses.

**executive**

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

**generalist**

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

**specialist**

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

provide the same cost savings and customer service. Fewer HR professionals are needed when shared service centers are used, resulting in significant cost savings. The most common HR functions that use SSCs are benefits and pension administration, payroll, relocation assistance and recruitment support, global training and development, succession planning, and talent retention.

**Professional Employer Organizations**

A **professional employer organization (PEO)** is a company that leases employees to other businesses. When a decision is made to use a PEO, the company releases its employees, who are then hired by the PEO. The PEO then manages the administrative needs associated with employees. It is the PEO that pays the employees' salaries; it also pays workers' compensation premiums, payroll-related taxes, and employee benefits. The PEO is responsible to the Internal Revenue Service (IRS) if, for example, the payroll taxes go unpaid. The company reimburses the PEO, which typically charges a fee of from 2 to 7 percent of the customer's gross wages, with percentages based on the number of leased employees. Because the PEO is the employees' legal employer it has the right to hire, fire, discipline, and reassign an employee. However, the client company maintains enough control so it can run the day-to-day operations of its business. Although PEOs have been available since the early 1980s, they have recently become a multi-billion dollar industry. The industry size is valued between \$136 billion and \$156 billion.<sup>25</sup> In fact, there is an estimated two to three million U.S. workers employed under a PEO-type arrangement, and that number is certain to grow.<sup>26</sup> PEOs permit business owners to focus on their core business, whereas the PEO handles HR activities.<sup>27</sup> Companies using a PEO typically have a high level of benefits and greater HR expertise than they could possibly have had on their own.

**More about HR Professionals**

Various designations are used within the HR profession; among these are HR executives, generalists, and specialists. An **executive** is a top-level manager who reports directly to the corporation's chief executive officer (CEO) or to the head of a major division. A **generalist**, who may be an executive, performs tasks in a variety of HR-related areas. The generalist is involved in several, or all, of the six HRM functions. A **specialist** may be an HR executive, manager, or nonmanager who is typically concerned with only one of the six functional areas of HRM. Figure 1-3 helps clarify these distinctions.

The vice president of industrial relations, shown in Figure 1-3, specializes primarily in union-related matters. This person is both an executive and a specialist. An HR vice president is both an executive and a generalist, having responsibility for a wide variety of functions. The compensation manager is a specialist, as is the benefits analyst. Whereas a position level in the organization identifies an executive, the breadth of such positions distinguishes generalists and specialists.

**HR BLOOPERS****Staffing Stone Consulting**

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

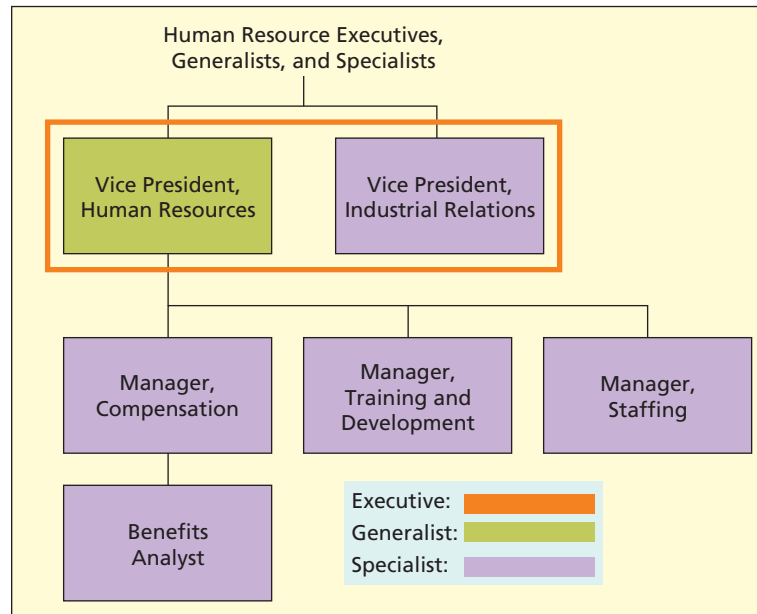
However, she has been so busy selling the firm's services that she has put little thought into how she is going to staff the projects she has recently sold. She opened the firm more than a year ago and quickly hired five consultants and an office manager to help her get the business off the ground.

Unfortunately, one of the consultants has already left the firm after making a huge mistake that caused Shelly to lose a client. Some of

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

★ If your professor has assigned this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.



**FIGURE 1-3****Human Resource Executives, Generalists, and Specialists****profession**

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

**HR Web Wisdom**

*Human Resource Certification Institute (HRCI)*

[www.hrci.org](http://www.hrci.org)

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

A **profession** is a vocation characterized by the existence of a common body of knowledge and a procedure for certifying members. Performance standards are established by members of the profession rather than by outsiders; that is, the profession is self-regulated. Most professions also have effective representative organizations that permit members to exchange ideas of mutual concern. These characteristics apply to the field of HR, and several well-known organizations serve the profession. Among the more prominent is the Society for Human Resource Management ([www.shrm.org](http://www.shrm.org)), the Human Resource Certification Institute ([www.hrci.org](http://www.hrci.org)), the Association for Talent Development (ATD, <http://www.td.org>), and WorldatWork ([www.worldatwork.org](http://www.worldatwork.org)). The HR profession is based on a variety of competencies. Figure 1-4 lists five competencies and brief descriptions. We will see throughout this book that effective HR professionals demonstrate these competencies. For example, we will look at the advocate competency, particularly, in Chapter 2 as it applies to ethics, corporate social responsibility, and sustainability. The HR expert competency includes all of the knowledge we have already studied and to come in the remainder of this book, for example, staffing, training, and employee relations.

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

*Employment of human resources managers is projected to grow 9 percent from 2014 to 2024, faster than the average for all occupations.*

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

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

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

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

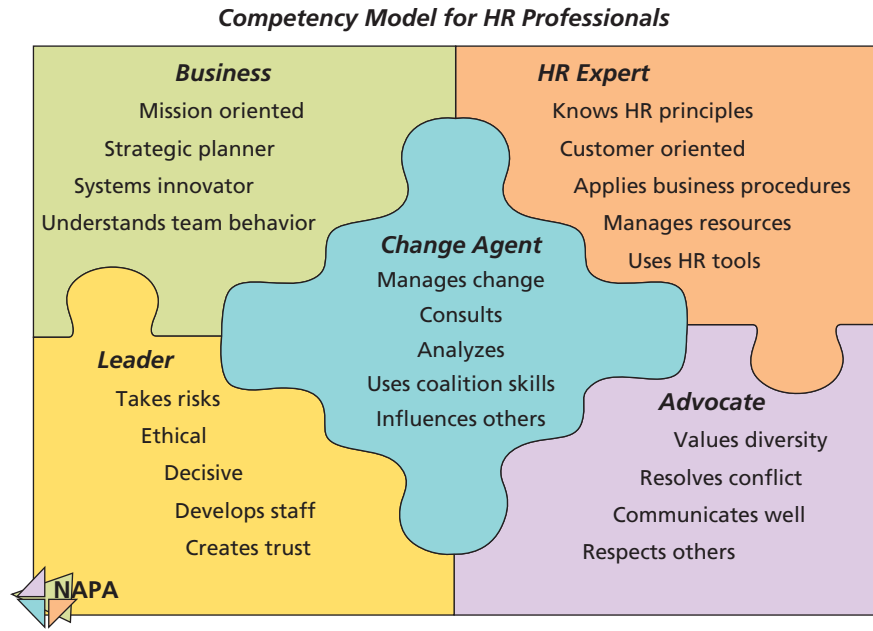
*Candidates with certification or a master's degree—particularly those with a concentration in human resources management—should have the best job prospects. Those with a solid background in human resources programs, policies, and employment law should also have better job opportunities.<sup>28</sup>*

The median annual compensation for HR managers was \$106,910, which is nearly three times the median annual earnings for all jobs. Human resource specialist median salaries ranged



**FIGURE 1-4****Model of Human Resources Competencies**

Source: U.S. Office of Personnel Management. Online: <http://archive.opm.gov/studies/transapp.pdf>. Accessed January 2, 2017.



between \$59,020 for training and development specialists to \$116,240 for compensation and benefits managers. Figure 1-5 lists the median annual salaries for various jobs in the HRM profession. The salary levels vary on a number of factors, including relevant work experience, educational credentials, and industry. For example, median annual salaries for HR managers were substantially higher in the management of companies and enterprises industry (\$118,320) than in the health care and social assistance industry (\$89,090).

**FIGURE 1-5****HR Professional Annual Salaries**

Source: U.S. Bureau of Labor Statistics, "Human Resources Managers," *Occupational Outlook Handbook, 2016–17 Edition*, Accessed January 2, 2017, at : [www.bls.gov/ooh/management/human-resources-managers.htm](http://www.bls.gov/ooh/management/human-resources-managers.htm).

Occupation	Job Duties	2016 Median Pay
Compensation and Benefits Managers	Compensation managers plan, direct, and coordinate how much an organization pays its employees and how employees are paid. Benefits managers plan, direct, and coordinate retirement plans, health insurance, and other benefits that an organization offers its employees.	\$116,240
Compensation, Benefits, and Job Analysis Specialists	Compensation, benefits, and job analysis specialists help conduct an organization's compensation and benefits programs. They also evaluate job positions to determine details such as classification and salary.	\$62,080
Human Resources Managers	Human resources managers plan, direct, and coordinate the administrative functions of an organization. They oversee the recruiting, interviewing, and hiring of new staff; consult with top executives on strategic planning; and serve as a link between an organization's management and its employees.	\$106,910
Human Resources Specialists and Labor Relations Specialists	Human resources specialists recruit, screen, interview, and place workers. They often handle other human resources work, such as those related to employee relations, payroll and benefits, and training. Labor relations specialists interpret and administer labor contracts regarding issues such as wages and salaries, employee welfare, healthcare, pensions, and union and management practices.	\$59,180



**FIGURE 1-5**  
(Continued)

Occupation	Job Duties	2016 Median Pay
Instructional Coordinators	Instructional coordinators oversee school curriculums and teaching standards. They develop instructional material, coordinate its implementation with teachers and principals, and assess its effectiveness.	\$62,460
Training and Development Specialists	Training and development specialists help plan, conduct, and administer programs that train employees and improve their skills and knowledge.	\$59,020

**FYI**

HR is now more likely to serve on a company's board of directors or hold an executive position:

- 2014 to 2015: 66 percent
- 2004: 41 percent<sup>29</sup>

**1.3** Explain how the HRM function serves as a strategic business partner and the elements of the dynamic HRM environment.

