

Managing Human Resources

Productivity, Quality of Work Life, Profits

Twelfth Edition

Wayne F. Cascio

The Business School
University of Colorado Denver

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To TANNI LEE
Endless Joy

ABOUT THE AUTHOR



Wayne F. Cascio

WAYNE F. CASCIO is a Distinguished University Professor Emeritus in The Business School at the University of Colorado Denver. He earned his B.A. degree from Holy Cross College, his M.A. degree from Emory University, and his Ph.D. in industrial/organizational psychology from the University of Rochester.

Professor Cascio is past chair of the Society for Human Resource Management Foundation and the Human Resources Division of the Academy of Management, past president of the Society for Industrial and Organizational Psychology, and a past member of the Academy of Management's Board of Governors. He is a Fellow of the National Academy of Human Resources, the Academy of Management, the American Psychological Association, and the Australian

Human Resources Institute. He received the Distinguished Career award from the HR Division of the Academy of Management in 1999; an honorary doctorate from the University of Geneva, Switzerland, in 2004; and the Michael R. Losey Human Resources Research Award from the Society for Human Resource Management in 2010. In 2013 he received the Distinguished Scientific Contributions Award from the Society for Industrial and Organizational Psychology, and in 2016 he received the George Petipras [Lifetime Achievement] Award from the World Federation of People Management Associations. In 2020 he received the Ulrich Impact award from the HR Division of the Academy of Management for excellence in the application of theory and research in practice.

Professor Cascio currently serves as a consulting editor of the *Journal of International Business Studies* (JIBS), and from 2007 to 2014 he served as a senior editor of the *Journal of World Business*. He also serves as chair of the SHRM Certification Commission and as a member of the Australian HR Institute's National Certification Council. He has consulted with a wide variety of organizations on six continents, and periodically he testifies as an expert witness in employment discrimination cases. Professor Cascio is an active researcher and writer. He has published more than 200 articles and book chapters, as well as 33 books.

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PREFACE

I did not write this book for students who aspire to be specialists in human resource management (HRM). Rather, I wrote it for students of general management whose jobs inevitably will involve responsibility for managing people, along with capital, material, and information. A fundamental assumption, then, is that all managers are accountable to their organizations in terms of the impact of their HRM activities, and they are expected to add value by managing their people effectively. They also are accountable to their peers and to their subordinates in terms of the quality of work life that they are providing.

As a unifying theme for the text, I have tried to link the content of each chapter to three key outcome variables—productivity, quality of work life, and profits. This relationship should strengthen the student's perception of HRM as an important function affecting individuals, organizations, and society.

Each chapter incorporates the following distinguishing features:

- In keeping with the orientation of the book toward general managers, each chapter opens with "Questions This Chapter Will Help Managers Answer." This section provides a broad outline of the topics that each chapter addresses.
- Following the chapter opener is a two-part vignette, often from the popular press, that illustrates "Human Resource Management in Action." Events in the first part of the vignette are designed to sensitize the reader to the subject matter of the chapter. The events lead to a climax, but then the vignette stops—like a two-part television drama. The reader is asked to predict what will happen next and to anticipate alternative courses of action.
- Then the text for the chapter appears—replete with concepts, research findings, court decisions, "HR Buzz" boxes, and international comparisons.
- Each chapter includes an "Ethical Dilemma." Its purpose is to identify issues relevant to the topic under discussion where different courses of action may be desirable and possible. The student must choose a course of action and defend the rationale for doing so.
- As in the 11th edition, "Implications for Management Practice" provide insights into the ways in which issues presented in the chapter affect the decisions that managers must make. "Impact" boxes in each chapter reinforce the link between the chapter content and the strategic objectives—productivity, quality of work life, and the bottom line—that influence all HR functions.
- Near the end of the chapter, the vignette introduced at the outset continues, allowing the reader to compare his or her predictions with what actually happened.

Ultimately, the aim of each chapter is to teach prospective managers to *make decisions* based on accurate diagnoses of situations that involve people—in domestic as well as global contexts. Familiarity with theory, research, and practice enhances the ability of students to do this. Numerous real-world applications of concepts allow the student to learn from the experiences of others, and the dynamic design of each chapter allows the student to move back and forth from concept to evidence to practice—then back to evaluating concepts—in a continuous learning loop.

WHAT'S NEW IN THE TWELFTH EDITION?

HR texts have sometimes been criticized for overemphasizing the HR practices of large organizations. There is often scant advice for the manager of a small business who “wears many hats” and whose capital resources are limited. To address this issue explicitly, I have made a conscious effort to provide examples of effective HRM practices in small businesses in almost every chapter.

This was no cosmetic revision. I examined every topic and every example in each chapter for its continued relevance and appropriateness. I added dozens of new company examples and “HR Buzz” boxes to illustrate current practices, updated legal findings from each area, and cited the very latest research findings in every chapter. I added hundreds of new references since the previous edition of the book, and I removed older ones that are less relevant today. As in previous editions, I tried to make the text readable, neither too simplistic nor too complex.

The book still includes 16 chapters, but in light of the coronavirus pandemic of 2020, I added lots of new material related to its effects on work, workplaces, and workers. As in previous editions, and to provide more topics for class discussion, the average number of discussion questions in each chapter is 10. In each chapter, I reviewed, and in many cases revised, “Applying Your Knowledge” cases and exercises, and although many of the chapter-opening vignettes (“Human Resource Management in Action”) retain the same titles, I have updated each one to reflect current information and content. Key terms are boldfaced as they are discussed in the text and they are linked to the Glossary so that students can locate definitions quickly. Each chapter also includes a consolidated list of key terms.

A final consideration is the treatment of international issues. Although there are merits to including a separate chapter on this topic, as well as to interspersing international content in each chapter, I do not see this as an either-or matter. I have done both, recognizing the need to frame domestic HR issues in a global context (e.g., recruitment, staffing, compensation, labor-management relations). At the same time, the book covers international issues (e.g., cultural differences, recruiting, staffing, training, performance management, and compensation of expatriates) in more depth in a separate chapter.

NEW TOPICS IN THE TWELFTH EDITION

Chapter 1—I’ve updated the chapter-opening case: “Globalization at Work: Wealth, Jobs, and Worker Displacement,” to emphasize that free trade and globalization are not good for everyone. In the section on responses of firms to the competitive business environment, I added a new HR Buzz box, “Working Post Pandemic.” This is

necessary as a new factor—a biological hazard—has the potential to enter the environments of organizations everywhere. Finally, I thoroughly updated Case 1-1, “PepsiCo: Winning with Purpose.”

Chapter 2—“HR Technology” reflects the rapid changes in technology, along with a discussion of factors that affect the adoption and implementation of workplace technologies. A new HR Buzz box, “Biometrics and Employee Privacy,” should stimulate lively interaction in the classroom, as should the emerging capabilities of HRIS. Along with a description of HR technology, trends, the chapter also includes a new discussion of how leading companies are addressing the need to upgrade the strategically relevant skill sets of their employees as technology evolves.

Chapter 3—This chapter, on people analytics, begins with a new chapter-opening case, “New Developments in People Analytics,” with special emphasis on using next-generation people analytics software to assess unconscious bias, gender equity, and diversity and inclusion. The chapter retains its discussions of the promise and perils of Big Data, along with the LAMP model to guide workforce measurement. In the discussion of turnover costs, a revised section describes the kinds of information companies are using to predict the likelihood that an employee will leave. Overall, the chapter reflects the most current thinking and research about people analytics.

Chapter 4—The chapter-opening vignette, on retaliation, has been thoroughly updated, as has every section of employment case law, including the Supreme Court’s 2020 decision that outlaws discrimination against gay and transgender individuals. There is also a new Case 4-1, “Second-Chance Employment,” featuring organic-bread company, Dave’s Killer Bread. The area of employment law is dynamic, and this chapter reflects the latest findings and guidance for employers.

Chapter 5—“Diversity and Inclusion (D&I)” features a revised chapter-opening case, “The Business and Ethical Cases for Diversity Are Not Enough to Bring about Real Change.” It sets the stage for a discussion of the many dimensions of diversity and how increased D&I in the workforce complements evolving changes in organizations and markets. There is also advice for managers about how to handle questions and concerns about D&I and new examples that illustrate how progressive companies are maximizing the benefits of D&I.

Chapter 6—The opening case on leadership succession reflects a timeless topic. I have updated it, along with every other section in the chapter, and tried to show tighter linkages between strategic workforce planning and business strategy. I’ve also completely rewritten the HR Buzz boxes, “Technology Innovation Leads to Changes in Job Design” and “Small Businesses Confront Succession Planning.” Finally, Case 6-1, “Workforce Forecasts for a Small Business,” is completely new.

Chapter 7—In addition to a thoroughly updated chapter-opening vignette on the promise and perils of social media, the chapter retains its focus on a supply-chain approach to the recruiting-staffing process. Job-posting via social media receives special attention, as does the HR Buzz box on online job search. A new HR Buzz box, “Record Low Unemployment Spurs Creative Recruitment Tactics” and an updated discussion of applicant tracking systems help students grasp important management issues in the recruiting process.

Chapter 8—The chapter begins with an updated treatment of organizational culture and the powerful effect it has on current and prospective employees. Treatments of

each of the various screening methods and staffing techniques, from employment applications to drug screening, integrity tests, personality measures, and interviews (including video interviews), reflect the most current research and sound professional practice. A new section highlights Walmart's use of virtual reality in the selection of middle managers for its stores.

