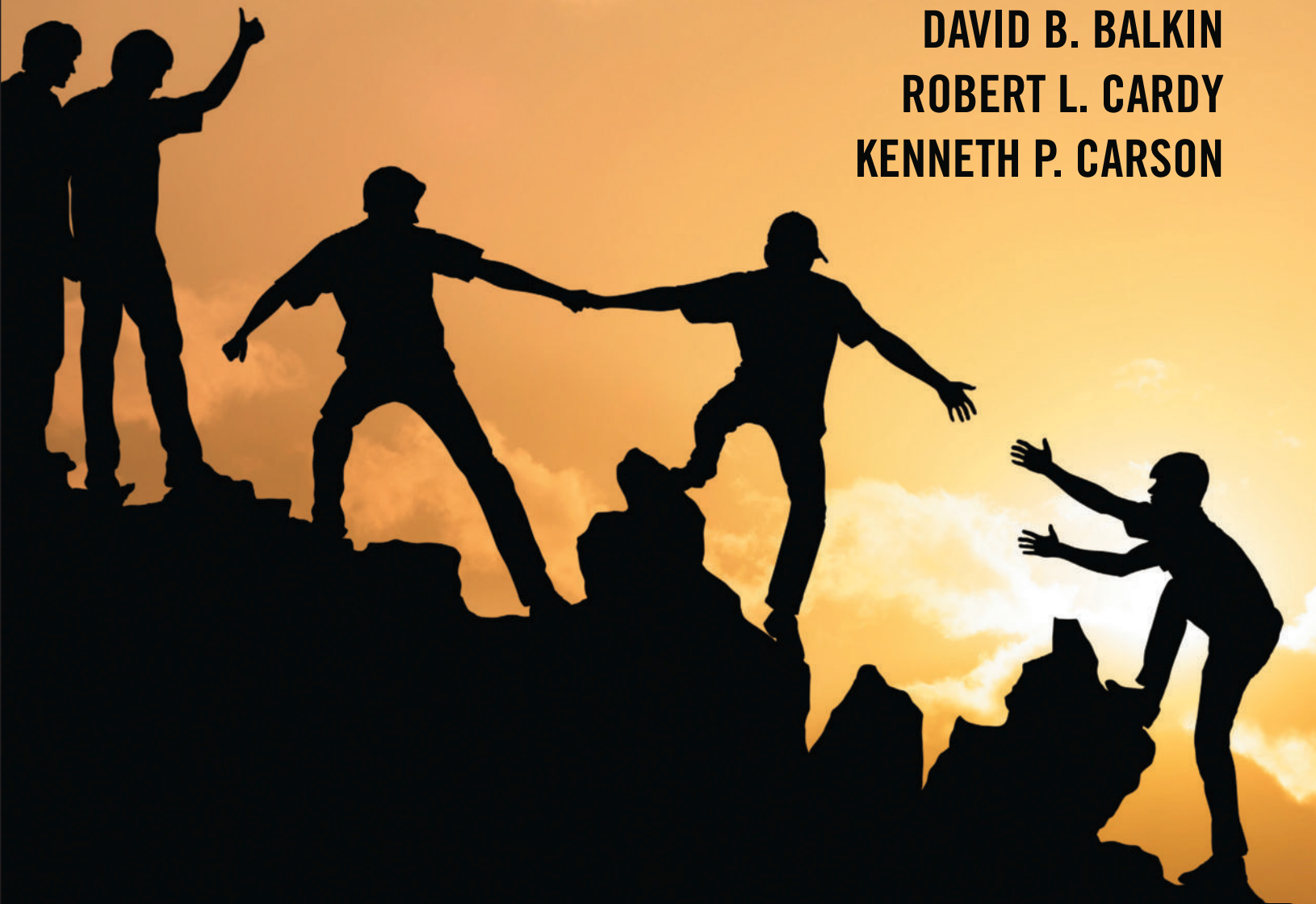


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# **MANAGING** **HUMAN RESOURCES**



**9E**

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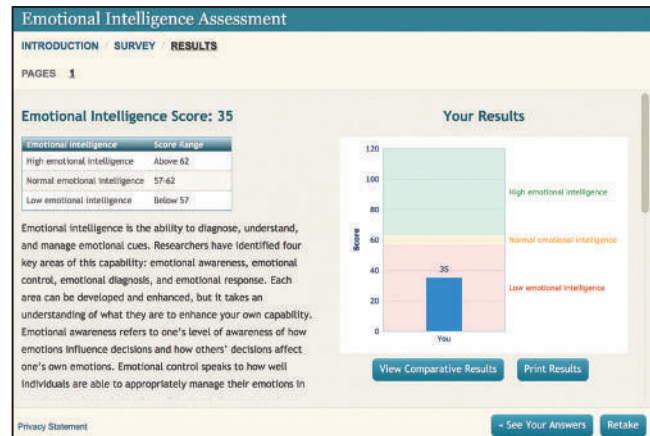
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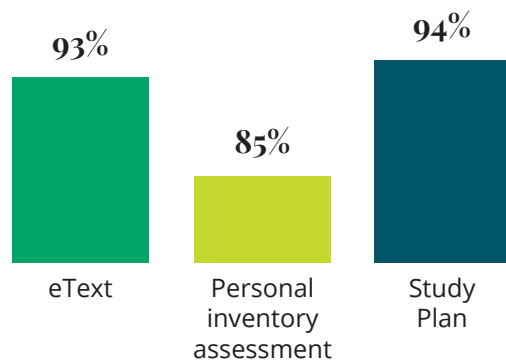
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9E

# MANAGING HUMAN RESOURCES

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Interior Design: Pearson CSC

Cover Design: Pearson CSC

Cover Art: Love the wind/shutterstock.

Printer/Binder: LSC Communications, Inc./Willard

Cover Printer: LSC Communications, Inc.

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

Names: Gómez-Mejía, Luis R., author. | Balkin, David B., author. |

Cardy, Robert L., author.

Title: Managing human resources / Luis R. Gómez-Mejía, Arizona State University,

David B. Balkin, University of Colorado, Boulder, Robert L. Cardy,

University of Texas at San Antonio.

Description: Ninth edition. | Boston : Pearson Education, [2020]

Identifiers: LCCN 2018056117 | ISBN 9780134900001

Subjects: LCSH: Personnel management.

Classification: LCC HF5549 .G64 2020 | DDC 658.3--dc23

LC record available at <https://lccn.loc.gov/2018056117>



To my wife Ana, my three sons Luis Jr., Vince and Alex  
and my daughter Dulce

—L.R.G.M.

To my parents, Daniel and Jeanne

—D.B.B.

To my family for their endless support and to Todd Snider  
for the endless inspiration

—R.L.C.

To my wife Jean, to my children and their spouses, and to Kit  
and Atticus with love and gratitude.

— K.P.C.

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# Preface

## New to This Edition

Highlights of the changes to the ninth edition include the following:

- Most of the **‘Manager’s Notebook’** have been updated and new ones have been added.
- Most **introductory vignettes** are either new, substantially revised, or updated.
- New content on **sexual harassment** has been added in Chapters 3, 4, 6, and 16. The sexual harassment and misconduct policies sections has also been updated.
- More than 75 percent of the **boxed features** within the text have been replaced with new ones or have been substantially revised and updated.
- New **You Manage It!** cases at the end-of-chapter have been added to cover employability.
- **New and updated content** on important topics like Human Resource Information System (HRIS), use of social media, distinction between training and career development, mentoring employs, ethics, health and retirement benefits, technological changes affecting HR, protection of personal information, and the impact on HR of changes in trading policies and rising use of tariffs.

## Detailed Chapter-by-Chapter Changes

**Chapter 1, “Meeting Present and Emerging Strategic Human Resource Challenges,”** has been updated to cover changes in the environment affecting HR practice (for instance, the “#MeToo movement”), technological changes affecting HR (for instance, how big data analytics is being used for making HR decisions), the protection of personal information (such as the recent case of Facebook), the increasing shift of HR responsibilities to line managers, the response to natural disasters from a HR perspective, and how organizations are grappling with filling critical jobs in a tight labor market. The chapter now includes new notebooks and cases dealing with these issues, and all prior notebooks and cases have been updated as needed.

**Chapter 2, “Managing Work Flows and Conducting Job Analysis,”** has new content that explains the advantages of college internships for students that can enhance their opportunities for employability after graduation. A new topic on HR Analytics describes how this emerging field within HR applies computer software with algorithms to automate processes for greater efficiency to recruiting, staffing, performance evaluation, career and succession planning. A new end-of-chapter case asks students to reflect on jobs that are likely to be vulnerable to automation and artificial intelligence (AI) in the future and think about what can be done to avoid being replaced by automation.

**Chapter 3, “Understanding Equal Opportunity and the Legal Environment,”** has been updated to add new content on recent sexual harassment cases and allegations that occurred in the entertainment industry between top executives and female employees and the repercussions from these events. New content has been added on the topic of age discrimination that now can be determined by the disparate impact criterion according to a recent Supreme Court case. A new end-of-chapter case questions whether the HR manager who learns about the sexual harassment can be even handed in providing a balanced perspective when a woman alleges she has been sexually harassed by a powerful company executive where a conflict of interest may cloud the judgment of the HR manager.

**Chapter 4, “Managing Diversity,”** has been updated to include new data on demographic profiles and trends, expanded coverage of work-related challenges facing various demographic groups, changes in federal immigration policies, employability of the 65 and older workforce which represents the fastest growing segment of the population, the “#MeToo movement” and a rising wave of sexual harassment allegations, the perils of office romance, and the rise of religious intolerance. New cases and notebooks have been added that deal with contemporary diversity issues.

**Chapter 5, “Recruiting and Selecting Employees,”** has been updated to reflect the current state of the job market in the United States, particularly the low unemployment rates. Some outdated content related to forecasting labor rates has been removed in light of the sophisticated tools that are now available to organizations, and a new section on Human Resource Information Systems (HRIS) has been added. The discussion of reliability and validity has been freshened to make it more accessible to students. A new Manager’s Notebook has been added focusing on the importance of building a reputation even as a student for future employability. New content has been added addressing the issues surrounding the use of social media in applicant screening. A new end-of-chapter case on Returnships asks students to consider the issues related to working with older employees who are returning to the workforce after extended absences for family or other reasons.

**Chapter 6, “Managing Employee Separations, Downsizing, and Outplacement,”** has been freshened to reflect the low unemployment rates which currently characterize the economy. Discussion has been added about the rise of contingent employment perhaps best exemplified by Uber. Finally, a new section on separation agreements exposes students to this phenomenon which is seemingly more prevalent, particularly in the context of sexual harassment cases.

**Chapter 7, “Appraising and Managing Performance,”** has a new introductory section which places discussion of the fundamental question quality management question about whether the person or the system is worth the most managerial attention. In addition, a new Manager’s Notebook feature asks students to consider the particularly difficult issue of managing difficult employees and provides advice about the same.

**Chapter 8, “Training the Workforce,”** includes a new Manager’s Notebook case on the implicit bias training undertaken by Starbucks in the aftermath of a racial incident between white employees and African-American customers which illustrates the importance of training efforts to organizational effectiveness. Chapter content has been re-organized for increased clarity. Also, a new Manager’s Notebook underscores the importance and use of internships in training.

**Chapter 9, “Developing Careers,”** has new content to further clarify the distinction between training and career development. A new Manager’s Notebook on Employability encourages students to use the services of their campus career services office and discusses some of the barriers to this goal. Content has been added on mentoring and the importance of employee’s taking the primary responsibility for managing their own careers. Finally, students are encouraged to use LinkedIn to establish a professional social media presence.

**Chapter 10, “Managing Compensation,”** has been thoroughly revised to update data on pay scales, provide expanded treatment of monetary and non-monetary rewards, offer new material on how companies respond to the demands of millennials, discuss recent changes in the application of job evaluation plans, explain how firms are trying to develop non-management career tracks, and discuss recent evidence on pay discrimination for women. New notebooks and cases have been added that deal with several of these issues.

**Chapter 11, “Rewarding Performance,”** offers expanded treatment of pay for performance plans, use of a combination of monetary and non-monetary rewards, discusses dangers in the use of incentives as potential promoters of unethical behaviors, how organizations try to fit rewards to an employee’s career cycle, and the importance of providing continuous feedback to enhance performance. New notebooks and cases have been added that deal with several of these issues.

**Chapter 12, “Designing and Administering Benefits,”** has been thoroughly revised to include the latest information covering health and retirement benefits including new information on the Patient and Affordable Care Act (PACA). New content is available on the point of service (POS) health plan that shares some features of the health maintenance organization (HMO) and the preferred provider organization (PPO). New content is provided on a cutting edge benefit that should be of great interest for students and consists of financial assistance for employees to pay off their student loans provided by funds from employers to help employees get out of student loan debt. A new end-of-chapter case explains the features of Walmart’s newly implemented paid parental leave policy that illustrates how some companies are starting to offer paid parental leave to employees with the newborn infants despite the fact that no federal law offers this benefit in the U.S.

**Chapter 13, “Developing Employee Relations,”** offers new content on employment practices that encourage having fun in the workplace which facilitates employees to experience higher



levels of creativity and engagement. A new end-of-chapter case describes employee relations at Costco, a large retail company, which has implemented a successful and profitable business model that puts a higher priority on treating employees well over financial goals.