## Human Resources as a Strategic Business Partner in a Dynamic Environment

In the environment presently confronting HR, many HR professions are increasingly taking on the role of being a strategic partner with upper management.<sup>30</sup> As a strategic business partner, HR professionals are able to focus on matters that are truly important to the company as a whole.<sup>31</sup> For example, increasing sales and building customer loyalty to the brand are important goals of soft drink companies such as Coca Cola and PepsiCo. Increasing sales require hiring highly dedicated and motivated sales and distribution employees. As a strategic business partner, HR helps to identify and develop the employees necessary for excellent performance, builds recruitment systems, training programs for product distribution and interactions with customers, constructs performance management, and structures compensation programs that will greatly incentivize these employees to excel. The rapidly evolving world of HR will increasingly require HR professionals to thoroughly understand all aspects of what the companies they work for do. Essentially, they must know more than just HR work.<sup>32</sup> In moving from a transactional to a strategic model, HR professionals work toward solving strategic problems in the organization. No longer is an administrative and compliance role appropriate as their primary jobs. For instance, preparing the company's affirmative action plan or administering the payroll system are compliance and administrative tasks. HR executives today need to think like the CEO to become a strategic partner in achieving organizational plans and results.<sup>33</sup> In doing so, they understand the production side of the business and help to determine the strategic capabilities of the company's workforce, both today and in the future. HR professionals need to be agile in their thinking as they adapt to the ebbs and flows of business. Therefore, HR executives are ensuring that human resources support the firm's mission.

HR professionals have changed the way they work. Working as a strategic business partner requires a much deeper and broader understanding of business issues.<sup>34</sup> What strategically should HR be doing exactly? Possible strategic tasks for HR include making workforce strategies fundamental to company strategies and goals; increasing HR's role in strategic planning, mergers, and acquisitions; developing awareness or an understanding of the business; and, helping line managers achieve their goals as in the previous example of soft drink companies.

HR professionals can give the CEO and chief financial officer (CFO) a powerful understanding of the role that employees play in the organization and the way it combines with business processes to expand or shrink shareholder value. HR professionals are integrating the goals of HR with the goals of the organization and focusing on expanding its strategic and high-level corporate participation with an emphasis on adding value. In doing so, HR is demonstrating that it can produce a return on investment for its programs. It analyzes HR activities to determine whether



they are maintaining acceptable profit margins. For example, HR professionals strive to develop cost-effective training strategies that boost sales revenue that far exceeds the cost of training. The CEO needs help in matters that HR professionals are qualified to handle. HR professionals are the enablers; they are the ones who should know about change and develop strategies to make it work.

### Capital and Human Capital

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

#### human capital

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

Employees represent a specific type of capital called human capital. **Human capital**, as defined by economists, refers to sets of collective skills, knowledge, and ability that employees can apply to create value for their employers. Companies purchase the use of human capital by paying employees an hourly wage, salary, or bonuses and providing benefits such as paid vacation and health insurance. Also, companies help develop human capital to their advantage by offering training programs aimed at further boosting employee productivity.

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

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

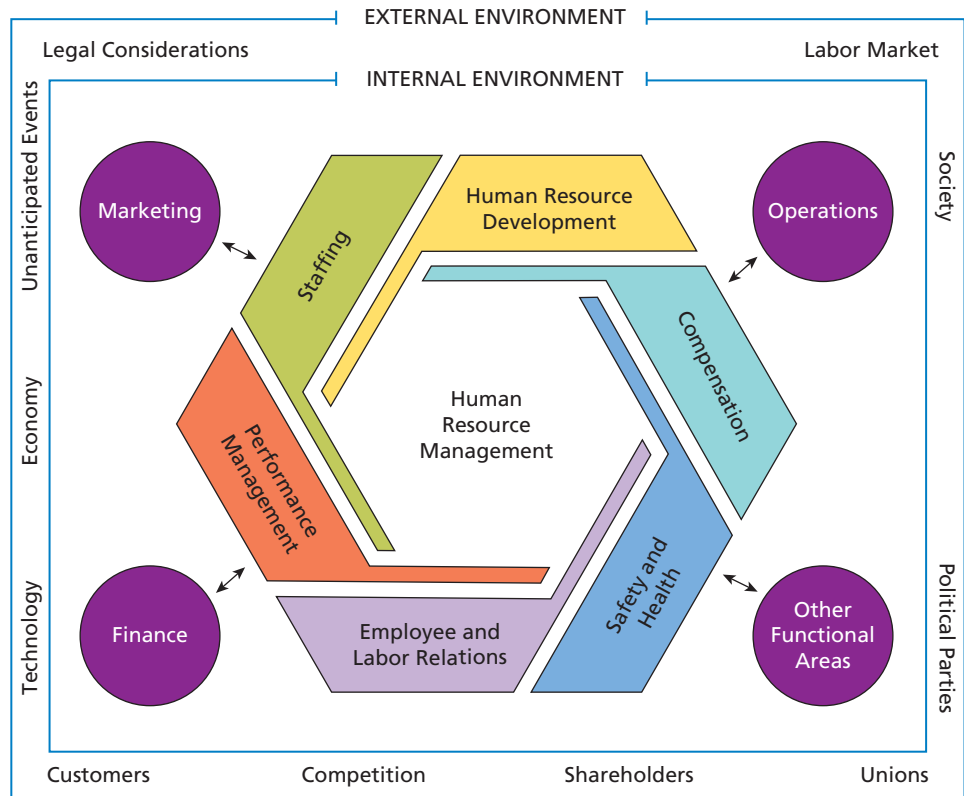
### Dynamic Human Resource Management Environment

Many interrelated factors affect HRM practice within and outside the organization. As illustrated in Figure 1-6, environmental factors include legal considerations, labor market, society, political parties, unions, shareholders, competition, customers, technology, the economy, and unanticipated events. Each factor, either separately or in combination with others, can create constraints or opportunities for HRM.

**LEGAL CONSIDERATIONS** A significant external force affecting HRM relates to federal, state, and local legislation and the many court decisions interpreting this legislation. For example, the Age Discrimination in Employment Act is an example of a federal law that protects older workers from illegal discrimination. In addition, presidential executive orders have had a major impact on HRM. Executive Order 13145 protects all qualified individuals in federal employment based on protected genetic information, or information about a request for or the receipt of genetic services. These legal considerations affect virtually the entire spectrum of human resource policies. Laws, court decisions, and executive orders affecting other HRM activities will be described in the appropriate chapters.

**LABOR MARKET** Potential employees located within the geographic area from which employees are normally recruited comprise the *labor market*. The capabilities of a firm's employees determine, to a large extent, how well the organization can perform its mission. Because new employees are hired from outside the firm, the labor market is considered an important environmental factor. The labor market is always changing, and these shifts inevitably cause changes in the workforce of an organization. For example, members of the aging baby boom cohort, the largest current



**FIGURE 1-6****Environment of Human Resource Management**

generation of employees, are retiring in large numbers; however, younger generations are smaller and less well-prepared to assume leadership roles because they have had much less time in the workforce to develop them.

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

*Ethics* is the discipline dealing with what is good and bad, or right and wrong, or with moral duty and obligation. *Corporate social responsibility (CSR)* is closely related to ethics. CSR is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves.<sup>35</sup> We take up these subjects in Chapter 2.

**POLITICAL PARTIES** Closely related to society, but not the same, are political parties. The Democratic and Republican parties are the two major political parties in the United States. These parties often have differing opinions on how HRM should be accomplished. For example, Democrats tend to favor more government regulation that protects the rights of virtually all employees to receive at least a minimum wage (the Fair Labor Standards Act) and unpaid family leave (the Family and Medical Leave Act). Republicans, on the other hand, tend to favor less government regulation, believing that businesses should have as much flexibility as possible to operate profitably.

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

**union**

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

**shareholders**

Owners of a corporation.

**SHAREHOLDERS** The owners of a corporation are called **shareholders**. Because shareholders, or stockholders, have invested money in the firm, they may at times challenge programs considered by management to be beneficial to the organization. Stockholders are wielding increasing influence, and management may be forced to justify the merits of a program in terms of how it will affect



future projects, costs, revenues, profits, and even benefits to society as a whole.<sup>36</sup> Considerable pressure has recently been exerted by shareholders and lawmakers to control the salaries of corporate executives as we shall see in the discussion of the Dodd-Frank Act in Chapters 2 and 9.<sup>37</sup>

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

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

#### FYI

- In a survey of HR professionals, 36 percent have disqualified a job candidate because of troubling information discovered on a public social media profile.<sup>38</sup>

**HR TECHNOLOGY** The rate of technological change is staggering. The development of technology has created new roles for HR professionals but also places additional pressures on them to keep abreast of the technology. As noted earlier, leveraging technology can help HR professionals to consider both internal and external data to aid in decision making. We will briefly review three applications: human resource information systems, cloud computing, and social media.

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

A rapidly developing trend is the increased mobility of tasks performed by HR professionals.<sup>39</sup> A major factor contributing to HR mobility is *cloud computing*, a means of providing software and data via the Internet. Cloud computing and the use of mobile devices are changing the way HR work is performed, and the change is moving at an amazing pace.<sup>40</sup> With the cloud there is no more expensive, capital-intensive hardware and infrastructure and no more expensive, time-consuming, staff-intensive upgrades.<sup>41</sup> Cloud computing permits businesses to buy and use what they need, when they need it. It allows large organizations to move away from managing their own computer centers and focus on the core competencies of the firm. Cloud users can access the application securely from anywhere in the world.<sup>42</sup> HR professionals can be virtually anywhere and access the cloud, all through any standard Web.

HR departments are leveraging the increasing popularity of *social media*, including LinkedIn, Facebook, YouTube, and Twitter. In a 2015 Society for Human Resource Management survey, HR professionals revealed that social networking is an important tool for recruiting passive and active applicants. Most respondents, 84 percent, say that their organizations currently use social media and 9 percent plan to use it.<sup>43</sup> There are two additional applications of social media. First, companies may use social media to promote knowledge sharing as well as training and development. Second, social media is often used to reinforce identification with the organization and promoting the brand.

#### **human resource information system (HRIS)**

Any organized approach for obtaining relevant and timely information on which to base HR decisions.