Chapter 9—Following an updated treatment of technology-delivered instruction, the chapter discusses training trends, such as the effects of digital technology on work, the growing demand for personal and professional development, and training as an important aspect of an employer's brand. There is a new international application, "The Rise of Robotics, AI, and Upskilling—Globally," and also an updated HR Buzz box, "Action Learning at UPS." As in the 11th edition, Case 9-1 focuses on the on-boarding and training of young leaders at Chinese e-commerce giant Alibaba.

Chapter 10—Firms are not abandoning formal judgments about employee performance, but they are making them much more frequently. Like German fashion retailer Zalando, they're also using apps to create dashboards that allow employees to see, in one place, all of the feedback they have received for both development and evaluation. I've also updated the Ethical Dilemma box, "Employment Decisions Based on Performance," and incorporated the most recent research findings on each aspect of performance management.

Chapter 11—Beginning with the thoroughly updated chapter-opening vignette on "The Trust Gap," the chapter presents a nontechnical introduction to compensation from a strategic perspective—that is, as a pivotal control and incentive mechanism that managers use to attain business objectives. I've updated the HR Buzz box, "What Are You Worth? Salary-Comparison Sources," as well as the one on the Wells Fargo scandal, and a third to show the flip side of stock-based compensation. That is, I added material to show how the drop in the 2020 market fueled by the coronavirus caused hundreds of millions in losses.

Chapter 12—The chapter-opening vignette emphasizes how benefits are changing as a result of trends such as a multigenerational workforce, the global pandemic that pushed work and home lives under the same roof, the need to integrate financial wellness with physical and emotional health, and the digitization of benefits. The chapter emphasizes key strategic considerations in the design of benefit programs, and it presents the very latest research and trends in each key area of employee benefits. I've also added a new section on maternity and paternity leaves and updated changes to the Affordable Care Act.

Chapter 13—A continuing emphasis in this chapter is that organizations will be more successful if they adopt collaborative approaches to labor-management relations than if they doggedly pursue "us-versus-them" approaches. Despite ongoing drops in membership and more right-to-work states, unions remain as powerful social, political, and organizational forces. I've updated the HR Buzz box, "Why There Are Fewer Strikes in the United States," and Figure 13-5 on union membership in other countries has been updated as well.

Chapter 14—Workplace due process and justice on the job are timeless and ever evolving. The chapter illustrates these themes via examples of social-media policies, lifestyle discrimination, and at-will employment. It also includes the latest research and legal rulings about employment contracts, noncompete clauses, and termination

for cause. New sections illustrate the complexity of personal privacy in an age of biometric data, smartphones that can track the spread of the the coronavirus pandemic, and the European Union's General Data Protection Regulation.

Chapter 15—I've updated the chapter-opening vignette on substance abuse and the tough policy choices it presents for managers, but a major change is the new issues that businesses face in light of the coronavirus pandemic. Two new ethical dilemmas ask, "What to Do When Scared Workers Don't Want to Report for Work Due to a Pandemic?" and "Should Employees Be Punished for Unhealthy Lifestyles?" A new section focuses on managing a workforce in a time of crisis, and a new HR Buzz box asks, "What If a Worker Is Injured While Working from Home?"

Chapter 16—The chapter emphasizes that although globalization is a dominant force, managers need to pay careful attention to the backlash against it. I've updated the international application on HR practices in the European Union, added new sections on "Classifying Cultures" and "Consultation with European Works Councils," and a new HR Buzz box on local-language proficiency. I've simplified the explanation of the balance-sheet approach to expatriate compensation and also added a new section on the U.S.-Mexico-Canada Agreement that replaced NAFTA.

HELP FOR INSTRUCTORS AND STUDENTS

Several important supplements are available to help you use this book more effectively.

INSTRUCTOR LIBRARY

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ORGANIZATION AND PLAN OF THE BOOK

The text is based on the premise that three critical strategic objectives guide all HR functions: productivity, quality of work life, and profits. The functions—employment; development; compensation; labor-management accommodation; and safety, health, and international implications—in turn, are carried out in multiple environments: competitive, legal, social, and organizational.

Part 1, "Environment," includes Chapters 1 through 4. It provides the backdrop against which students will explore the nature and content of each HRM function. These first four chapters paint a broad picture of the competitive, technological, legal, and organizational environments in which people-management activities take place. They also describe key economic and noneconomic factors that affect productivity, quality

of work life, and profits. This is the conceptual framework within which the remaining five parts (12 chapters) of the book unfold.

Logically, “Employment” (Part 2) is the first step in the HRM process. Diversity and inclusion, planning for people, recruiting, and staffing are key components of the employment process. Once employees are on board, the process of “Development” (Part 3) begins, with workplace training, on-boarding, and performance-management activities.

Parts 4, 5, and 6 represent concurrent processes. That is, “Compensation” (Part 4), “Labor-Management Accommodation” (Part 5) and “Support and International Implications” (Part 6) are all closely intertwined, conceptually and in practice. They represent a network of interacting activities such that a change in one of them (e.g., a new pay system or a collective-bargaining agreement) inevitably will have an impact on all other components of the HRM system. It is only for ease of exposition that the book presents them separately in Parts 4, 5, and 6.

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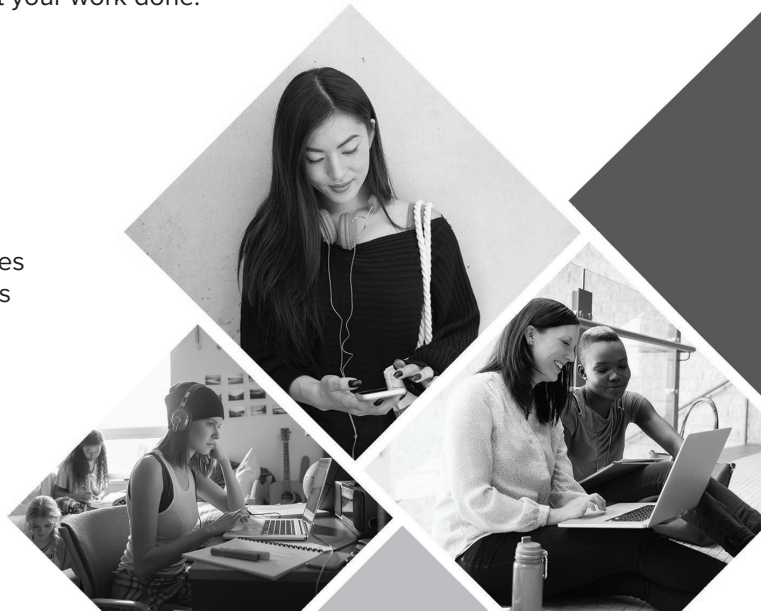
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P A R T

1

ENVIRONMENT

To manage people effectively in today's world of work, one must understand and appreciate the significant competitive, technological, and legal issues. The purpose of Chapters 1 through 4 is to provide insight into these issues. They provide both direction for and perspective on the management of human resources in the 21st century.

- 1 HUMAN RESOURCES IN A GLOBALLY COMPETITIVE BUSINESS ENVIRONMENT
- 2 HR TECHNOLOGY
- 3 PEOPLE ANALYTICS: THE FINANCIAL IMPACT OF HRM ACTIVITIES
- 4 THE LEGAL CONTEXT OF EMPLOYMENT DECISIONS

C H A P T E R

1

HUMAN RESOURCES IN A
GLOBALLY COMPETITIVE
BUSINESS ENVIRONMENT*Questions This Chapter Will Help Managers Answer*

- LO 1-1 How have global flows of information and knowledge changed the ways we live and work?
- LO 1-2 What people-related business issues must managers be concerned about?
- LO 1-3 Which features will characterize the competitive business environment in the foreseeable future, and how might we respond to them?
- LO 1-4 What people-related problems are likely to arise as a result of changes in the forms of organizations? How can we avoid these problems?
- LO 1-5 What are the HR implications of our firm's business strategy?

GLOBALIZATION AT WORK: WEALTH, JOBS, AND WORKER DISPLACEMENT*

Human Resource
Management
in Action

Globalization—the ability of any individual or company to compete, connect, exchange, or collaborate globally—is exploding. The ability to digitize so many things, to send them anywhere and to pull them in from everywhere via our mobile phones and the Internet, has unleashed a torrent of global flows of information and knowledge. Global flows of commerce, finance, credit, social networks, and more are interlacing markets, media, central banks, companies, schools, communities, and individuals more tightly together than ever before. That same connectivity is also making individuals and institutions more interdependent. As author Tom Friedman notes, “Everyone everywhere is now more vulnerable to the actions of anyone anywhere”¹ (2016, p. 27).

Think about just a few of these global flows: friends (Facebook); renters (Airbnb); opinions (Twitter); e-commerce (Amazon, Tencent, Alibaba); crowdfunding (Kickstarter, GoFundMe, Indiegogo); ideas and instant messages (WhatsApp, WeChat); peer-to-peer payments (PayPal, Venmo); pictures (Instagram); college courses (MOOCs); design tools (Autodesk); music (Apple, Pandora, Spotify); video (Netflix); searches for knowledge (Google); and cloud-based tools (Salesforce.com).

Trade was once largely confined to advanced economies and their large, multinational companies. Today, a more digital form of globalization has opened the door to developing countries, to small companies and start-ups, and to billions of individuals. Millions of small and midsize enterprises worldwide have turned themselves into exporters by joining e-commerce marketplaces such as Alibaba, Amazon, eBay, and Flipkart. Approximately 18 percent of the global goods trade is now conducted via international e-commerce, up from 10 percent just since 2017. This is globalization 3.0, or digital globalization. Today, even the smallest firms can compete with the largest multinationals. Individuals are using global digital platforms to learn, find work, showcase their talent, and build personal networks. According to the McKinsey Global Institute, some 900 million people have international connections on social media, and 360 million take part in cross-border e-commerce. Digital platforms for both traditional employment and freelance assignments are beginning to create more global labor markets. That allows companies to find the best person for a job anywhere in the world. In this increasingly digital era of globalization, large companies can manage their international operations in leaner, more efficient ways. Using digital platforms and tools, they can sell into fast-growing markets while keeping virtual teams connected in real time.