**Chapter 14, “Respecting Employee Rights and Managing Discipline,”** provides expanded content on company drug testing practices in light of the fact that many states have recently enacted laws that allow for the use of medical marijuana and several states also permit its use for recreational purposes. New content explains the use of a performance improvement plan (PIP) which gives a low performing employee, prior to discharge, an opportunity to improve performance and be retained by meeting formally documented performance goals. A new end-of-chapter case discusses ways that legacy drug testing policies in companies can be revised to accommodate an employee who has a legitimate reason to use medical marijuana.

**Chapter 15, “Working with Organized Labor,”** contains updated information on the percentage of the workforce that is unionized in the United States and other countries. New content is provided in the opening vignette that explains the reasons for a recent outbreak of strikes of public school teachers in five states during 2018. A recent Supreme Court ruling is discussed that allows public employees to avoid paying fees to the union and the impact of this ruling on union bargaining power. A new end-of-chapter case discusses the public school teacher strikes in five states in 2018 and the reason why the teachers were successful in attaining their objectives.

**Chapter 16, “Managing Workplace Safety and Health,”** includes updated content on safety regulations and examples of corporate safety violations. Discussion about the trends in data from the Bureau of Labor Statistics has been altered to account for newly available information. Most importantly, an entire new section on managerial responsibilities in relation to sexual harassment has been added. This material discusses responsibilities related to prevention, as well as the duties connected to responding to charges of sexual harassment in the workplace. This material connects students to the “#MeToo” movement which has gathered so much deserving attention.

**Chapter 17, “International HRM Challenges,”** has been updated by discussing the impact on HR of changes in trading policies and rising use of tariffs, offering an expanded treatment of outsourcing, discussing the role of ever improving web based translators on HR practices, providing an expanded treatment of advantages and disadvantages of hiring expatriates, discussing the challenges that women face as expatriates, and analyzing how changes in federal regulations affect the recruitment and treatment of “guest workers.” New notebooks and end-of-chapter cases dealing with global HR issues have been added to this new edition.

## Solving Teaching and Learning Challenges

Human resource management services and decisions in recent years have been increasingly repurposed away from functional Human Resource Management specialists located in corporate functional silos. Instead human resource management practices are more likely to be developed and decisions to be made closer to where the actual work is taking place in order to be delivered to where it is needed with high agility and effectiveness. The students studying this course want to understand these roles and ways in which they can deliver actual services to the employees in the workplace. This approach strengthens HR's alignment with the goals and strategies of the business and depends on having actors who are more engaged in delivering HR services: line managers, supervisors, team leaders, and self-managed teams. While studying this course a student faces challenges like understanding the variety of issues that a manager confronts daily. This makes it imperative for the student to find ways in which he/she is able to effectively implant the conceptual material to such situations.

*Managing Human Resources*, 9th edition focuses on the delivery of HR services to actual employees in the workplace with the intent of making faster and higher quality HR decisions aligned with business goals. Our approach used in this text includes the end-of-chapter cases, extended examples found in boxed content, and discussion questions that gives the students a realistic view of HR as it is actually practiced in business organizations and should prepare them to be more employable managers, supervisors, and team leaders with valuable HR knowledge. ‘The Manager’s Notebook’ and ‘You Manage It!’ cases are specifically designed to help the students understand the different situations a HR manager is in when taking important decisions by providing examples to students that help them apply their conceptual knowledge to such situations.



## MANAGER'S NOTEBOOK

### Global Labor Supply: Surpluses or Shortages? Depends on How You Look at It

Is the supply of labor sufficient? The unemployment rate rises and falls as economic conditions change. During the height of the Great Recession in 2007, the U.S. unemployment rate rose to 10 percent. At this writing, the unemployment rate is 4.1 percent. But does viewing labor as simply the number of potential workers adequately depict the status of the supply of labor? The picture is more complex when the supply of labor is looked at more closely.

## MANAGER'S NOTEBOOK

### Big Data Analytics and the Use of Artificial Intelligence on the Rise for HR



An increasing number of companies are using data analytics to study the social dynamics of employees based on a variety of sources such as e-mail exchanges, common projects, online interactions, and access to Internet sources. The objective is to use this data to improve the utilization of human resources. For instance, General Electric (GE) developed an app to integrate 22,000 employees of a newly acquired company with those employees already working for GE. This enabled employees with similar skills, education, and background to come



Customer-Driven HR

## MANAGER'S NOTEBOOK

### Using Incentives to Motivate Employees and Customers

Companies spend approximately \$50 billion a year on incentives, and some experts say they should retain that focus regardless of general economic conditions. "In good times or bad, organizations are well served by creating a culture of recognition for their employees as well as their customers," says the executive director of the Incentive Marketing Association (IMA). "Incentive programs allow a company to focus people's activities and tasks on what produces financial outcomes," agrees IMA's president. "They align what the individual does to what the company would like them to do, and they allow companies to keep the investment they place in people and the intellectual property they develop in those employees."

## Manager's Notebook

The Manager's Notebooks provide exposure to the students to a variety of issues that managers confront daily, from providing feedback during an appraisal session to managing difficult employees.

Important themes like Employability, Customer-Driven HR, Ethics/Social Responsibility, Global, and Emerging Trends are covered to help students to understand the real-world situations.

## You Manage It! Cases

These chapter end cases help the student to make the conceptual metrical discussion come to life. For each case there are critical thinking questions, team exercises, and experiential exercises for the students to apply the concepts they have learnt.

This feature also includes topics like Employability, Customer-Driven HR, Ethics/Social Responsibility, Global, and Emerging Trends.



### You Manage It! 1 > Customer-Driven HR

#### Costs and Benefits: Assessing the Business Case for Training

No matter what your business, to stay in business you have to attract and retain customers. How do you do that? One way is to deliver a quality product or service in a high-quality manner. In other words, it is a combination of what is offered and how it is offered that determines whether a buyer will become a loyal customer. Train-

savings generated by training. Extrapolate this number over a one- or two-year time period.

- 8-14. As you have read, training can increase revenue. The revenue could come from increased quality of the customer experience due to the impact of training. Consider, as an example, the following table of customer survey responses before and after training:



### You Manage It! 2 > Ethics/Social Responsibility

#### The Ethics Challenge

Training to help workers confront unethical behavior was discussed in the Manager's Notebook "That's Not Right: Training to Help Workers Confront Unethical Actions." Offering this training to workers assumes that they may run into unethical behaviors and need the skills to deal with these situations.

#### Critical Thinking Questions

- 8-20. If you have a clear code of ethics, do you think training to challenge unethical behavior would still be needed? Why or why not?

- 8-21. Might challenging someone who is engaging in unethical behavior have some risk? How can this risk be minimized?  
8-22. Using the evaluation framework presented in Figure 8.5, which level would the ethics training attempt to improve?

#### Team Exercise

- 8-23. Join your teammates and consider the training to help employees challenge unethical behavior.  
a. How can the effectiveness of this training be maximized?  
b. Do your team members agree that this ethics training is a good idea? Why or why not?  
c. Share your assessments with the rest of the class.



### You Manage It! 3 > Global

#### Mentoring as Global Development

Organizations face enormous challenges in bringing people together and having them understand and trust the organization and its systems. Some groups of people may have experienced discrimination and/or disrespect, or come from a cultural background that is not the norm in the organization. It may be difficult for these workers to trust and embrace an organization's system. As employees, these workers may need support and opportunities if they are to get ahead.

understanding of the organization. What would you be looking for from this person's mentor? Are there potential difficulties that the mentor should be aware of? How should mentors be identified and assigned (from your mentee position)? Share your team's judgments with the rest of the class.

#### Experiential Exercise: Team

To improve student results, we recommend pairing the text content with **MyLab Management**, which 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 will help your students learn and retain key course concepts while developing skills that future employers are seeking in their candidates. From **Videos Exercises** to **Personal Inventory Assessments**, MyLab Management helps you teach your course, your way. Learn more at [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management).

## Chapter Warm Ups

The Chapter Warm Up assessment helps you hold students accountable for learning key concepts in each chapter before coming to class. 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.

**Homework: Chapter 2: Warm Up** Show completed problem Save

**Score:** 0 of 1 pt 1 of 12 (0 complete) HW Score: 0% of 12 pts

**Warm-up 2.1.1** Question Help

What do we call the formal or informal relationships between people in an organization?

☐ A. Workflow  
☐ B. Workforce  
☐ C. Flex time  
☐ D. Diversity  
☐ E. Organizational structure

Click to select your answer and then click Check Answer.

All parts showing Clear All Check Answer

**Quiz: Chapter 4 Quiz** Show completed problem Submit Quiz

**This Question:** 1 pt 2 of 25 (0 complete) **This Quiz:** 25 pts possible

Individual characteristics over which a person has little or no control include all of the following EXCEPT \_\_\_\_\_.

☐ A. work ethic  
☐ B. sex  
☐ C. age  
☐ D. race  
☐ E. certain physical attributes

Click to select your answer.

Check Answer

## Chapter Quizzes

A powerful tool used to assess your students understanding of the chapter learning objective after studying the chapter. Students can be assigned these quizzes to test the knowledge they gained for the respective topic.

## Personal Inventory Assessments

Personal Inventory Assessments is a collection of online exercises designed to promote self-reflection and engagement in students. It enhances their ability to connect with concepts taught in principles of management, organizational behavior, and human resource management classes.

This exercise help students develop professionalism and awareness of themselves and others, so they can learn the necessary skills for your future career.

**Multicultural Awareness Scale**

**INTRODUCTION** SURVEY RESULTS

PAGES 1 | 2 | 3

This instrument assesses an individual's awareness of other cultures and cultural contexts. Specifically, how comfortable or aware the respondent is with other cultures.

The method used to adapt this instrument involved selecting questions that would elicit similar types of responses that were outlined by Ponterotto, which included:

**Multicultural Awareness Scale**

**INTRODUCTION** SURVEY RESULTS

PAGES 1 | 2

I try to stay current on issues around the world to ensure sensitivity to people of other cultures.

☐ Strongly disagree  
☐ Disagree  
☐ Neutral

**Multicultural Awareness Scale**

**INTRODUCTION** SURVEY RESULTS

PAGES 1

**Multicultural Awareness Score: 4.3**

Category of Multicultural Awareness	Range
High Multicultural Awareness	4.1 or above
Normal Multicultural Awareness	2.9-4.0
Low Multicultural Awareness	2.8 or below

The higher your score on this instrument, the more you perceive yourself to have high multicultural awareness and knowledge. It is important to note that awareness and knowledge are different constructs, and you should consider your own awareness and knowledge separately. Please review the two descriptions below to better understand the difference between awareness and knowledge.

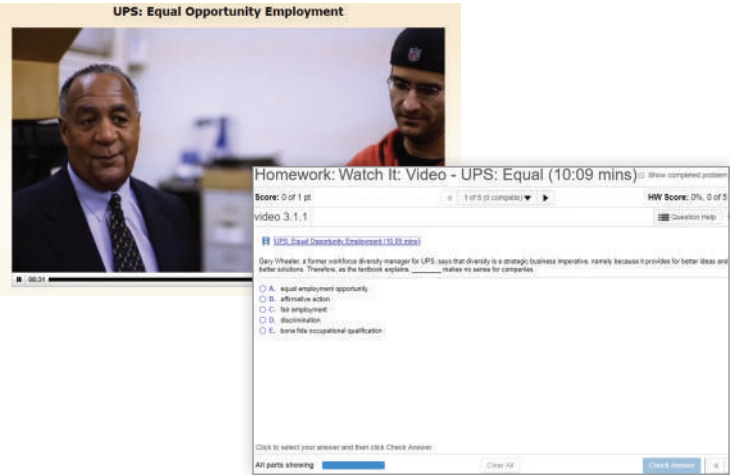
**Your Results**

Score: 4.3

High Multicultural Awareness  
 Normal Multicultural Awareness  
 Low Multicultural Awareness

View Comparative Results Print Results

See Your Answers Retake



Video Exercises

Video Exercises are available for select chapter topics to help engage students and hold them accountable for their learning. A video clip can be assigned to students for outside classroom viewing or it 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.

Developing Employability Skills

This text prepares all future managers with a business understanding of the need for human resource management skills. Since the first edition of Managing Human Resources was published, the general management perspective has become much more prevalent among practicing managers. Recent environmental and organizational forces have contributed greatly to this trend. Organizations are becoming flatter. Globalized operations have become the norm for most organizations once they reach a certain size, and now one often finds that even firms with fewer than 50 employees may be engaged in cross-border activities. Organizations face great pressure to demonstrate social responsibility and to engage in sustainable practices. In addition to greater diversity at home, this trend requires that managers be prepared to work effectively with people with backgrounds very different from their own. Technology such as the Internet fosters communication among all levels of personnel, and managers are expected to be generalists, with a broad set of skills, including human resource management (HRM) skills.

The below employability skills table provides students with a guide to features that support the development of skills employers are looking for in today’s business graduates, helping students to see from the start of class the relevance of the course to their career goals. This table identifies which features and end-of-chapter materials will help students to develop these skills.