**ECONOMY** The economy of the nation and world is a major environmental factor affecting HRM. As a generalization, when the economy is booming, it is more difficult to recruit qualified workers. On the other hand, when a downturn is experienced, more applicants are typically available. To complicate this situation even further, one segment of the country may be experiencing an economic downturn, another a slow recovery, and another a boom. A major challenge facing HR is working within this dynamic, ever-changing economic environment because it impacts every aspect of HRM.<sup>44</sup>

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

**1.4** Discuss the role of HRM in building corporate culture and employer branding.

## The Role of HRM in Building Corporate Culture and Employer Branding

### FYI

- A survey of more than 7,000 CEOs and HR leaders revealed that 82 percent consider culture a source of competitive advantage.<sup>45</sup>

### corporate culture

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

### employer branding

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

As an internal environment factor affecting HRM, corporate culture refers to the firm's social and psychological climate. **Corporate culture** is defined as the system of shared values, beliefs, and habits within an organization that interacts with the formal structure to produce behavioral norms. Employer branding is an extension of product or business branding. **Employer branding** is the firm's corporate image or culture created to attract and retain the type of employees the firm is seeking. It is what the company stands for in the public eye.<sup>46</sup> Establishing a positive corporate culture and brand is another way HR professionals contribute to a company's success. We discuss corporate culture and employer branding next.

### Corporate Culture

Culture gives people a sense of how to behave and what they ought to be doing. Each individual gradually forms such perceptions over a period of time as the person performs assigned activities under the general guidance of a superior and a set of organizational policies. The culture existing within a firm influences the employees' degree of satisfaction with the job as well as the level and quality of their performance. The assessment of how desirable the organization's culture is may differ for each employee. One person may perceive the environment as bad, and another may see the same environment as positive. An employee may actually leave an organization in the hope of finding a more compatible culture. Max Caldwell, a managing director at Towers Watson, said, "Maybe the best definition of company culture is what everyone does when no one is looking."<sup>47</sup> Topics related to corporate culture are presented throughout this text. Some corporate culture topics include the following:

- *Employer branding* is the firm's corporate image or culture created to attract and retain the type of employees the firm is seeking. It is what the company stands for in the public eye.
- *Diversity management* is about pursuing an inclusive corporate culture in which newcomers feel welcome and everyone sees the value of his or her job.
- *Organizational fit* refers to management's perception of the degree to which the prospective employee will fit in with the firm's culture or value system. A good Web site should provide a feeling of the kind of corporate culture that exists within the company.
- *New hire orientation* reflects the firm's corporate culture by showing in effect, "How we do things around here."



**country's culture**

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

- *Talent management* is a strategic endeavor to optimize the use of employees and enables an organization to drive short- and long-term results by building culture, engagement, capability, and capacity through integrated talent acquisition, development, and deployment processes that are aligned to business goals.
- *Organization development* is a major means of achieving change in the corporate culture.
- Anything that the company provides an employee is included in compensation, from pay and benefits to the organization's culture and environment.
- A corporate culture that does not consider the needs of employees as individuals makes the firm ripe for unionization.
- Retaining the best employees often rests with the corporate culture that exists within the organization.
- Accident rates decline when the corporate culture encourages workers consciously or subconsciously to think about safety.
- A **country's culture** is the set of values, symbols, beliefs, languages, and norms that guide human behavior within the country. Cultural differences are often the biggest barrier to doing business in the world market. Many of the global topics discussed throughout your text are influenced by the issue of corporate culture or country culture.

**Employer Branding**

A colleague shared a memory about his mother, which bears directly on this subject. His mother would always buy a certain brand of canned fruit even though it was more expensive. The brand name itself caused her to buy a product that although higher priced was probably the same or similar quality as less expensive brands. The company had created a positive image that made her want to use the product. As with the canned fruit, companies want a brand that will entice individuals to join and remain with the firm.<sup>48</sup> HR professionals play an essential role in creating and promoting a company's brand. Effective branding communicates why the company is a cut above other workplaces by providing persuasive reasons for job seekers to choose the company over others.<sup>49</sup> As such, the focus on employer branding has become increasingly important for organizations. Jeffrey St. Amour, national practice leader for PricewaterhouseCoopers' HR Services strategic communication group said, "They're both trying to create the same thing, which is product loyalty or a feeling that this is a high-quality company."<sup>50</sup> Employer branding has become a major recruitment and retention strategy and everyone in the company works to promote the image of the firm.<sup>51</sup>

Brands imply what employees will get from working there and why working for the company is a career and not just a job. For example, consulting firm PwC emphasizes its commitment to career development as part of its recruitment strategy: "Every career path is different. That's why we help you design your own."<sup>52</sup> As more Gen-Yers enter the workforce, firms may need to alter their brand to attract and retain these young people who view having fun in an engaging work environment as important as a good salary. A well-paying job that is boring will not keep them for long. Cosmetic company L'Oréal understands this expectation. The company takes time to understand what employees value in their work experiences, and they incorporate much of these values in an employee value proposition. L'Oréal promises prospective employees a "thrilling experience" and an "environment that will inspire you."<sup>53</sup>

An employer brand embodies the values and standards that guide people's behavior. Through employer branding, people get to know what the company stands for, the people it hires, the fit between jobs and people, and the results it recognizes and rewards. Every company has a brand, which could be the company of choice or one of last resort. A robust employment brand attracts people and makes them want to stay. In fact, most workers want to belong to an organization that embraces the ideas and principles they share.<sup>54</sup> Employer branding has become a driving force to engage and retain the firm's most valuable employees.<sup>55</sup> As the economy prospers, firms vigorously seek talent, and, employer branding is attracting more attention.

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

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



- *Forbes* magazine list of Best Companies for Work-Life Balance
- *Fortune* magazine list of 100 Fastest-Growing Companies in the United States
- *Training* magazine list of 125 Best Companies for Employee Development
- *Working Mother* list of 100 Best Companies

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

### ★ Watch It 1

If your instructor has assigned this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to watch a video titled Patagonia: Human Resource Management and to respond to questions.

**1.5** Summarize human resource management issues for small businesses.



#### HR Web Wisdom

*U.S. Small Business Administration*  
[www.sba.gov/](http://www.sba.gov/)

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

## Human Resource Management in Small Businesses

The Small Business Administration (SBA) defines a small business as one that is independently owned and operated, is organized for profit, and is not dominant in its field. More than 99 percent of the businesses in the United States are classified as small businesses and they are responsible for at least half of private sector employment.<sup>56</sup> The discussion throughout this text has historically focused primarily on how HR is practiced with major corporations. However, today, many college graduates obtain jobs in small businesses. In fact, growth of small business is often a primary driver for the economy. Therefore, the practice of HR as it is conducted in small businesses is discussed at various times in your text.

Typically, the same HR functions previously identified must be accomplished by small business, but the manner in which they are accomplished may be altered.<sup>57</sup> Small businesses often do not have a formal HR unit or an HRM specialist. Rather, line managers often handle the HR functions. The focus of their activities is generally on hiring and retaining capable employees. Some aspects of HR functions may actually be more significant in smaller firms than in larger ones. For example, a staffing mistake in hiring an incompetent employee who alienates customers may cause the business to fail. In a larger firm, such an error might be much less harmful. As the business grows, the need for a more sophisticated HR function usually is needed.<sup>58</sup> This move typically occurs at the 25-employee level when concerns about compliance with labor laws often begin.<sup>59</sup> Also, new small businesses are faced with a host of federal and state government regulatory requirements, tax laws, and compensation demands.

### ★ Watch It 2

If your instructor has assigned this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to watch a video titled Blackbird Guitars: Managing Human Resources in Entrepreneurial Firms and to respond to questions.

**1.6** Identify ways that country culture influences global business.

## Country Culture and Global Business

A country’s culture is the set of values, symbols, beliefs, languages, and norms that guide human behavior within the country. It is learned behavior that develops as individuals grow from childhood to adulthood. As one goes from one side of this country to the other, a wide range of cultural differences will be experienced. The same can be said in traveling from north to south. Then, think about the cultural differences that exist in going from this country to another. Americans’ use of colloquialisms often creates cultural barriers. Perhaps surprisingly, misunderstanding can occur between two countries that share the same language such as is the case for the United States and the United Kingdom. For instance, Martin Brooks, Production and Export Manager of pet nutrition company Hilton Herbs considers the United States as one of the most challenging. “As an example,



we had a product for older horses and dogs called Veteran,” he says.<sup>60</sup> Sales were flat until the company replaced the word “veteran” with “senior,” following the way people in the United States refer to older pets. Veteran is a commonplace descriptor in the UK. If a significant cultural divide can exist between two countries that share a common language, how much wider must the contrast be between countries that speak different languages? No doubt quite significant.

Even though the language may be the same, such as is the case with the United States and the United Kingdom, major cultural differences do exist. Dean Foster, a New York-based consultant on intercultural business issues said, “The United Kingdom really is a foreign country—and HR departments that ignore that fact are at their peril. It’s that expectation of similarity that throws everyone off.”<sup>61</sup> A businessperson who travels from Switzerland to Italy goes from a country where meetings tend to be highly structured and expected to start on time to one where meetings can be more informal and punctuality is less important.<sup>62</sup> Many believe that China has the most different culture for Americans to deal with.<sup>63</sup>

Throughout this text, cultural differences between countries will be identified as a major factor influencing global business. This borderless world adds dramatically to the difficulty of managing employees. Cultural differences reveal themselves in everything from the workplace environments to differences in the concept of time, space, and social interaction.<sup>64</sup> Companies operating in the global environment recognize that national cultures differ and that such differences cannot be ignored.<sup>65</sup>

Getting work done is less likely when individuals from one culture are tone deaf to cultural norms elsewhere. For example, L’Oréal’s decision making culture encourages open debate, which management maintain generates creativity.<sup>66</sup> However, that style probably does not fit well with cultural differences in other countries. The company’s confrontational approach is inconsistent with the cultural values in Southeast Asia, which is a region where they conduct business. An Indonesian employee said, “To an Indonesian person, confrontation in a group setting is extremely negative, because it makes the other person lose face. So it’s something that we try strongly to avoid in any open manner.”<sup>67</sup>

Getting work done becomes especially more challenging when companies of different country origins merge. For instance, Chrysler Corporation employees have gone through major cultural changes in the last several years.<sup>68</sup> The misfortune cost Daimler nearly \$36 billion over a decade, which amounted to a loss of almost \$10 million per day for 10 years.<sup>69</sup> First, they were merged into a German firm, Daimler-Benz, then they were sold back to a U.S. company, and they are now merged into Fiat, an Italian firm. Each ownership change brought new cultural rules with which employees had to deal. Certainly, the Germans and Italians have two distinct cultures.<sup>70</sup> InBev, based in Leuven, Belgium, purchased Anheuser-Busch several years ago, making it the leading global brewer and one of the world’s top five consumer products companies (AB InBev). Merging two large corporate cultures after an acquisition is often not easy. In fact, InBev’s purchase of Anheuser-Busch was particularly difficult, even two-and-a-half years after the \$52 billion deal closed, the story continues.<sup>71</sup> AB InBev reached an agreement, valued at \$100 billion, to acquire beer brewer SABMiller. No doubt, the companies will face further challenges as they merge their workforces and operations. For instance, AB InBev’s CEO Carlos Brito once said that he does not “like people at the company to have fun.”<sup>72</sup> Brito’s sentiment does not fit with SABMiller’s work culture, which reportedly is more casual.