These developments signal that globalization is deepening and expanding, as most of the world continues to pursue free trade. Emerging economies are knitting closer ties among themselves as China, India, and others gain in wealth, clout, and confidence. The World Trade Organization estimates that more than half of exports from developing countries now go to emerging economies, up from 38 percent

*Sources: Friedman, T. L. (2016). *Thank You for Being Late: An Optimist's Guide to Thriving in the Age of Accelerations*. New York: Farrar, Straus & Giroux. Free exchange. (2016, Feb. 6). Trade in the balance. *The Economist*, p. 69. Autor, D. H., Dorn, D., and Hanson, G. H. (2016). The China shock: Learning from labor-market adjustment to large changes in trade. *Annual Review of Economics*, 8, pp. 205–40. Schuman, M. (2016, July 31). The world is still flat. *Bloomberg Businessweek*, pp. 8, 9. Goodman, P. S. (2016, Sept. 28). More wealth, more jobs, but not for everyone: What fuels the backlash on trade. *The New York Times*. Retrieved from www.nytimes.com/2016/09/29/business/economy/more-wealth-more-jobs-but-not-for-everyone-what-fuels-the-backlash-on-trade.html?r=0 on September 30, 2016. McKinsey Global Institute. (2016, Feb.) Digital globalization: The new era of global flows. Retrieved from <http://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/digital-globalization-the-new-era-of-global-flows> on April 7, 2016. Lipsman, A. (2019, June 27). Global e-commerce. Retrieved from <https://www.emarketer.com/content/global-ecommerce-2019> on February 19, 2020.

in just two decades. Economists since Adam Smith have argued that trade makes countries richer. It creates larger markets, which allows for greater specialization, lower costs, and higher incomes. Yet the news is not all good because trade comes with no assurances that the benefits will be shared equitably.

Although global trade has reduced inequality at a worldwide level, it has played some part in increasing it at a national level. It certainly has increased the profitability of big firms, relative to labor, because *Fortune* 500 corporations can relocate capital and labor to the most economically advantageous places, even as workers struggle to adapt to change. Whereas highly skilled workers in the industrialized world have enjoyed rising opportunities and incomes, workers with low-level skills have borne the costs, suffering joblessness, bleak opportunities, and intense competition.

In the United States, conventional economics has long held that workers would move into new, more enriching areas of the labor market when jobs in their communities went elsewhere. Yet as a recent study has shown, that is not always the case. Looking at the effect of the rise of China on American labor from the 1990s onward (which they termed a “trade shock”), labor economists David Autor, David Dorn, and Gordon Hanson found that workers’ adjustment to trade shocks was stunningly slow, with local unemployment rates remaining elevated for a full decade or more after the onset of a trade shock. Bottom line: Free trade and globalization are not good for everyone. There are groups of workers that suffer because of free trade—and they often suffer for a long time. In the conclusion to this case, we will examine some possible solutions to these problems.

Challenges

1. What are some of the benefits of increased flows of digital information and knowledge?
2. In the United States, about 6 million manufacturing jobs disappeared in the first decade of the 21st century. What factors other than free trade and foreign competition might explain that?
3. What might governments do to cushion the blow from job losses?

THE ENTERPRISE IS THE PEOPLE

Organizations are managed and staffed by people. Without people, organizations cannot exist. Indeed, the challenge, the opportunity, and the frustration of creating and managing organizations frequently stem from the people-related problems that arise within them. People-related problems, in turn, frequently stem from the mistaken belief that people are all alike, that they can be treated identically. Nothing could be further from the truth. Like snowflakes, no two people are exactly alike, and everyone differs physically and psychologically from everyone else. Sitting in a sports arena, for example, will be tall people, small people, fat people, thin people, people of color, white people, elderly people, young people, and so on. Even within any single physical category there will be enormous variability in psychological characteristics. Some will be outgoing, others reserved; some will be intelligent, others not so intelligent; some will prefer indoor activities, others outdoor activities. The point is that these differences demand attention, so that each person can maximize his or

her potential, organizations can maximize their effectiveness, and society as a whole can make the wisest use of its human resources.

This book is about managing people, the most vital of all resources, in work settings. Rather than focus exclusively on issues of concern to the human resource specialist, however, we will examine human resource management (HRM) issues in terms of their impact on management in general. A changing world order has forced us to take a hard look at the ways we manage people. Research has shown time and again that HRM practices can make an important, practical difference in terms of three key organizational outcomes: productivity, quality of work life, and profit. **Productivity** is a measure of the output of goods and services relative to the input of labor, capital, and equipment. The more productive an industry the better its competitive position because its unit costs are lower. **Quality of work life (QWL)** refers to employees' perceptions of their physical and mental well-being at work. **Profit** refers to financial gain, the income remaining after total costs are deducted from total revenue. Each chapter in this book considers the impact of a different aspect of human resource management on these three broad themes. To study these impacts, we will look at the latest theory and research in each topical area, plus examples of actual company practices.

This chapter begins by considering what human resource management is all about, how it relates to the work of the line manager, and how it relates to profits. Then we will consider some current competitive challenges in the business environment, emphasizing the importance of business and human resources (HR) strategy—both of which have direct implications for productivity and quality of work life. Let's begin by considering the nature of HRM.

MANAGING PEOPLE: A CRITICAL ROLE FOR EVERY MANAGER

Managers are responsible for optimizing all of the resources available to them—material, capital, and human.² When it comes to managing people, however, all managers must be concerned to some degree with the following five activities: staffing, retention, development, adjustment, and managing change.

Staffing comprises the activities of (1) identifying work requirements within an organization; (2) determining the numbers of people and the skills mix necessary to do the work; and (3) recruiting, selecting, and promoting qualified candidates.

Retention comprises the activities of (1) rewarding employees for performing their jobs effectively; (2) ensuring harmonious working relations between employees and managers; and (3) maintaining a safe, healthy work environment.

Development is a function whose objective is to preserve and enhance employees' competence in their jobs through improving their knowledge, skills, abilities, and other characteristics; HR specialists use the term *competencies* to refer to these items.

Adjustment comprises activities intended to maintain compliance with the organization's HR policies (e.g., through discipline) and business strategies (e.g., cost leadership).

Managing change is an ongoing process whose objective is to enhance the ability of an organization to anticipate and respond to developments in its external and internal environments, and to enable employees at all levels to cope with the changes.

Needless to say, these activities can be carried out at the individual, work-team, or larger organizational unit (e.g., department) level. Sometimes they are initiated by the organization (e.g., recruitment efforts or management development programs),

and sometimes they are initiated by the individual or work team (e.g., voluntary retirement, safety improvements). Whatever the case, the responsibilities for executing them are highly interrelated. Together, these activities constitute human resource management, **HRM**. To understand how each of the major activities within HRM relates to every other one, consider the following scenario.

As a result of a large number of unexpected early retirements, the Hand Corporation finds that it must recruit extensively to fill the vacated jobs. The firm is well aware of the rapid changes that will be occurring in its business over the next 3 to 5 years, so it must change its recruiting strategy in accordance with the expected changes in job requirements. It also must develop selection procedures that will identify the kinds of competencies required of future employees. Compensation policies and procedures may have to change because job requirements will change, and new incentive systems will probably have to be developed. Because the firm cannot identify all the competencies that will be required 3 to 5 years from now, it will have to offer new training and development programs along the way to satisfy those needs. Assessment procedures will necessarily change as well, because different competencies will be required in order to function effectively at work. As a result of carrying out all this activity, the firm may need to lay off, promote, or transfer some employees to accomplish its mission, and it will have to provide mechanisms to enable all remaining employees to cope effectively with the changed environment.

It is surprising how that single event, an unexpectedly large number of early retirees, can change the whole ballgame. So it is with any system or network of interrelated components. Changes in any single part of the system have a reverberating effect on all other parts of the system. Simply knowing that this will occur is healthy because then we will not make the mistake of confining our problems to only one part. We will recognize and expect that whether we are dealing with problems of staffing, training, compensation, or labor relations, all parts are interrelated. In short, the systems approach provides a conceptual framework for integrating the various components within the system and for linking the HRM system with larger organizational needs.

To some, the activities of staffing, retention, development, and adjustment are the special responsibilities of the HR department. But these responsibilities also lie within the core of every manager's job throughout any organization, and because line managers have **authority** (the organizationally granted right to influence the actions and behavior of the workers they manage), they have considerable impact on the ways workers actually behave.

Thus, a broad objective of HRM is to optimize the usefulness (i.e., the productivity) of all workers in an organization. A special objective of the HR department is to help line managers manage those workers more effectively. As Jack Welch, legendary former CEO of General Electric, noted: "Look, HR should be every company's 'killer app.' What could possibly be more important than who gets hired, developed, promoted, or moved out the door? Business is a game, and as with all games, the team that puts the best people on the field and gets them playing together wins. It's that simple."³

This is consistent with the findings of Deloitte's 2019 Human Capital Trends. When CEOs were asked to name the top four measures of success for their enterprises, they identified (1) the impact on society, including income inequality, diversity, and the environment; (2) customer satisfaction; (3) employee satisfaction/retention; and (4) financial performance (revenue, profit).⁴ Meeting the people-management challenge is a responsibility that is shared by the HR department and line managers, as shown in Table 1-1.