Employability Skills Table				
Skills	Sections in the text and MyLab covering these skills			
Written and oral communication	Manager’s Notebook boxes in each chapter	You Manage It–End-of-chapter cases	Chapter End Discussion Questions	End-of-chapter Writing Assignment–MyLab
Critical thinking and problem solving	Manager’s Notebook boxes in each chapter	You Manage It–End-of-chapter cases	Chapter End Discussion Questions	Quiz–MyLab
Teamwork and collaboration	Manager’s Notebook boxes in each chapter	You Manage It–End-of-chapter cases	Chapter End Discussion Questions	
Leadership	Manager’s Notebook boxes in each chapter	You Manage It–End-of-chapter cases		
Ethics	Manager’s Notebook boxes in each chapter	You Manage It–End-of-chapter cases	A Question of Ethics–Marginalia box feature	
Information technology skills	Manager’s Notebook boxes in each chapter	You Manage It–End-of-chapter cases		



## Instructor Teaching Resources

This program comes with the following teaching resources:

Supplements available to instructors at <a href="http://www.pearsonhighered.com/irc">www.pearsonhighered.com/irc</a>	Features of the Supplement
<b>Instructor's Resource Manual</b>	<ul style="list-style-type: none"> <li>• Teaching Notes</li> <li>• Teaching Outline</li> <li>• Solutions to all questions and problems in the book</li> </ul>
<b>Test Bank</b>	<p>2,000 multiple-choice, true/false, and short-answer questions with these annotations:</p> <ul style="list-style-type: none"> <li>• Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis)</li> <li>• Applicable Skill</li> <li>• AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge)</li> <li>• Learning Objective</li> </ul>
<b>Computerized TestGen®</b>	<p>TestGen allows instructors to:</p> <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>
<b>PowerPoints</b>	<p>PowerPoints meet accessibility standards for students with disabilities. Features include, but not limited to:</p> <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

We would also like to thank the many colleagues who have reviewed both the past editions as well as the current edition and have offered valuable feedback.

Uzo Anakwe, Pace University  
Kamala Arogyaswamy, University of South Dakota  
Kristin Backhaus, SUNY New Paltz  
Trevor Bain, University of Alabama  
Murray Barrick, University of Iowa  
Richard Bartlett, Muskingum Tech College  
Kevin Bergin, Dutchess Community College  
Deborah Bishop, Saginaw Valley State University  
Jim Brakefield, Western Illinois University  
Larry Brandt, Nova Southeastern University  
Diane Bridge, American University  
Mark Butler, San Diego State University  
Felipe Chia, Harrisburg Area Community College  
Steve Childers, East Carolina University  
Denise Daniels, Seattle Pacific University  
Kermit Davis, Auburn University  
Kerry Davis, Auburn University  
Michelle Dean, University of North Texas  
Rebby Diehl, Salt Lake Community College  
Karen McMillen Dielmann, Indiana University of Pennsylvania  
Scott Donaldson, Northeastern Oklahoma A&M College  
Cathy DuBois, Kent State University  
Rebecca Ellis, California Polytechnic State University  
Matt Farron, Schenectady County Community College  
Anne Fiedler, Barry University  
Hugh Findley, Troy State University  
David Foote, Middle Tennessee State University  
Debbie Goodwin, Lewis-Clark State College  
David A. Hofmann, Michigan State University  
Harry Hollis, Belmont University  
Deb Humphreys, California Polytechnic State University  
Feruzan Irani, Georgia Southern University  
David Kaplan, James Madison University  
Tim Keaveny, Marquette University  
Donald Knight, University of Maryland  
Anachai Kongchan, Chulalongkor University  
Gregory A. Laurence, University of Michigan—Flint  
Lewis Lash, Barry University  
Gregory A. Laurence, Syracuse University  
Helen Lavan, DePaul University

Stan Malos, San Jose State University  
 Candice Miller, Brigham Young University—Idaho  
 Joe Mosca, Monmouth University  
 Paul Muchinsky, University of North Carolina at Greensboro  
 Frank Mullins, Syracuse University  
 Smita Oxford, Mary Washington College  
 Steve Painchaud, Southern New Hampshire University  
 Elaine Potoker, Maine Maritime Academy  
 Dr. Jim Sethi, University of Montana—Western  
 Marcia Simmering, Louisiana Tech University  
 Janice Smith, North Carolina A&T  
 Howard Stager, Buffalo State College  
 Lisa T. Stickney, University of Baltimore  
 Gary Stroud, Franklin University  
 Cynthia Sutton, Indiana University  
 Thomas Tang, Middle Tennessee State University  
 Tom Taveggia, University of Arizona  
 David Wade, Northern Illinois University  
 Edward Ward, St. Cloud State  
 Sandy Wayne, University of Illinois at Chicago  
 Les Wiletzky, Hawaii Pacific University  
 Carol Young, Wittenberg University

Finally, this book would not have been possible without the indulgence of family and friends. We sincerely appreciate the patience and tolerance that were extended to us as we wrote the ninth edition.

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*David B. Balkin*

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seven years at UTSA. He authored a regular column on current issues in HRM for over ten years and received an Academy of Management certificate for outstanding service as a columnist for the HR division newsletter. Professor Cardy was a 1992 recipient of a certificate for significant contributions to the quality of life for students at ASU. His research focuses on performance appraisal and effective HRM practices.

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## 1


# Meeting Present and Emerging Strategic Human Resource Challenges

## LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- 1.1 Describe** the major challenges affecting HR.
- 1.2 Outline** key steps in planning and implementing strategic HR policies.
- 1.3 Understand** the various HR strategies that companies use to increase firm performance.
- 1.4 Outline** HR best practices.
- 1.5 Explain** how to establish a close partnership between the HR department and managers.

## MyLab Management

When you see this icon , visit [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) for activities that are applied, personalized, and offer immediate feedback.

Whether in a recession or during boom times, companies compete for talent. Those that are capable of attracting, retaining, and motivating good employees are more likely to achieve and sustain a competitive advantage. Let's take four examples:

- Giant Alcatel-Lucent employs about 72,000 employees worldwide, and it plans to cut approximately 10,000 jobs during 2014 through 2016 to stem years of losses. While this move might be beneficial for the bottom line in the short term, many of its employees (even those who might not get the ax) are being syphoned away by competitors such as Ericsson, Huawei, and Nokia. This loss of talent accelerated Alcatel-Lucent's decline after 2016, leading to its eventual acquisition by Nokia.
- Not long ago, Google Inc. was considered the ideal place to work, and it was repeatedly chosen by *Fortune* in its annual pick of the best companies to work for. Google used to receive more than 1,000 applicants for every five jobs available, and very few employees left the company once they were hired. Yet the situation seems to be changing, making it much tougher for Google to attract and retain top talent despite the company's name recognition and prestige. Google Inc. is now fighting off many growing Internet firms that are poaching its staff. Facebook, Zynga, and Twitter have increased their staffing by approximately 90 percent, and many of those employees are migrating from Google. To help attract new recruits and preempt defections, all of Google's employees (about 25,000) were given a 10 percent raise, at an estimated cost of \$400 million.
- In recent years, Motorola has lost thousands of engineers, researchers, and designers to competitors such as Apple; Samsung; Research in Motion (RIM, the maker of the Blackberry); Nokia; Dell; and Sony Erickson. A group of software experts laid off by Motorola marketed themselves to Yahoo as a team, and all were quickly hired.



Source: Lisa Werner/Alamy Stock Photo.

- In 2018 Facebook faced a public relations disaster after it was revealed that close to 90 million subscribers had their data used without their permission. Many Facebook employees left the company following the scandal, and the company stock price plummeted.

### human resources (HR)

People who work in an organization. Also called *personnel*.

### human resource strategy

A firm's deliberate use of human resources to help it gain or maintain an edge against its competitors in the marketplace. The grand plan or general approach an organization adopts to ensure that it effectively uses its people to accomplish its mission.

### human resource tactic

A particular HR policy or program that helps to advance a firm's strategic goal.

## The Managerial Perspective

This book is about the people who work in an organization and their relationship with that organization. Different terms are used to describe these people: *employees*, *associates* (at Walmart, for instance), *personnel*, and *human resources*. None of these terms is better than the others, and they often are used interchangeably. The term we have chosen for the title of this text, and which we will use throughout, is **human resources (HR)**. This term has gained widespread acceptance in recent years because it expresses the belief that workers are a valuable—and sometimes irreplaceable—resource. Effective human resource management (HRM) is a major component of any manager's job.

A **human resource strategy** refers to a firm's deliberate use of human resources to help it gain or maintain an edge against its competitors in the marketplace. It is the grand plan or general approach that an organization adopts to ensure that it effectively uses its people to accomplish its mission. A **human resource tactic** is a particular policy or program that helps to advance a firm's strategic goal. Strategy precedes and is more important than tactics.

In this chapter, we focus on the general framework within which specific HR activities and programs fit. With the help of the company's human resources department, managers implement the chosen HR strategies. In subsequent chapters, we move from the general to the specific and examine in detail the spectrum of HR strategies (for example, those regarding work design, staffing, performance appraisal, career planning, and compensation).

### ★ 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 take the Chapter 1 warmup.

> **1.1 Describe** the major challenges affecting HR.

### manager

A person who is in charge of others and is responsible for the timely and correct execution of actions that promote his or her unit's success.

### line employee

An employee involved directly in producing the company's good(s) or delivering the service(s).

### staff employee

An employee who supports line employees.

### environmental challenges

Forces external to a firm that affect the firm's performance but are beyond the control of management.

## Human Resource Management: The Challenges

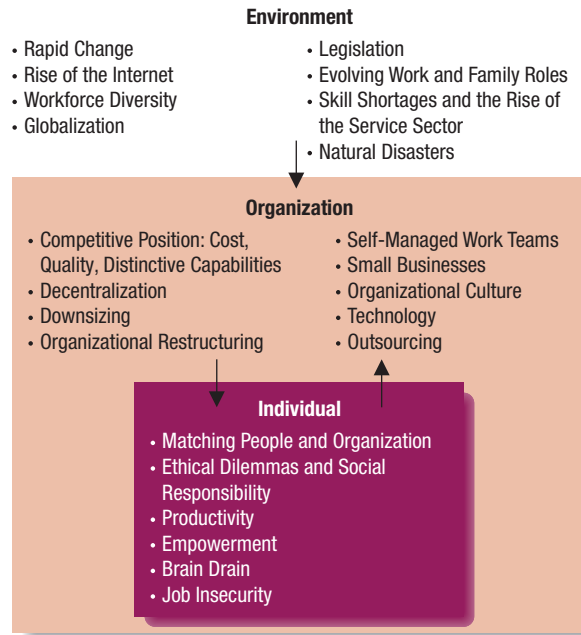
**Managers** are people who are in charge of others and who are responsible for the timely and correct execution of actions that promote their units' successful performance. In this book, we use the term *unit* broadly; it may refer to a work team, department, business unit, division, or corporation.

All employees (including managers) can be differentiated as line or staff. **Line employees** are directly involved in producing the company's good(s) or delivering the service(s). A *line manager* manages line employees. **Staff employees** are those who support the line function. For example, people who work in the HR department are considered staff employees because their job is to provide supporting services for line employees. Employees may also be differentiated according to how much responsibility they have. *Senior employees* are those who have been with the company longer and have more responsibility than *junior employees*. *Exempt employees* (sometimes called *salaried employees*) are those who do not receive extra pay for overtime work (beyond 40 hours per week). *Nonexempt employees* do receive overtime compensation. This text is written primarily to help students who intend to be managers deal effectively with the challenges of managing people.

Figure 1.1 summarizes the major HR challenges facing today's managers. Firms that deal with these challenges effectively are likely to outperform those that do not. These challenges may be categorized according to their primary focus: the environment, the organization, or the individual.

### Environmental Challenges

**Environmental challenges** are the forces external to the firm. They influence organizational performance but are largely beyond management's control. Managers, therefore, need to monitor



**FIGURE 1.1**  
Key HR Challenges  
for Today's Managers

the external environment constantly for opportunities and threats. They must also maintain the flexibility to react quickly to challenges. One common and effective method for monitoring the environment is to read the business press, including *BusinessWeek*, *Fortune*, and the *Wall Street Journal*. (The Appendix at the end of this book provides an annotated listing of both general business publications and more specialized publications on HR management and related topics.)

Eight important environmental challenges today are rapid change, the rise of the Internet, workforce diversity, globalization, legislation, evolving work and family roles, skill shortages and the rise of the service sector, and catastrophic events as a result of natural disasters and terrorism.

**RAPID CHANGE** Many organizations face a volatile environment in which change is nearly constant. For this reason IBM's ex-CEO, Sam Palmisano, tells his managers that he doesn't believe in forecasts longer than one week. If they are to survive and prosper, firms need to adapt to change quickly and effectively. Human resources are almost always at the heart of an effective response system. Here are a few examples of how HR policies can help or hinder a firm grappling with external change:

- **New company town** As firms experience high pressure to become more productive and deal with very short product life cycles (often measured in months), Americans are working longer, harder, and faster. As a result, the line between home and work is blurred for many employees. To deal with this phenomenon, sociologist Helen Mederer of the University of Rhode Island notes that "companies are taking the best aspects of home and incorporating them into work."<sup>1</sup>

An increasing number of companies are providing "home at work" benefits. These include dry cleaner/laundry service, company store, take-home meals, concierge service, oil changes/autocare, hair salon, and pet care.

According to a report in the *New York Times*:<sup>2</sup>

. . . things like nap rooms and massage recliners may sound out of place to some in a working environment. But such perks can boost productivity when there are older workers with sore backs, or young parents with sometimes sleepless nights. Musical performance, too, may seem at first like an unnecessary distraction. But companies trying them say that they can be done simply and inexpensively, and that they produce better morale, increased motivation and less stress.