The cultural norms of Japan promote loyalty and teamwork. The work culture there is one in which honesty and hard work are prized assets. In Japan, most managers tend to remain with the same company for life. In the United States, senior executives often change companies, but the Japanese believe strongly that leaving a job is to be avoided out of respect for the business team.<sup>73</sup> In Japan, if a boss gives detailed instructions to a subordinate, it is like saying the person is incompetent.<sup>74</sup> Japan is not the only Asian country that promotes worker respect for their bosses and a team work ethic. For example, norms in Korean culture pressure workers to “pull late nights” because they feel the need to please their superiors. One observer described these workers: “They just sit in their chairs and they just watch their team leaders, and they’re thinking, ‘What time is he going to leave the office?’”<sup>75</sup> Then, there is an expectation that the boss and employees will go out for drinks, and it is important that employees participate. In Korea, drinking together helps build workplace camaraderie and trust.<sup>76</sup>

Cultural misunderstandings are common, but they can be hazards to executives managing global workforces. Samuel Berner, head of HR of the private banking Asia Pacific division in



Singapore for Credit Suisse AG said, “Things that are perfectly natural in one culture offend in another.”<sup>77</sup> Eric Rozenberg, CMM, CMP, president, Ince&Tive, of Brussels, Belgium, stated, “Even though people are aware that there are cultural differences between various nationalities, they’re still uncomfortable with it and are afraid of making mistakes.”<sup>78</sup>

### ★ Try It!

If your instructor has assigned this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete the Human Resource Management simulation and test your application of these concepts when faced with real world decisions.

**1.7** Explore essential skills for developing your career in HR or any other career path.

## Developing Skills for Your Career

If you’re not an HRM major, you may be thinking that this section isn’t relevant to you. Let me assure you, it is. Whether or not you plan on a career in HRM, the lessons you learn in this course will help you in business and in your life. Also, it is only through the aggregate of your educational experience that you will have the opportunity to develop many of the skills that employers have identified as critical to success in the workplace. In this course, and, specifically in this text, you’ll have the opportunity to develop and practice seven important skills in the following ways: communication, critical thinking, collaboration, knowledge application and analysis, business ethics and social responsibility, information technology application and computing skills, and data literacy.

### Communication

Communication is defined as effective use of oral, written, and nonverbal skills for multiple purposes (e.g., to inform, instruct, motivate, persuade, and share ideas); effective listening; using technology to communicate; and being able to evaluate the effectiveness of communication efforts—all within diverse contexts. The *Working Together* feature offers opportunities to collaborate through sharing ideas, listening to others’ ideas, and coming up with a cohesive team response to the assignment. If assigned by your instructor, you may make brief oral presentations, creating an additional opportunity for working together. All the while, you will gain insight into your and your group members’ strengths and weaknesses pertaining to communication (and collaboration) skills. Never pass up an opportunity to hone these skills.

### Critical Thinking

Critical thinking involves purposeful and goal-directed thinking used to define and solve problems, make decisions or form judgments related to a situation or set of circumstances. The *Chapter Review* questions and a new feature in this edition, *HRM by the Numbers*, provide you with an excellent opportunity to think through concepts and their applications. *HRM by the Numbers* will also give you the chance to analyze quantitative data to facilitate problem solving. Analysis of the *Incidents*, which depict realistic scenarios that you will likely encounter in the workplace, requires your interpretation and an actionable response. Similarly, you will have the chance to think through and discuss your responses to common *Ethics Dilemmas*. More about the ethics dilemmas shortly. Critically thinking about situations is just one part of the story. The *Personal Inventory Assessment* feature, included in most chapters, gives you the opportunity for self-assessment and personal reflection. Understanding yourself and finding your voice will help you approach situations within and outside the employment setting with greater confidence.

### Collaboration

Collaborative learning takes place in a situation in which individuals actively work together on a task, constructing meaning and knowledge as a group through dialogue and negotiation resulting in a final product reflective of their joint, interdependent actions. I’ve already made the case for *Working Together*. Your professor may similarly ask you to analyze *Incidents* in small groups. Another feature new in this edition, *HRM is Everyone’s Business*, explains how HR professionals and managers throughout the organization work together to address important workplace issues. This feature highlights the connections between managers and HR professionals, and the reality that work is rarely performed in isolation.



## Knowledge Application and Analysis

Knowledge application and analysis is defined as the ability to learn a concept and then appropriately apply that knowledge in another setting to achieve a higher level of understanding. All the activities discussed in this section provide you with multiple opportunities to think through solutions to specific problems and generalize these processes to other situations you will likely encounter in the future. Two additional features further help you develop this skill. *Try It* directs you to mini simulations and, in *Watch It*, you will review video clips that require a response to important workplace challenges.

## Business Ethics and Social Responsibility

Business ethics are sets of guiding principles that influence the way individuals and organizations behave within the society that they operate. Two additional issues require everyone's attention. The first, CSR is the implied, enforced, or felt obligation of managers, acting in their official capacity, to serve or protect the interests of groups other than themselves. Second, corporate sustainability focuses on the possible future impact of an organization on society, including social welfare, the economy, and the environment. Both issues are like ethics; however, ethics also focuses on individual decision making and behavior as well as the impact of ethical choices on employee welfare. The review questions, particularly in Chapter 2 on ethics, social responsibility, and sustainability, and the Ethics Dilemmas throughout your textbook, will keep these important matters in the forefront as you move ahead in your career.

## Information Technology Application and Computing Skills

Information technology application and computing skills are defined as the ability to select and use appropriate technology to accomplish a given task. The individual is also able to apply computing skills to solve problems. *HRM by the Numbers* gives you the opportunity to develop these skills.

## Data Literacy

Data literacy is the ability to access, assess, interpret, manipulate, summarize, and communicate data. Throughout this book, the newly created feature titled *FYI* provides tidbits of information from survey research and extensive databases (e.g., employment statistics) that illuminate trends, opinions, and the use of specific HR practices. These data should enable you to translate quantitative information for placement into the employment context. Further, you can expand this skill by thinking through when and how to create new policies or modify existing ones.

In summary, you will find opportunities throughout this book to develop several critical skills that provide a foundation of success on any career path that you follow. As you learn about HRM, consider how you can generalize these skills to other workplace situations. Best of luck whether you are preparing for the start of your career or are in the process of changing career paths!

## SCOPE OF THIS BOOK

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

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

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



**FIGURE 1-7****Organization of This Book**

<b>HUMAN RESOURCE MANAGEMENT, 15TH EDITION</b>	
<b>PART ONE: SETTING THE STAGE</b>	
Chapter 1: Human Resource Management: An Overview	
Chapter 2: Business Ethics, Corporate Social Responsibility, and Sustainability	
Chapter 3: Equal Employment Opportunity, Affirmative Action, and Workforce Diversity	
<b>PART TWO: STAFFING</b>	
Chapter 4: Strategic Planning, Human Resource Planning, and Job Analysis	
Chapter 5: Recruitment	
Chapter 6: Selection	
<b>PART THREE: PERFORMANCE MANAGEMENT AND TRAINING</b>	
Chapter 7: Performance Management and Appraisal	
Chapter 8: Training and Development	
<b>PART FOUR: COMPENSATION</b>	
Chapter 9: Direct Financial Compensation (Monetary Compensation)	
Chapter 10: Indirect Financial Compensation (Employee Benefits)	
<b>PART FIVE: LABOR RELATIONS, EMPLOYEE RELATIONS, SAFETY AND HEALTH</b>	
Chapter 11: Labor Unions and Collective Bargaining	
Chapter 12: Internal Employee Relations	
Chapter 13: Employee Safety, Health, and Wellness	
<b>PART SIX: OPERATING IN A GLOBAL ENVIRONMENT</b>	
Chapter 14: Global Human Resource Management	

## PREPARING FOR EXAMS/QUIZZES

### Chapter Summary by Learning Objectives

- 1. Define human resource management and the importance of studying it.** *Human resource management (HRM)* is the utilization of employees to achieve organizational objectives. It is the business function of managing employees. HRM professionals embrace the idea that employees are essential to the success of organizations, and as such, they view employees as assets or human capital. Studying HRM is a worthwhile endeavor, whether you plan to become an HR professional. Possessing knowledge about HRM principles and practices will help you understand your rights and responsibilities as an employee. Also, if you eventually lead a department or supervise employees, you will seek guidance on issues such as appraising job performance. There are six functional areas associated with effective HRM: staffing, HR development, performance management, compensation, safety and health, and employee and labor relations.
- 2. Describe who performs HRM.** *Human resource managers* are individuals who normally act in an advisory or staff capacity, working with other managers to help them deal with human resource matters. *HR outsourcing* is the process of hiring an external provider to do the work that was previously done internally. *HR shared service centers* take routine, transaction-based activities that are dispersed throughout the organization and consolidate them in one

place. A *professional employer organization* is a company that leases employees to other businesses. *Line managers* in certain firms are being used more frequently than before to deliver HR services.

Various designations are used within the HR profession; among these are HR executives, generalists, and specialists. A *profession* is a vocation characterized by the existence of a common body of knowledge and a procedure for certifying members.

*Executives* are top-level managers who report directly to the corporation's CEO or the head of a major division. *Generalists* (who are often executives) are persons who perform tasks in a wide variety of HR-related areas. A *specialist* may be an HR executive, manager, or non manager who typically is concerned with only one of the functional areas of HRM.