Table 1–1

HRM ACTIVITIES AND THE RESPONSIBILITIES OF LINE MANAGERS AND THE HR DEPARTMENT		
Activity	Line management responsibility	HR department responsibility
Staffing	Providing data for job or competency analyses and minimum qualifications; integrating strategic plans with HR plans; interviewing candidates, integrating information collected by the HR department, making final decisions on entry-level hires and promotions	Job/competency analysis, workforce planning, recruitment; compliance with civil rights laws and regulations; application forms, written tests, performance tests, interviews, background investigations, reference checks, physical examinations
Retention	Fair treatment of employees, open communication, face-to-face resolution of conflict, promotion of teamwork, respect for the dignity of each individual, pay increases based on merit	Compensation and benefits, employee relations, health and safety, employee services
Development	On-the-job training, job enrichment, coaching, applied motivational strategies, performance feedback to subordinates	Development of legally sound performance management systems, morale surveys, technical training; management and organizational development; career planning and counseling; talent analytics
Adjustment	Discipline, discharge, layoffs, transfers	Investigation of employee complaints, outplacement services, retirement counseling
Managing change	Provide a vision of where the company or unit is going and the resources to make the vision a reality	Provide expertise to facilitate the overall process of managing change

In the context of Table 1-1, note how line and HR managers share people-related business activities. Generally speaking, HR provides the technical expertise in each area, while line managers (or, in some cases, self-directed work teams) use this expertise in order to manage people effectively. In a small business, however, line managers are responsible for both the technical and managerial aspects of HRM. In a recent survey of chief HR officers, one described his or her greatest challenge as follows: "Creating a true sense of ownership among the senior leaders regarding their roles as 'Chief Talent Officers.' Recognizing that having the right people in critical leadership roles is not an HR thing, or responsibility, but rather it is a business imperative and must be truly owned by the leaders of the respective businesses/functions."⁵

WHY DOES EFFECTIVE HRM MATTER?

At a broad level, HRM is concerned with choices—choices that organizations make from a wide variety of possible policies, practices, and structures for managing employees.⁶ More specifically, there exists a substantial and growing body of research evidence showing a strong connection between how firms manage their people and the economic results they achieve. For example, a recent meta-analysis (a quantitative summary of empirical results) conceptualized HR practices as falling into one of

three primary dimensions: skill-enhancing, motivation-enhancing, or opportunity-enhancing. Skill-enhancing HR practices include comprehensive recruitment, rigorous selection, and extensive training. Motivation-enhancing HR practices include developmental performance management, competitive compensation, incentives and rewards, extensive benefits, promotion, and career development. Opportunity-enhancing HR practices empower employees to use their skills and motivation to achieve organizational objectives. They include practices such as flexible job design, work teams, employee involvement, and information sharing.⁷ The authors hypothesized that these three dimensions of HR systems are indirectly related to financial outcomes through human capital, employee motivation, voluntary turnover, and operational outcomes. Operationally, financial outcomes included return on assets, return on equity, market return, sales growth, and overall financial performance. Human capital was measured using established scales and the education level of a workforce. Employee motivation was reflected by collective job satisfaction, organizational commitment, organizational climate, perceived organizational support, and organizational citizenship behavior. Finally, operational outcomes included productivity, quality, service, innovation, and overall operational performance.

Meta-analysis revealed that the three dimensions of HR systems had different effects. This result was counter to an earlier belief that all HR practices in an HR system function in the same pattern. Skill-enhancing HR practices were more strongly related to human capital, whereas motivation- and opportunity-enhancing HR practices were more strongly related to employee motivation. Human capital and employee motivation, in turn, were strongly related to voluntary turnover and to operational outcomes, and operational outcomes were strongly related to financial outcomes. Not only are HR practices distinct, but they operate through different pathways as well.

Another study, done by accounting professors at Wharton and Stanford, used data from 153 publicly traded companies to assess the impact of several HR management practices on stock returns 12 months later.⁸ They found that a 10 percent increase in a measure of goal-setting activity at firms was associated with a 6 percent increase in industry-adjusted stock returns. A 6 percent stock boost also was associated with a 10 percent increase in a measure of the extent to which managers used the full spectrum of the rating scale when evaluating employees. In short, managers in companies that are clear with employees about work expectations and that provide honest feedback on a regular basis drive successful performance. Needless to say, the extent to which these practices actually will pay off depends on the skill and care with which the many HR practices available are implemented to solve real business problems and to support a firm's operating and strategic initiatives.

Such high-performance work practices provide a number of important sources of enhanced organizational performance.⁹ People work harder because of the increased involvement and commitment that comes from having more control and say in their work. They work smarter because they are encouraged to build skills and competence. They work more responsibly because their employers place more responsibility in the hands of employees further down in the organization. What's the bottom line in all of this? HR systems have important, practical impacts on the survival and financial performance of firms, and on the productivity and quality of the work life of the people in them.

Now that we know what HRM is, and why it matters, the next step is to understand some significant features of the competitive business environment in which HRM activities take place. Four such features are globalization, technology, sustainability, and demographic changes.

FEATURES OF THE COMPETITIVE BUSINESS ENVIRONMENT

Globalization

We noted earlier that **globalization** is the ability of any individual or company to compete, connect, exchange, or collaborate globally. Markets in every country have become fierce battlegrounds where both domestic and foreign competitors fight for market share. For example, Coca-Cola earns more than 75 percent of its revenues from outside the United States! The world's 500 largest companies in 2019 generated \$32.7 trillion in revenues and \$2.15 trillion in profits. Together, they employ 69.3 million people worldwide and are represented by 34 countries.¹⁰

The Backlash against Globalization

In no small part, the booming economies of recent years in developed countries have been fueled by globalization. Open borders have allowed new ideas and technology to flow freely around the globe, accelerating productivity growth and allowing companies to be more competitive than they have been in decades. Yet there is a growing fear on the part of many people that globalization benefits big companies instead of average citizens, as stagnating wages and growing job insecurity in developed countries create rising disenchantment. In theory, less-developed countries win from globalization because they get jobs making low-cost products for rich countries. Rich countries win because, in addition to being able to buy inexpensive imports, they also can sell more sophisticated products, like financial services, to emerging economies. The problem, according to many experts, is that workers in the West are not equipped for today's pace of change, in which jobs come and go and skills can quickly become redundant.¹¹ In the public eye, multinational corporations are synonymous with globalization. In all of their far-flung operations, therefore, they bear a responsibility to be good corporate citizens, to preserve the environment, to uphold labor standards, to provide decent working conditions and competitive wages, to treat their employees fairly, and to contribute to the communities in which they operate. Doing so will make a strong case for continued globalization.

Implications of Globalization for HRM

Globalization is a fact of organizational life, as countries, companies, and workers are interconnected as never before. Global trade connects the fate of every industry and laborer, no matter how small or seemingly self-sufficient, to the decisions of bureaucrats in China, shipbuilders in Korea, and bankers everywhere.¹² To illustrate, consider how the ripple effects of the coronavirus outbreak in China in 2020 affected global business and markets. When the virus shut down parts suppliers in China, it affected industries as diverse as airlines, automobiles, and consumer electronics. It affected supply chains in industries around the world as assembly lines from Asia to Europe depend upon parts moving swiftly from China into their plants.¹³

Another feature of globalization is that cheap labor and plentiful resources, combined with ease of travel and communication, have created global labor markets. This is fueling mobility as more companies expand abroad and people consider foreign postings as a natural part of their professional development. Beyond the positive effects that such circulation of talent brings to both developed and developing countries, it enables employment opportunities well beyond the borders of one's home country. This means that competition for talent will come not only from the company down the street, but also from the employer on the other side of the world. It

will be a seller's market, with talented individuals having many choices. Countries as well as companies will need to brand themselves as employers of choice in order to attract this talent.¹⁴

Along with these trends, expect to see three more. The first is increasing work-force flux as more roles are automated or outsourced and more workers are contract-based, are mobile, or work flexible hours. This may allow companies to leverage global resources more efficiently, but it also will increase the complexity of management's role. Second, expect more diversity as workers come from a greater range of backgrounds. Those with local knowledge of an emerging market, a global outlook, and an intuitive sense of the corporate culture will be particularly valued. Not surprisingly, talented young people will more frequently choose their employers based, at least in part, on opportunities to gain international experience. Finally, technical skills, although mandatory, will be less defining of the successful manager than the ability to work across cultures and to build relationships with many different constituents.¹⁵

Technology

We live in a global world where technology, especially information and communication technology, is changing the manner in which businesses create and capture value, how and where we work, and how we interact and communicate. Consider five technologies that are transforming the very foundations of global business and the organizations that drive it: cloud and mobile computing, big data and machine learning, sensors and intelligent manufacturing, advanced robotics and drones, and clean-energy technologies. These technologies are not just helping people to do things better and faster, but also enabling profound changes in the ways that work is done in organizations.¹⁶

Information and ideas are keys to the new creative economy because every country, every company, and every individual depends increasingly on knowledge. Artificial intelligence and robotics have increasingly taken over such tasks as book-keeping, clerical work, and repetitive production jobs in manufacturing. At the same time, countless white-collar jobs, such as many in customer service, have disappeared. Fortunately, history shows that technology-driven job destruction does not decrease overall employment—even while making some jobs obsolete. Ultimately, as workers adjust their skills and entrepreneurs create opportunities based on the new technologies, the number of jobs rebounds.¹⁷ Business leaders cannot wait until evolving technologies disrupt the status quo. Rather, they need to understand how the competitive advantages on which they have based their strategies might erode or be enhanced a decade from now by emerging technologies. They need to understand how technologies might bring them new customers or force them to defend their existing bases, or inspire them to invent new strategies.¹⁸

In the creative economy, the most important intellectual property is not software or music. Rather, it is the intellectual capital that resides in people. When assets were physical things like coal mines, shareholders truly owned them. But when the most vital assets are people, there can be no true ownership. The best that corporations can do is to create an environment that makes the best people want to stay.¹⁹ Therein lies the challenge of managing human resources.