- **Dealing with stress** Rapid change and work overload can put employees under a great deal of stress. The Bureau of Labor Statistics reported that 50 percent of the 19.8 million Americans who say they work at home at least once a week aren't compensated for it. In other words, millions of employees must work at home just in order to catch up.



#### A QUESTION OF ETHICS

How much responsibility does an organization have to shield its employees from the effects of rapid change in the environment? What risks does this type of "shock absorber" approach to management entail?

Unless the organization develops support mechanisms to keep stress manageable, both the firm and employees may pay a heavy price. In some extreme cases, workplace violence may result. The Centers for Disease Control and Prevention call workplace violence a “national epidemic”; the most recent figures indicate that U.S. employees at work were the victims of 18,104 injuries from assault and 609 homicides. Since the last edition of this book multiple mass shootings have been reported at schools all over the country, at public events (such as music festivals in Orlando and Las Vegas), and in organizations such as YouTube and the U.S. Post Office. Typically, however, the observed results of poorly handled stress are more subtle yet still highly destructive, costing the company substantial money. According to some estimates, stress-related ailments cost companies about \$200 billion a year in increased absenteeism, tardiness, and the loss of talented workers. One survey reports that 67 percent of employees categorize their work-related stress as high.<sup>3</sup> The National Institute of Mental Health estimates that approximately 222.7 million days of work are lost annually due to absence and impairments related to depression alone, costing employers (the majority of which are small firms) \$51.5 billion a year. For Americans in prime working age (20 to 55 years old) the risk of probability of death has risen by more than 10 percent since 2008, with mental and substance-use disorders as the main cause. Many firms, including Microsoft, Sysco Food Services, Apple, IBM, General Motors, Google, Chrysler, Johnson & Johnson, Coors Brewing Company, Citigroup Inc., Texas Instruments, and Hughes Aircraft (now merged into Raytheon), among others, have introduced stress-control programs in recent years.

Throughout this book we emphasize how HR practices can enable a firm to respond quickly and effectively to external changes. Two chapters (Chapter 13 on employee relations and Chapter 16 on managing workplace safety and health) specifically deal with issues related to employee stress.

**THE WEB ECONOMY** The intrusiveness of the Internet in our everyday lives probably represents the single most important environmental factor affecting organizations and their human resource practices. In the mid-1990s, the term *Web economy* had not yet been coined. Now, almost all firms use the Internet as part of their normal business practices. The Internet is having a pervasive impact on how organizations manage their human resources, as the following examples show:

- ***Necessitating greater written communication skills*** Companies have discovered that Internet technology creates a high demand for workers who can deal effectively with e-mail messages. This skill is key if companies want to keep fickle Internet customers loyal, making them less likely to go to a competitor by simply tapping a few keystrokes.  
E-mail writing may also involve legal issues. For instance, an employee’s e-mail response to a customer complaint may be legally binding on the firm, and there is the “written” record to prove it. Some jokes among employees may be used as evidence of sexual harassment. Unlike regular mail, electronic communication is not considered private, and thus the company and employees may be open to scrutiny by government agencies as well anyone with the basic skills required to access the system.  
Although English is the main language of the Internet, almost half of Internet communication takes place in foreign languages, and only 7 percent of users on a global basis are native English speakers. Major multimillion-dollar blunders due to language problems have already been documented, such as the case of Juan Pablo Davila, a commodities trader in Chile. He typed the word *buy* on the computer by mistake instead of *sell*. To rectify his mistake, he started a frenzy of buying and selling, losing 0.5 percent of his country’s GNP. His name has become an Internet-related verb—*davilar*—meaning “to screw up royally.”<sup>4</sup>
- ***Dealing with information overflow*** Although executives spend an average of four hours a day receiving, checking, preparing, and sending e-mails, they are still spending 130 minutes a day in formal and informal face-to-face meetings. According to Neil Flett, CEO of a large communication consulting firm, “Because e-mail consumes so much time it may just be that it just adds to communication time rather than reducing it.”<sup>5</sup>  
According to some estimates, almost one-third of e-mails received by employees are not directly relevant to their jobs; considering that employees are now receiving an average of 30 e-mails each day, this may translate into as much as one hour a day of lost productivity.
- ***Breaking down labor market barriers*** More than ever before, the Internet is creating an open labor market where information about prospective employees and firms is available on a global basis and may be obtained quickly and inexpensively. Thousands of specialized search engines (such as *Indeed.com*, *Simplyhired.com*, *Workzoo.com*, and *Jobsearch.org*) now scan



both well-known and obscure employment boards on the job seeker's behalf. While more and more organizations are relying on Web applications to recruit and screen employees, it is unclear to what extent these highly efficient yet "cold" impersonal approaches to staffing allows organizations to learn about candidates' intangible qualities such as leadership skills, work ethic, business acumen, and flexibility. Applicants often complain that sophisticated computer programs tend to have a narrow focus, relying on numerical and/or concrete criteria that may not truly capture what the person could contribute if given an opportunity.

- **Data analytics** This term has now become a "buzz word" in HR circles referring to the utilization of data from multiple sources (such as social media, e-mail exchanges, online attitude surveys and personnel files) to diagnose HR problems and make HR decisions. (See the Manager's Notebook "Big Data Analytics and the Use of Artificial Intelligence on the Rise for HR.") The *Wall Street Journal* defines it as "people analytics—using data science to make sense of your workforce the same way you would make sense of your product, you users. Let's use data science to understand what's happening across our organization . . ."<sup>6</sup>

## MANAGER'S NOTEBOOK

### Big Data Analytics and the Use of Artificial Intelligence on the Rise for HR



An increasing number of companies are using data analytics to study the social dynamics of employees based on a variety of sources such as e-mail exchanges, common projects, online interactions, and access to Internet sources. The objective is to use this data to improve the utilization of human resources. For instance, General Electric (GE) developed an app to integrate 22,000 employees of a newly acquired company with those employees already working for GE. This enabled employees with similar skills, education, and background to come together on a virtual space. Other companies such as SAP (with approximately 90,000 employees) use a similar system to identify potential HR problems and take immediate action. For instance, SAP discovered that when one employee leaves a unit, other employees tend to follow suit. Early intervention may prevent a turnover chain reaction, which may be costly in terms of losing key talent, recruitment, and training. According to Jenny Dearborn, chief learning officer and senior VP of SAP, "an algorithm help us predict which candidates are likely to be the most effective workers. We are letting new employees know during 'onboarding' why top performers do well and what it would take to work at that level. Predictive analytics reveal which employees are at most risk of leaving so we can find ways of retaining them."

A related practice is the use of artificial intelligence. Artificial intelligence, for instance, is being used to develop smart software capable of replacing lawyers by writing specialized contracts for such needs as wills, real estate contracts, and divorce proceedings. It is also being used in the medical field to read detailed images from radiology scans more accurately and reliably than trained radiologists, and much of this work can be done from remote locations. In some HR departments, artificial intelligence is being used to screen large batches of résumés and applications much more quickly and efficiently than humans could.

*Sources:* *Wall Street Journal* (2018, March 14). The key to workplace diversity: Much of it begins with data analytics, R2; Winne, S., Baesens, B., and Seb, L. (2017, Winter). Is your company ready for HR analytics? *MIT Sloan Management Review*, 20–24; Ward, D. (2017, November) Data driven HR. *HR Magazine*, 14–16; Prokesh, S. (2017, September–October). Reinventing talent management: How GE uses data analytics to guide a more digital, far-flung workforce. *Harvard Business Review*, 54–63; David Ward, "Big Data Helps Workers Thrive: A Q&A with Jenny Dearborn," Society For Human Resource Management, October 26, 2017. <https://www.shrm.org/hr-today/news/hr-magazine/1117/pages/big-data-helps-workers-thrive-jenny-dearborn.aspx>

- **Using online learning** Corporate training has always been dominated by traditional in-house "paper-and-pencil" training programs. Over the past few years, however, there has been a tremendous migration from classroom learning to online learning. For example, 99 percent of employees at the Mayo Clinic opted for online training to learn about new rules on health care privacy (even though the clinic gave them the option to attend a traditional classroom seminar on company time covering the same material).

**WORKFORCE DIVERSITY** Managers across the United States are confronted daily with the increasing diversity of the workforce. In 2019, approximately 36 percent of the U.S. workforce was from a minority group, including African Americans (12 percent), Asian Americans (4.7 percent), Latinos (17 percent), and other minorities (2 percent). In many large urban centers, such as Miami, Los Angeles, and New York, minorities comprise at least half of the area's workforce. The influx of women workers is another major change in the composition of the U.S. workforce. Women with children under age 6 are now the fastest-growing segment of the workforce. Currently, close to 80 percent of employed men have employed wives versus 54 percent in 1980.

These trends are likely to accelerate in the future. By 2050, the U.S. population is expected to increase by 50 percent, with minority groups comprising nearly half of the population. While net migration has dropped since the last edition of this book, perhaps in response to a negative political climate toward immigration, Hispanics will account for at least half of this population growth. Despite fears that immigrants are not assimilating, children of immigrants actually do better economically than children of natives in the same socioeconomic class. The rigid racial categories of the past are also eroding quickly as close to 40 percent of first-generation immigrants marry outside their ethnic group.

All these trends present both a significant challenge and a real opportunity for managers. Firms that formulate and implement HR strategies that capitalize on employee diversity are more likely to survive and prosper (see the Manager's Notebook "How Harley-Davidson Is Taking Advantage of a Diverse Customer Base"). Chapter 4 is devoted exclusively to the topic of managing employee diversity. This issue is also discussed in several other chapters throughout this book.



## MANAGER'S NOTEBOOK

### How Harley-Davidson Is Taking Advantage of a Diverse Customer Base

**H**arley-Davidson had been a highly successful American company by marketing its motorcycles to a particular segment of the market, namely middle-age white males. In the last few years, the company has come to the realization that—to be competitive in the long run—it has to expand its demographic customer base and has to use a more diverse workforce in its dealerships to appeal to potential “non-traditional” buyers. Current sales are down by a third from years past, and better diversity management may be a way to reverse this trend. Keith Wadell, Harley-Davidson's chief executive, recently declared that a major priority for the company's strategic plan in the near future is to target young adults, women, African Americans, and Hispanics. He noted that these diversity efforts are already paying off with domestic sales among these “non-core customers” growing at nearly twice the rate as sales to traditional buyers. These domestic diversity efforts are also helping the company to expand sales outside of North America, with sales in the recent past growing by 25.6 percent in Asia and by 39 percent in Latin America.

*Sources:* Based on [www.harley-davidson.com](http://www.harley-davidson.com). (2019). Workforce and dealer diversity at Harley-Davidson; Diversity Inc. (2014). Do white males really need diversity outreach? [bestpractices.diversityinc.com](http://bestpractices.diversityinc.com); Irwin, N. (2013). How Harley-Davidson explains the U.S. economy. [www.washingtonpost.com](http://www.washingtonpost.com).



**GLOBALIZATION** One of the most dramatic challenges facing U.S. firms as we conclude the second decade of the twenty-first century is how to compete against foreign firms, both domestically and abroad. The Internet is an enabler of globalization, and most large firms are actively involved in manufacturing overseas, international joint ventures, or collaboration with foreign firms on specific projects. Currently the companies that make up the S&P 500 generate 48 percent of their profits outside the United States, and for many of the biggest U.S. companies, the proportion is much higher. Since the last edition of this book the United States and several European countries



(most notably the United Kingdom, Hungary, and Poland) have taken a decidedly more nationalistic and protectionist stance, yet the supply chain is now so intertwined across national boundaries that globalization is likely to continue growing unabatedly.

The implications of a global economy for human resource management are many. Here are a few examples:

- **Worldwide company culture** Some firms try to develop a global company identity to smooth over cultural differences between domestic employees and those in international operations. Minimizing these differences increases cooperation and can have a strong impact on the bottom line. For instance, the head of human resources at the European division of Colgate Palmolive notes that the goal of the company is to “make all employees Colgaters.”<sup>7</sup>
- **Worldwide recruiting** Some firms recruit workers globally, particularly in the high-technology area, where specialized knowledge and expertise are not limited by national boundaries. For instance, Unisys (an e-business solutions company whose 37,000 employees help customers in 100 countries apply information technology) recruits between 5,000 and 7,000 people a year, 50 percent of whom are information technology (IT) professionals. Unisys is always looking across borders to try to find the best persons.  
Global recruitment, however, is no panacea because good employees everywhere are in high demand, and there may not be as much applicant information available to make the appropriate selection decision. Kevin Barnes, technical director for Store Perform, with facilities in Bangalore, India, notes that “top Indian engineers are world-class, but most are taken. Anyone in India who can spell *Java* already has a job.” And the labor market attracts legions of unqualified candidates, Barnes says, making it harder to distinguish the good from mediocre performers.<sup>8</sup>
- **Industrial metamorphosis** The proportion of the American labor force in the manufacturing sector has dropped to less than 10 percent, down from 25 percent about 30 years ago. Similar drops have been experienced in several European countries, including England, Germany, and France. According to the *Economist*, “It has happened because rich-world companies have replaced workers with new technology to boost productivity and shifted production from labor-intensive products such as textiles to higher-tech, higher value-added, sectors such as pharmaceuticals. Within firms, low-skilled jobs have moved offshore.”<sup>9</sup> Labor unions have lost much of their influence. For instance, in the 1950s almost 40 percent of the U.S. workforce was unionized; by the time President Ronald Reagan took office in the early 1980s this percentage had dropped by almost half (22 percent); by the time President Barrack Obama took office less than 20 years later (2009), this proportion had dropped by more than two-thirds (to approximately 7 percent of the private-sector workforce), and in 2019 it is estimated at less than 6 percent.
- **Global alliances** International alliances with foreign firms require a highly trained and devoted staff. For instance, Philips (a Dutch lighting and electronics firm) became the largest lighting manufacturer in the world by establishing a joint venture with AT&T and making several key acquisitions, including Magnavox, parts of GE Sylvania, and the largest lighting company in France.
- **A virtual workforce** Because of restrictive U.S. immigration quotas, U.S. firms are tapping skilled foreign labor but not moving those workers to the United States. The Internet is making this possible with little additional expense. For example, Microsoft Corp. and Real- Networks Inc. use Aditi Corp., a Bangalore, India, company, to handle customer e-mails. In addition, many “virtual” expatriates work abroad but live at home. In the medical field a growing trend is to diagnose diseases virtually by “reading” CT scan images and X-rays from locations overseas.
- **The global enterprise** Internationalization is growing at warp speed, creating a powerful new reality. For instance, most people think of Coca-Cola as emblematic of the United States. Yet its prior CEO, Muhtar Kent, describes Coca Cola in the following terms: “We are a global company that happens to be headquartered in Atlanta. We have a factory in Ramallah that employs 2,000 people. We have a factory in Afghanistan. We have factories everywhere.” Nearly 80 percent of Coca-Cola’s revenue comes from 206 countries outside the United States.