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

- 3. Explain how the HRM function serves as a strategic business partner and the elements of the dynamic HRM environment.** Working as a strategic business partner requires a much deeper and broader understanding of



business issues. Possible strategic tasks for HR include making workforce strategies fundamental to company strategies and goals; increasing HR's role in strategic planning, mergers, and acquisitions; developing awareness or an understanding of the business; and helping line managers achieve their goals. Also, as a strategic business partner, HR helps to identify and develop the human capital necessary for excellent performance, builds recruitment systems, training programs for product distribution and interactions with customers, constructs performance management, and structures compensation programs that will greatly incentivize these employees to excel. In the end, if HR is to be a strategic partner, HR executives must work with top management in achieving concrete plans and results. Factors include legal considerations, the labor market, society, political parties, unions, shareholders, competition, customers, technology, economy, and unanticipated events.

4. **Discuss the role of HRM in building corporate culture and employer branding.** *Corporate culture* is the system of shared values, beliefs, and habits within an organization that interacts with the formal structure to produce behavioral norms. Culture gives people a sense of how to behave and what they ought to be doing. It often affects job performance throughout the organization and consequently


affects profitability. *Employer branding* is the firm's corporate image or culture created to attract and retain the type of employees the firm is seeking. It is what the company stands for in the public eye.

5. **Summarize HRM issues for small businesses.** Often the same HR functions previously identified must be accomplished by small business, but the manner in which they are accomplished may be altered. Small businesses often do not have a formal HR unit or HRM specialists. Rather, other line managers in the company handle HR functions.
6. **Identify ways that country culture influences global business.** Cultural differences reveal themselves in everything from the workplace environments to differences in the concepts of time, space, and social interaction. Cultural differences are often the biggest barrier to doing business in the world market.
7. **Explore essential skills for developing your career in HR or any other career path.** Whether you are embarking on a career in HRM on another path, there are seven essential skills needed for success: communication, critical thinking, collaboration, knowledge application and analysis, business ethics and social responsibility, information technology application and computing skills, and data literacy.

## Key Terms

human resource management (HRM)	3	human resource management	profession	10
staffing	4	professional	capital	13
performance management	5	line managers	human capital	13
human resource development (HRD)	5	HR outsourcing (HRO)	union	15
direct financial compensation	5	shared service center (SSC)	shareholders	15
indirect financial compensation (benefits)	5	professional employer organization (PEO)	human resource information system (HRIS)	15
nonfinancial compensation	5	executive	corporate culture	16
safety	6	generalist	country's culture	17
health	6	specialist	employer branding	16

## MyLab Management

If your instructor is using MyLab Management, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete the problems marked with this icon .

## Questions for Review

- ★ I-1. Define *human resource management*. What HRM functions must be performed regardless of the organization's size?
- I-2. Define *profession*. Do you believe that the field of HRM is a profession? Explain your answer.
- ★ I-3. What are the environmental factors that affect HRM? Describe each one.
- ★ I-4. How might HR technology affect the various HR functions?
- I-5. Define *corporate culture*. Explain why corporate culture is a major internal environment factor.
- I-6. This chapter describes HR's changing role in business. Describe each component that is involved in HRM.
- I-7. How does HRM become more complex as a company's workforce reaches 25 employees?
- ★ I-8. What are the various designations associated with the HRM profession?
- I-9. What has been the evolution of HRM?
- I-10. Explain how the seven employability skills matter regardless of your career aspirations.



## PREPARING FOR MY CAREER

### Personal Inventory Assessment

★ *Additional Personal Inventory Assessments can be found on MyLab Management.*

#### What's My Comfort with Change?

Change is a big part of the external environment and an organization's culture. This PIA will assess how comfortable you are with change.



### ETHICS DILEMMA

#### Broken Promises

You've recently joined the HR department and noticed that employee turnover has been higher than usual. Most of the departing employees are star performers who worked in the marketing department. Naturally, losing too many high performers is a detriment to the company's efforts to meet its strategic objectives. You've decided to investigate the possible reasons for higher turnover and learned some unsettling facts. One of the recruiters entices top job candidates to join the company by conveying its commitment to

career development when, in fact, the company does not provide any career development opportunities. You also learned that most of these job candidates possessed other job offers that they turned down on the promise of career development opportunities in your company.

**1-11.** What would you do?

**1-12.** What factors in this ethics dilemma might influence a person to make a less-than-ethical decision?

## HRM Is Everyone's Business

Many companies have moved from the personnel management model to the HR business partner model; however, some still look to HR to guarantee that policies are being enforced and the company mitigates legal risk. Depending on the company where you are employed—and whether you are a manager or HR professional—you may find yourself in a position to understand the competitive strategy of the business and align HR practices with the strategic thrust of the business.

### Action checklist for managers and HR—aligning HR practice with competitive strategy

#### HR takes the lead

- ✓ Work with managers to fully understand which roles and types of employees will best support the execution of company strategy.
- ✓ Collaborate with managers to run an analysis of market factors (e.g., competitors, industry standards, local labor market) to get indicators of norms and standards in order to keep your company's HR practices competitive.
- ✓ Create, together with managers, job structures wherein roles are placed into the organizational structure. Each job structure will have tailored pay ranges, performance standards, and training guidelines to help employees advance in the organization.

#### Managers take the lead

- ✓ Educate employees, along with other managers and supervisors, about the company's strategy and how everyone contributes to meeting strategic objectives.
- ✓ Educate HR on certain aspects of roles (e.g., autonomy, skill variety, task significance, etc.) that, when enhanced, could improve motivation; thus, leading to benefits for employees and employers.
- ✓ Work together with HR to implement a plan that promotes successful recruitment, training, and development, ensuring that the company is retaining the talent that is critical to the implementation and delivery of the strategic objectives.



## HRM by the Numbers

### Making a Sufficient Number of Job Offers to Maintain Staffing Levels

★ *An additional HRM by the Numbers exercise can be found on MyLab Management.*

HR professionals and other managers work together to calculate the number of employees needed to meet objectives. For instance, they determined that 100 full-time production workers are needed to assemble 2,500 children's bicycles each day. Each year, a total of 20 percent of these workers are either promoted or they leave the company due to poor performance or better job opportunities elsewhere. Management can use your help in understanding the impact of understaffing on meeting production goals as well as calculating the number of job offers needed to maintain the necessary staffing level.

#### Questions

- 1-13. If the company does not replace the workers who leave, how many bikes must each employee produce on a given day (assume that on any given day, there are 20 percent fewer workers than needed to meet the production goal)?
- 1-14. Assume that each job candidate accepts the company's job offer. Calculate the number of job offers necessary to maintain the required staffing level of 100 employees on an annual basis.
- 1-15. Instead, assume that only 50 percent of the job candidates accept a job offer. Calculate the number of job offers necessary to maintain the required staffing level of 100 employees on an annual basis.

## Working Together: Team Exercise

In small groups of three or four, come up with specific answers to the following questions. Talk through your perspectives as you prepare your answers. Be prepared to share your ideas with the class.

As a group, identify a company with which members are familiar. On the company's website, review its mission, products or services, and career opportunities.

- 1-16. How would you describe the company's employment brand to your friends?
- 1-17. What information might lead you to choose working for the company?

## INCIDENT 1 HR After a Disaster

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

Months after Hurricane Rita struck, large and small businesses were still frantically trying to find workers so they could start up again. It appeared that every business in the town had a "Help Wanted" sign out front. Individuals who wanted a job could get one and could

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

#### Questions

- 1-18. Which environment factor(s) did Hurricane Rita affect? Discuss.
- 1-19. How were the HR functions affected by Hurricane Rita?
- 1-20. Do you believe the HR situations described regarding Hurricane Rita would be typical in a disaster? Explain.



## INCIDENT 2 Parental Leave at Yahoo

Employer branding is an ongoing effort that requires a company to “put its money where its mouth is.” In other words, building and maintaining a positive employer brand goes beyond written policy and good media coverage. Successful branding starts with executive leadership setting an example for employees. Take the Internet company Yahoo. Yahoo has a policy that provides generous paid parental leave and permits employees to work from home. The company had a golden opportunity to demonstrate commitment to its family leave policy after then CEO Marissa Mayer gave birth to her baby in 2012. Rather than taking several weeks to work from home, she built a nursery next to her office where she could be close to the baby. Then, in 2013, a leaked internal memo revealed that Yahoo would terminate its telecommuting policy that allowed employees to work from home. In the memo, she stated: “Speed and quality are often

sacrificed when we work from home.”<sup>79</sup> In addition, “We need to be one Yahoo, and that starts with physically being together.” Media responses were mixed. On one hand, Mayer showed that she could continue to lead Yahoo as a new mother. On the other hand, media reports criticized her “for failing to set a realistic expectation for America’s working moms.”<sup>80</sup> Since then, Yahoo expanded its parental leave policy for the birth or adoption of a child, foster child placement, or surrogacy.

**I-21.** How do these changes at Yahoo influence the company’s employment branding?

**I-22.** As an HR professional, what would you have done after Mayer chose not to take more time allowed under Yahoo’s parental leave policy?