Impact of New Technology on HRM

Technology is changing the nature of competition, work, and employment in ways that are profound and that need to be managed actively. As just one example, Levi Strauss & Co. is introducing robotic software to its finance function. According to the



New technology has changed the ways we work.
mapodile/Getty Images

company's chief financial officer: "The idea is not to eliminate jobs. We are going to upskill employees and have them spend more time on analysis."²⁰ More generally, firms will need to consider the cost of developing and deploying automation solutions for specific tasks in the workplace, the availability and cost of labor, and regulatory and social acceptance of automation.

According to the McKinsey Global Institute, by 2030 as many as 30-40 percent of workers in developed countries may need to move into new occupations or upgrade their skill sets significantly. Skilled workers in short supply will become even scarcer. Companies that fail to address their underlying talent needs may fail to achieve their digital aspirations. At the same time, senior managers have a great opportunity to collaborate with employees to create a prosperous, fulfilling future, as they work through employee transitions.²¹ Amazon, for example, has pledged \$700 million to train 100,000 employees for higher-skilled jobs in technology.²² PricewaterhouseCoopers is upskilling all of its 50,000 employees. Walmart runs 201 academies inside Walmart Supercenters and modular classrooms in store parking lots where employees receive training. That upskilling effort resulted in the promotion of 215,000 employees in 2018.²³ At a broader level, worker upskilling, reskilling, and in some cases, supportive employee transitions out of the workforce, will be major HR challenges facing firms for the foreseeable future.

Sustainability

Sustainability is often defined as the "ability to meet the needs of the present without compromising the ability of future generations to meet their needs."²⁴ For many organizations, this suggests a different way of doing business. In addition to economic considerations of growth and profit, sustainability considerations suggest that decision makers should assess social and environmental risks and opportunities when making all business decisions. It is an evolving business practice that incorporates sustainable development into a company's business model. This approach is often

referred to as the “triple bottom line,” the simultaneous delivery of positive results for people, planet, and profit.²⁵

Sustainability is more than simply meeting responsibilities to society, for it also can create sustained competitive advantage. Indeed, research suggests that responsible approaches to social and environmental issues are likely to pay off in a number of tangible ways.²⁶ Consider just two examples. Since 2005, Pepsico has presented its sustainability goals in annual reports that focus on three broad themes: human sustainability (promote healthy food and drinks), talent sustainability (work to attract top talent and to create a diverse company culture), and environmental sustainability. Thus, by 2025 it plans to reduce added sugar and fat in its products, to make 100 percent of its packaging recyclable, and to reduce the waste it generates by 50 percent. Computer technology company Dell integrates alternative materials in its products and packaging, actively recycles used electronics, and partners exclusively with responsible suppliers. A key goal for 2020 is to reduce the energy intensity of its products by 80 percent.²⁷

Other payoffs include improvements in reputation, productivity, talent acquisition, employee retention and engagement, cost-effectiveness, risk avoidance or mitigation, innovation and market expansion, and access to capital.²⁸ While 90 percent of executives see sustainability as important, however, only 60 percent of their companies have a sustainability strategy.²⁹ The relationship between sustainability investments and organizational performance is complex, and other factors, such as industry positioning and market structure, also affect the strength of the relationship.³⁰

In practice, sustainability affects an organization’s business model, structure, and processes in at least three ways. One, organizations consider a wider set of stakeholders when setting strategy. In addition to financial shareholders, other stakeholders include employees, customers, suppliers, regulators, and local communities. Sustainable organizations seek them out to understand their expectations, concerns, and risks relating to operations before developing a sustainability strategy. Two, stakeholders help with the implementation of such a strategy, as employers partner with external organizations. These may include community organizations, governmental and non-governmental organizations (NGOs), and industry alliances. Such partnerships may help advance sustainable development because the demands of global corporate sustainability often exceed the capability of a single organization to respond.³¹ Three, sustainability affects corporate practices and requires greater involvement and accountability of boards of directors, and it requires business transparency, as illustrated in the growing number of organizations that issue annual sustainability reports.

Implications of Sustainability for HRM From a people-management perspective, the challenge is to hire and develop managers who can deal with present as well as future sustainability issues facing their organizations. *One way to encourage that is to tie executive compensation to sustainability goals and results.*³² Alcoa, for example, ties 5 percent of its executives’ annual bonuses to the company’s goals to reduce carbon-dioxide emissions. Xcel Energy ties a full one-third of its CEO’s annual bonus to goals that include renewable energy, emissions reductions, energy efficiency, and clean technology. That is a powerful marker of a company’s environmental leadership, and a strong signal about company culture.

Some companies have achieved notable results, Kickstarter, the world’s largest funding platform for creative projects—nearly 340,000 projects—developed an online environmental resource center for early-stage entrepreneurs. The resource center

provides production-specific environmental tools to help reduce the environmental impact associated with the manufacturing and shipping of projects. More importantly, it integrates sustainability into the design from the very start. To address carbon emissions by its suppliers, Novartis created an interactive dashboard to visualize and track total greenhouse-gas emissions from its upstream activities (material inputs needed for production) and downstream activities (production and distribution). The dashboard can identify potential emission hotspots and take action by increasing supplier-engagement initiatives to reduce its environmental impact.³³ For companies that are serious about achieving sustainability gains, here are four key steps: (1) Make a public commitment, (2) the CEO should lead by example, (3) help employees understand the link between sustainable products and processes and strategic business goals, and (4) embed sustainable behaviors and processes throughout the business and offer incentives for line managers to deliver results.

The HRM function also has the potential to contribute important skills in areas such as change management and cultural stewardship.³⁴ Embedding a sustainability strategy deeply into an organization's culture and management practices is an ongoing challenge. Practices such as values-based recruitment using employer branding informed by sustainability initiatives, helping employees and managers link performance targets to sustainability initiatives, and linking variable pay to those initiatives, accomplish two objectives. They support the broader business approach to sustainability and they create and deliver core HRM processes sustainably.

Demographic Changes and Increasing Cultural Diversity

The number and the mix of people available to work are changing rapidly, as Figure 1-1 illustrates. By 2040 the non-Hispanic white population is projected to drop below 50 percent, with Hispanics making up more than a quarter of the population, and Asians, African Americans, and other ethnic groups constituting the rest. The share of foreign-born people living in the United States (more than 44 million or 13.6 percent of the population) is approaching a record high, but 25 nations and territories have higher shares of immigrants.³⁵ Globally, the United Nations estimates that by 2060, for every 100 people of working age, there will be 30 people who are 65 and older. That is more than double the ratio of old-to-young people today. Because of low birthrates, the age wave is more acute in developed countries, increasing the cost of social programs and limiting economic growth. Younger migrants may ease the pain.³⁶

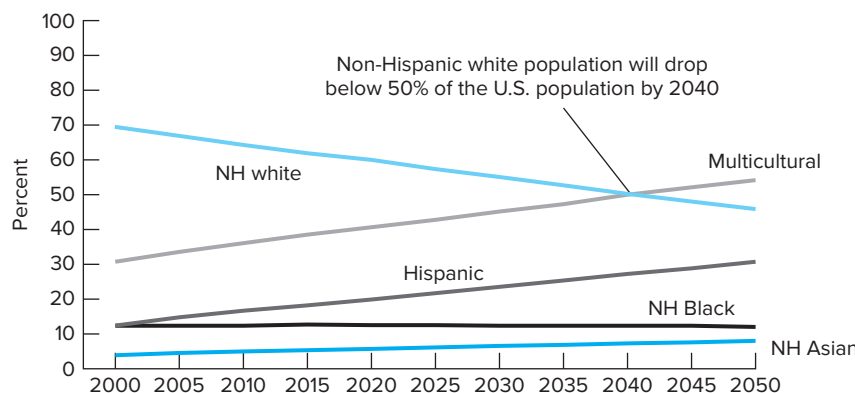


Figure 1-1

U.S. population by race, 2000 to 2050.

Source: National Association of Corporate Directors. (2014, Jan. 16). *The US Demographic Tsunami: What Directors Need to Know*, p. 6.

Implications for HRM

These trends have two key implications for managers: (1) The reduced supply of workers (at least in some fields) will make finding and keeping employees a top priority. (2) The task of managing a culturally diverse workforce, of harnessing the motivation and efforts of a wide variety of workers, will present a continuing challenge to management.

The organizations that thrive will be the ones that embrace the new demographic trends instead of fighting them. That will mean even more women and minorities in the workforce—and in the boardrooms. Workforce diversity is not just a competitive advantage. Today it's a competitive necessity.

RESPONSES OF FIRMS TO THE NEW COMPETITIVE REALITIES

In today's world of fast-moving global markets and fierce competition, trends such as the following are accelerating the shift toward new forms of organization in the 21st century³⁷:

- Old thinking: Minimize the costs of transactions by hiring in-house expertise. New thinking: Create and maintain an optimal portfolio of resources inside as well as outside the organization.
- The decline of routine work (sewing-machine operators, telephone operators, word processors) coupled with the expansion of complex jobs that require flexibility, creativity, and the ability to work well with people (managers, software-applications engineers, artists, and designers).
- Pay tied less to a person's position or tenure in an organization and more to the market value of his or her skills.
- A change in the paradigm of doing business from making a product to providing a service, often by part-time or temporary employees.
- Outsourcing of activities that are not core competencies of a firm (e.g., payroll, benefits administration, relocation services).
- The redefinition of work itself: constant learning, more higher-order thinking, less nine-to-five mentality.