- **Wage competition** Not too long ago, many U.S. blue-collar workers could maintain a solid middle-class standard of living that was the envy of the rest of the world. This was sustained, in part, by higher productivity and superior technological innovation in the United States and because American manufacturers enjoyed a high market share with little foreign competition. Unfortunately, this is no longer the case in many sectors. This has led to much frustration in the so-called “rust belt” (old industrial towns), leading many of its inhabitants to vote for politicians espousing protectionist policies. As noted in a recent report, “While businesses have a way to navigate this new world of technological change and globalization, the ordinary American worker does not. Capital and technology are mobile; labor isn’t. American workers are located in America.”<sup>10</sup>

An entire chapter of this book (Chapter 17) is devoted to the HR issues firms face as they expand overseas. We also include international examples throughout the book to illustrate how firms in other countries manage their human resources.

**LEGISLATION** Much of the growth in the HR function over the past four decades may be attributed to its crucial role in keeping the company out of trouble with the law. Most firms are deeply concerned with potential liability resulting from personnel decisions that may violate laws enacted by the U.S. Congress, state legislatures, or local governments. Discrimination charges filed by older employees, minorities, and the disabled, for instance, have been on the rise for years. In some cases, such as charges of sexual harassment, the increase has exceeded 75 percent since the last edition of this book.



One legal area growing in importance is alleged misuse of “proprietary company information” by ex-employees. Pitney Bowes, the world’s largest maker of postage meters and other mailing equipment, recently sued eight ex-employees who opened a small competing firm called Nexx-post. According to a Pitney Bowes spokesperson:

The company invests a great deal of time and money in areas of developing our intellectual property, in marketing and training our sales force. We must protect our investment, which also includes our customer lists, information about consumer preferences, as well as pricing. All that has a significant competitive value. When a former employee wants to challenge us, we take that breach very seriously and do what we need to do to protect it.<sup>11</sup>

Operating within the legal framework requires keeping track of the external legal environment and developing internal systems (for example, supervisory training and grievance procedures) to ensure compliance and minimize complaints. In particular, given the many high profile cases of sexual harassment in recent years, these efforts may well be worth the time and money.

Legislation may differentiate between public- and private-sector organizations. (*Public sector* is another term for governmental agencies; *private sector* refers to all other types of organizations.) For instance, affirmative action requirements (see Chapter 3) are typically limited to public organizations and to organizations that do contract work for them. However, much legislation applies to both public- and private-sector organizations. In fact, it is difficult to think of any HR practices that are *not* influenced by government regulations. For this reason, each chapter of this book addresses pertinent legal issues, and an entire chapter (Chapter 3) provides an overall framework that consolidates the main legal issues and concerns facing employers today.

**EVOLVING WORK AND FAMILY ROLES** The proportion of *dual-career* families, in which both wife and husband (or both members of a couple) work, is increasing every year.

More companies are introducing “family-friendly” programs that give them a competitive advantage in the labor market. Companies use these HR tactics to hire and retain the best-qualified employees, male or female. Through the Office of Personnel Management, the federal government provides technical assistance to organizations that wish to implement family-friendly policies. On its 2019 Web page ([opm.gov](http://opm.gov)), for instance, the office makes available numerous publications on issues such as adoption benefits, child care, elder-care resources, parenting support, and telework.

Family-friendly policies are discussed in detail in Chapter 12 under the heading “Employee Services.” Special issues that women confront in the workplace are discussed in Chapter 4.

**SKILL SHORTAGES AND THE RISE OF THE SERVICE SECTOR** As noted earlier, U.S. manufacturing has dropped dramatically in terms of the percentage of employees who work in that sector. Most employment growth has taken place in the service industry. The categories with the fastest growth

are expected to be professional specialties (27 percent) and technical occupations (22 percent). The fastest-growing occupations demand at least two years of college training. Expansion of service-sector employment is linked to a number of factors, including changes in consumer tastes and preferences, legal and regulatory changes, advances in science and technology that have eliminated many manufacturing jobs, changes in the way businesses are organized and managed, and the subcontracting of many blue-collar jobs overseas.

Unfortunately, many available workers will be too unskilled to fill those jobs. Even now, many companies complain that the supply of skilled labor is dwindling and that they must provide their employees with basic training to make up for the shortcomings of the public education system. For example, 84 percent of the 23,000 people applying for entry-level jobs at Bell Atlantic Telephone (formerly NYNEX) failed the qualifying test. Chemical Bank (now merged with Chase) reported that it had to interview 40 applicants to find one proficient teller.<sup>12</sup> David Hearn, former chairman and CEO of Xerox, laments that “the American workforce is running out of qualified people.”<sup>13</sup> This has become a more serious problem since the last edition of this book as the economy essentially reached full employment.

To rectify these shortcomings, companies spend at least \$60 billion a year on a wide variety of training programs. This is in addition to the \$24 billion spent on training programs by the federal government each year. On the employee-selection side, an increasing number of organizations are relying on job simulations to test for the “soft skills” needed to succeed in a service environment, such as sound judgment in ambiguous situations, the ability to relate to diverse groups of people, and effective handling of angry or dissatisfied customers.

Chapter 8 focuses directly on training; Chapter 5 (staffing), Chapter 7 (appraising employee performance), and Chapter 9 (career development) all discuss issues related to the skills and knowledge required to succeed on the job.

**NATURAL DISASTERS AND TERRORISM** A stream of recent disasters, including the 2011 Japanese earthquake; the early 2005 tsunami that killed more than 250,000 people in Asia; the 2010 Haitian earthquake and subsequent cholera epidemics during 2010–2012, which killed more than 200,000 people; the 2010 oil spill environmental disaster of British Petroleum in the Gulf of Mexico; and a string of devastating hurricanes—most notably in New Orleans, Houston, Tampa, and the island of Puerto Rico—have increased awareness among HR professionals of the importance of having plans to deal with such catastrophes. Violent attacks in schools, plazas, company premises, and churches have left some communities devastated, affecting not only individuals involved but also their extended families. Employers had to suddenly deal with HR issues to which they previously had given little thought. These included: deciding whether to keep paying employees who were unreachable and unable to report to work, paying for a variety of living expenses for displaced staffers in temporary living quarters, providing telecommuting equipment for employees working from hotels, awarding hazardous duty pay, hiring temporary employees (many of whom were undocumented workers) to fill the labor void, and preventing the loss of key talent to competitors outside the disaster area. Time Warner Inc. waived medical deductibles and supported out-of-network medical coverage for affected Katrina families. Walmart, with more than 34,000 employees displaced by Katrina, guaranteed them work in any other U.S. Walmart store and created an “Associate Disaster Relief Fund” for employees whose homes were flooded or destroyed. Surprisingly, even after Katrina, almost half of firms don’t have HR policies to deal with major disasters. But this is likely to change as new potential threats (such as avian flu, major earthquakes, chemical contamination, and more hurricanes) loom on the horizon. Another issue of concern to many firms, particularly multinationals, is terrorism, which we discuss later. Recent well-publicized terrorist incidents such as the 2013 Boston Marathon bombings, numerous mass shootings on American soil in the past five years, the 2013 attack on a major Nairobi (Kenya) shopping mall, and continued pirating of ships along the Somali coast are continuous reminders that organizations need to be prepared to respond to potential terrorist threats.

## Organizational Challenges

**Organizational challenges** are concerns or problems internal to a firm. Effective managers spot organizational issues and deal with them before they become major problems. One of the themes of this text is *proactivity*: the need for firms to take action before problems get out of hand. This can be done only by managers who are well informed about important HR issues and organizational challenges.



### A QUESTION OF ETHICS

What is the ethical responsibility of an employer to employees who lack basic literacy and numeracy skills? Should companies be required by law to provide training opportunities for such employees, as some have proposed?

### organizational challenges

Concerns or problems internal to a firm; often a by-product of environmental forces.



## Competitive Position: Cost, Quality, or Distinctive Capabilities

Human resources represent the single most important cost in many organizations. Organizational labor costs range from 37 percent in capital-intensive firms, such as commercial airlines, to 80 percent in labor-intensive firms, such as the U.S. Postal Service. How effectively a company uses its human resources can have a dramatic effect on its ability to compete (or survive) in an increasingly competitive environment.

Effective HR policies can impact an organization's competitive position by controlling costs, improving quality, and creating distinctive capabilities.

- **Controlling costs** A compensation system that uses innovative reward strategies to control labor costs can help the organization grow, as we discuss in Chapters 10 and 11. Other ways to keep labor costs under control include making better employee selection decisions (Chapter 5); training employees to make them more efficient and productive (Chapter 8); attaining harmonious labor relations (Chapter 15); effectively managing health and safety issues in the workplace (Chapter 16); and reducing the time and resources needed to design, produce, and deliver quality products or services (Chapter 2).
- **Continuous appraisals and feedback** Many companies are dropping the traditional “once a year” performance review and replacing it with more frequent, informal appraisal and coaching. We address this issue in Chapters 5 and 11.
- **Continuous quality improvement** While they were considered a fad about 20 years ago, many companies have implemented **total quality management (TQM)** initiatives, designed to improve the quality of all the processes that lead to a final product or service. Continuing evidence shows that firms that effectively implement quality programs tend to outperform those that don't.
- **Creating distinctive capabilities** The third way to gain a competitive advantage is to use people with distinctive capabilities to create unsurpassed competence in a particular area (for example, 3M's competence in adhesives, Carlson Corporation's leading presence in the travel business, and Xerox's dominance of the photocopier market). Chapter 5 (which discusses the recruitment and selection of employees), Chapter 8 (training), and Chapter 9 (the long-term grooming of employees within the firm) are particularly relevant.

### total quality management (TQM)

An organization-wide approach to improving the quality of all the processes that lead to a final product or service.



### decentralization

Transferring responsibility and decision-making authority from a central office to people and locations closer to the situation that demands attention.

**DECENTRALIZATION** Organizations commonly centralize major functions, such as HR, marketing, and production, in a single location that serves as the firm's command center. Multiple layers of management execute orders issued at the top and employees move up the ranks over time in what some have called the *internal labor market*. However, the traditional top-down form of organization is being replaced by **decentralization**, which transfers responsibility and decision-making authority from a central office to people and locations closer to the situation that demands attention. The Internet helps companies to decentralize even faster by improving the communication flow among the workforce, reducing the need to rely on the traditional organizational pyramid.

The need for maintaining or creating organizational flexibility in HR strategies is addressed in several chapters of this book, including those dealing with work flows (Chapter 2), compensation (Chapters 10 and 11), training (Chapter 8), staffing (Chapter 5), and globalization (Chapter 17).

### downsizing

A reduction in a company's workforce to improve its bottom line.

**DOWNSIZING** Periodic reductions in a company's workforce to improve its bottom line—often called **downsizing**—are becoming standard business practice, even among firms that were once legendary for their “no layoff” policies, such as IBM, Kodak, and Xerox, and even when the unemployment rate is low as of the time of this writing. Although U.S. firms traditionally were far more willing than companies in other industrialized nations to resort to layoffs as a cost-cutting measure, globalization is quickly closing the gap. Chinese, Korean, and Indian firms have also experienced massive layoffs in the wake of the economic crisis at the end of the last decade. In recent years, German companies—ranging from electronics giant Siemens to chip-maker Infineon Technologies to Commerzbank—have announced thousands of layoffs. Countries such as France, where authorities have repeatedly blocked management efforts to cut costs via layoffs, often find that these well-intentioned efforts are counterproductive, leading to a wave of bankruptcies. This was the fate of appliance maker Moulinex, once considered an icon of French industry, which it shut its doors a few years back with almost 9,000 employees losing their jobs as a result.

Chapter 6 is devoted to downsizing and how to manage the process effectively. Other relevant chapters include those on benefits (Chapter 12), the legal environment (Chapter 3), labor relations (Chapter 15), and employee relations and communications (Chapter 13).