### Writing Assignments

**I-23.** What is employer branding? How might employer branding affect a company’s ability to recruit?

**I-24.** How might a country’s culture be a barrier to global business?

## Endnotes

- Jean M. Phillips and Stanley M. Gully, *Strategic Staffing*, 3rd ed. (Hoboken, NJ: Prentice Hall, 2015).
- U.S. Bureau of Labor Statistics, *Employee Tenure in 2016* (September 22, 2016). USDL: 16-1867. Accessed January 2, 2017, at [www.bls.gov/](http://www.bls.gov/).
- Heather Long, “The New Normal: 4 Job Changes by the Time You’re 32,” *CNN Money* online (April 12, 2016). Accessed on January 3, 2017, at [www.money.cnn.com](http://www.money.cnn.com).
- Joseph J. Martocchio, *Strategic Compensation*, 9th ed. (Hoboken, NJ: Pearson Education, 2017).
- U.S. Bureau of Labor Statistics, *Employer Costs for Employee Compensation—September 2016* (December 8, 2016). USDL: 16-2255. Accessed January 2, 2017, at [www.bls.gov/](http://www.bls.gov/).
- Travis Hessman, “Safety Is Productivity,” *EHS Today* (December 12, 2014). Accessed on January 3, 2017, at <http://ehstoday.com/safety-leadership-conference-2015/safety-productivity>.
- “The New Organization: Different by Design,” *Global Human Capital Trends 2016* (2016). Accessed December 20, 2016, <https://www2.deloitte.com/us/en/pages/human-capital/articles/introduction-human-capital-trends.html>.
- Ibid.
- U.S. Federal Trade Commission, “Big Data: A Tool for Inclusion or Exclusion,” (January 2016): 29.
- Lauren Weber, “One Reason Wal-Mart Is Raising Pay: Turnover,” *The Wall Street Journal* online (February 19, 2015). Accessed January 2, 2017, at <http://www.wsj.com>.
- Eric Krell, “Change Within,” *HR Magazine* 56 (August 2011): 42–50.
- “Despite Recession, World-Class HR Organizations Reduce Costs by 13 Percent,” *Controller’s Report* 2011 (August 2011): 1–19.
- Jon Severs, “Supervisors on the Front Line,” *PrintWeek* (January 21, 2011): 20–21.
- Mark Feffer, “More HR Professionals Are Striking Out on Their Own to Work as Independent Contractors,” *HR Magazine*, (July/August 2016): 55–61.
- “Focus on Cost Effective People Management Drives Adoption of Human Resource Outsourcing, According to a New Report by Global Industry Analysts, Inc.,” Global Industry Analysts, Inc. (Web site). Accessed January 2, 2017, at [www.strategyr.com/pressMCP-1516.asp](http://www.strategyr.com/pressMCP-1516.asp).
- Accenture Inc., “Achieving High Performance in BPO: Research Report,” (2012). Accessed December 30, 2013, at [www.accenture.com](http://www.accenture.com).
- Mark Feffer, “Meet the People Behind Your HR Outsourcing,” *HR Magazine* (July/August 2016) online. Accessed January 2, 2017, at [www.shrm.org/hr-today/news/hr-magazine/0716/Pages/meet-the-people-behind-your-hr-outsourcing.aspx](http://www.shrm.org/hr-today/news/hr-magazine/0716/Pages/meet-the-people-behind-your-hr-outsourcing.aspx).
- Erika Andersen, “4 Ways to Become a Strategic Business Partner (And Why You Should Want to):” *Forbes* (September 6, 2013). Accessed October 10, 2013, at [www.forbes.com](http://www.forbes.com).
- Eric Krell, “Amid Consolidation, Clients Grow Selective,” *HR Magazine* 58 (July 2013): 49–51.
- Joel Berg, “Employers Outsource HR Work in Recession,” *Central Penn Business Journal* 25 (November 13, 2009): 17–21.
- CFO Research, “A Rising Interest in Outsourcing Benefits Administration,” (2016 Research Report). Accessed January 2, 2017, at [http://research.prudential.com/documents/rp/CFO\\_Prudential\\_ADA\\_Report5\\_4\\_19.pdf](http://research.prudential.com/documents/rp/CFO_Prudential_ADA_Report5_4_19.pdf).
- “Leading in the New,” Accenture Annual Report 2016,” Accessed January 2, 2017, at [www.accenture.com/t20161030T213116\\_w\\_/us-en/\\_acnmedia/PDF-35/Accenture-2016-Shareholder-Letter10-K006.pdf#zoom=50](http://www.accenture.com/t20161030T213116_w_/us-en/_acnmedia/PDF-35/Accenture-2016-Shareholder-Letter10-K006.pdf#zoom=50).
- “Levi Strauss: Recruitment Process Outsourcing,” (Case Study). Accessed January 2, 2017, at <https://acn-uat.ciotest.accenture.com/ng-en/success-levi-strauss-recruitment-process-outsourcing>.
- Bill Leonard, “Salvage, Don’t Scrap,” *HR Magazine* 56 (June 2011): 74–77.
- Laurie Bassi and Dan McMurrer, “The State of the PEO Industry 2016: Markets, Value, and Trends,” National Association of Professional Employer Organizations (September 2016). Accessed January 3, 2017, at [www.napeo.org](http://www.napeo.org).
- Ibid.
- David Imbrogno, “The Outsourcing of HR,” *Quality* 49 (December 2010): 34–35.
- U.S. Bureau of Labor Statistics, “Human Resources Mangers,” *Occupational Outlook Handbook, 2016–17 Edition*. Accessed January 2, 2017, at [www.bls.gov/ooh/management/human-resources-manages.htm](http://www.bls.gov/ooh/management/human-resources-manages.htm).
- Henry G. Jackson, “Being Strategic Is Not Optional,” *HR Magazine*, (November 2015): 6.
- Adrienne Fox, “Reach New Height,” *HR Magazine* (July 2012): 34–39.



- 31 Edward E. Lawler III and John W. Boudreau, "Creating an Effective Human Capital Strategy," *HR Magazine* 57 (August 2012): 57–59.
- 32 "HR in 2020 Should Understand Clearly All Aspects of Business," *HR Focus* 90 (February 2013): 8–9.
- 33 "Attorney Urges HR Professionals to Think Like the CEO," *HR Focus* 89 (April 2012): 10.
- 34 Cam Caldwell, Do X. Truong, Pham T. Linh, and Anh Tuan, "Strategic Human Resource Management as Ethical Stewardship," *Journal of Business Ethics* 98 (January 2011): 171–182.
- 35 Kenneth E. Goodpaster and John B. Matthews, Jr., "Can a Corporation Have a Conscience?" *Harvard Business Review* 60 (January–February 1982): 132–141.
- 36 Steve Bates, "Report: Prepare for Increased Shareholder Activism," *HR Magazine* 54 (June 2009): 32.
- 37 Joseph J. Martocchio, *Strategic Compensation*, 9th ed. (Hoboken, NJ: Pearson Education, Inc., 2017).
- 38 Society for Human Resource Management, "Using Social Media for Talent Acquisition—Recruitment and Screening," (January 7, 2016). Accessed January 3, 2017, at [www.shrm.org](http://www.shrm.org).
- 39 Jennifer Schramm, "A Cloud of Workers," *HR Magazine* 58 (March 2013): 80; Bill Goodwin, "The Emerging Technologies Transforming How HR Works," *Computer Weekly* (July 16, 2013): 16–18.
- 40 Katherine Noyes, "How the Cloud Is Transforming HR," *PC World* (March 30, 2016). Accessed January 3, 2017, at <http://www.pcworld.com/article/3049645/how-the-cloud-is-transforming-hr.html>; Bill Roberts, "The Grand Convergence," *HR Magazine* 56 (October 2011): 39–46.
- 41 Jane Ward, "Structuring Your Selection Process," *Human Resources Magazine* 16 (February/March 2012): 22–23.
- 42 Susan Galer, "3 Benefits of Cloud Computing for Human Resources," *Forbes* online (March 26, 2015). Accessed January 3, 2017, at [www.forbes.com](http://www.forbes.com); Michael Custers, "HR Technologies Guide Employers to Better Benefits Offerings," *Employee Benefit Plan Review* 67 (February 2013): 20–21.
- 43 Society for Human Resource Management, "Using Social Media for Talent Acquisition—Recruitment and Screening," (January 7, 2016). Accessed January 3, 2017, at [www.shrm.org](http://www.shrm.org).
- 44 "As Economy Recovers, HR Will Have More Opportunities to Show Value," *HR Focus* 89 (February 2012): 6.
- 45 "The New Organization: Different by Design," *Global Human Capital Trends 2016* (2016). Accessed December 20, 2016, [www2.deloitte.com/us/en/pages/human-capital/articles/introduction-human-capital-trends.html](http://www2.deloitte.com/us/en/pages/human-capital/articles/introduction-human-capital-trends.html).
- 46 Bob Duffy, "Rethinking Employer Brands," *Journal of Corporate Recruiting Leadership* 5 (June 2010): 10–15.
- 47 Lydell C. Bridgeford, "Blinding Them with Science," *Employee Benefit News* 25 (January 2011): 8–9.
- 48 Paul Jacobs, "Emergence of Human Techsourcing," *Human Resources Magazine* 16 (February/March 2012): 14–15.
- 49 Brandon Rigoni and Jim Asplund, "Strengths-Based Cultures Attract Top Talent," *Gallup* (Web site), (January 3, 2017). Accessed January 4, 2017, [www.gallup.com/businessjournal/200123/strengths-based-cultures-attract-top-talent.aspx?utm\\_source=alert&utm\\_medium=email&utm\\_content=morelink&utm\\_campaign=syndication](http://www.gallup.com/businessjournal/200123/strengths-based-cultures-attract-top-talent.aspx?utm_source=alert&utm_medium=email&utm_content=morelink&utm_campaign=syndication).
- 50 Soumya Gaddam, "Modeling Employer Branding Communication: The Softer Aspect of HR Marketing Management," *ICFAI Journal of Soft Skills* 2 (2008): 45–55.
- 51 Kelly Borth, "Live Your Brand," *Smart Business Columbus* 19 (March 2011): 6.
- 52 "Career Growth," *PwC* Web site. Accessed January 3, 2017, at [www.pwc.com/us/en/careers/campus/why-pwc/career-growth.html](http://www.pwc.com/us/en/careers/campus/why-pwc/career-growth.html).
- 53 "How L'Oréal developed a New Employee Value Proposition (EVP)," *Link Human* (Web site). Accessed January 3, 2017, at <http://linkhumans.com/employer-branding/loreal-employer-value>.
- 54 Ronald J. Alsop, "Cultural Awareness," *Workforce Management* 90 (July 2011): 42.
- 55 Brett Minchington, "Where to Next for Employer Branding?" *Human Resources Magazine* 16 (October/November 2011): 22.
- 56 Small Business Association, "Small Business Profile, 2016." Accessed January 3, 2017, at [www.sba.gov/sites/default/files/advocacy/all\\_profiles\\_10\\_18\\_16.pdf](http://www.sba.gov/sites/default/files/advocacy/all_profiles_10_18_16.pdf).
- 57 Kelly Brent Massey and Nathanael Campbell, "Human Resource Management: Big Problem for Small Business," *Entrepreneurial Executive* 18 (2013): 77–88.
- 58 Dan Emerson, "When to Outsource HR Duties and When to Hire," *Finance & Commerce* (February 20 2013). Accessed May 7, 2014, at <http://finance-commerce.com/2013/02/when-to-outsource-hr-duties-and-when-to-hire/>.
- 59 Susan J. Wells, "Big Fish, Small Ponds," *HR Magazine* 58 (July 2013): 30–36.
- 60 Jenny Hirschhorn, "Business Etiquette: The Importance of Cultural Sensitivity," *The Telegraph* online (January 30, 2014). Accessed January 5, 2017, at [www.telegraph.co.uk](http://www.telegraph.co.uk).
- 61 DeeDee Doke, "Perfect Strangers," *HR Magazine* 49 (December 2004): 62–68.
- 62 Richard Miller, "Taste for Risk Varies Across Europe," *Business Insurance* 43 (September 28, 2009): 9–10.
- 63 Stanley Bing, "Big Questions in the Middle Kingdom," *Fortune* 167 (January 14, 2013): 100.
- 64 Norm Kamikow, "Lost in Translation," *Chief Learning Officer* 8 (September 2009): 4.
- 65 Pankaj Ghemawat, "The Cosmopolitan Corporation," *Harvard Business Review* 89 (May 2011): 92–99.
- 66 Erin Meyer, "When Culture Doesn't Translate," *Harvard Business Review*, October 2015, p. 6.
- 67 Ibid.
- 68 "Cultural Gaps Can Spell Merger Disaster," *Executive Leadership* 28 (March 2013): 4.
- 69 Robert Whipple, "Avoid Common Major Pitfalls of Restructuring," *T+D* 67 (September 2013): 60–63.
- 70 John Freivalds, "Nokia Comes to the US: Cultural Differences," *MultiLingual* 20 (September 2009): 30–31.
- 71 David Kesmode, "Bitter Brew: The Continued Budweiser/InBev Culture Clash," *Wall Street Journal* online (May 2, 2011). Accessed May 7, 2014, at <http://blogs.wsj.com/deals/2011/05/02/bitter-brew-the-continued-budweiserinbev-culture-clash/>.
- 72 Matthew Boyle, Matthew Campbell, and Thomas Buckley, "SABMiller Better Get Ready for a CEO Who Doesn't Like to Have Fun," *Bloomberg* online (October 9, 2015). Accessed January 5, 2017, at [www.bloomberg.com](http://www.bloomberg.com).
- 73 Anumeha Chaturvedi, "Loving It in Tokyo," *Business Today* 20 (August 21, 2011): 127.
- 74 Brad Klontz, "Multi-Culti Competence," *On Wall Street* 23 (August 2013): 32–34.
- 75 Kathy Novak, "Never Say No! South Korea's Pressure-Cooker Work Culture," *CNN* (July 23, 2015). Accessed January 5, 2017, at [www.cnn.com](http://www.cnn.com).
- 76 "South Korea's Hangover," *Al Jazeera* (February 5, 2016). Accessed January 5, 2017, at [www.aljazeera.com](http://www.aljazeera.com).
- 77 Kathryn Tyler, "What Are Global Cultural Competencies?" *HR Magazine* 56 (May 2011): 44–46.
- 78 Julie Barker, "The Cultural Divide," *Incentive* 182 (March 2008): 2–6. Cultural barriers are not easily overcome.
- 79 Susan Rohwer, "Balancing Family and Work Shouldn't Be Hazardous to Your Employment," *The Los Angeles Times* online (February 19, 2014). Accessed January 17, 2017, at [www.latimes.com](http://www.latimes.com).
- 80 Lisa Fernandez and John Schuppe, "Yahoo Expands Maternity Leave After Banning Telecommuting," *CNBC* online (April 30, 2013). Accessed January 17, 2017, at <http://www.cnbc.com/id/100689956>.