In response to these changes, many firms are doing one or more of the following: using nonstandard employees, restructuring (including downsizing), and building flexibility into work schedules and rules. Let's briefly consider each of these.

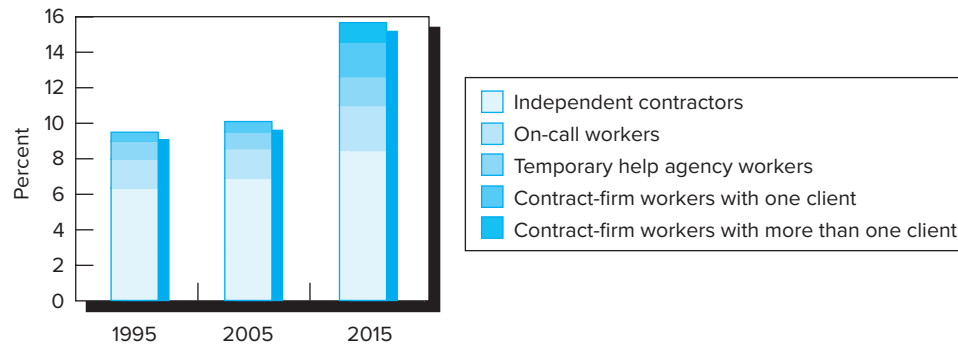
Nonstandard Employees in the “Gig” Economy

More and more workers are operating outside the traditional confines of regular, full-time employment. They may be “free agents” or “e-lancers” (i.e., freelancers in the digital world) who work for themselves, or they may be employees of an organization a firm is allied with, employees of an outsourcing or temporary-help firm, or even volunteers. Freelancers are a growing segment of the U.S. workforce (see Figure 1-2) and by some estimates now make up 35 percent of it.³⁸ In some industries, that percentage is even larger. For example, 90 percent of the hands-on crew in an offshore oil-exploration project work for contractors.³⁹

Nonstandard workers are appearing in an increasingly broad range of work. It's not just low-level clerical tasks but also managerial and professional work. You can find LinkedIn freelance profiles for directors of marketing communications and

Figure 1–2

Where do you work?



Source: Weber, L. (2017, Feb. 3). The end of employees. *The Wall Street Journal*, p. A10.

freelance chief executive officer (CEO), chief financial officer (CFO), and chief operating officer (COO) jobs on Indeed.com. Nonstandard workers may be less costly than their regular full-time counterparts, especially because they typically are not eligible for benefits. Nonstandard work allows the workforce to expand or contract faster when demand is volatile.⁴⁰ Nonstandard work allows organizations to tailor the skill sets they need without hiring and firing full-time employees.

Two factors combine to make nonstandard work more feasible for organizations and workers. The first is technology. Internet-based communication tools, including collaborative workspaces and the opportunity for remote monitoring by companies, make nonstandard work attractive to individuals as well as organizations.⁴¹ Second, creativity and problem-solving skills play critically important roles in production and value creation in today's knowledge-based economy, and those can originate either inside or outside organizational boundaries. For example, consider the hundreds of thousands of applications that exist for the iPhone, iPad, and Android operating systems. The developers of those "apps" do not work for Apple, Google, or a phone manufacturer. Freelancers develop them in exchange for royalties from sales. For certain specialized skills, the best way to obtain and keep them current is a freelance or nonstandard work ecosystem.⁴² To illustrate, Siemens invented a pediatric hearing aid. Because its expertise was not marketing, it forged a partnership with a company that excels at marketing—Walt Disney Corp. Disney developed the storybooks, character-themed packaging, and displays for physicians' offices to help market the product.⁴³

These factors have combined to create a virtuous circle. That is, the more nonstandard work exists as a model of how to do work and to conduct a career over a lifetime, the more legitimate it becomes as a work form and life pattern. The more legitimate it becomes, the more firms and employees will choose to engage in it.⁴⁴

At the same time, there are risks associated with nonstandard workers. Will they be as committed as full-timers? Will their rapid turnover require extensive orientation and training of new ones? Will they stick around long enough to develop the kind of depth of understanding of people and operations that will enable them to contribute meaningfully? Can work arrangements appropriately protect workers and balance worker and organizational rights and needs?

One example of a new organizational form that is evolving from these changes is the **virtual organization**, where teams of specialists come together to work on a

project—as in the movie industry—and then disband when the project is finished. Virtual organizations are already quite popular in consulting, in legal defense, and in sponsored research. They are multisite, multiorganizational, and dynamic.⁴⁵ More common in the information age, however, is the **virtual workplace**, in which employees operate remotely from each other and from managers.⁴⁶ They work anytime, anywhere—in real space or in cyberspace. The widespread availability of e-mail, teleconferencing, collaborative software, and intranets (within-company information networks) facilitates such arrangements. Compelling business reasons, such as reduced real estate expenses, increased productivity, higher profits, improved customer service, access to global markets, and environmental benefits drive their implementation.⁴⁷ Jobs in sales, marketing, project engineering, and consulting seem to be best suited for virtual workplaces because individuals in these jobs already work with their clients by phone or at the clients' premises. Indeed, research at Manpower Inc. found that 30 percent of the tasks in a multinational enterprise could be done virtually.⁴⁸

Restructuring, Including Downsizing

Restructuring can assume a variety of forms, of which employment downsizing is probably the most common. Companies can restructure by selling or buying plants or lines of business by altering reporting relationships, or by laying off employees. **Downsizing**, the planned elimination of positions or jobs, has had, and will continue to have, profound effects on organizations, managers at all levels, employees, labor markets, customers, and shareholders.⁴⁹

There was a time when layoffs were seen as an emergency strategy, the last resort in a downturn or crisis. Today, however, layoffs are a standard tool for doing business. Downsizing continues, in good times and in bad, regardless of whether the economy is expanding or contracting, for it has become etched into corporate cultures. During the Great Recession (2007–2009), downsizing was global in scope, with 8.5 million layoffs in the United States and more than 50 million worldwide. During turbulent economic times, even countries that traditionally have avoided layoffs (e.g., South Korea, Japan, Taiwan, and Hong Kong) have embraced the practice. Export-oriented and labor-intensive firms in China, and firms in both manufacturing and service industries in Britain, Canada, Australia, New Zealand, South Africa, South America, and Eastern Europe, participated as well. Not surprisingly, therefore, employment downsizing has attained the (dubious) status as one of the most high-profile, significant, and pervasive management issues of our time. Over the past three decades, downsizing has occurred in virtually all industries and sectors of the economy, and it has affected businesses, governments, and individuals around the world.⁵⁰

Sometimes layoffs are necessary, as when an organization is overstaffed or if a particular business no longer fits into a firm's long-term strategy. Thus, IBM spun off its printer business, Lexmark, and its PC business to Lenovo because neither printers nor PCs fit into its long-term business strategy. Both continue to be successful businesses elsewhere. In many cases, though, the direct and indirect costs are extremely high. Direct costs include items such as severance costs, as well as pension and benefits payouts. Indirect costs, which may be far higher, include low morale, risk-averse survivors, decreased productivity, lack of staff when the economy rebounds, loss of institutional memory, unanticipated voluntary turnover among survivors, and damage to a company's brand as an employer of choice.⁵¹ According to former Honeywell CEO David Cote, "Most managers underestimate how much disruption layoffs create;

they consume everyone in the organization for at least a year. Managers also typically overestimate the savings they will achieve and fail to understand that even bad recessions usually end more quickly than people expect.”⁵²

When people are fearful about their jobs, they tend to become risk averse, narrow-minded, and self-absorbed. Those are exactly the wrong characteristics needed in tough times. The longer-term questions are “How are we as a company going to emerge when the tough times end? Will we be able to penetrate new markets, generate new customers, and introduce new products or services?” Disengaged, fearful employees don’t generally help their firms to do those things. The message to employers is clear: Don’t try to shrink your way to prosperity. Instead, the best way to prosper is to create and innovate to grow your business.

Flexibility

More than half of employed U.S. adults don’t take all of the vacation days they earn for the year, even though 96 percent of workers claim to see the virtue in taking time off.⁵³ Time is employees’ most precious commodity, and they want the flexibility to control their own time—where, when, and how they work. They want balance in their lives between work and leisure. Flexibility in schedules is the key, as organizations strive to retain talented workers. Indeed, 40 percent of retired Americans say they would rejoin the workforce, if hours were more flexible.⁵⁴

In practice, the concept of “flexibility” reflects a broad spectrum of possible work arrangements, as Table 1-2 makes clear. Unfortunately, flexibility is frequently viewed by managers and employees as an exception or employee accommodation, rather than as a new and effective way of working to achieve business results. A face-time culture, an excessive workload, manager skepticism, customer demands, and a fear of negative career consequences are among the barriers that prevent employees from taking advantage of policies they might otherwise use and that prevent companies from realizing the full benefits that flexibility might bestow.⁵⁵

Table 1-2

IMPLEMENTING FLEXIBILITY: A SPECTRUM OF PRACTICE

Individual Accommodations

Special arrangements, or “deals,” are granted on a case-by-case basis and are often kept secret.

Policies and Programs in Place

Policies and programs exist, but flexibility is used only in “pockets” across the organization.

Flexibility’s Many Faces

Widespread use of formal and informal flexibility meets business and individual needs.