**ORGANIZATIONAL RESTRUCTURING** Over the past two decades there has been a dramatic transformation in how firms are structured. Tall organizations that had many management levels are becoming flatter as companies reduce the number of people between the chief executive officer (CEO) and the lowest-ranking employee in an effort to become more competitive. Mergers and acquisitions have been going on for decades. Often mergers fail because the cultures and HR systems of the firms involved do not coalesce. A newer and rapidly growing form of interorganizational bonding comes in the form of joint ventures, alliances, and collaborations among firms that remain independent yet work together on specific products to spread costs and risks.



To be successful, organizational restructuring requires effective management of human resources. For instance, flattening the organization requires careful examination of staffing demands, work flows, communication channels, training needs, and so on. Likewise, mergers and other forms of interorganizational relations require the successful blending of dissimilar organizational structures, management practices, technical expertise, and so forth. Chapter 2 deals specifically with these issues. Other chapters that focus on related issues are Chapter 5 (staffing), Chapter 8 (training), Chapter 9 (career development), and Chapter 17 (international management). Chapters 10 and 11 (compensation issues) address some of the growing controversies with regard to pay inequities between top and lower levels as organizations become flatter.

**SELF-MANAGED WORK TEAMS** The traditional system in which individual employees report to a single boss (who oversees a group of three to seven subordinates) is being replaced in some organizations by the self-managed team system. Employees are assigned to a group of peers, and together they are responsible for a particular area or task. It has been estimated that 40 percent of U.S. workers are operating in some kind of team environment.

Very few rigorous scientific studies have been done on the effectiveness of self-managed work teams. However, case studies do suggest that many firms that use teams enjoy impressive payoffs. For example, company officials at General Motors' Fitzgerald Battery Plant, which is organized in teams, reported cost savings of 30 to 40 percent over traditionally organized plants. At FedEx, a thousand clerical workers, divided into teams of 5 to 10 people, helped the company reduce service problems by 13 percent. Most small businesses face a high probability of failure and conduct their work in teams as they need to have employees to pick up the slack in case someone underperforms, quits or is terminated.<sup>14</sup>

HR issues concerning self-managed work teams are discussed in detail in Chapter 2 (work flows), Chapter 10 (compensation), and Chapter 11 (rewarding performance).

**ORGANIZATIONAL CULTURE** The term **organizational culture** refers to the basic assumptions and beliefs shared by members of an organization. These beliefs operate unconsciously and define in a basic "taken for granted" fashion an organization's view of itself and its environment. The key elements of organizational culture are:<sup>15</sup>

- *Observed behavioral regularities* when people interact, such as the language used and the rituals surrounding deference and demeanor
- The *norms* that evolve in working groups, such as the norm of a fair day's work for a fair day's pay
- The *dominant values* espoused by an organization, such as product quality or low prices
- The *philosophy* that guides an organization's policy toward employees and customers
- The *rules of the game* for getting along in the organization—"the ropes" that a newcomer must learn to become an accepted member
- The *feeling or climate* that is conveyed in an organization by the physical layout and the way in which members of the organization interact with one another, customers, and outsiders

Firms that make cultural adjustments to keep up with environmental changes are likely to outperform those whose culture is rigid and unresponsive to external jolts. Campbell's Soup Company's problems in the 2000s are often attributed to norms and values that had not kept up with rapidly changing consumer tastes. As Khermouch wrote in *BusinessWeek*, "It's definitely a risk-averse, control-oriented culture. It's all about two things: financial control and how much they can squeeze out of a tomato. Campbell needs to reward risk-taking, remove organizational roadblocks, and summon up the courage to move bold initiatives from proposal to execution quickly and regularly."<sup>16</sup>

### organizational culture

The basic assumptions and beliefs shared by members of an organization. These beliefs operate unconsciously and define in a basic taken-for-granted fashion an organization's view of itself and its environment.

Changing an entrenched organizational culture is not easy. For example, Carly Fiorina, an outsider with a nontechnical background, was brought into Hewlett-Packard (HP) in 1999 as CEO in order to overhaul the company. Yet she was fired just six years later because her marketing focus, aggressiveness, autocratic style, flair for public drama, and what many thought was an overblown ego alienated key HP employees, managers, and members of the board of directors.

**TECHNOLOGY** Although technology is changing rapidly in many areas, such as robotics, one area in particular is revolutionizing human resources: information technology. *Telematics technologies*—a broad array of tools, including computers, networking programs, telecommunications, and cell phone apps—are now available and affordable to businesses of every size, even one-person companies. These technologies—coupled with the rise of the Internet—have affected businesses in a number of ways, specifically:

- **The rise of telecommuting** Because technology makes information easy to store, retrieve, and analyze, the number of company employees working at least part-time at home (*telecommuters*) has been increasing by 15 percent annually. Because telecommuting arrangements are expected to continue to grow in the future, they raise many important issues, such as performance monitoring and career planning. A recent survey uncovered that almost half of off-site employees believe that people who work onsite get more recognition than those who work off-site. On the same survey, more telecommuters than onsite employees reported that they are unlikely to stay in their current position and firm if they can find a suitable job elsewhere that pays them a similar amount. Instead of being easy work, telecommuting makes it difficult for most telecommuters to draw a line between personal and work life, sometimes making these jobs very stressful.
- **The ethics of proper data use** Data control, data accuracy, the right to privacy, and ethics are at the core of a growing controversy brought about by the new information technologies, particularly the Internet. Personal computers now make it possible to access huge databases containing information on an individual's credit files, work history, driving records, health reports, criminal convictions, and family makeup. One Web site, for example, promises that in exchange for a \$7 fee, it will scan "over two million records to create a single report on an individual."<sup>17</sup> A critical observer notes: "Because of the large volume of information errors may creep in and those who are negatively affected may not have a chance to defend themselves."<sup>18</sup> Target, for instance, was found to inadvertently be engaged in discriminatory practices in 2018 by using criminal records to turn down applicants. (Even minor traffic offenses from long ago were a reason for rejection, and minority members are more likely to have these prior records even if they are not work related.) At the time of this writing in 2019 data breaches have become the "new normal" with at least 120 million Americans having had their personal information stolen, fueling a business boom by companies purportedly providing identity theft protection. Since the last edition of this book hackers have broken into many computer systems once thought to be impregnable (including, for instance, credit reporting company Equifax, the Pentagon, and even Microsoft itself). The Manager's Notebook "What to Do with Personal Information" offers several examples of the ethical issues confronting human resource professionals given easy access to personal data via modern technology.



## MANAGER'S NOTEBOOK

### What to Do with Personal Information

One of the main ethical challenges facing HR professionals is how to interpret and put to use information about current and prospective employees that can be easily uncovered through the Web. And protecting the data of employees is becoming very difficult. Consider the following recent reports:

- **Privacy Rights**, an organization that keeps track of data breaches, has documented more than a billion records that were breached between 2010 and 2019, involving thousands of databases.

- Jessica Bennett, a reporter for *Newsweek*, recently noted a simple experiment. She asked an Internet consultant to do a scrub of the Web, giving this person her name and e-mail address to go on. Without doing any hacking, within 30 minutes the consultant had her Social Security number; in two hours, the consultant had identified her address, body type, educational background, hometown, and health status.
- “Most people are still under the illusion that when they go online, they’re anonymous,” says Nicholas Carr, author of *The Shallows: What the Internet Is Doing to Our Brains*. But in reality, as Carr notes, every key you press is being recorded into a database.
- “It is technically impossible for Yahoo! to be aware of all software or files that may be installed on a user’s computer when they visit our site,” laments Anne Toth, Yahoo’s vice president of global policy and head of privacy.
- Even though there is very little evidence that a credit score is a predictor of job performance, the Society for Human Resource Management (SHRM) reports that 60 percent of employers used credit checks (obtained in seconds from the Internet) to vet job candidates. Presumably, a lower credit score is interpreted as evidence of poor working habits, irresponsible behaviors, a higher likelihood of committing fraud, and so forth (but once again, these may be presumptions with little evidence to back them up).

Sources: Based on [www.privacyrights.org](http://www.privacyrights.org). (2019). Online privacy; [www.aclu.org](http://www.aclu.org). (2019); Seetharaman, D., and McKinnon, J. D. (2018, April 11). Zuckerberg and senators face off. *Wall Street Journal*, A-1; Donati, J. (2018, April 2). Too much digital privacy can pose its own risks. *Wall Street Journal*, A-3; Murray, S. (2010, October 15). Credit checks on job seekers by employers attract scrutiny. *Wall Street Journal*, A-5.

- **Electronic monitoring** As illustrated in the You Manage It! case “Electronic Monitoring to Make Sure That No One Steps Out of Line” at the end of this chapter, some companies are experimenting with all sorts of sophisticated devices to measure employee productivity. Approximately 40 percent of firms in 2014 were using artificial intelligence software that monitors when, how, and why workers are using the Internet. According to Clares Voice, a Dallas-based messaging security company, “We look at every piece of mail while it is in motion.”<sup>19</sup> E-mail messages are now used as evidence for all sorts of legal cases concerning age discrimination, sexual harassment, price fixing, and the like. “Some 70 percent of the evidence that we routinely deal with is in the form of electronic communication,” says Garry G. Mathiason, a senior partner at Littler Mendelson, a prestigious legal firm in San Francisco.<sup>20</sup>
- **Medical testing** Genetic testing, high-tech imaging, and DNA analysis may soon be available to aid in making employment decisions. Firms’ decisions about how to harness the new information (to screen applicants, to establish health insurance premiums, to decide who should be laid off, and the like) are full of ethical implications. IBM seems to be on the forefront, developing a policy that explicitly prohibits use of genetic data for employment decisions. This is one area where the legal system is still far behind technical advances. A related issue concerns punishing employees who are exposed to health risks, with a growing number of firms trying to “individualize” the price of health insurance (see the Manager’s Notebook “Watching Over Your Shoulder: Paying a Price for Unhealthy Life Styles”).

## MANAGER’S NOTEBOOK

### Watching Over Your Shoulder: Paying a Price for Unhealthy Life Styles

As health care costs have increased over the years, more and more companies are imposing financial penalties (mostly in health care monthly premium payments) for workers who show evidence of “unhealthy life styles.” In 2019, approximately 40 percent of large firms had this type of program (including such household names as Home Depot, Pepsi-Co, Safeway, Lowe’s, and General Mills), a percentage expected to double or triple in the near future.



Ethics/Social  
Responsibility

For instance, Walmart charges \$2,000 per year for smokers. While penalizing “bad” behaviors (such as smoking and drug and alcohol abuse) may be fair, demanding that employees who are overweight, have high cholesterol, or have high blood pressure pay more is controversial. These physical traits may not represent a personal choice and could be associated with such involuntary factors as genetic predisposition, stress, and poverty.

*Sources:* Based on Society for Human Resource Management. (2018). More employers to penalize workers for unhealthy behaviors. [www.shrm.org](http://www.shrm.org); Blacksher, E. (2018). Should employees be penalized for unhealthy behaviors? [www.thehastingscenter.org](http://www.thehastingscenter.org); [www.medscape.com](http://www.medscape.com). (2014). Should people with unhealthy lifestyles pay higher health insurance?; Abelson, R. (2013). The smokers surcharge. [www.nytimes.com](http://www.nytimes.com).

- **An increase in egalitarianism** Because information is now available both instantaneously and broadly, organizational structures are becoming more *egalitarian*, meaning that power and authority are spread more evenly among all employees. Groupware networks, which enable hundreds of workers to share information simultaneously, can give office workers corporate and business intelligence previously available only to their bosses. They also enable the rank-and-file to join in online discussions with senior executives. In these kinds of interactions, people are judged more by what they say than by their rank on the corporate ladder.

The challenges and implications of rapidly changing technologies—especially information technologies—for human resources are discussed in every chapter of this book.



**INTERNAL SECURITY** The many mass shootings and threats by terrorist organizations have engendered a collective obsession with security in the United States. Many consulting firms are now focusing their attention on how to detect potential security problems, and a wide range of firms and industry groups, from trucking associations to sporting-event organizers, have made security screening a top priority. Apart from conducting background checks, HR departments are increasingly involved in beefing up security details by scanning employees’ eyes and fingerprints for positive identification, hiring armed guards to patrol facilities, identifying employees who might pose a violence threat, and even spotting potential spies.



Although few would question that security checks are necessary, one concern from a human resource perspective is to ensure that applicants’ and employers’ rights are not violated and that due process is followed whenever suspected problems are identified. For example, should a person convicted of a drunken driving violation 15 years ago be denied a job as a flight attendant? What about people whose past reveals some facts that may be warning signals, depending on the bias of the evaluator (for instance, graduation from a Middle Eastern university, frequent job changes, multiple divorces, and the like)? Health sites offer tools used by medical professionals and companies to track data, including test results from HIV and cancer exams.

Should firms use this type of information as part of their selection process? Unfortunately, security-related information may be a matter of interpretation, except perhaps in the most grievous cases. Chapter 14, “Respecting Employee Rights and Managing Discipline,” deals with these and related issues.

### outsourcing

Subcontracting work to an outside company that specializes in and is more efficient at doing that kind of work.



Source: Ann Little/Alamy Stock Photo.