# 2

## Business Ethics, Corporate Social Responsibility, and Sustainability

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

- 2.1** Discuss what ethics means and the sources of ethical guidance.
- 2.2** Explore human resource management's (HRM) role in creating an ethical culture and a code of ethics.
- 2.3** Define human resource ethics.
- 2.4** Explain the concepts and practices related to corporate social responsibility and corporate sustainability.
- 2.5** Describe a social audit.

### MyLab Management

#### ★ Improve Your Grade!

If your professor is using MyLab Management, visit [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) for videos, simulations, and writing exercises.

#### ★ Learn It

If your professor has chosen to assign this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to see what you should particularly focus on and to take the Chapter 2 Warm-Up.





Choosing *how* ethical and socially responsible an organization needs to be and *when* it should be brings up difficult issues all managers may have to address as they perform their duties. These issues can and do shape their decisions. HR professionals play a significant role in helping organizations start and stay on a path of ethical practice, corporate social responsibility, and sustainability. Let's explore the role of HR professionals in managing ethical obligations and considerations related to corporate social responsibility and sustainability.

---

**2.1** Discuss what ethics means and the sources of ethical guidance.

---

### **ethics**

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

## **Defining Ethics and the Sources of Ethical Guidance**

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

### **Business Ethics**

The past corrupt conduct of corporations such as WorldCom and Enron and the senior managers who led them provides deplorable examples of just how unethical company leadership can be. We also forgot to guard against the type of ethical abuses that ultimately bankrupted companies such as Bear Stearns and Lehman Brothers. Unfortunately, unethical behavior manifests in other ways. For example, Volkswagen (VW) distinguished itself from the competition when it developed the so-called clean diesel engine. The company falsely advertised these engines as good for the environment







HR Web Wisdom

*International Business Ethics  
Institute*

[www.business-ethics.org](http://www.business-ethics.org)

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

because they emitted low levels of harmful nitrogen oxides. However, it was revealed that VW knowingly installed software, which, when the car was being tested for emissions, cleaned these pollutants from the exhaust. U.S. law enforcement agencies determined that the deception started in 1991 involving not only top executives but also lower level engineers.<sup>3</sup> Since the news came to light, VW's CEO resigned and numerous engineers were fired.<sup>4</sup> Andrew McCabe, FBI deputy director, stated "It is now clear that Volkswagen's top executives knew about this illegal activity and deliberately kept regulators, shareholders and consumers in the dark—and they did this for years."<sup>5</sup>

CEOs should be clear that unethical behavior is not acceptable. In one survey, 67 percent of investors said they would move their account if they discovered the company was involved in unethical behavior.<sup>6</sup> Jeff Immelt, General Electric's (GE) CEO, begins and ends each annual meeting of 220 officers and 600 senior managers by restating the company's fundamental integrity principles: "GE's business success is built on our reputation with all stakeholders for lawful and ethical behavior."<sup>7</sup> At GE, when it comes to integrity violations, it is one strike and you are out. There are no second chances.<sup>8</sup> The focus should be on just doing the right thing. The image of the business world would be in much better shape if this simple advice were followed. Hopefully, ethical standards are improving.

Most of the 500 largest corporations in the United States now have a code of ethics, which encompasses written conduct standards, internal education, and formal agreements on industry standards, ethics offices, social accounting, and social projects. Even so, business ethics scandals continue to be headline news. Lying on résumés, obstruction of justice, destruction of records, stock price manipulation, cutting corners to meet Wall Street's expectations, fraud, waste, and abuse are unfortunately occurring all too often when those in business decide to make poor ethical choices. Then, there are the corporate executives that took home millions even though their company failed and employees were laid off. Even more noteworthy is that some are rewarded for bad behavior. For instance, Jeff Smisek, former CEO of United Continental Holdings, was paid a severance package worth a whopping \$36.8 million. He left the airline following alleged participation in a corruption scandal.<sup>9</sup>

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

Compliance with the law sets the minimum standard for ethical behavior; ethics, however, is much more. There must be leaders who are able and willing to instill ethics throughout the culture of the organization. Ethics is about deciding whether an action is good or bad and what to do about it if it is bad. Ethics is a philosophical discipline that describes and directs moral conduct. Those in management make ethical (or unethical) decisions every day. Do you hire the best-qualified person, who is a minority? Do you forget to tell a candidate about the dangerous aspect of a certain job? Some ethical decisions are major and some are minor. But decisions in small matters often set a pattern for the more important decisions a manager makes. Attitudes such as "It's standard practice," "It's not a big deal," "It's not my responsibility," and "I want to be loyal" are simply not acceptable.<sup>10</sup> The Roman philosopher Cicero echoed this when he said, "It is a true saying that one falsehood leads easily to another."<sup>11</sup> In the sixteenth century, Sir Thomas More said, "If virtue were profitable, common sense would make us good and greed would make us saintly."<sup>12</sup> More knew that virtue is not profitable, so people must make hard choices from time to time.

### Sources of Ethical Guidance

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



Laws also offer guidance to ethical behavior, prohibiting acts that can be especially harmful to others. They codify what society has deemed to be unacceptable.<sup>13</sup> If a certain behavior is illegal, most would consider it to be unethical as well. There are exceptions, of course. For example, through the 1950s, laws in most southern states relegated black Americans to the backs of buses and otherwise assigned them inferior status. Martin Luther King Jr. resisted such laws and, in fact, engaged in civil disobedience and other nonviolent forms of resistance to their enforcement. King won the Nobel Peace Prize for his efforts.

Two conditions must exist if an individual or organization is to be considered ethical. First, ethics consists of the strength of the relationship between what an individual or an organization believes to be moral and correct and what available sources of guidance suggest is morally correct. For example, suppose a manager believes it is acceptable not to hire minorities, even though almost everyone condemns this practice. This person would not be considered ethical. Having strong beliefs about what is right and wrong and basing them on the proper sources may have little relationship to what one does.

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

For most professionals, there are codes of ethics that prescribe certain behavior. Without this conscience that has developed, it might be easy to say, "Everyone does it," "Just this once won't hurt," or "No one will ever know." Some still believe that greed is acceptable if the Equal Employment Opportunity Commission (EEOC) or other regulatory agencies do not find out.<sup>14</sup> Fortunately, the HRM profession subscribes to a code of ethics, which we discuss later in this chapter.

### Legislating Ethics

In 1907, Teddy Roosevelt said, "Men can never escape being governed. If from lawlessness or fickleness, from folly or self-indulgence, they refuse to govern themselves, then in the end they will be governed [by others]."<sup>15</sup> Many contend that ethics cannot be legislated. Although laws cannot mandate ethics, they may be able to identify the baseline separating what is good and what is bad. Much of the current legislation was passed because of business ethics breakdowns. There have been at least four attempts to legislate business ethics since the late 1980s. We discuss some of these laws next.

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

**FEDERAL SENTENCING GUIDELINES FOR ORGANIZATIONS ACT** The second attempt occurred with the passage of the 1992 Federal Sentencing Guidelines for Organizations (FSGO) Act, which outlined an effective ethics training program and explained the seven minimum requirements for an effective program to prevent and detect violations.<sup>16</sup> The FSGO promised softer punishments for wayward corporations that already had ethics programs in place. In the law were recommendations regarding standards, ethics training, and a system to anonymously report unacceptable conduct. Executives were supposed to be responsible for the misconduct of those lower in the organization. If executives were proactive in their efforts to prevent white-collar crime, it would lessen a judgment against them and reduce the liability. Organizations responded



by creating ethics officer positions, installing ethics hotlines, and developing codes of ethics. But it is one thing to have a code of ethics and quite another to have this code instilled in all employees from top to bottom.