New Ways of Working

A results-driven culture, where flexible work practices are utilized as a management strategy to achieve business results, ensues.

Source: Corporate Voices for Working Families. (2011, Feb.). Business impacts of flexibility: An imperative for expansion (updated, 2011), p. 16. Retrieved from www.cvwf.org/publication-toolkits/business-impacts-flexibility-imperative-expansion-updated-2011 on September 29, 2011.

ETHICAL DILEMMA

Conflict between American and Foreign Cultural Values

Each chapter of this book contains a brief scenario that illustrates a decision-making situation that could result in a breach of acceptable behavior. Such situations pose ethical dilemmas. To be ethical is to conform to moral standards or to conform to the standards of conduct of a given profession or group (e.g., medicine, auditing). **Ethical decisions about behavior** take account not only of one's own interests but also, equally, the interests of those affected by a decision. What would you recommend in response to the following situation?^a



You are the director of HR for a large, southwestern teaching hospital. This hospital has a cooperative program with a major teaching hospital in Saudi Arabia. Each year several doctors from your hospital spend the year in Saudi Arabia, teaching and doing research. The stay in Saudi Arabia is generally considered both lucrative and professionally rewarding.

This morning you had a visit from two of the doctors in the hospital who had been rejected for assignment to Saudi Arabia. They were very upset,

as they are both very qualified and ambitious. You had carefully explained to them that although the selection committee was impressed with their abilities, the members had decided that because they were Jewish, it would be best if they were disqualified from consideration. In spite of vigorous protest from the two doctors, you had held your ground and supported the committee's decision. However, as you sit at home, reading, that evening, the situation replays itself in your mind, and you think about the decision and feel a little uncertain.

Is the director of HR correct in supporting the committee's decision? What criteria should the committee, and the director of HR, use to make a decision such as this? What would you recommend?

^aTaylor, S., and Eder, R. W. (2000). U.S. expatriates and the Civil Rights Act of 1991: Dissolving boundaries. In M. Mendenhall and G. Oddou (Eds.), *Readings and Cases in International Human Resource Management* (3rd ed.). Cincinnati, OH: South-Western College Publishing, pp. 251-79.

HR BUZZ



WORKING POST PANDEMIC

The coronavirus pandemic of 2020 rocked our world like nothing else. It affected how, where, and when people work, as well as how we live. To be sure, the concerns of people working remotely or at home are different from those at an office, a retail store, a hotel, or a factory. Here we focus on physical spaces where people come to work, and where workplace safety and health are paramount concerns. Here are some possible changes.

Checking employees' temperatures as they arrive each day may be required, while social distancing may become a company mandate. Meeting rooms may have capacity limits. To maintain social distancing in an office, many companies will keep large numbers of employees working at home and schedule shifts at widely separated desks in the office, with the help of software applications for booking space at desks and in meeting rooms. Density sensors (people counters) that attach to building entrances, floors, or rooms can count the numbers of people in the cafeteria, the coffee-break room, office floors, or the elevator lobby.

They can send alerts to smartphones or computers to let office managers and employees know if space is available. That information also can be noted on digital screens posted at entrances. As Alex Gorsky, CEO of Johnson & Johnson, noted so clearly, "Every business leader in some way is going to be a health care leader going forward."

Deep-cleaning practices at many workplaces will follow guidelines from the Centers for Disease Control and Prevention (www.cdc.gov/coronavirus/2019-ncov/community/guidance-business-response.html). There will likely be no more handshakes, and cross-training will increase so that employees can handle more than one aspect of the business. This is a positive effect of the pandemic because during an emergency, employees will be able to redeploy rapidly to perform essential tasks with little or no learning time, which should allow organizations to maintain their productivity and effectiveness, even with a skeleton crew.

Pay for essential workers will likely change. During the pandemic, many front-line, customer-facing workers made heroic efforts to keep their organizations (and countries) from collapse. These included health-care workers, ambulance drivers, EMTs, and paramedics, as well as long-haul truck drivers, grocery workers, retail-store employees, and fulfillment-center workers and drivers who delivered customer orders from online sites. Most pay systems compensate employees for the additional risks associated with hazardous working conditions that include, among others, biological hazards such as viruses or bacteria that can cause adverse health effects. In the future, expect to see risk premiums and additional benefits added to the pay of essential workers.

Many executives who were skeptical about employees working from home found that remote work can actually be productive, in some cases, more so than work done in an office location. As a result, companies as varied as JPMorgan Chase, Toyota, and Facebook plan to make remote work permanent for many employees.

Many workplaces avoided permanent layoffs by "sharing the pain" of pay cuts or temporary furloughs. That may well become part of the playbook of executives the next time disaster strikes or an economic recession hits. Most importantly, organizations everywhere learned that having a plan to maintain business continuity through a disaster, including written protocols and avoiding sole-source supply chains, is essential. These features will characterize a bright, if different, future for workplaces everywhere.

Sources: Oliver, S. (2020, June 9). Ways to make the office more healthful. *The Wall Street Journal*, p. R2. Wilkie, D. (2020, May 1). Into the future: How a pandemic might reshape the world of work. *SHRM Online*. Retrieved from www.shrm.org/resourcesandtools/hr-topics/people-managers/pages/coronavirus-future-of-work.aspx on May 1, 2020. The post-crisis world: what changes are coming? (2020, May 5). *Knowledge@Wharton*. Retrieved from <https://knowledge.wharton.upenn.edu/article/post-crisis-world-changes-coming/> on May 5, 2020. McCullah, S. (2020, May). 9 predictions on how COVID-19 will permanently affect the workplace. *HR Professionals Magazine* 10(5), p. 26. Smith, A. D. (2020, Apr. 22). Revise policies to facilitate return to work. *SHRM Online*. Retrieved from www.shrm.org/resourcesandtools/legal-and-compliance/employment-law/pages/coronavirus-facilitate-return-to-work.aspx on Apr. 22, 2020.

Three features are keys to making the business case for increased flexibility: talent management (specifically, attraction and retention); human capital outcomes (increased satisfaction and commitment, decreased stress); and financial, operational, and business outcomes. Consider the first of these, attraction and retention.

At IBM, responses to a recent global work-life survey from almost 42,000 IBM employees in 79 countries revealed that lack of work-life fit—of which flexibility is a significant component—is the second leading reason for potentially leaving IBM, behind compensation and benefits. In the Corporate Finance organization, for example, 94 percent of all managers reported positive impacts of flexible work options on the company's ability to retain talented professionals. In light of these findings showing the strong link between flexibility and retention, IBM actively promotes flexibility as a strategy for retaining key talent.

People make organizations go. How the people are selected, trained, and managed determines to a large extent how successful an organization will be. As you can certainly appreciate by now, the task of managing people in today's world of work is particularly challenging in light of the competitive realities we have discussed. In 2020 a new factor entered the environments of organizations everywhere: the coronavirus pandemic. It affected their ability to compete, and in the case of many small businesses, their ability to survive. The HR Buzz box highlights a number of workplace changes that have emerged from this painful experience.

Each chapter of this book focuses on a different aspect of HRM and considers its impact on three important outcomes: productivity, quality of work life, and profits. An "Impact of" (topic under discussion) box at the end of each chapter offers specific implications for each of these outcomes.

BUSINESS TRENDS AND HR COMPETENCIES

Over the past decade, organizations have become more complex, dynamic, and fast-paced. As a result, senior managers recognize that attracting, retaining, and managing people effectively is more important than ever. In fact, the results of a recent study by the Society for Human Resource Management that included input from more than 1,200 HR professionals from 33 nations, and survey responses from 32,000 participants, identified nine competencies or elements for HR success. The nine competencies are grouped into four broader clusters: **technical** (HR expertise in people, organizations, the workplace, and strategy); **business** (business acumen, critical evaluation, and consultation); **leadership** (leadership and navigation, ethical practice); and **interpersonal** (communication, relationship management, global and cultural effectiveness). Each competency also includes sub-competencies and behaviors, along with proficiency standards by career level: early, mid, senior, and executive levels. The competencies and their definitions are as follows⁵⁶:

1. **Human resource expertise.** The knowledge of principles, practices, and functions of effective human resource management. It includes expertise in people, organizations, the workplace, and strategy.
2. **Business acumen.** The ability to understand and apply information to contribute to the organization's strategic plan.
3. **Critical evaluation.** The ability to interpret information to make business decisions and recommendations.
4. **Consultation.** The ability to provide guidance to organizational stakeholders.
5. **Leadership and navigation.** The ability to direct and contribute to initiatives and processes within the organization.
6. **Ethical practice.** The ability to integrate core values, integrity, and accountability throughout all organizational and business practices.

7. **Communication.** The ability to effectively exchange with stakeholders.
8. **Relationship management.** The ability to manage interactions to provide service and to support the organization.
9. **Global and cultural effectiveness.** The ability to value and consider the perspectives and backgrounds of all parties.

The Society for Human Resource Management (SHRM) offers HR certification of these competencies at two levels: SHRM-CP (certified professional) and SHRM-SCP (senior certified professional). SHRM's assessment of these competencies through knowledge as well as situational judgment items reflects the ability to know as well as the ability to do. For more information, see www.shrm.org/certification/about/certification-commission/pages/default.aspx.