**DATA SECURITY** According to a recent *New York Times* report, a well-financed computer underground operates from countries with highly skilled technicians that are subject to very little, if any, government control. “Right now the bad guys are improving more quickly than the good guys,” says Patrick Lincoln, director of the computer science laboratory at SRI International, a science and technology research group. Data security is not just a concern for specialized computer experts; it should also involve HR policies to determine who has access to sensitive information and monitoring systems to prevent abuses by managers and employees.

**OUTSOURCING** Many large firms now shift work once performed internally to outside suppliers and contractors, a process called **outsourcing**. The motivation is simple: Outsourcing saves money. The *Wall Street Journal* reports that more than 40 percent of Fortune 500 companies have outsourced some department or service—everything from HR administration to computer systems. A survey conducted by the



WorldatWork Association (which has more than 10,000 members in responsible HR positions) found that the following HR practices are now completely or partially outsourced by a large proportion of participating firms: health and welfare (79 percent), pension plans (90 percent), payroll (62 percent), training (50 percent), and recruitment and selection (32 percent).<sup>21</sup>

Outsourcing creates several HR challenges for firms. Although it often helps companies slash costs, employees may face layoffs when their jobs are farmed out to the lowest bidder. For instance, UPS subcontracted 5,000 jobs at its 65 customer service centers. In addition, customer dissatisfaction can result if subcontractors are not carefully watched and evaluated. For instance, a group of former employees at now-liquidated Skillset Software Inc. filed suit against its outside HR provider, TriNet Group Inc., for negligence in handling their claims. Part of the problem is that these HR providers often don't provide enough access and human interaction (many rely extensively on the Web) to handle employee concerns and complaints. Subcontractors may take on more work than they can handle, and small businesses may not receive the best available service and support. When subcontracting HR activities such as training, staffing, and compensation, data security issues become paramount. The organization would have to trust that the subcontractor can effectively protect personal data (such as Social Security numbers, marital status, income level, performance problems, bank accounts) from misuse by insiders or outsiders. Outsourcing that includes a foreign location (which is increasingly common) further complicates the data security issue. Finally, outsourcing poses major difficulties for international firms trying to enforce ethical HR standards among its subcontractors around the world. Nike has been singled out in the press on numerous occasions for issues such as child labor, unsafe working conditions, and slave wages among subcontractors in China, Vietnam, Indonesia, and Thailand that produce 98 percent of its shoes at low cost. Walmart has also been singled out for hiring subcontractors in Bangladesh with very poor working conditions, in one case leading to the death of hundreds of women in a factory fire.

We discuss outsourcing and its challenges for HRM throughout this book. Chapter 2 discusses subcontracting within the context of downsizing, and Chapter 15, on labor relations, discusses how outsourcing affects unions.

**PRODUCT INTEGRITY** One complex issue that has received much media attention during the past three years is the extent to which firms can effectively monitor the integrity of products or sub-components that are made in foreign countries. For instance, traces of melamine, which could be deadly for children, have been found in infant formula in the United States and Europe. Similar problems have been reported with bad ingredients imported from China that were used by mainstream drug manufacturers as well as with counterfeit parts used by the U.S. military. The detection and prevention of these problems may require HR policies that involve carefully selecting, training, and providing appropriate incentives for the responsible managers and employees to acquire and monitor inputs from global suppliers. (More on this in Chapter 17, which examines international HR issues.)

## Individual Challenges

Human resource issues at the individual level address the decisions most pertinent to specific employees. These **individual challenges** almost always reflect what is happening in the larger organization. For instance, technology affects individual productivity; it also has ethical ramifications in terms of how information is used to make HR decisions (for example, use of credit or medical history data to decide whom to hire). How the company treats its individual employees is also likely to affect the organizational challenges we discussed earlier. For example, if many key employees leave the firm to join competitors, the organization's competitive position is affected. In other words, there is a two-way relationship between organizational and individual challenges. This is unlike the relationship between environmental and organizational challenges, in which the relationship goes only one way (see Figure 1.1); few organizations can have much impact on the environment. The most important individual challenges today are matching people and organizations, ethics and social responsibility, productivity, empowerment, brain drain, and job security.

**MATCHING PEOPLE AND ORGANIZATIONS** Research suggests that HR strategies contribute to firm performance most when the firm uses these strategies to attract and retain the type of employee who best fits the firm's culture and overall business objectives. For example, one study showed



### individual challenges

Human resource issues that address the decisions most pertinent to individual employees.

that fast-growth firms perform better with managers who have a strong marketing and sales background, who are willing to take risks, and who have a high tolerance for ambiguity. However, these managerial traits actually reduce the performance of mature firms that have an established product and are more interested in maintaining (rather than expanding) their market share.

Chapter 5 deals specifically with the attempt to achieve the right fit between employees and the organization to enhance performance.



**ETHICS AND SOCIAL RESPONSIBILITY** In previous editions of this book, we discussed the well-publicized scandals at Enron, Worldcom, Tyco, and Global Crossings, in which corruption apparently became a way of life at the top. Since then, we can scarcely read any business periodical without being bombarded by multiple cases of egregious unethical behaviors across a wide variety of organizations. These include, for example, American International Group (or AIG, one of the largest insurance companies, which artificially inflated its reserves by \$500 million); Time Warner (accused of fraudulent accounting); Bank of America (forced to pay \$1 billion in fines for ethical lapses); CitiGroup (several officers are being tried for alleged money laundering); Boeing (where top executives were sentenced in an Air Force procurement scandal involving millions of dollars); ChoicePoint (one of the largest credit reporting agencies, which allegedly kept hidden for a month information about an identity theft ring's access to personal data on about 145,000 people, providing sufficient time for top executives to dump their ChoicePoint stock); Stratton Veterans Affairs Medical Center (at which certain employees posing as doctors conducted unauthorized clinical research on cancer patients, leading to death in some cases); State University of New York at Albany (whose president, Karen R. Hitchcock, was forced to resign after accusations that she hired a contractor who promised to fund an endowed university professorship just for her); the famous Getty Museum in Los Angeles (which is beset by charges of stolen antiquities and profligate executive perks); drug makers accused of systematically hiding the side effects of certain medicines; the ex-governor of Illinois, Rod R. Blagojevich, who brazenly put up for sale his appointment of Barack Obama's successor to the U.S. Senate; Royal Dutch Shell, found guilty of paying millions of dollars in bribes to secure contracts; and more recently the sexual abuse scandals at Michigan State University, the Wells Fargo opening of new accounts without the permission of unsuspecting customers, the manipulation of auto emission data by Volkswagen, and the purported sale of customer data by Facebook to Cambridge Analytics without customers' knowledge. We can safely assume that reported cases of unethical behavior represent only the tip of the iceberg.

In response to these concerns, people's fears that their employers will behave unethically are increasing, so much so that many firms and professional organizations have created codes of ethics outlining principles and standards of personal conduct for their members. Unfortunately, these codes often do not meet employees' expectations of ethical employer behavior. In a poll of *Harvard Business Review* readers, almost half the respondents indicated their belief that managers do not consistently make ethical decisions.<sup>22</sup> To the common person on the street, the economic crisis prompted by dubious financial instruments at the end of the first decade of the twenty-first century and the large bonuses received by top executives during the subsequent deep recession seem to have reinforced that image. President Obama called this situation "immoral."

The widespread perceptions of unethical behavior may also be attributed to the fact that managerial decisions are rarely clear-cut. Except in a few blatant cases (such as willful misrepresentation), what is ethical or unethical is open to debate. Even the most detailed codes of ethics are still general enough to allow much room for managerial discretion. In fact, many of the executives convicted of illegal activities thought they were just buying time to turn the company around or that subordinates were too zealous in implementing "revenue enhancing" directives. Perhaps even more so than in other business areas, many specific decisions related to the management of human resources are subject to judgment calls. Often these judgment calls constitute a catch-22 because none of the alternatives is desirable.

Many companies are using the Web to infuse employees and managers with ethical values. For instance, many of Lockheed Martin's 160,000 employees are required to take a step-by-step online training program on ethics. CitiGroup started an online ethics training program that is mandatory for all of its 300,000 employees. Other companies are using more traditional training methods to implement so called "zero-tolerance policies." For instance, at Goldman Sachs, the chief executive (Henry M. Paulson, Jr., who later became U.S. Treasury Secretary) moderated

seminars on various business judgments and ethical issues with all the bank's managing directors. Most universities now require online training classes for all faculty and staff on sexual harassment and the privacy of student records.

A company that exercises *social responsibility* attempts to balance its commitments—not only to its investors, but also to its employees, its customers, other businesses, and the community or communities in which it operates. For example, McDonald's established Ronald McDonald Houses years ago to provide lodging for families of sick children hospitalized away from home. Sears and General Electric support artists and performers, and many local merchants support local children's sports teams. Philip Morris is trying to turn around its "ugly duckling" image by entering the business of treating smoke-related illnesses and supporting research projects on lung-disease prevention.

An entire chapter of this book is devoted to employee rights and responsibilities (Chapter 13); each chapter includes (at selected points) pertinent ethical questions for which there are no absolute answers. Most chapters also include a Manager's Notebook dealing with ethical issues related to the specific topic of that chapter. See the accompanying box for this chapter.

**PRODUCTIVITY** Most experts agree that productivity gains from technology have altered the economic playing field since the mid-1990s. **Productivity** is a measure of how much value individual employees add to the goods or services that the organization produces. The greater the output per individual, the higher the organization's productivity. For instance, U.S. workers produce a pair of shoes in 24 minutes, whereas Chinese workers take three hours. Intangible human capital comes in many forms, such as designers' creativity at Intel Corp., the tenacity of software architects at Sun Microsystems Inc., marketing knowledge at Procter & Gamble Co., and a friendly culture as in the case of Southwest Airlines. From an HR perspective, employee productivity is affected by ability, motivation, and quality of work life.

Employee **ability**, competence in performing a job, can be improved through a hiring and placement process that selects the best individuals for the job. Chapter 5 specifically deals with this process. It can also be improved through training and career development programs designed to sharpen employees' skills and prepare them for additional responsibilities. Chapters 8 and 9 discuss these issues.

**Motivation** refers to a person's desire to do the best possible job or to exert the maximum effort to perform assigned tasks. Motivation energizes, directs, and sustains human behavior. Several key factors affecting employee motivation are discussed in this book, including work design (Chapter 2), matching of employee and job requirements (Chapter 5), rewards (Chapters 11 and 13), and due process (Chapter 14).

A growing number of companies recognize that employees are more likely to choose a firm and stay there if they believe that it offers a high **quality of work life**. A high quality of work life is related to job satisfaction, which, in turn, is a strong predictor of absenteeism and turnover. A firm's investments in improving the quality of work life also pay off in the form of better customer service. We discuss issues related to job design and their effects on employee attitudes and behavior in Chapter 2.

**EMPOWERMENT** Many firms have reduced employee dependence on superiors, placing more emphasis on individual control over (and responsibility for) the work that needs to be done. This process has been labeled **empowerment** because it transfers direction from an external source (normally the immediate supervisor) to an internal source (the individual's own desire to do well). In essence, the process of empowerment entails providing workers with the skills and authority to make decisions that would traditionally be made by managers. The goal of empowerment is an organization consisting of enthusiastic, committed people who perform their work ably because they believe in it and enjoy doing it (*internal control*). This situation is in stark contrast to an organization that gets people to work as an act of compliance to avoid punishment (for example, being fired) or to qualify for a paycheck (*external control*).

HR issues related to internal and external control of behavior are discussed in Chapter 2 (work flows).

**BRAIN DRAIN** With organizational success more and more dependent on knowledge held by specific employees, companies are becoming more susceptible to **brain drain**—the loss of intellectual property that results when competitors lure away key employees. Important industries such



### productivity

A measure of how much value individual employees add to the goods or services that the organization produces.

### ability

Competence in performing a job.

### motivation

A person's desire to do the best possible job or to exert the maximum effort to perform assigned tasks.

### quality of work life

A measure of how safe and satisfied employees feel with their jobs.

### empowerment

Providing workers with the skills and authority to make decisions that would traditionally be made by managers.

### brain drain

The loss of high-talent key personnel to competitors or start-up ventures.

as semiconductors and electronics also suffer from high employee turnover when key employees leave to start their own businesses. This brain drain can negatively affect innovation and cause major delays in the introduction of new products.

At a national level, brain drain has been a major problem for developing countries because the best educated tend to leave. Universities and research and development (R&D) labs in the United States are full of faculty and graduate students from China, India, and other emerging economies. In some of the poorest countries, such as Haiti, more than three-fourths of college-educated individuals have emigrated. Even some developed economies like that of Spain have suffered an enormous brain drain in recent years, with approximately 750,000 Spaniards (many with advanced degrees) emigrating to other countries during the past decade as the unemployment rate soared and most new jobs created at the end of the recession were in low-wage, unskilled sectors. As of 2019 Greece is still suffering from an unemployment rate of 20 percent, leading to massive migration by Greek citizens; ironically there is open resentment of Syrian migrants who have settled in Greece. According to the National Academy of Engineering, more than half of engineers with advanced degrees in the United States are foreign born, as are over one-third of Nobel-award winners during the past 15 years. At Microsoft, more than 20 percent of employees are from India. This dependence on foreign talent places the United States in a vulnerable position, particularly if giants such as China and India continue their fast growth in the future. In fact, a new term has been coined for this phenomenon: *reverse brain drain*. It refers to foreign-born Americans who decide to return to their homelands, particularly in rapidly growing emergent economies such as China, India, and Brazil.