**CORPORATE AND AUDITING ACCOUNTABILITY, RESPONSIBILITY, AND TRANSPARENCY ACT** The third attempt at legislating business ethics was the Corporate and Auditing Accountability, Responsibility and Transparency Act of 2002, which criminalized many corporate acts that were previously relegated to various regulatory structures. Known as the Sarbanes–Oxley Act, its primary focus is to redress accounting and financial reporting abuses in light of corporate scandals.<sup>17</sup> The Sarbanes–Oxley Act was intended to eliminate or at least reduce conflicts of interest by requiring audit-committee-level pre-approval for non-audit services auditors at companies they audit and enforcing a code of ethics on senior client financial management.<sup>18</sup> The act contains broad employee whistle-blower protections that subject corporations and their managerial personnel to significant civil and criminal penalties for retaliating, harassing, or discriminating against employees who report suspected corporate wrongdoing. The whistle-blower protections of the act apply to corporations listed on U.S. stock exchanges; companies otherwise obligated to file reports under the Securities and Exchange Act; and officers, employees, contractors, subcontractors, and agents of those companies.

The act states that management may not discharge, demote, suspend, threaten, harass, or in any other manner discriminate against an employee protected by the act. It protects any employee who lawfully provides information to governmental authorities concerning conduct he or she reasonably believes constitutes mail, wire, or securities fraud; violations of any rule or regulation issued by the Securities and Exchange Commission (SEC); or violations of any other federal law relating to fraud against shareholders. The act evidently has teeth because in the *Bechtel v. Competitive Technologies Inc.* (2003) Supreme Court case involving wrongful termination under Sarbanes–Oxley’s whistle-blower protection rule, the Court ruled that the company violated the act by firing two employees and ordered them reinstated. They were fired because during a meeting they had raised concerns about the company’s decision not to report, on its SEC filing, an act they thought should have been disclosed.<sup>19</sup>

The law prohibits loans to executives and directors. It requires publicly traded companies to disclose whether they have adopted a code of ethics for senior officers. The act does not require banks and bank-holding companies that report to the SEC to have a code of ethics, but if an SEC reporting company does not have one, it must explain why.<sup>20</sup> However, as former SEC Chairman Arthur Levitt said, “While the Sarbanes–Oxley Act has brought about significant change, the greatest change is being brought about not by regulation or legislation, but by humiliation and embarrassment and private rights of action.”<sup>21</sup>

**DODD–FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT** The fourth, the Wall Street Reform and Consumer Protection Act (Dodd–Frank Act), was signed into law in 2010. The act was brought on by the worst financial crisis since the Great Depression, which resulted in the loss of 8 million jobs, failed businesses, a drop in housing prices, and wiped out personal savings of many workers. As the financial crisis advanced, it became clear that executive compensation played a major role in the financial services sector as well as in the capital markets following the collapse of investment services firms such as Lehman Brothers, Merrill Lynch, Bear Stearns, and AIG.<sup>22</sup> The Dodd–Frank Act enhances the transparency of executive compensation practices. The act requires the companies that trade stock on public exchanges to comply with several provisions of which we describe three. The first provision requires say on pay. Say on pay gives company shareholders the right to vote yes or no on executive compensation. Although the say on pay provision guarantees shareholders the right to vote on executive compensation proposals, the vote is non-binding. The non-binding vote advises the company’s board of directors of possible concerns about the structure of executive compensation packages, including excessive perks and the lack of clarity between compensation and business results. The board may choose to modify the proposed compensation package.

The second provision details independence requirements for compensation committee members and their advisors, such as compensation consultants and legal counsel. Members of compensation committees typically receive compensation for their services, and this practice is acceptable. However, possible violations of the Dodd–Frank independence requirement may arise when at least one committee member also receives compensation as a company employee. For



example, a compensation committee member who also serves as the company's executive vice president may be considered violating the independence requirement.

The third provision addresses whistle-blower protection. In the legal use of the term, a whistle-blower is someone who participates in an activity that is protected. Corporate whistleblowing involves ethics, a topic of this chapter. It requires an individual to choose between personal ethics and the status quo. Often whistle-blowers view themselves as the company's conscience.<sup>23</sup> The use of whistle-blowers has been around since 1863 when President Abraham Lincoln signed into law the Federal False Claims Act, which was designed to protect the United States from purchases of fake gunpowder during the Civil War.<sup>24</sup> The number of whistle-blower suits has increased dramatically in recent years under federal and state laws aimed at uncovering fraud and protecting the public. Since 2007, the Justice Department recovered more than \$3 billion in taxpayer funds thanks to whistle-blowers, who originated hundreds of lawsuits.<sup>25</sup> In 2015 alone, whistle-blowers shared \$501 million of the proceeds.<sup>26</sup>

### FYI

The number of whistle-blower tips has increased dramatically since the passage of the Dodd–Frank Act:

- Fiscal Year 2011: 334
- Fiscal Year 2012: 3,001
- Fiscal Year 2013: 3,238
- Fiscal Year 2014: 3,620
- Fiscal Year 2015: 3,923
- Fiscal Year 2016: 4,218<sup>27</sup>

The Dodd–Frank Act contains a whistle-blower protection provision, which is shaped after the successful IRS program. In passing the act, Congress believed that award programs were a good method to get people to provide fraud information to responsible law enforcement officials. The act requires the Securities SEC to give an award to qualified whistle-blowers of between 10 and 30 percent of the total amount obtained if the information is voluntarily provided and leads to a successful enforcement or related action. The act also improves whistle-blowers' retaliation protection from their employers through the expansion of the whistle-blower protections of the Sarbanes–Oxley Act of 2002. Firms may not directly or indirectly discharge, demote, suspend, threaten, harass, or in any way discriminate against whistle-blowers that provide information to the SEC as specified in the program.<sup>28</sup> This is important because in the past whistle-blowers often were fired, demoted, blacklisted, or quit under duress. Former SEC Chair Mary L. Schapiro said, “While the SEC has a history of receiving a high volume of tips and complaints, the quality of the tips we have received has been better since Dodd–Frank became law, and we expect this trend to continue.”<sup>29</sup> The most common complaint categories reported by whistle-blowers were corporate disclosures and financials (22 percent), fraud offerings (156 percent), and manipulation (11 percent).<sup>30</sup> Until the end of 2016, the largest award to a whistle-blower totaled \$30 million.<sup>31</sup>

Many believe that information provided by whistle-blowers is much more effective in uncovering wrongdoings than are external auditors. In testimony to the Senate Banking Committee, Certified Fraud Examiner Harry Markopolos stated that “whistle-blower tips detected 54.1 percent of uncovered fraud schemes in public companies. External auditors detected a mere 4.1 percent of fraud schemes.”<sup>32</sup>

Companies have some uneasiness regarding the whistle-blower provision of the Dodd–Frank Act.<sup>33</sup> A recent survey of senior legal, compliance, and HR executives at publicly traded or highly regulated companies found that 96 percent expressed either moderate or great concerns about potential whistle-blower complaints.<sup>34</sup> The major concern is that the rules run counter to a firm's internal compliance efforts.<sup>35</sup> Companies are afraid that employees will not go through internal channels first and instead go directly to government authorities to collect the reward.<sup>36</sup> Another fear is that an employee might have another grievance with the company and use the whistle-blower provision to get back at the company.



**2.2** Explore human resource management's (HRM) role in creating an ethical culture and a code of ethics.

## Creating an Ethical Culture and a Code of Ethics

Ethics is an important component of an organization's culture. And it's turning out to be more key for organizations to conduct business in an ethical fashion. Why? The public insists on it. Customers call for it. Most companies that take ethics seriously have a code of ethics that codifies ethical principles and guides employees to behave ethically. Let's explore HR professionals' roles in facilitating ethical cultures and codes of ethics.

### Ethical Culture

Mark Twain once said, "Always do right. This will gratify some people and astonish the rest."<sup>37</sup> This is certainly good advice for both employees and employers if the firm wants to create an ethical culture. Saying that a company has an ethical culture and having one may be two different things. Culture is concerned with the way people think, which affects the way that they act. Changing an organization's culture thus requires modifying the common way of thinking of its members.<sup>38</sup> Organizations with strong ethical cultures take steps to ensure that their standards are widely accessible, promoted, and followed by their leaders and employees.<sup>39</sup> For example, the Volkswagen debacle was not supposed to happen. The Volkswagen Code of Conduct was 24 pages long and had a foreword by Martin Winterkorn, who was then the company's CEO, and other top executives saying, "We stand for respectable, honest, and actions in everyday business that are in accordance with rules, and we commit ourselves to the following Code of Conduct."<sup>40</sup> Even with the ethical code, it is apparent that Volkswagen's top management pursued business as usual.

One way for a firm to create and sustain an ethical culture is to audit ethics, much like a company audits its finances each year.<sup>41</sup> An ethics audit is simply a systematic, independent, and documented process for obtaining evidence regarding the status of an organization's ethical culture. It takes a closer look at a firm's ethical culture instead of just allowing it to remain unexamined. An ethical culture is made up of factors such as ethical leadership, accountability, and values. The climate with top management is fundamental to a company's ethical culture.<sup>42</sup> Ethical leadership begins with the board of directors and CEO and continues to middle managers, supervisors, and employees.<sup>43</sup> Building an ethical culture that lasts requires a foundation of practices that continue even when leaders change.<sup>44</sup> The following Watch It video illustrates how employees and members of management are brought together to enact a change within the company. Their goal is to limit the negative environmental impacts of their company as much as possible by applying the best practices concept to their everyday activities.

#### Watch It I

If your instructor has assigned this, go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to watch a video titled Patagonia: Ethics and Social Responsibility and to respond to questions.

According to the Corporate Executive Board in Arlington, Virginia, companies with weak ethical cultures experience 10 times more misconduct than companies with strong ethical cultures.<sup>45</sup> In workplaces with a strong ethical culture, only 4 percent of employees feel pressure to compromise standards and commit misconduct compared to 15 percent in a weaker culture.<sup>46</sup> That's a noteworthy difference. As important as endorsing ethical cultures is, more companies need to get on board. A survey of compliance and ethics professionals revealed that only half maintain that promoting an ethical culture is a priority.<sup>47</sup> Perhaps this is the case because only 13.3 percent believe that management embraces an ethical culture as a primary objective of ethics programs. The results are not much better when it comes to their view of the board of directors' values. Only 15.6 percent of the respondents saw creating an ethical culture as the board's primary objective.

For organizations to grow and prosper, good people must be employed. Recent studies suggest that six personality characteristics are useful predictors of ethical individuals.<sup>48</sup> Individuals who