IMPACT OF EFFECTIVE HRM ON PRODUCTIVITY, QUALITY OF WORK LIFE, AND THE BOTTOM LINE

For most of the last two decades, downsizing set the tone for the modern employment contract. As companies frantically restructured to cope with slipping market share or heightened competition, they tore up old notions of paternalism. They told employees, "Don't expect to spend your life at one company anymore. You are responsible for your own career, so get all the skills you can and prepare to change jobs, employers, even industries. As for the implicit bond of loyalty that might have existed before, well, forget it. In these days of fierce global competition, loyalty is an unaffordable luxury."^a

Today, faced with the retirements of large numbers of baby boomers, and impending labor shortages, employers have changed their tune. Now it's "Don't leave. We need you. Work for us—you can build a career here." Employers are going to great lengths to persuade employees that they want them to stay for years. According to a recent survey, employees are less loyal to their companies, and they tend to put their own needs and interests above those of their employers. More often, they are willing to trade off higher wages and benefits for flexibility and autonomy, job characteristics that allow them to balance their lives on and off the job. Almost 9 out of every 10 workers live with family members, and nearly half care for dependents, including children, elderly parents, or



ailing spouses.^b Among employees who switched jobs in the last 5 years, pay and benefits rated in the bottom half of 20 possible reasons why they did so. Factors rated highest were "nature of work," "open communication," and "effect on personal/family life." What are the implications of these results? When companies fail to factor in quality-of-work-life issues and quality-of-life issues when introducing any of the popular schemes for improving productivity, the only thing they may gain is a view of the backs of their best people leaving for friendlier employers.^c

^aDeMeuse, K. P., and Dai, G. (2012). Reducing costs and enhancing efficiency or damaging the company: Downsizing in today's global economy. In C. Cooper, A. Pandey, and J. C. Quick (Eds.), *Downsizing: Is Less Still More?* Cambridge, UK: Cambridge University Press, pp. 258-90. See also Wethe, D. (2017, Feb. 5). Drilling is back. What about the workers? *Bloomberg Businessweek*, pp. 14, 15.

^bMa, S. (2017, Jan. 16). Digital economy invents new jobs. *China Daily*, pp. 1, 13. See also Galinsky, E., Aumann, K., and Bond, J. T. (2009). *Times Are Changing: Gender and Generation at Work and at Home*. New York: Families and Work Institute.

^cNaughton, K., Dawson, C., Welch, D., & Coppola, G. (2019, April 29). What Gen Z wants. *Bloomberg Businessweek*, pp. 12-17. See also Maurer, R. (2016, Mar. 16). From paycheck to purpose: How millennials are changing work. Retrieved from www.shrm.org/resourcesandtools/hr-topics/talent-acquisition/pages/from-paycheck-to-purpose-how-millennials-are-changing-work.aspx on March 20, 2016.

IMPLICATIONS FOR MANAGEMENT PRACTICE

The trends we have reviewed in this chapter suggest that the old approaches to managing people may no longer be appropriate responses to economic or social reality. A willingness to experiment is healthy. To the extent that the newer approaches do enhance productivity, QWL, and profits, everybody wins. Competitive issues cannot simply be willed away, and because of this we may see even more radical experiments in organizations. The traditional role of the manager may be blurred further as workers take a greater and greater part in planning and controlling work, not simply doing what managers tell them to do. Consider professional service and Big Four accounting firm Ernst & Young (E&Y).^a It is a global organization of member firms in more than 140 countries, headquartered in London, England, and it employs more than 152,000 people. According to former Global Chairman and CEO Jim Turley, "I think the business case was first around retaining talent. Whatever firm has the best talent wins in our space. So attracting and retaining the best talent is a critical business imperative. . . . You ask yourself, is it better to have a flexible culture and keep all the great talent in the firm and use it as a vehicle to attract and retain more talent, or do we want to keep the more rigid ways that we used to operate in and have people walking out the door?" That kind of progressive thinking is consistent with survey results that show 89 percent of Gen Y, and 79 percent of Gen X, feel that flexible work arrangements and the opportunity to give back to society trump the sheer size of the pay package. To get started, Ernst & Young focused on managers' responses to



requests for flexibility from their direct reports. Instead of asking "why," the firm encouraged its managers to ask "why not?" Flexibility became more of a right for all, rather than a privilege for a few. Since much of the work at Ernst & Young is team-based, as in audit teams, flexible work arrangements have to fit within that team-based environment. Team calendars help facilitate that. At Ernst & Young, flexibility pervades the company's culture, even at the rank of partner. More than 200 of them are on some form of flexible work arrangement. Among the firm's 26,000 U.S. employees, 2,500 are on flexible schedules. Of those, 15 percent are men and 85 percent are women. In any given year, about 1,000 employees take parental leave, and 50 percent of those are men. Also in any given year, about 200 employees who work formal flexible schedules are promoted to positions of partner, principal, executive director, or director. That sends a strong signal that flexibility will not stifle one's career-advancement opportunities at E&Y. What about implementing flexible work arrangements in other cultures, where laws and social norms may vary significantly from those in the headquarters country? At Ernst & Young, the message is clear: Be the best you can be at implementing flexibility in your culture because doing so will be critical to attracting and retaining the best talent available.

^aSociety for Human Resource Management Foundation. (2017, Feb. 7). *Ernst & Young: Creating a Culture of Flexibility*. Alexandria, VA: Author. Available at <https://www.youtube.com/watch?v=z9ixbBJOYMA>

**Human Resource
Management
in Action:
Conclusion**

GLOBALIZATION AT WORK: WEALTH, JOBS, AND WORKER DISPLACEMENT

According to the Federal Reserve Bank of Dallas, Americans saw their choice of products expand by one-third in recent decades. Trade is how bananas, raspberries, and pineapples appear on store shelves in the dead of winter. Clothes, appliances, and many other goods are cheaper in Walmart stores in America because many of those

products are sourced overseas. If iPhones were made in America, they would be more expensive than those assembled in China from parts made in Germany, Japan, and Korea.

Yet economic stagnation in many parts of the world has fueled an antitrade backlash, from British laborers who blame trade for declining pay to former factory workers in America's Midwest who have seen their incomes and standards of living drop over the past decade. Many major nations are grappling with weak growth, tight credit, and anxiety over the future. At the same time, automation has grown in sophistication and reach. In the United States, about 6 million manufacturing jobs disappeared in the first decade of the 21st century, but only 13 percent of those losses can be explained by trade. The rest were casualties of automation, including artificial intelligence, robots, and sensors that have enabled about 25 percent greater production from factory operations with roughly the same number of workers as a decade earlier. In short, rapid technological change, coupled with economic stagnation, has caused more job losses in middle America than free trade.

Here is a major concern. In the past, human beings and societies adapted steadily to change, but the rate of technological change is now accelerating so fast that it has risen above the average rate at which most people can absorb all these changes. Many just cannot keep pace anymore. In the past, it took 10–15 years to understand a new technology, and to build out laws and regulations to safeguard society. Now, technology is turning over every 5–7 years. Think about what this means for education. It's certainly not finished after 12, 16, or even 20 years because as the pace of change increases, the only way to retain a lifelong working capacity is to engage in lifelong learning.

Workers displaced from their jobs as a result of automation, trade, or outsourcing obviously need help in adjusting their lives and careers. What is the role of governments? In wealthy countries such as Germany, the Netherlands, Sweden, and Denmark, unemployment benefits, housing subsidies, and government-provided health care are far more generous than those in the United States. They cushion the costs of job losses in the short term, and they provide training to give dislocated workers the skills they need to compete.

In the United States, Trade Adjustment Assistance is a program designed to support workers whose jobs are casualties of overseas competition by paying for job training. Yet a study of the effects of the program 4 years after workers completed training found that only 37 percent of those employed were working in the industries they retrained for. Many of those enrolled in the training had lower incomes than those who simply signed up for unemployment benefits and looked for other work. What can be done?

Displaced workers need more intensive training to prepare them for new jobs. This is where public-private-sector partnerships can pay off if workers are trained for jobs in fields that government forecasts indicate are likely to grow in the future. Workers themselves may have to be willing to move to take advantage of those employment opportunities. There need to be less expensive options for university education, and vocational schools need to be more available. If companies can devise ways for labor and management to cooperate and to share more equitably in the profits that globalization creates, then everyone will be better off.

SUMMARY

People are a major component of any business, and the management of people (or human resource management, HRM) is a major part of every manager's job. It is also the specialized responsibility of the HR department. In fact, we use the term *strategic HRM* to refer to the wisest possible use of people with respect to the strategic focus of the organization. HRM involves five major areas: staffing, retention, development, adjustment, and managing change. Together they compose the HRM system, for they describe a network of interrelated components. The HRM function is responsible for maximizing productivity, quality of work life, and profits through better management of people.

The competitive business environment of the 21st century reflects factors such as an aging and changing workforce in a high-tech workplace that demands and rewards ever-increasing skill, and increasing global competition in almost every sector of the economy. In response, organizations are using nonstandard employees, often in virtual work arrangements, restructuring (including downsizing), and building flexibility into work schedules and rules. This implies a redistribution of power, greater participation by workers and nonemployees, and more teamwork. The challenge of attracting, retaining, and motivating people has never been greater.

One of the most pressing demands we face today is for productivity improvement—getting more out of what is put in; doing better with what we have; and working smarter, not harder. Nevertheless, increased productivity does not preclude a high quality of work life (QWL). *QWL* refers to employees' perceptions of their physical and psychological well-being at work. It involves giving workers the opportunity to make decisions about their jobs, the design of their workplaces, and ensuring work-life fit. Its focus is on employees and managers operating a business together. HR professionals can help by demonstrating competencies in HR expertise, relationship management, consultation, leadership and navigation, communication, diversity and inclusion, ethical practice, critical evaluation, and business acumen.

KEY TERMS

productivity
quality of work life (QWL)
profit
staffing
retention
development
adjustment
managing change

HRM
authority
globalization
virtual organization
virtual workplace
restructuring
downsizing
ethical decisions about behavior