Brain drain and measures for dealing with it effectively are discussed in several chapters of this book, particularly in Chapter 3 (equal opportunity and the legal environment), Chapter 4 (managing diversity), Chapter 6 (employee separations and outplacement), and Chapter 11 (rewarding performance).

**JOB INSECURITY** As noted in the introduction, most workers cannot count on a steady job and regular promotions. Companies argue that regardless of how well the firm is doing, layoffs have become essential in an age of cutthroat competition. At the time of this writing in 2019, the economy is essentially at full employment, yet about 10 million workers a year are laid off and often replaced by new hires. For employees, chronic job insecurity is a major source of stress and can lead to lower performance and productivity. Reed Moskowitz, founder of a stress disorder center at New York University, notes that workers' mental health has taken a turn for the worse because "nobody feels secure anymore." Some surveys conducted in 2018 reveal that approximately 60 percent of employees are unhappy with their job as compared to 20 percent in the 1960s.

Companies are now having a hard time attracting and retaining unskilled employees willing to work for less than \$15 an hour. Recent crackdowns on illegal immigrants under President Trump (who work in many of the industries with high turnover, such as meat packing, agriculture, fast-food restaurants, and the like) have made it much more difficult to replace those who quit.

We discuss the challenges of laying off employees and making the remaining employees feel secure and valued in Chapter 6. We discuss employee stress (and ways to relieve it) in Chapter 16. We explore union–management relations in Chapter 15.



> **1.2 Outline** key steps in planning and implementing strategic HR policies.



### strategic human resource (HR) planning

The process of formulating HR strategies and establishing programs or tactics to implement them.

## Planning and Implementing Strategic HR Policies

To be successful, firms must closely align their HR strategies and programs (tactics) with environmental opportunities, business strategies, and the organization's unique characteristics and distinctive competence.

### The Benefits of Strategic HR Planning

The process of formulating HR strategies and establishing programs or tactics to implement them is called **strategic human resource (HR) planning**. When done correctly, strategic HR planning provides many direct and indirect benefits for the company.

**ENCOURAGEMENT OF PROACTIVE RATHER THAN REACTIVE BEHAVIOR** Being *proactive* means looking ahead and developing a vision of where the company wants to be and how it can use human resources to get there. In contrast, being *reactive* means responding to problems as they



come up. Companies that are reactive may lose sight of the long-term direction of their business; proactive companies are better prepared for the future. For instance, companies on the brink of bankruptcy need to hold on to their key talent, perhaps offering special inducements for star performers to persevere through hard times. Although it might appear counterintuitive to spend money on employee compensation during economic difficulties, it is crucial to retain key employees.

**EXPLICIT COMMUNICATION OF COMPANY GOALS** Strategic HR planning can help a firm develop a focused set of strategic objectives that capitalizes on its special talents and know-how.

For instance, 3M has had an explicit strategy of competing through innovation, with the goal of having at least 25 percent of revenues generated from products introduced during the past five years. To achieve this goal, 3M's human resource strategy may be summarized as "Hire top-notch scientists in every field, give each an ample endowment, then stand back and let them do their thing. The anything-goes approach has yielded thousands of new products over the decades, from sandpaper and magnetic audio tape to Post-it notes and Thinsulate insulation." One hundred years after its foundation, 3M clearly expresses the philosophy that guides its HR practices: "Every day, 3M people find new ways to make amazing things happen."

**STIMULATION OF CRITICAL THINKING AND ONGOING EXAMINATION OF ASSUMPTIONS** Managers often depend on their personal views and experiences to solve problems and make business decisions. The assumptions on which they make their decisions can lead to success if they are appropriate to the environment in which the business operates. However, serious problems can arise when these assumptions no longer hold. For instance, in the 1980s IBM deemphasized sales of its personal computers because IBM managers were afraid that PC growth would decrease the profitability of the firm's highly profitable mainframe products. This decision allowed competitors to move aggressively into the PC market, eventually devastating IBM.

Strategic HR planning can stimulate critical thinking and the development of new initiatives only if it is a continuing and flexible process rather than a rigid procedure with a discrete beginning and a specific deadline for completion. This is why many firms have formed an executive committee, which includes an HR professional and the CEO, to discuss strategic issues on an ongoing basis and periodically modify the company's overall HR strategies and programs.

**IDENTIFICATION OF GAPS BETWEEN CURRENT SITUATION AND FUTURE VISION** Strategic HR planning can help a firm identify the difference between "where we are today" and "where we want to be." Despite a \$1 billion budget and a staff of 7,000, 3M's vaunted research laboratory was not able in recent years to deliver fast growth, partly because some of the R&D lacked focus and money wasn't always wisely spent. To speed up growth, 3M announced a series of performance objectives for individual business chiefs who had previously enjoyed much free rein. In addition, 3M introduced specially trained "black belts" to root out inefficiencies in departments ranging from R&D to sales.

**ENCOURAGEMENT OF LINE MANAGERS' PARTICIPATION** For HR strategy to be effective, line managers at all levels must buy into it. If they do not, it is likely to fail. For example, a large cosmetics manufacturing plant decided to introduce a reward program in which work teams would receive a large bonus for turning out high-quality products. The bonus was part of a strategic plan to foster greater cooperation among employees. But the plan, which had been developed by top executives in consultation with the HR department, backfired when managers and supervisors began hunting for individual employees responsible for errors. The plan was eventually dropped.

**IDENTIFICATION OF HR CONSTRAINTS AND OPPORTUNITIES** When overall business strategy planning is done in combination with HR strategic planning, firms can identify the potential problems and opportunities with respect to the people expected to implement the business strategy.

A cornerstone of Motorola's business strategy is to identify, encourage, and financially support new-product ventures. To implement this strategy, Motorola relies on in-house venture teams, normally composed of five to six employees, one each from R&D, marketing, sales, manufacturing, engineering, and finance. Positions are broadly defined to allow all employees to use their creativity and to serve as champions of new ideas.

**CREATION OF COMMON BONDS** A substantial amount of research shows that, in the long run, organizations that have a strong sense of “who we are” tend to outperform those that do not. A strategic HR plan that reinforces, adjusts, or redirects the organization’s present culture can foster values such as a customer focus, innovation, fast growth, and cooperation.

## The Challenges of Strategic HR Planning

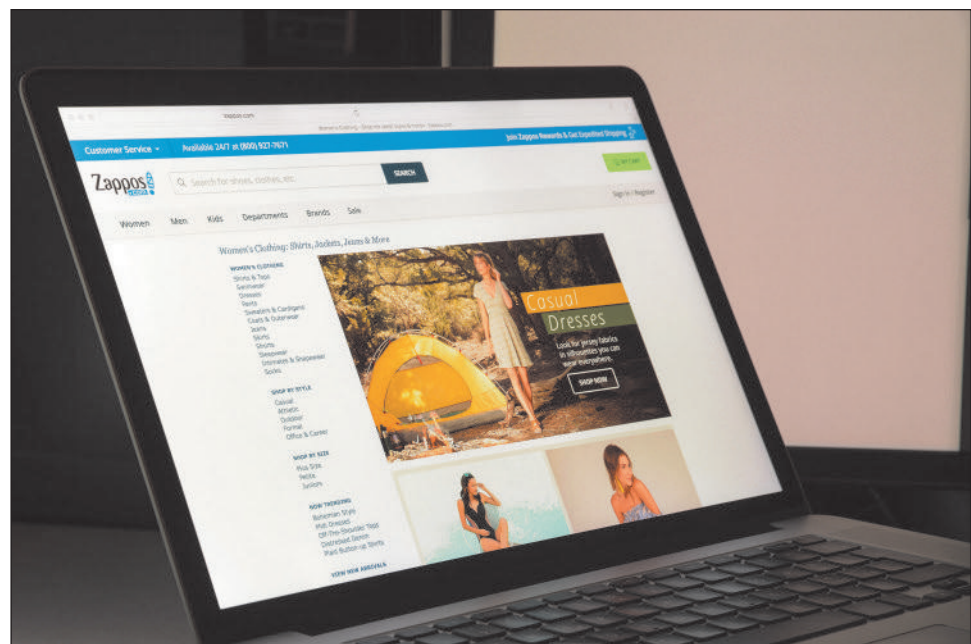
In developing an effective HR strategy, the organization faces several important challenges.

**MAINTAINING A COMPETITIVE ADVANTAGE** Any competitive advantage enjoyed by an organization tends to be short-lived because other companies are likely to imitate it. This is as true for HR advantages as for technological and marketing advantages. For example, many high-tech firms have “borrowed” reward programs for key scientists and engineers from other successful high-tech firms.

The challenge from an HR perspective is to develop strategies that offer the firm a sustained competitive advantage. For instance, a company may develop programs that maximize present employees’ potential through carefully developed career ladders (see Chapter 9) while at the same time rewarding them generously with company stock with strings attached (for example, a provision that they will forfeit the stock if they quit before a certain date). One company that takes this very seriously is Zappos (whose name is a short form of the Spanish word *zapat*os) because its main business is to sell shoes online. All Zappos’ employees, regardless of their positions, are required to undergo a four-week customer loyalty training course that includes at least two weeks of talking on the phone with customers in the call center at full salary. After a week of training, the new employees are offered \$3,000 to leave the company immediately if they wish, no strings attached. This is to ensure that people are there for the love of the job and not the money. More than 97 percent of new employees turn down the buyout. Zappos was later purchased by Amazon in a deal that was worth \$1.2 billion. Zappos’ employees received \$40 million in cash and stocks.

**REINFORCING OVERALL BUSINESS STRATEGY** Developing HR strategies that support the firm’s overall business strategy is a challenge for several reasons. First, top management may not always be able to enunciate clearly the firm’s overall business strategy. Second, there may be much uncertainty or disagreement concerning which HR strategies should be used to support the overall business strategy. In other words, it is seldom obvious how particular HR strategies will contribute to the achievement of organizational strategies. Third, large corporations may have different business units, each with its own business strategies. Ideally, each unit should be

Zappos online shopping Web site.  
Source: Casimiro/Alamy Stock Photo.



able to formulate the HR strategy that fits its own business strategy best. For instance, a division that produces high-tech equipment may decide to pay its engineering staff well above average to attract and retain the best people, whereas the consumer products division may decide to pay its engineers an average wage. Such differentials may cause problems if the engineers from the two divisions have contact with each other. Thus, diverse HR strategies may spur feelings of inequity and resentment.

**AVOIDING EXCESSIVE CONCENTRATION ON DAY-TO-DAY PROBLEMS** Some managers are so busy putting out fires that they have no time to focus on the long term. Nonetheless, a successful HR strategy demands a vision tied to the long-term direction of the business. Thus, a major challenge of strategic HR planning is prodding people into stepping back and considering the big picture.

In many small companies, staffs are so absorbed in growing the business today that they seldom pause to look at the big picture for tomorrow. Also, strategic HR planning in small companies is often synonymous with the whims of the company owner or founder, who may not take the time to formalize his or her plans.

**DEVELOPING HR STRATEGIES SUITED TO UNIQUE ORGANIZATIONAL FEATURES** No two firms are exactly alike. Firms differ in history, culture, leadership style, technology, and so on. The chances are high that any ambitious HR strategy or program that is not molded to organizational characteristics will fail. And therein lies one of the central challenges in formulating HR strategies: creating a vision of the organization of the future that does not provoke a destructive clash with the organization of the present.

**COPING WITH THE ENVIRONMENT** Just as no two firms are exactly alike, no two firms operate in an identical environment. Some must deal with rapid change, as in the computer industry; others operate in a relatively stable market, as in the market for food processors. Some face a virtually guaranteed demand for their products or services (for example, medical providers); others must deal with turbulent demand (for example, fashion designers). Even within a very narrowly defined industry, some firms may be competing in a market where customer service is the key (IBM's traditional competitive advantage), whereas others are competing in a market driven by cost considerations (the competitive advantage offered by the many firms producing cheap computers). A major challenge in developing HR strategies is crafting strategies that will work in the firm's unique environment to give it a sustainable competitive advantage.

**SECURING MANAGEMENT COMMITMENT** HR strategies that originate in the HR department will have little chance of succeeding unless managers at all levels—including top executives—support them completely. To ensure managers' commitment, HR professionals must work closely with them when formulating policies.

**TRANSLATING THE STRATEGIC PLAN INTO ACTION** The acid test of any strategic plan is whether it makes a difference in practice. If the plan does not affect practice, employees and managers will regard it as all talk and no action.

Cynicism is practically guaranteed when a firm experiences frequent turnover at the top, with each new wave of high-level managers introducing their own freshly minted strategic plan. Perhaps the greatest challenge in strategic HR planning lies not in the formulation of strategy, but rather in the development of an appropriate set of programs that will make the strategy work.

**COMBINING INTENDED AND EMERGENT STRATEGIES** Debate continues over whether strategies are *intended* or *emergent*—that is, whether they are proactive, rational, deliberate plans designed to attain predetermined objectives (intended) or general “fuzzy” patterns collectively molded by the interplay of power, politics, improvisation, negotiation, and personalities within the organization (emergent). Most people agree that organizations have intended *and* emergent strategies, that both are necessary, and that the challenge is to combine the best aspects of the two.

Intended strategies can provide a sense of purpose and a guide for the allocation of resources. They are also useful for recognizing environmental opportunities and threats and for mobilizing top management to respond appropriately. On the downside, intended strategies may lead to a top-down strategic approach that squashes creativity and widespread involvement.